

Electricity Distribution Businesses Notice to Supply Information to the Commerce Commission - Guidance

The Commerce Commission (Commission) issued notices (Notices) on 16 March 2011 and 15 June 2011 requiring information to be provided by Electricity Distribution Businesses (EDBs) for the purpose of informing decisions on starting prices for default price-quality paths under Part 4 of the Commerce Act 1986. Information in relation to the value of the initial regulatory asset base was provided in response to the Notices by those EDBs electing to undertake an “asset adjustment process” in accordance with the Input Methodologies (IM) Determination.¹

During consultation on the draft decisions the Commission has been made aware of areas where EDBs may not have fully complied with the Notices, including with respect to the information required in order to undertake the asset adjustment process. On 2 September 2011 the Commission issued a letter to EDBs requesting, amongst other things, that EDBs amend and resubmit the information provided in response to the Notices where it is necessary to correct for errors. As that letter explained, due to the tight timeframes the Commission is working towards for considering any reset of the 2010-15 DPP, any information re-submitted must be provided to the Commission by **5pm 19 September 2011**.

This document provides further guidance on the matters which have been raised with the Commission during consultation on the reset draft decisions. Where relevant it explains how to correct for the types of errors referred to in the Commission’s letter of 2 September 2011.

¹ Commerce Commission, *Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010*, 23 December 2010.

Matter Identified During Draft Decisions Consultation	Commission Response and Guidance
<p>1. Gain and loss on sale of assets</p> <p>Powerco and Unison identified that losses on the sale of assets in the 2010 disclosure year have not been recognised as “other” operating expenses as required by guidance to the Notices.</p>	<p>Loss on disposal of assets should be included in "other" operating expenditure in row 21 of Schedule A1 of the relevant spreadsheet templates.</p> <p>Where a loss on sale has not been included in “other” operating expenditure by an EDB then its response to the Notices should be amended and resubmitted with the necessary certification and audit.</p>
<p>2. Weighted average remaining useful life of relevant assets disclosure</p> <p>Vector in reviewing the reasonableness of disclosures has queried whether replacement costs have been used as quantity weights in the calculation of weighted average remaining useful life of relevant assets disclosures.</p>	<p>‘Weighted average remaining useful life of relevant assets’ was required to be calculated using the initial RAB values of assets as weights. This was specified in the ‘TOC and Instructions’ sheet of the EDB Starting Price Adjustment Information Notice Template issued 16 March 2011. The initial RAB value of an asset is determined consistent with clause 2.2.3 of the IM Determination.²</p> <p>Replacement cost values are not the initial RAB values. If an EDB has used replacement cost values as weights then the EDB’s response to the Notices must be amended and resubmitted in accordance with the Commission’s requirements that the weighted average useful life be calculated using initial RAB values as the weighting. Any information resubmitted to the Commission must be certificated and audited as specified in the Notices.</p>

² In addition, technical guidance was provided on this calculation at row 19 of the Issues Register updated 10 May 2011, available at <http://www.comcom.govt.nz/assets/Electricity/201015-Reset-DPP/SPA-Info-Request/SPA-Issues-Register/Issues-Register-10-May-2011-DPP-2010-15-Information-Request-Technical-Guidance-Updated-10-May-2011.XLS>

Matter Identified During Draft Decisions Consultation	Commission Response and Guidance
<p data-bbox="186 280 800 342">3. Rolling forward asset values between 2004 and 2009</p> <p data-bbox="224 370 842 521">The Commission is aware that some EDBs may have recalculated the roll forward value of assets since their 2004 ODV valuation in situations where the asset is not of 'included' or 'value modified' type.</p>	<p data-bbox="877 266 1902 417">The asset adjustment process set out in the IM Determination allows the recalculation of rolled forward asset values since the 2004 ODV was undertaken only in respect of assets which are designated as of 'included' or 'value modified' type under clause 2.2.1(2) of the IM Determination.</p> <p data-bbox="877 430 1850 581">The roll forward of the value of these assets to 31 March 2009 (the last day of the disclosure year 2009) is adjusted by taking account of unallocated depreciation in accordance with the standard depreciation method and revaluations (clause 2.2.1(4)(c) of the IM Determination) .</p> <p data-bbox="877 594 1887 745">If an asset is not of 'included' or 'value modified' type then clause 2.2.3 specifies that the unallocated initial RAB value is its value as on 31 March 2009 included in 'Total Regulatory Asset Base Value (Excluding FDC)' in the EDB's 2009 disclosure reports, multiplied by 1.0245 if the asset was a system fixed asset.</p> <p data-bbox="877 758 1902 1114">The Commission reiterates that clause 2.2.1 sets out the only situations where an asset can be considered of 'included' or 'value modified' type. For the avoidance of doubt, it is noted that where a correction occurs to the quantity, age, category or location of an asset under clause 2.2.1(2)(b)(iii) of the IM Determination, but does not result in a adjustment to the asset's value as at the time the asset entered the asset register, then the adjustment is not required to be recorded in Schedule A4 of the spreadsheet template. The correction will, however, need to be included in the independent engineer's report as per the Table 1, Schedule C requirements of the Notice issued on 16 March 2011.</p> <p data-bbox="877 1127 1906 1278">Where the roll forward of an asset since 2004 has been recalculated by an EDB but the asset is not of 'included' or 'value modified' type then its response to the Notices should be amended and resubmitted with the necessary certification, audit and an independent engineer's report.</p>

