



**Submission on the Commerce  
Commission's Review of the  
Information Disclosure Regime**

7 March 2008

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# 1 EXECUTIVE SUMMARY

## 1.1 Introductory comments

- 1 Vector welcomes this opportunity to submit on the Commerce Commission's (Commission's) Exposure Draft relating to proposed changes to the current Information Disclosure Requirements comprising the following:
  - The Draft *Electricity Distribution (Information Disclosure) Requirements 2008* (New Requirements)
  - Draft set of schedules to the New Requirements
  - Draft of the *Electricity Information Disclosure Amendment Requirements 2008* (Amendment Requirements)
  - Draft of the revised *Disclosure Handbook* showing proposed amendments (Revised Disclosure Handbook)
  - *Companion paper to the Exposure Draft of the Revised Information Disclosure Regulations*
  - *Supporting paper to the Exposure Draft of the Revised Information Disclosure Regulations.*
  
- 2 In Vector's view, there appears to be a long way to go before a robust, appropriate set of information disclosure requirements can be established. We have sighted the PwC review of the technical requirements of the proposed information disclosure arrangements and are in broad agreement with the issues they raise and the complexities and clarifications that would need to be addressed in finalising the arrangements. But Vector's biggest concern is that the proposed Information Disclosure requirements have not been considered in light of the proposed Commerce Act requirements, the Infrastructure GPS (August 2006) or practical experience under the thresholds regime.
  
- 3 Vector submits that the scope of the disclosure arrangements extends beyond their appropriate purpose and does not clearly reconcile to a clear objective. Information Disclosure is a tool, not an end in itself. There are three main users of financial and non-financial performance information: the Commission; consumers and investors. The Commission has a clear need for information to support its regulatory functions – setting regulatory terms (i.e., thresholds, default price quality arrangements and controls). Its needs are defined by the scope of its objective to improve efficiency, limit excess profits and incentivise appropriate levels of quality. There are practical limits, however, to what regulation can directly achieve and the scope of information disclosure is not to enable the Commission to supplant the role of management in identifying better ways of running the lines businesses, but to assist in creating the right framework (i.e., appropriate CPI-X price path) for

management to achieve desirable long-term investor and consumer outcomes.

- 4 From a consumer perspective, Vector's experience is that there is minimal interest in lines businesses financial and non-financial performance. This is not because consumers do not care about their lines services – to the contrary, service delivery and price are of clear concern to consumers – but end-users are bounded in their ability to make meaningful assessments of performance and aggregate level information is of little direct relevance.
- 5 Investors are interested in information disclosure information in terms of valuing lines business activities, but detailed performance metrics are generally of limited value.
- 6 Accordingly, taking into account the various needs of stakeholders to underpin the development of disclosure requirements, a "shopping list" approach to developing disclosure requirements is not appropriate, based on a view that "maybe one day a piece of information may be of interest". Vector submits that there must be a clear justification for each item of data, and rigorous testing is required of the provision of information that is not prepared according to a GAAP basis or for other financial reporting purposes. Information is very costly to prepare to a standard that can achieve audit sign-off, compared to that information used for internal decision-making purposes.
- 7 The conceptual basis for information disclosure also needs to be revisited in light of the Government Policy Statement to the Commerce Commission related to incentives of regulated businesses to invest in infrastructure (August 2006). The Government is keen to ensure that regulated businesses are not disadvantaged in leveraging their capabilities into other markets.

*"It is in the long term interests of the economy in general and consumers in particular that regulated businesses, in common with non-regulated businesses, are able to utilise existing assets to reduce the cost of investing in new infrastructure and to take advantage of economies of scale and scope."*<sup>1</sup>

- 8 The Commission's proposals do not clearly ring-fence lines businesses from other activities, and the Commission appears to hold the view that economies

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<sup>1</sup> Statement to the Commerce Commission of Economic Policy of the Government: Incentives of Regulated Businesses to Invest in Infrastructure (under s26 of the Commerce Act), Minister of Commerce, August 2006

