



COMMERCE COMMISSION

**Electricity Lines Regulation:
Review of the Information Disclosure Regime and Implementing
Valuation Choice for System Fixed Assets Conference**

Information to be Provided Post-Conference

In relation to its work under Part 4A of the Commerce Act 1986, the Commerce Commission (Commission) is currently holding a conference on the review of the information disclosure regime and implementing valuation choice for system fixed assets for electricity lines businesses (Conference). The first two days of the planned three-day Conference were held on 17 and 18 March 2005. However, the third day of the Conference, which was scheduled to be held on 21 March 2005, had to be postponed due to travel arrangements to the conference being disrupted by weather conditions closing Wellington Airport. The remainder of the Conference has therefore been rescheduled and will be held on Thursday 7 April and Monday 11 April 2005.

During the first two days of the Conference several presenters agreed to provide further information to the Commission. The information to be provided is recorded below. Affected parties should check this list and advise the Commission if there are any matters that have been omitted or inadvertently stated.

The Commission requests that this further information be provided by **Monday 18 April 2005**, which, due to the delay in the Conference, is the revised final day for presenters to make any cross-submissions. Where possible, the information below should be provided in electronic form. Emails containing the information should be sent to electricity@comcom.govt.nz.

Parties providing further information should indicate which items of information, if any, are commercially sensitive, and give reasons why it should not be made publicly available. Where material is only partially confidential, both confidential and public versions should be provided to the Commission. Confidential information may be omitted from the public version, with square brackets indicating where such information has been omitted.

Transpower New Zealand

- 1 In relation to Meridian Energy's written submission to the Commission on implementing valuation choice for system fixed assets (23 February 2005), would Transpower please explain and respond to the concerns Meridian Energy has about the optimisation process for the Benmore injection point and the use of the ODV methodology as the starting point for ongoing historic cost-based system fixed asset valuations. (Day 1 Transcript, pp 25-27).

Unison Networks

- 2 In relation to the discussion of the presentation slide headed "Capital demands are growing", would Unison please provide information requested on its historical capital expenditure. (Day 1 Transcript, p 45).
- 3 Please provide a response on what Unison considers the Commission could or should do to meet the objective under section 57V of the Commerce Act of promoting greater understanding of the relative performance of individual lines businesses and the changes in performance over time. (Day 1 Transcript, p 70).
- 4 Please provide Unison's views on incentives for mergers and acquisitions and, in particular, on any effects on incentives from requiring lines businesses to disclose reconciliations showing whether or not common costs due to the overall entity are being over-recovered. (Day 1 Transcript, pp 71-72).
- 5 Please provide Unison's views on the need to incorporate within an IHC framework a level of discipline on capital expenditure through some form of prudency review process that disciplines investment in a similar way to which the optimisation process does under the ODV methodology. (Day 1 Transcript, pp 75-76).
- 6 Please provide the Commission with the model underlying the graph in the presentation slide headed "Long term equivalence – short term squeeze". (Day 1 Transcript, p 77).
- 7 What is a reasonable and practical level of disaggregation of networks for information disclosure purposes? (Day 1 Transcript, p 80).
- 8 Please expand on and clarify comments made in relation to the "double jeopardy" that distribution businesses would face with respect to capital investments. (Transcript Day 1, p 81).

Genesis Energy

- 9 Please explain how Genesis Energy translates the costs of lines services provided by lines businesses (including Transpower) into the prices it charges its customers. (Transcript Day 1, p 105).

- 10 Please provide details of customer complaints, including the percentage of complaints that relates to lines businesses, trends in respect to the complaints, and the nature of complaints. (Transcript Day 1, pp 112-113).
- 11 Please provide evidence from customer surveys undertaken by Genesis Energy that indicates customers are not interested in knowing from their electricity bills the lines charges component. (Transcript Day 1, p 115).
- 12 Please respond to the argument that efficiencies achieved by lines businesses are not being passed on to consumers by electricity retailers. (Transcript Day 1, p 116).
- 13 Please provide a view based on Genesis Energy's experience in electricity generation on the adequacy of information disclosure currently provided by Transpower, and on any changes recommended to that disclosure. (Transcript Day 1, p 122).

