

TRANSPower NEW ZEALAND LIMITED

Submission to the
Commerce Commission on
Review of the Information Disclosure Regime

February 2005

T R A N S P O W E R



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Contents

1. EXECUTIVE SUMMARY	5
2. INTRODUCTION	7
3. RESPONSES TO THE COMMERCE COMMISSION'S QUESTIONS	8
3.1 <i>Statutory framework for information disclosure</i>	8
3.2 <i>Objectives, principles and information needs</i>	9
3.3 <i>Financial statements</i>	10
3.4 <i>Valuation of regulatory asset base:</i>	15
3.5 <i>Performance measures and statistics</i>	16
3.6 <i>Other disclosures</i>	22
3.7 <i>Auditing, certification and statutory declarations</i>	23
3.8 <i>Publication and retention of information</i>	24
3.9 <i>Proposed implementation process and timetable</i>	26

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T R A N S P O W E R



1. Executive Summary

1. This is Transpower's submission in response to the Commerce Commission's (the Commission) discussion paper on the Review of the Information Disclosure Regime required under Part 4A of the Commerce Act.
2. Transpower welcomes the Commission's decision to review the Information Disclosure Regime, in particular the Commission's intention to restrict its information requirements to what is relevant and necessary to the Commission in meeting its regulatory objectives.
3. The main points Transpower wishes to convey to the Commission are set out below.
4. Transpower as a transmission lines business falls under the ambit of both the Commerce Commission and the Electricity Commission. Many of the regulatory objectives for the Information Disclosure Regime under the Commerce Act are addressed, as regards transmission, under Part F of the EGRs. Transpower is concerned to ensure that this overlap does not create inefficiencies and unnecessary compliance costs. This problem was recognised in the 2004 Government Policy Statement which urged both commissions to work closely together to avoid unnecessary duplications. Where the objective of Information Disclosure has been addressed by alternative means under Part F of the EGRs, no further information disclosure requirement should be imposed.
5. Under section 57V of the Commerce Act there are two aspects to the purpose of Information Disclosure – namely, greater understanding of relative performance of individual line owners and changes in performance over time. The first of these purposes has no application to Transpower, by virtue of the nature of Transpower's business. Transpower is a unique business in the New Zealand electricity industry, and its performance measures are quite different to those used by distribution lines businesses.
6. Transpower supports the view that Return on Investment (ROI) is an appropriate financial performance measure in comparison with its own company-specific Weighted Average Cost of Capital (WACC), but not as a measure for comparative purposes. It should be borne in mind that, in order to provide strong incentives for monopoly businesses to realise efficiencies, it is appropriate to allow a share of such efficiencies to accrue to the monopoly business provided that these efficiency gains are subsequently shared with consumers and that this may, on occasion, result in over-recovery (i.e. ROI in excess of WACC).
7. Transpower is concerned that the Commission's intention to improve the quality and nature of the regulatory financial measures by departing from GAAP will be difficult to apply, subjective and costly without any real advantage or value. Accordingly, departures from GAAP should be kept to a minimum.

8. The Commission's proposals in respect of prospective data, in Transpower's view, confuse the role of an information disclosure regime as compared to periodic price-control regimes applied in other jurisdictions. Accordingly, the requirements for providing prospective data should not be pursued.
9. In relation to quality measures, Transpower considers that four of the current reliability measures under the existing Information Disclosure regime are of little or no value and therefore recommends that these measures be removed. Transpower would also suggest that the Commission refer to the ACCC "Service Standards Guidelines"¹ where a number of "quality measures", appropriately modified to suit the New Zealand environment, could be adopted.
10. Transpower wishes to appear at the Commission's forthcoming conference to make an oral submission on these matters.

¹ ACCC, Statement of Principles for the Regulation of Transmission Revenues, Service Standards Guidelines, 12 November 2003.

2. Introduction

11. Transpower wishes to emphasise to the Commission that, as the sole national transmission business in New Zealand, it is appropriate that it should be considered separately to distribution lines businesses. Transpower is unique amongst New Zealand lines businesses for many reasons including that:
 - the nature of its transmission business makes it difficult to provide meaningful comparisons with distribution lines businesses;
 - it is for the moment the only lines business subject to both the Commerce Commission and Electricity Commission regulatory obligations, creating a risk of overlap and unnecessary duplication between the two regimes.
12. With this in mind, this submission particularly seeks to outline the different parts of the Information Disclosure Regime which duplicate or overlap with the requirements set out in Part F of the EGRs. It is a fundamental point of this submission that where the objectives of Information Disclosure have been addressed through the alternative regulatory means of Part F, no additional purpose is served by requiring information disclosure from Transpower on such matters.
13. Transpower has also identified the items required by the Information Disclosure Regime which it believes are of little use, difficult to produce or are unduly reliant on a subjective and possibly arbitrary apportionment of costs between (regulated and unregulated) business activities.
14. The structure of this submission is as follows:
 - Section 1: An Executive Summary.
 - Section 2: This introductory section.
 - Section 3: Responses to the Commission's questions.

