

# ELECTRICITY AND GAS INFORMATION DISCLOSURE SEMINAR

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# Regulatory Asset Base

Presentation to Information Disclosure Seminar  
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1. Overview of Schedule 4 Report on RAB
2. Changes from previous disclosure regime
3. Walk through the schedule
4. Comments on likely information retention needs

# 1. Overview of Report on Value of RAB

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- Presents the value of RAB at the end of the disclosure year
- Discloses how the previous year's RAB was rolled forward by showing key movements including:
  - Depreciation
  - Revaluations
  - Comparison between the unallocated RAB and RAB
  - Assets commissioned (& works under construction)
- The RAB and its movements are a key component of calculating the ROI
- Transitional provisions
- Audited and certified

## 2. Key changes from 2008 ID Requirements

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- Generally similar to previous AV1 Annual Regulatory Valuation Roll-forward report
- Some increased transparency and refinements -
  - Works under construction in RAB report (previously FS2)
  - Relationship with and movements in unallocated RAB more transparent
  - Added the lost and found assets adjustment
  - Revisions to acquisitions from and disposals to other regulated suppliers and related parties
- Explicit disclosure of changes to depreciation profiles
- The disclosure by asset category requires:
  - the movements to also be disaggregated (s.t. transitional provisions)
  - disclosure of average asset lives

### 3. Schedule 4: Regulatory Asset Base (Roll forward)

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- Lets step through the seven parts of this schedule
- All examples are illustrative only



### 3. Schedule 4(i) Regulatory Asset Base Value (Roll forward)

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Summary of the roll forward with prior year comparisons

4(i): Regulatory Asset Base Value (Rolled Forward)	RAB CY-4 (\$000)	RAB 2010 (\$000)	RAB 2011 (\$000)	RAB 2012 (\$000)	RAB 2013 (\$000)
<b>Total opening RAB value</b>		100,000	98,871	98,046	97,132
<i>less</i> <b>Total depreciation</b>		4,970	4,944	4,650	4,353
<i>plus</i> <b>Total revaluations</b>		2,000	2,100	2,150	3,000
<i>plus</i> <b>Assets commissioned</b>		1,875	2,100	1,691	1,900
<i>less</i> <b>Asset disposals</b>		59	115	110	125
<i>plus</i> <b>Lost and found assets adjustment</b>			-	-	1
<i>plus</i> <b>Adjustment resulting from asset allocation</b>		25	34	5	19
<b>Total closing RAB value</b>		98,871	98,046	97,132	97,575

### 3. Schedule 4(i) Regulatory Asset Base Value (Roll Forward)

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- Each year the roll forward schedule is completed by:
  - entering data from past year's roll forwards
  - the current year values being automatically filled from lower schedules
- Transitional provisions and initial RAB
  - Need to establish the initial RAB
  - Some adjustments to previously disclosed values to implement the asset valuation IM
    - revaluations (asset adjustment process)
    - assets that are excluded
- Transitional provisions in 2013 remove the need for CY-4 values



### 3. Schedule 4(ii) Unallocated Regulatory Asset Base

Total value of assets used wholly or partly to provide the regulated service

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#### 4(ii): Unallocated Regulatory Asset Base

	Unallocated RAB *		RAB	
	(\$000)	(\$000)	(\$000)	(\$000)
<b>Total opening RAB value</b>		126,272		97,132
<i>less</i>				
<b>Total depreciation</b>		5,623		4,353
<i>plus</i>				
<b>Total revaluations</b>		3,901		3,000
<i>plus</i>				
Assets commissioned (other than below)	2000		1,500	
Assets acquired from a regulated supplier	500		350	
Assets acquired from a related party	200		50	
<b>Assets commissioned</b>		2,700		1,900
<i>less</i>				
Asset disposals (other than below)	100		75	
Asset disposals to a regulated supplier	0		-	
Asset disposals to a related party	50		50	
<b>Asset disposals</b>		150		125
<i>plus</i> <b>Lost and found assets adjustment</b>		2		1
<i>plus</i> <b>Adjustment resulting from asset allocation</b>				19
<b>Total closing RAB value</b>		127,101		97,575

### 3. Schedule 4(ii) Unallocated Regulatory Asset Base

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- The unallocated RAB is the total value of those assets used wholly or partly to provide the regulated service without allowance or the allocations of value to non-regulated services.
- The schedule shows movements in the unallocated RAB
- Assets commissioned and asset disposals are entered here
  - note order of regulated supplier, related party and other
- The adjustment resulting from asset allocations reflects changes in the portion of the asset which is used for regulated vs. non-regulated services (cost allocation IM)
  - calculated automatically (however)

### 3. Schedule 4(iii) Revaluation of Assets

- This adjusts the unallocated RAB and RAB for inflation
- Largely automatic, not too many inputs

#### 4(iii): Calculation of Revaluation Rate and Revaluation of Assets

CPI4	100
CPI4-4	97
Revaluation rate (%)	3%

	Unallocated RAB *		RAB	
	(\$000)	(\$000)	(\$000)	(\$000)
Total opening RAB value	126,272		97,132	
<i>Less</i> Opening RAB value of fully depreciated, disposed and lost assets	150		125	
Total opening RAB value subject to revaluation	126,122		97,007	
<b>Total revaluations</b>		3,901		3,000

### 3. Schedule 4(iii) Revaluation of Assets

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- CPI data is as per Statistics NZ
- Must adjust for assets removed from unallocated RAB & RAB
- Revaluation formula is from the IMs

$$(CPI4 \div CPI4-4) - 1,$$

where-

*CPI4* means CPI for the quarter that coincides with the end of the disclosure year; and

*CPI4-4* means CPI for the quarter that coincides with the end of the preceding disclosure year.