PricewaterhouseCoopers

- 14 Please provide further thoughts on the requirement for disclosed information to be certified, in particular whether information should be certified at the director or management levels. What were the circumstances behind the Ministry of Economic Development's decision under the previous information disclosure regime to raise the bar for certification such that information previously certified by management was henceforth required to be certified by directors? (Transcript Day 2, p 204).
- 15 Please provide the views of the client lines businesses and of PwC, as an expert in the field, on the issue of showing disaggregated information for each sub-network within a lines business. (Transcript Day 2, pp 205-208).
- 16 Please respond to Genesis Energy's suggestion that non-power revenue generated from the multiple use of electricity lines should be disclosed and that information disclosure should contribute to identifying whether 'double-dipping' on asset returns has occurred and whether end consumers share in the benefits arising from multiple uses of electricity lines. How have PwC treated shared assets when undertaking an audit where such assets arise? (Transcript Day 2, pp 208-209).
- 17 Are there any arguments against allowing Transpower to use the IHC approach for valuing its system fixed assets while requiring distribution businesses to use the ODV methodology? In this regard, please consider the oral submission of the Electricity Networks Association (ENA) where ENA indicated they would have a concern about permitting the use of different valuation methods between Transpower and distribution businesses due to the distinction between transmission and distribution being an arbitrary one and because Transpower and distribution businesses are potential competitors (see ENA's oral submission, Transcript Day 1, p 164)? (Transcript Day 2, pp 211-212).

- 18 WEL Networks has suggested in oral submission that Transpower should be required to disclose regional service reliability information rather than only aggregate nation-wide information (see WEL Networks' oral submission, Transcript Day 1, pp 143-144). Please provide views on this suggestion. (Transcript Day 2, p 213).
- 19 Please provide an elaboration of PwC's submission that allocative efficiency objectives would be assisted by more use of current disclosures of contract terms and conditions, lines charges and pricing methodologies. (Transcript Day 2, pp 214-215).
- 20 In relation to the treatment of taxation, PwC's written submission at page 26 states that "... regulatory specifications of tax calculations should recognise the efficiencies achieved by some ELBs in minimising taxation paid, and they should not be penalised for this, *where these benefits accrue to consumers.*" (Emphasis added). In respect to the phrase "where these benefits accrue to consumers", do the benefits in fact accrue to consumers or to shareholders? And, without certain information disclosures, how is the Commission to know? (Transcript Day 2, p 215). Please clarify PwC's views on the treatment of taxation for regulatory accounts purposes. (Transcript Day 2, p 221).
- 21 In relation to the issue of the extent to which reconciliations of the regulatory accounts should be disclosed, please consider ideas for regulatory prescription such that the need for the disclosure for reconciliation items may disappear or be mitigated. (Transcript Day 2, pp 218-219).
- 22 Please comment on the appropriateness of using the CPI, rather than a combined capital and labour index, for the purposes of updating system fixed asset values in between full revaluations (based upon updated replacement costs) if hypothetically the Commission were to ordain the ODV methodology as the single approach for regulatory valuations? (Transcript day 2, pp 219-220).
- 23 Please provide suggestions for alternative wording to the use of the words "true and fair view" in audit opinions and when such alternative wording may be more appropriate? (Transcript Day 2, p 220).

Vector

- 24 Please consider and comment on the trade-offs between using the thresholds regime and the information disclosure regime for the purpose of achieving the regulatory objectives for lines businesses, including in relation to the cost effectiveness of the two regimes. (Transcript Day 2, p 286).
- 25 Please consider and comment on the suggestion that certification of disclosed information by lines business directors, rather than by management, would have greater attestation value, given that directors are legally charged with responsibility for the governance of the lines business. In this respect, please consider if a distinction should be made between different types of information

when considering the most appropriate certifying party. (Transcript Day 2, pp 302-303).

- 26 In their written submission, PwC have suggested that full financial statements may not be justified under the information disclosure regime. Please provide Vector's views on this suggestion. (Transcript Day 2, p 303).
- 27 Please comment on the suggestion that information disclosure is potentially a less intrusive approach to handling issues that may concern the regulator; for example, in relation to the issue of embedded sub-networks, which Vector has previously raised with the Commission. (Transcript Day 2, pp 303-305).
- 28 Please provide comments on the issue of moving away from aggregate-level information disclosure to disaggregated information disclosure, including in respect to non-contiguous networks. (Transcript Day 2, pp 306-307).