3. Responses to the Commerce Commission's Questions

3.1 *Statutory framework for information disclosure*

Question 2. Statutory framework:

What comments do you have on the Commission's analysis of the statutory framework for the information disclosure regime under subpart 3 of Part 4A?

15. Transpower agrees with the Commission's statement in paragraph 31 of the discussion paper that "the information disclosure and targeted control regimes share a common overall purpose".
16. In respect of the revenue threshold regime, Transpower's current pricing methodology requires its prices to be produced on an April to March year. Transpower hopes that the Electricity Commission will approve a new transmission pricing methodology aligned with Transpower's July to June financial year. A July to June pricing year would align the production of the threshold data with the period covered by the Information Disclosure Accounts that are the subject of this consultation.
17. Advantages of an alignment between pricing, regulatory and financial reporting periods would include:
 - Production of data covering the same financial period allowing easy reconciliation and clearer links to financial data on which much analysis is likely to be based;
 - Productive efficiencies, whereby staff and audit resources can be allocated for a single period.

Question 3. Electricity Commission:

What synergies exist in relation to information disclosure requirements by the Commerce Commission and the Electricity Commission that can and should be addressed in the course of revising the information disclosure regime?

18. The Electricity Commission and the Commerce Commission have consistent regulatory objectives and requirements in respect of transmission. Under the Electricity Act section 172N(1) the Electricity Commission is required to "ensure that electricity is produced and delivered to all classes of consumers in an efficient, fair, reliable manner" as well as "promote and facilitate the efficient use of electricity".
19. Similarly, the purpose of the Commerce Commission, under Part 4A section 57T of the Commerce Act, is "to promote the efficient operation of markets directly related to electricity and transmission services" by publicly disclosing information on "profits, costs, asset values, price (including terms and conditions of supply), quality, security, and reliability of supply of those businesses".

20. Under Part F of the EGRs, the Electricity Commission is required to approve Transpower's new pricing methodology, benchmark (transmission) agreements and future investments, following public consultation, as well as effectively determining the terms and conditions for the provision of Transpower's transmission services to customers. These same items have also historically been required to be disclosed under the Information Disclosure requirements. In this regard Transpower considers that the Commerce Commission's review of the Information Disclosure requirements is timely as it provides an opportunity to remove unnecessary and inefficient duplication of process and resources.
21. Transpower is concerned that the overlapping of the Commerce Commission and Electricity Commission regimes could become counter-productive, and lead to increased compliance costs unless the Commerce Commission's Information Disclosure requirements align closely with the Electricity Commission's role and requirements under Part F of the EGRs. The two regimes should be complementary and avoid any overlap.
22. The areas where there is most potential for duplication between the Part F requirements and the Information Disclosure requirements are:
 - Pricing methodology to determine customer pricing,
 - Contract terms and conditions,
 - Quality standards,
 - Plans and forecasts (refer also Question 8 below).
23. In each of these areas, Transpower's submission is that, while the Information Disclosure requirements may serve a useful purpose in relation to distribution companies not subject to Part F, the Information Disclosure Regime should acknowledge the requirement of Part F and avoid imposing information disclosure obligations on Transpower in respect of matters which are subject to regulatory oversight under Part F.

3.2 Objectives, principles and information needs

Question 4. Information needs:

Identify your needs as a user of disclosed information that are relevant to the objectives and principles proposed by the Commission. It will be particularly helpful if you can give the Commission an idea of the value of this information to your organisation or the parties that you represent and the relative importance of your different requirements. What level of information reconciliation and disaggregation is appropriate, given the potential for increased compliance costs with greater scope?

24. In general, Transpower does not make significant use of the information disclosed by distribution lines businesses as they are not comparable to transmission and are therefore largely irrelevant for the purpose of comparative benchmarking.

Question 5. Objectives and principles:

What views do you have on the Commission's statement of the objectives of information disclosure?

25. In paragraph 133 of the discussion paper, the Commission concludes the chapter on Objectives, Principles and Needs by stating that it intends that "only relevant information should be required and that the regime will not include requirements for information which may be costly to produce and of only peripheral use". Transpower believes that "relevance of information" is not a sufficient criterion, and that the Commission should add "avoidance of duplication" and "frequency of use".
26. The Commission's objectives are largely based on achieving economic efficiency and, as noted above, these objectives are also addressed for transmission by the Electricity Commission through Part F of the EGRs. As a consequence, Transpower perceives that, although the information required by the Commission might at times be relevant, at the same time the requirement to provide certain information is replicated under the Electricity Commission regime. This should be avoided.

What comments do you have on the design and implementation principles that the Commission has identified?

27. Transpower notes that transparency is one of the implementation principles. The Information Disclosure Regime intends to inform interested parties with respect to a range of factors about lines businesses. The aspects of Transpower's business referred to above in response to question 3, will already be disclosed in accordance with the requirements of Part F of the EGRs.
28. In addition, Transpower is also subject to the Official Information Act 1982. This regime provides a further mechanism that allows interested parties to access requested information, unless withholding that information is justified on the grounds specified in the Act.