- of scope could, or perhaps should, be shared with consumers, rather than be of shareholder benefit. This is of significant concern to investors who seek to realise economies of scope across a range of service offerings. In an environment where the Commission appears to be reserving the right to make up the rules on passing the benefits of scope economies after it has observed the outcomes, raises the risks and therefore the cost of capital for proceeding with economically and socially valuable projects.
- 9 This lack of strong conceptual basis for information disclosures underscores the need for a logically sequenced process which involves development of:
- a. the conceptual basis for what is being regulated;
  - b. the relevant input methodologies to carry out regulation; and
  - c. the information necessary to support regulation.
- 10 Vector believes the Commission's proposals in relation to the Information Disclosure Review should be delayed until the Commission has established a robust set of input methods under the revised Commerce Act. Even aside from the Commerce Act review outcomes, the recent changes in approach, (e.g., retraction of decision to use ODV) and lack of detailed proposal for regulatory tax approach, raise similar issues with finalising information disclosure prior to establishing the relevant regulatory methodologies for assessing financial performance and setting regulations. The design and choice of key input methodologies impacts significantly on the disclosures and Vector believes this has the potential to lead to significant (and unnecessary) additional compliance costs when inputs methods are finalised.
- 11 The first part of this submission focuses on contextual issues associated with the process, scope and principles adopted in the Commission's Information Disclosure Review. The second part of the submission focuses in more detail on substantive issues – in particular, valuing the Regulatory Asset Base (RAB), definition of Return on Investment (ROI) and the Regulatory tax approach.
- 12 Vector would refer the Commission to our submission on the thresholds reset discussion paper<sup>2</sup> as many of our concerns and key issues overlay the wider regulatory arrangements including both the thresholds and information disclosure.

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<sup>2</sup> "Electricity Thresholds Reset – Response to Discussion Paper, Vector Ltd, 21 February 2008.

- 13 Vector believes the development of a robust regulatory framework would benefit from collaborative industry workshops and further consultation.

## **1.2 Summary of key views**

- 14 *Sequence and timing* - In Vector's view, the Commission should first finalise its input methodologies before finalising the information disclosure requirements. In fact, Vector believes that decisions relating to threshold design, input and input methodology design, and finally information disclosure design should ideally be deferred until the Commerce Act has been amended. The risk of error by making decisions prematurely is much greater in Vector's view than any risk associated with deferring the process. The current course risks significant additional and unnecessary costs to the industry (and ultimately the consumer) as there is a high probability that much of the detail will need to be reworked in the future.
- 15 *Scope and depth* - The Commission has proposed the disclosure of a wide-ranging and detailed set of information which Vector believes is unjustified. Given the developing regulatory environment, Vector believes the Commission should err on the side of conservatism when considering information disclosure requirements. As a minimum, disclosure information should be linked back to a specific regulatory requirement or output. As stated above, Vector believes the Commission needs to finalise its input methodologies and re-consider the purpose of the information disclosure regime in order to justify the additional costs and time required by companies to provide the proposed data.
- 16 *Principles* - As they fall within the same regulatory regime, Vector believes the Commission should apply the same set of principles to the analysis of the thresholds reset and the information disclosure requirements review.
- 17 *Valuation methodology for RAB* - Vector believes there should be further investigation and consultation on the range of options. At this point in time it is impossible to make meaningful comment on the use of an indexed roll-forward approach, given a comprehensive proposal has not been provided of how the overall regime is intended to work.
- 18 *Definition of ROI* - Efforts to re-scope the ROI measure are premature. Vector believes analysis and consultation should continue during 2008 to enable development of a "fit-for-purpose" ROI measure.
- 19 *Regulatory tax* - Vector believes the tax expense should be used with deferred tax balance adjustments to RAB. The Commission's proposal to use

tax payable (as with asset valuation) is incomplete, and may give rise to misleading impressions of financial performance where there is no scope to make proper adjustments to the tax base (for example, from inter-sector asset transactions).