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<p>4. Post 2004 costs used to support amended 2004 multiplier values</p> <p>Vector has identified that some EDBs have amended 2004 multiplier values based on new cost information in the form of recent (i.e. post 2004) actual projects and current quotations for notional projects, adjusted by movements in CPI.</p>	<p>An EDB may adjust the application of multipliers in respect of their 2004 ODV valuations by amending the multiplier value to a value within the ranges stated in clause 2.2.1(2)(d) of the IM Determination. Where new cost information has become available since the 2004 ODV valuation to support amended multiplier values this information must only be used to the extent that it provides further insight into 2004 costs (refer clauses 2.2.1(2)(d) and 2.2.1(4) of the IM Determination and paragraphs E2.17 to E2.22 of the Input Methodologies (EDBs and GPBs) Reasons Paper).</p> <p>The Commission considers that in the first instance data relating to 2004 costs should be used to amend the application of multipliers. However, if more recent (i.e. post 2004) cost information is sought to be used then the independent engineer must determine</p> <ul style="list-style-type: none"> a. whether this is appropriate and b. if used, how the effects of factors that do not provide insight into 2004 costs (such as increases in commodity prices and the effects of inflation since 2004) should be removed. <p>If an EDB has incorrectly applied clause 2.2.1(2)(d) or 2.2.1(4) then its response to the Notices must be amended and resubmitted with the necessary certification, audit and an independent engineer’s report.</p>

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<p>5. Single project costs used to support amended 2004 multiplier values</p> <p>Vector has identified that some EDBs have amended 2004 multiplier values based on information derived from a single project (rather than a reasonable sample of projects).</p>	<p>An EDB's independent engineer is required to review all assumptions employed as part of the asset adjustment process, including assumptions relating to the appropriateness of supporting data. If an EDB or its engineer has used a single project to support amended 2004 multiplier values then the engineer's report is required to include information sufficient to allow a reader of the report to understand the assumptions employed (paragraph 2(d)(i), Schedule C, Notice issued 16 March 2011). Nel Consulting Limited has reviewed instances in EDBs' submitted engineering reports where single project information has been used, and in those instances the relevant engineers have either determined that it is appropriate to use single project information or identified that the single project is specific selection and typical. Accordingly, the Commission does not consider it necessary for these adjustments to be disallowed.</p> <p>The Commission's expectation is that there is no reason EDB's would resubmit amendments to 2004 multiplier values based on single project data where a sample of projects had already been used and formed part of the engineer's report.</p>
<p>6. Distribution revenue weights disclosure</p> <p>Nelson Electricity proposed revising its distribution revenue weights information disclosure now it is understood how the information is to be used.</p> <p>Nelson Electricity noted in its submission that it makes a fixed charge to all consumers based on the fuse size at the network connection point and that although this is specified as a \$/kVA/day, this is clearly a fixed charge and does not change.</p>	<p>Nelson Electricity's distribution revenue weights disclosure submitted pursuant to the 15 June 2011 Notice was compliant. However, in considering Nelson Electricity's submission the Commission has determined that for distribution revenue weights disclosures the Notice could be framed differently in order to better meet the purpose for which this information is to be used.</p> <p>Accordingly, the Commission is to issue an additional information request to EDBs allowing EDBs to disclose distribution revenue weights information whereby capacity charges for residential customers that are assessed at 15kVA capacity can be included as fixed charges.</p>

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<p>7. Assets omitted in error</p> <p>Vector has identified that an EDB has included as corrections to the asset register intellectual property and transfer of assets in service from work in progress (works under construction).</p>	<p>An EDB, in accordance with clause 2.2.1(2)(b) of the IM Determination, can elect to correct errors found in its asset register where the error relates to its 2009 disclosed assets and relates to, amongst other things, assets omitted in error.</p> <p>For an asset to be identified as an asset omitted in error it would have had to be eligible for inclusion in the 2009 disclosed assets in accordance with the Electricity Information Disclosure Requirements that applied at the time the asset should have entered the asset register. If an asset has been identified as being omitted in error then information sufficient to allow a reader of the report to understand the data, information, calculations and assumptions employed in respect of that adjustment should be included in the independent engineer's report (refer paragraph 2(d)(i), Schedule C , Notice issued on 16 March 2011).</p> <p>If an EDB has corrected the 2009 disclosed assets value for assets omitted in error that in fact would not have been eligible for inclusion in accordance with the Electricity Information Disclosure Requirements 2008, or has not disclosed the relevant information required in the engineer's report then the EDB's response to the Notices must be resubmitted with the necessary certification, audit and independent engineer's report.</p> <p>If an EDB has not corrected the 2009 disclosed assets value for assets omitted in error then in accordance with clause 2.2.1(2) of the IM Determination the EDB may elect to undertake the correction in accordance with the Notice and resubmitted its response with the necessary certification, audit and an independent engineer's report.</p>