3.3 Financial statements

Question 6. Role of disclosed financial information:

What do you perceive to be the primary role of disclosed financial information in future? What information is of most value in fulfilling that role?

29. The key benefit of the disclosed financial information is that it provides consistent and accessible stakeholder reporting on monopoly lines businesses. Suitable prescription of content and format can facilitate comparison of the entity's performance both over time and with similar New Zealand entities. However, as far as Transpower is concerned, comparisons with distribution lines businesses are largely meaningless.
30. Many entities undertake other business activities in addition to their role as line owners and electricity distributors. The ownership structure of these entities may be such that disclosure of the financial performance of their monopoly line ownership and electricity distribution businesses might not be required under GAAP. It is therefore useful to require such disclosure for the purpose of providing transparent and consistent information to all stakeholders.

31. With reference to the current Information Disclosure Regime, the information most valuable in fulfilling this role is the “Lines Business Statement of Financial Performance” and the “Valuation of System Fixed Assets”. These two disclosures can be determined on a discrete basis with a reasonable degree of certainty. Disclosures related to items in the Statement of Financial Position (other than System Fixed Assets) are less useful and in entities where the Lines Business is not accounted for in a single legal or discrete group of legal entities, the need to make judgements and apportionments of balances arises, which can render the information time consuming to produce and of questionable value. Examples include:
- Dividends – these are generally struck on a Group basis and any apportionment to Lines Business is subject to judgement that may vary across reporting entities;
 - Current Assets and Liabilities – balances such as Cash, Prepayments, Provision for Current Tax, and Employee Entitlements cannot be objectively determined where a Lines Business is not a separate legal entity. Much time can be spent on devising apportionments to various businesses but the value of this work is not apparent;
 - The Tax charge for many entities will be calculated on a Group basis and in this regard the Commission’s proposal to require a “regulatory tax expense” to be calculated is particularly concerning due to the extra effort required and complex subjective judgement that may be required for no clear purpose. Such difficulties for multi-activity entities are noted by the Commission in paragraph 197 of its discussion paper;
 - The apportionment of Group funding between activities within a multi-activity entity is another area where separate disclosure of Lines Business data is both arbitrary and artificial. This is reinforced by the fact that in some cases the access to capital that a “stand-alone” Lines Business may have, could be markedly different from that achieved by a Group of such businesses or indeed an entity with other commercial interests. Similar implications are apparent for the cost of funding as reported in the Statement of Financial Performance.
32. As noted by the Commission in paragraph 210 of the discussion paper, the inclusion of disclosures regarding Equity is not seen as useful by Transpower.
33. In addition, Transpower would contend that the elements of a cashflow statement that might be of benefit to the Commission (such as Capital Contributions) can be separately disclosed and reconciled back to GAAP if necessary as an alternative to providing a separate and “contrived” Statement of Cash Flows.

Question 7. Degree of prescription:

How prescriptive do you consider the information disclosure requirements need to be? What aspects of the requirements particularly warrant tight prescription? What should be the relationship between prescription under the Information Disclosure Requirements, and existing requirements and guidelines, including GAAP?

34. Transpower is of the view that clear prescription is desirable in areas where the application of judgement can otherwise produce material variations in the outcome of a particular disclosure.
35. With regard to financial statement disclosures, GAAP is currently used as the benchmark for regulatory financial statements. In the near future, all New Zealand entities will be required to report under International Financial Reporting Standards (IFRS) which have been developed for worldwide application (the only significant exception being the USA). The intellectual resources applied to the development, understanding and maintenance of these standards by both auditors and accounting practitioners will clearly outweigh the resources available to develop local alternatives. With this in mind, the Commission may wish to consider where GAAP (and subsequent IFRS) does not meet its needs and specify treatments for those particular areas only.
36. Tight prescription would be welcomed in a number of areas.
37. Transpower believes that the preparation of a Statement of Financial Position and a Statement of Cash Flows is not the best way to disclose relevant financial data. However, if these requirements remain, the Commission should prescribe how it wishes to see the apportionment of generic items such as cash balances, Group debt, dividends, current assets, current liabilities and deferred tax.
38. GAAP is currently used as the benchmark for regulatory financial statements. Where GAAP does not meet the Commission's needs, it may wish to specify particular treatments for those particular areas only. However, preparing a significant body of information on a basis other than in accordance with GAAP has a tendency to increase compliance costs and may lead to potentially conflicting information being available to users of financial data. Such a situation may then offend the Implementation Principles of "Consistent and Accurate" and "Cost Effective" as stated in paragraph 13 of the discussion paper.

Question 8. Projections:

To what extent is prospective data useful? What concerns does the disclosure of projections raise in respect of commercially sensitive information?

39. The Commission's proposals in respect of prospective data, in Transpower's view, confuse the role of an information disclosure regime as compared to periodic price-control regimes applied in other jurisdictions, and should not be pursued.
40. The usefulness of projections is highly questionable in any event. The requirement to prepare, audit and disclose such information would add substantially to the compliance costs of Lines Businesses.
41. Equally, in order to achieve the Commission's first stated objective of allowing an interested party to assess price levels, a Lines Business would need to disclose:
 - a projection in the form of a "Required Revenue Statement";
 - data as to how any variation in the level of revenue required would be allocated amongst tariff groups.
42. By the time these documents were published they are likely to be historical in nature rather than forward looking. Accordingly, Transpower questions the purpose of requiring these disclosures and the use to which they would be put.