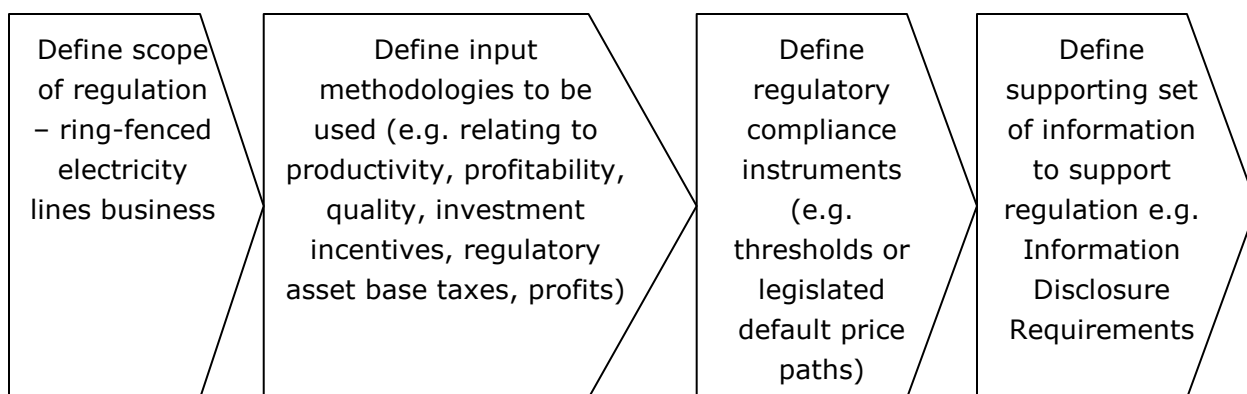
- 20 In the remainder of the submission, we elaborate on these views. An appendix provides further technical comments and points for clarification. We would welcome the opportunity to discuss any part of this submission with the Commission.

## 2 DISCUSSION OF CONTEXTUAL ISSUES

### 2.1 Comments on the sequence and timing of key regulatory decisions

21 In Vector's view, the timing of key decisions pending finalisation during 2008 needs further consideration. Figure 1 below depicts what Vector considers to be the correct sequence of steps leading up to the definitive design of Information Disclosure Requirements. While Vector acknowledges that information disclosure is a key part of the regulatory regime, Information Disclosure should not be seen as an end in itself. Its primary purpose is to support the Commission in setting thresholds and/or default arrangements under the new Commerce Act regime. Until the Commission has a clearer picture of what and how it will regulate, setting information disclosure requirements risks generating regulatory inconsistencies and unnecessary compliance costs.

**Figure 1**



26 The Commission acknowledges in the Companion paper<sup>3</sup> that there are a range of further elements of the framework that will require further consultation in the development of the final regulatory arrangements. By way of example:

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<sup>3</sup> "Review of the Information Disclosure Regime – Companion Paper to the Exposure Draft of the Revised Information Disclosure Requirements", Commerce Commission, 20 December 2007

- “the proposed changes for distribution businesses in respect of several areas (e.g. pricing methodologies and line charges, cost allocation and related party disclosures) will be consulted on in 2008” (pg 6);
  - “the Commission proposes initiating further work needed to consult on implementing IHC as the asset valuation methodology applying to all distribution businesses on an ongoing basis” (pg 12);
  - “At this stage of the review, no changes are being proposed in respect of the existing cost allocation methodology in the current Disclosure Handbook, although the Commission intends consulting on possible changes in 2008. Similarly, in respect of the disclosure of transfer payments, the Commission also intends considering possible improvements to the existing provisions in 2008.” (pg 29);
  - “the Commission indicated it would consult further on the provisions for related party transactions.” (pg 36);
- 27 Vector believes it is difficult for Electricity Distribution Businesses (EDBs) to assess the proposed Information Disclosure Requirements given the missing pieces of the puzzle. Vector believes the Commission should defer the definitive design of the Information Disclosure Requirements in the face of further consultation on what we believe are key issues. This is particularly pertinent given the Commission’s uncertainty around whether ODV or IHC will be used in the future. Many of the disclosures currently depend on ODV as the input and will need amendment in the future if this changes.
- 28 This is a key reason to support deferral given the potential for revision, rework and uncertainty if changes to the disclosure requirements precede the finalisation of key input methodologies.
- 29 Rather than the proposed Information Disclosure Requirements applying from 31 March 2008, Vector believes the status quo could apply in the interim until the relevant process has been completed. The costs associated with delaying the new Information Disclosure Requirements are less than the potential costs associated with uncertainty and rework.