### 3. Schedule 4(iv) Works under construction

- This is the value of projects which are underway (e.g. building new substation, gas pipeline) and will be added to the RAB later on

#### 4(iv): Roll Forward of Works Under Construction

	Unallocated works under construction	Allocated works under construction
<b>Works under construction—preceding disclosure year</b>	10,000	8,000
<i>plus</i> Capital expenditure	7,000	6,500
<i>less</i> Assets commissioned	2,700	1,900
<i>plus</i> Adjustment resulting from asset allocation		50
<b>Works under construction - current disclosure year</b>	<b>14,300</b>	<b>12,650</b>
Highest rate of capitalised finance applied		10%

### 3. Schedule 4(iv) Works under construction

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- This is a roll forward of works which have not yet been commissioned
- Need to consider both unallocated and allocated values
  - however the allocations are forecasts, not final
- Provides interested persons with an indication of future additions to the RAB and hence the level of network renewal, upgrading and expansion.
- Highest rate of capitalised finance applied
  - rate used, determined by supplier (limited by IM to post-tax WACC)



### 3. Schedule 4(v) & 4(vi) Depreciation

- Reports on the reduction in the value of an asset over time so that the movement can be reported as an expense

#### 4(v): Regulatory Depreciation

	Unallocated RAB *		RAB	
	(\$000)	(\$000)	(\$000)	(\$000)
Depreciation - standard	4,244		3,264	
Depreciation - no standard life assets	535		435	
Depreciation - modified life assets	670		479	
Depreciation - alternative depreciation in accordance with CPP	174		174	
<b>Total depreciation</b>		<b>5,623</b>		<b>4,353</b>

## 3. Schedule 4(v) & 4(vi) Depreciation

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- 4 types of depreciation
- Linked to IMs
  - standard - link to IM Schedule A where lives are specified
  - **no** standard asset life - link to IM, but the life is not specified
    - Fixed life easements, similar assets have a standard life, determined by an engineer
  - modified life asset - link to IM
    - Extended life asset or refurbished asset, term of contract for some dedicated assets
  - CPP - not applicable for 2013
  - Look at definitions in ID and then look at referenced clauses in IM



### 3. Schedule 4(v) & 4(vi) Depreciation

- Schedule 4(vi) is only to be completed for those assets for which the depreciation profile has changed in the disclosure year
  - several criteria exist which are linked to IM and CPP
  - level of transparency vs. compliance costs
  - Some cells may be 'not applicable'

**4(vi): Disclosure of Changes to Depreciation Profiles**

(\$000 unless otherwise specified)

Asset or Assets with changes to depreciation	Reason for non-standard depreciation (text entry)	Depreciation charge for the period (RAB)	Closing RAB value under 'non-standard' depreciation	Closing RAB value under 'standard' depreciation

### 3. Schedule 4(vii) Disclosure by asset category

Only done for RAB values (i.e. not unallocated RAB values)

Provides a breakdown by defined categories

#### 4(vii): Disclosure by Asset Category

(\$000 unless otherwise specified)

	Subtransmission lines	Subtransmission cables	Zone substations	Distribution and LV lines	Distribution and LV cables	Distribution substations and transformers	Distribution switchgear	Other network assets	Non-network assets	Total
<b>Total opening RAB value</b>	10,000	12,000	14,500	15,000	3,682	12,500	13,450	10,000	6,000	97,132
<i>less</i> Total depreciation	400	400	483	600	147	500	673	549	600	4,353
<i>plus</i> Total revaluations	309	371	448	463	114	386	415	309	185	3,000
<i>plus</i> Assets commissioned	633	645	621							1,900
<i>less</i> Asset disposals				63	63					125
<i>plus</i> Lost and found assets adjustment						1				1
<i>plus</i> Adjustment resulting from asset allocation			200	150	34	89	24			19
<i>plus</i> Asset category transfers					20	20				-
<b>Total closing RAB value</b>	10,542	12,616	15,286	14,651	3,640	12,278	13,217	9,759	5,585	97,575
<b>Asset Life</b>										
Weighted average remaining asset life	10.00	10.50	12.00	14.00	13.10	11.50	7.00	9.90	6.10	(years)
Weighted average expected total asset life	25.00	30.00	30.00	25.00	25.00	25.00	20.00	18.20	10.00	(years)

### 3. Schedule 4(vii) Disclosure by asset category

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- Asset categories match those in cost allocation schedules
- Long term, the disclosure will report on that disclosure year's movements
- Transitional provisions mean for 2013 only need to disclose closing RAB values
- Asset lives are weighted values using RAB values as weights

## 4. Comments on information retention

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- Possible information needs for assets in the unallocated RAB include:
  - date commissioned
  - commissioned value
  - asset life
  - accumulated depreciation
  - accumulated revaluations
  - basis for allocation
  - metric used for allocation
  - asset category
  - lost and found adjustments
- Some assets reported for regulatory purposes will be composite assets or part of an aggregated class of assets for ID purposes



These slides formed the basis of the seminar presented to suppliers and auditors by Commission staff in March 2013. They are intended to be used as general guidance only, and do not replace or summarise the information disclosure determinations themselves. In order to comply fully with the requirements of the determinations, suppliers and auditors should read the EDB, GDB and GTB determinations published on 1 October 2012. These documents can be found at:

- <http://www.comcom.govt.nz/current-electricity-information-disclosure-requirements/> for EDBs; and
- <http://www.comcom.govt.nz/gas-information-disclosure/> for GPBs.

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## CONTACT

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