Question 9. Cost allocation:

Do you consider that there is a need for greater prescription of cost allocation methods? Bearing in mind the Commission's stance that common costs should not be double-counted, and that they should be allocated in consistent and transparent ways, what suggestions do you have for further prescribing the allocation methods, particularly in multi-utilities or lines businesses with significant contestable business activities?

43. The Avoidable Cost Allocation Methodology (ACAM), as currently mandated, provides a suitable basis for Transpower to allocate its common costs amongst multiple activities. It offers a clear decision making framework and facilitates the production of consistent financial information despite the dynamic nature of businesses.
44. The ACAM approach has been used for many years and Transpower does not see any valid reason for changing it.

Question 10. Prescription of specific aspects:

What are your views on the methods that should be prescribed in regards: Capital contributions; inclusion of working capital; treatment of works under construction and finance during construction; expenditure capitalisation; customer rebates and discounts; treatment of tax; adjustments following mergers or acquisitions; disclosure of related party transactions; treatment of

pass through items; treatment of transfer payments; treatment of insurance; disclosure of investment in transmission bypass; disclosure of investment in distributed generation; disclosure of investment in load management; any other aspects?

Expenditure capitalisation

45. Whilst greater clarity and specific guidance would be welcomed on the distinction between capital and expense items for controlled entities, an extremely unsatisfactory situation will be created if any such prescription leads to departures from GAAP and consequent requirements to keep “two sets of books” as regards capital and maintenance expenditure.
46. In the case of entities with large fixed asset registers, detailed consultation must take place if such requirements are envisaged. The guidance for expense/capital judgements should aim to ensure comparability between entities by providing guidance at a granular (component) level.

Treatment of tax

47. Given the unique tax circumstances and diversity of ownership structure for controlled entities, the disaggregation of the tax charge is likely to be subjective and somewhat arbitrary.

Treatment of pass through items

48. These items should continue to be disclosed to assist in reconciling regulatory and financial accounts. Trying to eliminate these items will not simplify matters and could be onerous since there could be immaterial but time-consuming adjustments to be calculated on diverse components of any financial statement type disclosures that were required.

Treatment of insurance

49. Requiring disclosure of Insurance Premiums paid would assist. By deducting these amounts from expenses the effect of ‘self insurance’ would be reflected in the residual balance of expenses.

Question 11. Disclosure – line items:

What additional line items should be required to be disclosed? What currently-disclosed line items are of little use? (Please respond by reference to the current requirements).

50. The following disclosure items in respect of operating expenses are of limited value:
 - Employee salaries;
 - Marketing/advertising expenses;
 - Legal and consultancy expenses;
 - Consumer billing and information system expense.

51. The disclosure items for operating expenses should be reviewed at a subsequent stage in the ID development process.

Question 13. Reconciliation:

What issues are raised by the need to be able to reconcile regulatory information concerning a lines business to statutory financial information, including where this encompasses a wider corporate entity? What approaches do you suggest to address these issues?

52. The requirement to be able to reconcile regulated financial information with statutory financial information is seen as extremely important. Preparing a significant body of information on a basis other than in accordance with GAAP will have a tendency to increase the cost of such data and may lead to potentially conflicting information being available to users of financial data. Such a situation may then offend the Implementation Principles of “Consistent and Accurate” and “Cost Effective”.
53. The Commission may wish to consider areas where GAAP does not meet its needs and specify particular treatments for those particular areas only, bearing in mind the comments above.

3.4 Valuation of regulatory asset base:

Question 14. Role of valuation:

What comments do you have on the Commission’s assessment of the role of valuation in the information disclosure aspects of the Part 4A regulatory regime, in meeting the objectives of the regime?

54. Considerable weight is given in the discussion paper to the need to facilitate comparison between companies subject to the Information Disclosure Regime². While comparability between distribution lines businesses is desirable, the inherent differences between transmission and distribution should be recognised by establishing separate information disclosure requirements for transmission (Transpower) and distribution.
55. Such a distinction would ensure that the Information Disclosure Regime is appropriate to the industry within which the business operates, and avoid the pitfalls of spurious comparison. It would, for example, be inappropriate to compare an ODV valuation for Transpower with that of any other lines business prepared using the same ODV handbook because of the number of Transpower specific provisions in the ODV methodology.

² Commerce Commission (December 2004), *Review of the Information Disclosure Regime Discussion Paper*, Para. 281, p.62

Question 16: Valuation reporting:

In addition to the reporting requirements already in the ODV Handbook, what other information should be reported (for example, in relation to valuation of other assets, valuations using the HC method, updates of ODV valuations and treatments of mergers and acquisitions)?

How should an ODV handbook specify the difference between refurbishment of a system fixed asset, which results in increasing the service potential of the asset, and maintenance of the asset, which preserves the asset's service potential?