## **2.2 Scope and Depth**

- 30 In Vector’s view, the proposed Information Disclosure Requirements contain a wide-ranging (and in many cases over-prescriptive) information set. Vector believes the Commission needs to reconsider and clearly define the scope of regulated activities and how the regime is expected to operate over time.

Historically the requirements have been based on actual historical information however the proposals suggest a move towards more of a forecasting tool reporting on e.g. capex forecasts where there is an overlap/duplication with AMP requirements.

- 31 Further, Vector believes that an understanding of the purpose and audience would enable an improved consideration of the 'relevance' of proposed information. Vector believes there is some detailed information which would only have relevance to EDBs not consumers or other stakeholders. Further, there is some information which is clearly outside the scope of the Commission's mandate as defined by the Part 4A regime. By way of example, Vector considers the following information requirements to be inadequately justified at this time:
- Level of debt, total assets and interest expense of the corporate entity to which the EDB belongs – to identify whether any financing constraints exist (FS2);
  - Unregulated services that utilise regulated network assets (including the relevant revenues) (FS1-3).
- 32 The scope and depth of information requirements should be rigorously fit-for-purpose; each required information element should be explicitly traceable to and justifiable in relation to a credible/legitimate regulatory output. Such justification is only possible if the input methodologies, the inputs, the compliance instruments and the guiding principles and overall objectives of regulatory design are well-understood and coherent. As outlined above, there are a number of key issues that the Commission is still to consult on and this could lead to significant adjustments to the information requirements (if for example, an indexed roll-forward is adopted as the asset valuation methodology).
- 33 It appears to Vector that the Commission has included a long list of information requirements primarily as a precaution (i.e. 'insurance' in case that information is required in future). Vector believes this is inefficient and will place an undue burden on EDBs. Furthermore, Vector believes it is inconsistent with the Commission's "cost efficient" principle. The Commission itself notes in the Executive Summary of Thresholds Reset Discussion Paper that 'the costs and complexity of regulatory arrangements should be commensurate with the relatively small size of NZ's electricity industry'.<sup>4</sup>

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<sup>4</sup> "Regulation of Electricity Lines Businesses Targeted Control Regime - Threshold Reset 2009 - Discussion Paper", Commerce Commission, 19 December 2007, pg ii.

- 34 It is not clear how much of the data the Commission proposes would be used. For example, the Commission proposes that EDBs publish forward-looking information and reconcile actual results against projections. This does not appear to fit with a regulatory framework under either thresholds or default price-quality paths, where the CPI-X framework is not to be built on a forward-looking building blocks framework.
- 35 The systems and processes required to deliver the proposed information requirements would take time and resources to develop. As an example, many EDBs would have difficulties tying together the valuation systems and accounting systems to deliver the proposed information. This would take significant resource, time and cost and the Commission's future decisions relating to changes in the valuation methodology would potentially undermine a lot of this work.
- 36 The requirement for all disclosure information to be audited further emphasises the need for prudence in designing the scope and depth of information requirements. This would imply significant cost increases for the industry. Although some of the information may be generated for management purposes in business decision-making, it is quite another matter for the information to be prepared to an audit standard.
- 37 As emphasised above, Vector considers that the definitive design of the scope and depth of the information requirements should be deferred until the regulatory instruments, their inputs and input methodologies have been finalised. At that time it will be possible to design exactly the minimalist set of information requirements that will fully support the chosen regulatory design. In any event, Vector emphasises that each required information element should be explicitly traceable to and justifiable in relation to a credible/legitimate regulatory output or objective.