56. The content requirements of the valuation report hinge on the role of the objectives which the report is to fulfil. One approach would be to include enough information in the report to enable stakeholders to satisfy themselves that the methodology has been applied correctly. However, such an approach is unnecessary since the valuation process is already subject to independent review, and to audit by the Commission. Valuation reporting should be focused on providing information on the valuation result and its drivers.

3.5 Performance measures and statistics

Question 17. Measurement of returns:

What return measure, or measures, best meet the objectives of the information disclosure regime?

57. The Return on Investment measure will provide an acceptable efficiency measure provided that it is assessed in the context of an appropriate Weighted Average Cost of Capital (WACC). Each disclosing entity has a different WACC, particular to its own equity-debt structure and other business specific factors.
58. Moreover, given their distinct characteristics, comparing transmission with distribution lines businesses on the basis of an ROI measure is inappropriate.
59. For an entity such as Transpower, with more than one business activity, disaggregation of the Statement of Financial Position and Statement of Cashflows is time-consuming and subjective. The performance measures based on these "derived" (as opposed to GAAP) statements may themselves be subjective. For this reason Transpower does not view the ROE and ROF measures as useful or appropriate.

Question 18. Measurement of productive efficiency, dynamic efficiency and technical efficiency:

What information, which can be consistently and publicly disclosed, will best allow analysts to assess productive, dynamic and technical efficiency?

60. It is important that different reporting regimes contain consistent measures and, as far as possible, these measures do not overlap, to avoid duplication of effort as well as inconsistency in definitions being applied. It is also important to ensure that any measures reported are suited to the level of oversight that the Information Disclosure Regime is intended to provide.

61. As Information Disclosure financial information is provided at a “system” level it is appropriate that the companion dynamic and technical information is provided at this level also.
62. Finally, it should be noted that some measures apply to Transpower only, such as system minutes, so comparison between lines businesses is not relevant. However, as long as the measure is clearly defined, it can be consistently reported and trended over time to establish a time-series for monitoring Transpower's own performance.

Dynamic efficiency

63. With reference to paragraphs 327 and 328 of the discussion paper, while not disagreeing with the Commission's overall objectives, it should be recognised that Transpower's future capital investments and requirements to deliver an appropriate “quality of supply” will be subject to the oversight of the Electricity Commission. The combination of decisions made in applying the Grid Investment Test (GIT), meeting Grid Reliability Standards (GRS) and service levels set through benchmark and/or transmission agreements will be targeted at ensuring dynamically efficient transmission investment.

Energy delivery efficiency

64. System Minutes of interruptions is a relevant measure for customers as it directly represents the impact on them of Transpower's performance. Additionally, the number of system interruptions helps to further explain and understand variations in system minutes. However, Transpower does have concerns about trends and conclusions that may be drawn from variations in the current System Minutes measure.
65. As noted in some detail in an earlier Transpower submission³, system minutes is not a statistically sound measure because the transmission system is inherently subject to random, and sometimes extreme, events, the consequences of which do not necessarily accurately reflect Transpower's performance.
66. The cause and magnitude of events contributing to system minutes are relevant factors, e.g. severe weather or extraordinary, one-off events, can mar an otherwise good performance and may well be outside Transpower's direct control. Nonetheless, overall, some form of system minute monitoring does provide a useful measure of how well Transpower is doing in delivering the required outcome.
67. It is expected that the current work on Grid Reliability Standards and Part F issues will result in service definitions, service levels and service measures being included in benchmark agreements and transmission agreements. This work is a potential source of Information Disclosure measures, as long as these are consistent with other reporting and reflect overall system performance in a similar fashion to the system minutes measure.

³ Transpower New Zealand, *Submission to the Commerce Commission on Regulation of Electricity Lines Businesses Draft Decisions*, February 2003, p.44

68. A valuable source of analysis in respect of those matters for the Commission to consider is the regime developed by the Australian Competition and Consumer Commission (ACCC) on “Service Standard Guidelines”⁴. This contains measures such as frequency of ‘off-supply’ events, a form of system minutes which takes into account the significance of the event.
69. Transmission circuit availability is another measure used by the ACCC. While this is an indicator that Transpower reports in the Annual and Quality Performance reports, the definition and level of detail varies from the ACCC version.
70. Transpower currently provides two monthly reports to the Electricity Commission, “System Performance Report” and “System Operator Monthly Operational Performance Report to the Electricity Commission”. The former contains information on security constraints that are binding on final pricing during the month, as calculated by the SPD model. While not identical to the comparable ACCC measure, this is public information which could readily be provided under the Information Disclosure Regime if a constraint measure was required. If the Commission is to make such measures part of its Information Disclosure Regime, Transpower urges that the Commission works with the Electricity Commission to define and adopt consistent measures relevant to the two regimes.

Question 19. Disclosure of statistics:

Are the existing statistics that are disclosed consistent with the implementation principles for information disclosure, in Chapter 3?

71. Many of the measures, apart from uneconomic generation and unplanned interruption response, are derived from readily available information or information collected for other purposes such as internal and statutory reporting so it is consistent and accurate. Therefore, the disclosure regime does not impose added costs or deadlines.
72. As noted above, some measurement based on supply interruptions provides a good, high level, indicator to customers of the level of overall service being provided by Transpower as this is the aspect of service which mainly impacts on them.
73. As far as the three energy delivery efficiency measures are concerned, they are easy to calculate but do need to be interpreted carefully as a number of factors, some outside of Transpower’s control, affect the result achieved, as well as creating volatile annual figures.
74. As noted by the Commission in paragraphs 331 and 332 of the discussion paper, both load factor and loss ratio are determined primarily by factors outside a line business’ ability to control, with only some long term influence possible on loss ratio through investment.

⁴ “Statement of principles for the regulation of transmission revenues Service standards guidelines”, Date: 12 November 2003, ACCC.

75. While capacity utilisation is more directly within Transpower's control, the size of transformers purchased is heavily influenced by factors other than short-term demand, such as future expected growth, economies of scale, economies available through standardisation, the need for additional equipment to provide redundancy and security etc.

Additional comments – Reliability Performance Measures that Transpower considers should be deleted from the Information Disclosure Requirements

76. Following on from the comments above, Transpower recommends that four Reliability Performance measures are removed from the current list of Information Disclosures: the three uneconomic generation measures and the unplanned interruption response.
77. Although the Commission has stated that it is not looking at particular measures in detail at this time, it should nevertheless be noted that Transpower considers that the four reliability measures should be removed.
78. This issue was raised in Transpower's second submission to the Commerce Commission on the proposed regulation of Electricity Lines Businesses in 2003⁵ and is explained further below.

Uneconomic generation

79. The reporting of the three measures of uneconomic generation contained in the Reliability Performance Measures was discontinued in 1999.
80. The measures are:
- Uneconomic generation due to planned and unplanned transmission system unavailability,
 - Uneconomic generation due to HVDC system unavailability,
 - Uneconomic generation due to unplanned transmission system unavailability.
81. Transpower reported null values for 1997/98 onward, as these were no longer relevant measures of Transpower's transmission quality.
82. As stated in the footnotes to Transpower's gazetted disclosures, "Uneconomic generation (Part 6 Sections 5, 6 and 7) is not relevant in the market environment because scheduling is now based on offered price, not economic cost. In the market, 'offers to generate' are made after taking constraints into account and it is not possible to predict what a generator would have offered if the constraint was not present. As a result data is not available to allow a calculation and a null entry has been returned".

⁵ Transpower New Zealand, Submission to the Commerce Commission on Regulation of Electricity Lines Business Draft Decisions, February 2003, p.42

83. This has occurred because, since the advent of the electricity market and nodal pricing on 1 October 1996, Transpower no longer directs the way generation is dispatched from a Merit Order. Generators determine what generation they are prepared to offer and a security constrained economic dispatch takes account of the availability of transmission and generation to provide an economic dispatch solution.

Unplanned interruption response

84. Transpower does not have unplanned interruption response times agreed with customers. As a proxy, Transpower has traditionally reported the closest available measure, viz. the time agreed between Transpower and its contractors for the contractor to respond to unplanned interruptions. However, in reality, Transpower does not have the required information to report on this measure as defined.
85. The current review of the Information Disclosure requirements is the appropriate time to delete this requirement.

Given that there is some overlap with MED requirements, is there merit in continuing to require such statistics under Part 4A?

86. There is very little overlap with the MED requirements, the only common measure being the “total installed transformer capacity for direct supply of consumers and bulk supply for resale”, i.e. the MVA of supply transformers. Also, MED data is reported on an April to March year as opposed to Information Disclosure reporting which is on a July to June year.
87. The additional information required by the MED but not included in Information Disclosure is as follows:
- the “total number of transforming points for direct supply of consumers, and bulk supply for resale”, i.e. the number of supply points but that is not required by Information Disclosure;
 - information on costs of energy supplied is also provided.

Question 20. Measurement of quality:

Should information on the quality of electricity distribution and transmission services encompass more than just service reliability (e.g., supply quality—including frequency, voltage and interference characteristics—and consumer services), and how practicable would it be to disclose such additional information?

88. It is important that different reporting regimes contain consistent measures and, as far as possible, these measures do not overlap to avoid duplication of effort as well as avoiding inconsistency in definitions being applied or subsequently developing.
89. The Electricity Commission has recently consulted on the Grid Reliability Standards (GRS). In conjunction with finalised GRS, transmission contracts (benchmark agreements) containing service definitions, levels and measures will be approved by the Electricity Commission. Further work is required in this area to define what the nature of the eventual service obligations may be.

90. Transpower currently provides two monthly reports to the Electricity Commission, "System Performance Report" and "System Operator Monthly Operational Performance Report to the Electricity Commission". The former contains information on frequency performance, e.g. the number of momentary frequency fluctuations outside the frequency normal band, time error performance and some indicative information on voltage performance. This is public information which could readily be provided under the Information Disclosure Regime if required.
91. It is worth noting that, as part of the work done on transmission service definitions by a subgroup of the Transport Working Group in 2003⁶, Transpower investigated a number of service measures. Voltage was one of these but the work at that time determined that there were considerable practical difficulties in monitoring voltage because of accuracy and reliability of measuring and recording equipment. Improving the accuracy and reliability of measuring and recording equipment would be an expensive exercise.
92. In addition, it is important to ensure that any measures reported are suited to the level of oversight that the Information Disclosure Regime is intended to provide. As Information Disclosure financial information is provided at a "system" level, it is appropriate that the companion technical information is provided at this level also. While frequency is a global system measure, both voltage and interference are more localised effects and can be quite dependent on local arrangements and decisions, so are unsuitable as measures of overall system performance.

How can the specification of required quality measures be tightened to improve consistency?

93. This issue is largely irrelevant for Transpower as its data is not directly comparable with other lines company data. Transpower has internal processes and procedures for collecting and preparing data so that results can be trended from year to year. The main factors affecting consistency are clear and precise specifications for the measures, which are then held constant over time.

Is independent audit of quality disclosures required?

94. As long as there are clear definitions and documented procedures for collecting and preparing data, an independent audit is not required. While this may be seen as desirable to give the regulator and other users greater confidence in the figures reported, the added compliance costs would be significant given the technical complexity and the requisite skills required to be employed by audit firms.
95. For example, the loss of supply information used for Quality Threshold reporting (and for some Information Disclosure reporting) is audited. However, there are concerns over the high audit compliance costs required and the appropriateness of applying financial level auditing to such information.

⁶ Transpower New Zealand, *Service Levels Policy Part 1: Power Quality – Steady State Voltage*, June 2003, p.8

96. It also needs to be recognised that the nature of events and collection systems behind system performance information is such that, on occasion, judgements must be made as to how information is to be recorded.

3.6 Other disclosures

Question 21. Terms and Conditions, Line Charges and Pricing Methodologies:

In light of the Electricity Commission's role, to what extent might it be desirable for disclosures relating to contracts, pricing methodologies and line charges to all be disclosed under the same set of requirements?

97. Transpower submits that it is desirable for disclosure of contracts and pricing methodologies, at least in respect of transmission services, to be handled under the Electricity Commission regime.
98. Transpower bases this submission on the combined effect of the provisions of the EGRs as they relate to both specification of the benchmark agreements which Transpower uses and the transmission pricing methodology.

Contracts

99. Under the EGRs, the Electricity Commission is responsible for the development of benchmark agreements for use by Transpower and "Designated Transmission Customers". This contract development process (which is being undertaken at present) includes elements of public submission and consultation.
100. Section 4.2 of Part F defines the principles the Electricity Commission needs to consider when designing benchmark agreements. They should reflect a "fair and reasonable balance between the requirements of designated transmission customers and the legitimate interests of Transpower as asset owner" (4.2.1); and the "interests of end use customers" (4.2.2).
101. These benchmark agreements become the standard for the contracting basis between Transpower and the Designated Transmission Customers, providing "a basis for negotiating transmission agreements" (Part F, Section 4.1.1).
102. Any attempt to agree terms that are materially different from the benchmark agreements is governed by specific provisions in the rules and, depending on the nature of the variation, requires either notification to or consent from the Electricity Commission as well as agreement from affected end use customers (Section 5.1 and 5.2 of Part F).

103. The Commission states that it believes it should continue to have a role in the oversight of contractual terms because “the terms and conditions of contracts are an important aspect of potentially constraining the exercise of monopoly power”⁷ by (inter alia) Transpower. The Commission’s aim of constraining monopoly power by “insuring the transparent disclosure of such terms and conditions”⁸ will already be achieved by the Electricity Commission through its consultation and decision making processes.
104. Transpower submits that requiring disclosure of the same information to the Commission creates an administrative inefficiency for no benefit.

Pricing methodology

105. Transpower similarly submits that, because of the terms of the EGRs, there is no regulatory necessity for the separate disclosure of the pricing methodology as part of the Commission’s Information Disclosure Regime.
106. Under the EGRs, the Electricity Commission is responsible for approving the pricing methodology that is developed by Transpower at the Electricity Commission’s request. As with the contract structure, the pricing methodology is first put out for public consultation and submission, then approved by the Electricity Commission.

How could the requirement for information in these areas be enhanced so as to ensure it satisfies the Commission’s proposed objectives and principles for the regime (Chapter 3)?

107. Transpower submits that the anticipated future levels of disclosure under Part F, as they relate to the contracts that Transpower has with its customers and the pricing methodology, meet the objectives and principles that the Commission is proposing.

3.7 Auditing, certification and statutory declarations

Question 22. Auditor’s reports:

How important is the role of the independent auditor in the information disclosure regime? Is the current scope of the auditor’s reporting sufficient, or should it be extended to include other information disclosures? Are there any aspects of the current auditing processes that should be changed?

108. The comments made in paragraphs 93 and 94 of this submission refer to the high compliance costs of requiring external audit of complex technical information.
109. However, for other types of information disclosures, Transpower believes an independent auditor is a necessary part of the process and that the current scope of the auditor’s reporting is sufficient.

⁷ Commerce Commission (December 2004), *Regulation of Electricity Lines Businesses, Review of the Information Disclosure Regime Discussion Paper*, para.372 p.81

⁸ Supra

Question 24. Certification and statutory declarations:

How important is the role of certification and statutory declarations in respect of information supplied to the Commission in relation to s 57T of the Act? Is the current scope of certificates and statutory declarations required to be prepared by directors of large line owners and large electricity distributors sufficient, or should it be extended? Are there any aspects of the current certification processes that should be changed?

110. Currently all statements and information provided to the Commission are to be verified by statutory declaration by an authorised director under requirement 36 of the Commission's Electricity Information Disclosure Requirements 2004. In contrast, under Part F, section II, rule 8.2, upon request by the Board, Transpower (or other participants) must provide a copy of any written agreement for connection to/use of the grid which must be certified by a director or chief executive of Transpower, to be to the best of his/her knowledge a true and complete copy.
111. It is Transpower's view that it is unnecessary to retain the need for information disclosures to be verified under a statutory declaration. Transpower believes that statutory declaration is cumbersome, time-consuming and of no proven advantage over certification. Certification by a director or chief executive would be:
- more expedient, while preserving accountability over the accuracy of the information provided to the Commerce Commission, and
 - consistent with comparable disclosure provisions existing obligations under Part F, Section II, rule 8.2.
112. Transpower would also like to add that any information disclosure which is submitted to the Commission has auditor sign-off and, therefore, has been subject to third-party scrutiny, regardless of whether it has been verified under statutory declaration or not.

3.8 Publication and retention of information

Question 25. Publication channels and mechanisms:

What are the most appropriate publication channels and mechanisms for the various groups of information, and what scope is there to rationalise the means of publication of information disclosure? Are there any impediments to data being gathered and published as data files (for example, being able to be uploaded to and downloaded from the Internet)?

113. Transpower makes its publications available as PDF files on the Internet and this is considered an appropriate way of disseminating data. The requirement to publish via the Gazette is not especially onerous but seems anachronistic. The Commission may wish to consider placing a requirement on all regulated entities to retain a hard copy of specified data for say seven years (analogous to IRD record retention requirements) to avoid the need to use the Gazette.

114. As regards electronic collection, the Treasury use an electronic submission system called CFIS (Crown Financial Information System) into which all SOE's and government agencies key their financial results. CFIS is then used to create the Crown consolidated financial statements. The Commission may wish to operate a similar system such that audited data is input at source.

Question 26. Timing:

How realistic and reasonable are the current times allowed for information to be disclosed?

115. The current time allowed is both realistic and reasonable.

Should the current financial years for Transpower and other large line owners and large electricity distributors be retained?

116. The current reporting period (ending 30 June) should be retained for Transpower, being consistent with its financial year. As referenced in the answer to Question 2, Transpower wishes to see its future pricing year aligned with the financial year. This in turn would allow the full alignment of the targeted control regime with the Information Disclosure Regime.

117. Apart from minor, and distinct statistical information provided to MED on an April to March year (as discussed in response to question 19), all reliability and energy delivery performance measures provided by Transpower are reported on the basis of the financial year from July to June. Retaining a July-June year for Information Disclosure reporting maintains consistency and reduces work load in collecting and reporting data. It also reduces the opportunity for errors as all information is prepared on a consistent basis.

118. For example, the calculation of system minutes of interruptions is dependent on the peak load in the period of interest. Therefore, if a different reporting year is used for Information Disclosure reporting from normal company reporting the figures produced will be based on two different peak loads resulting in:

- a lack of comparability between the two sets of reporting;
- future reported Information Disclosure statistics not being readily comparable to historical Information Disclosure reporting; and
- increased opportunity for confusion and error.

Question 27. Publication of Commission's summary and analysis of information:

What analysis of the disclosed information would it be most useful for the Commission to undertake? What are the main questions that such analysis should aim to answer?

119. The Commission, in paragraph 423 of the discussion paper, makes the comment that its data analysis could involve "presentation of compiled data in tabular and graphical form, to facilitate comparisons between businesses and over time".

120. Transpower wishes to stress to the Commission that it is not comparable with other entities (distribution lines businesses), and therefore any comparative analysis of such data between Transpower and distribution businesses is highly questionable.

3.9 Proposed implementation process and timetable

Question 29. Implementation priorities and sequencing:

What are your views on the implementation priority that should be given to different aspects of the regime? Are there any matters that you consider the Commission should aim to implement before 31 March 2005? If so, then how do you propose that they should be resolved in this time-frame?

121. Transpower agrees with the Commission's proposals to clarify valuation options most urgently.

Question 31. Workshops:

Do you consider that the use of workshops would be useful to help clarify implementation details on certain aspects of the information disclosure regime? What aspects of the process would most benefit from workshops? How could workshops be organised to operate most effectively and efficiently?

122. Transpower welcomes the Commission's idea to hold workshops to discuss the different aspects of the Information Disclosure Regime. Transpower would also like to suggest that the Commission also organises "one on one" sessions to discuss issues which are not generic.