### **2.3 Importance of consistent principles in the design of regulatory frameworks**

- 38 The Commission has developed and employed different sets of principles to guide and optimise the design of various components of the regulatory regime, viz. resetting thresholds, information disclosure requirements generally and asset valuation specifically. These sets of principles are summarised below.
- 39 Thresholds reset:

- *Excess profit limiting* – businesses are limited in their ability to extract excessive profits.
- *Efficiency* – businesses face strong incentives to improve allocative, productive and dynamic efficiency.
- *Price/Quality trade-off* – seeks to ensure that businesses provide services at a quality that reflects consumer demands and that businesses maintain appropriate levels of reliability while complying with the price-path.
- *Benefit-sharing* – efficiency gains should be shared with consumers over time, including through lower prices.
- *Investment* – businesses should have appropriate incentives to make efficient investments in infrastructure.
- *Accountability* – businesses should be held accountable for any investments explicitly provided for by a threshold mechanism.
- *Certainty* – seek to provide for regulatory stability, transparency, predictability and certainty.
- *Cost effectiveness* – reduces the regulatory burden to industry and consumers both in terms of costs and resources.
- *Robustness* – methodologically robust, replicable and transparent.
- *Appropriateness* – takes into account, where practicable, industry and business specific factors.
- *Consistency* – takes into account other elements of the regulatory framework and the overall threshold arrangements.

#### 40 Information disclosure:

- *Transparent* - the disclosure regime is, by definition, intended to promote transparency, so that interested parties are informed about a range of factors concerning the operation and behaviours of line owners and electricity distributors.
- *Relevant and understandable* - the disclosure regime should provide the information that is of greatest relevance to interested parties; it should not require information which is of limited value or limited interest. The information and any analysis of the information should be presented in a way that is readily understandable.

- *Consistent and accurate* - the disclosure regime should be consistent and accurate to the extent appropriate to the relevant needs of interested parties.
- *Cost effective* - the disclosure regime should achieve information disclosure objectives at a reasonable compliance cost.
- *Timely* - the information (and analysis) should be provided by businesses (and the Commission) in a time-frame that makes it "fit for purpose".

41 Asset valuation:

- *Efficiency* - should support outcomes that are allocatively, productively and dynamically efficient.
- *Profit measurement* - should facilitate the identification of excess profits on a basis that reflects sound regulatory economic principles and practices.
- *Cost effectiveness* - should achieve regulatory valuation objectives at a reasonable compliance cost.
- *Consistency and accuracy* - should be consistent and accurate to the extent appropriate to the relevant function under Part 4A.

42 While Vector agrees with a principles-based approach, we believe the same objectives and set of principles should be used for the threshold reset and review of disclosure requirements, as these are both components of the same regulatory regime. Information disclosure is an enabling tool, which will allow the Commission to carry out its regulatory functions. The use of different sets of principles to guide the development and optimisation of different components of the same regulatory regime is characteristic of a fragmented approach. While individual components may be optimised in terms of their respective guiding principles, Vector believes it is likely that the overarching framework will invariably lack harmony, coherence and overall optimisation.

43 An example of the above concerns would be an asset valuation methodology that appears to meet the requirements of 'cost effectiveness' (relating to asset valuation), but which is not 'transparent' (relating to information disclosure) because it has been designed absent proper understanding of future purpose, principles and broader framework, and absent knowledge of

- the exact compliance instrument and outputs (e.g. ROI) that will need to be supported.
- 44 In Vector's view, all policy devices (e.g. input methodologies) should be rigorously and systematically assessed against a single coherent set of criteria. Vector considers this has not been done yet.
- 45 Vector submits that the Commission needs to adopt an approach to information disclosure that reflects its role as an enabling tool and not as an end in itself. The broad philosophy of both the thresholds regulatory regime and the proposed default price-quality arrangements under the new Act is that it is incentive based, and intends to strike a balance between intrusiveness/costs and precision. The regime is not intended to be the full building blocks regimes observed elsewhere, where there is inordinate amount of detail provided, but it attempts to achieve similar benefits at much lower costs, by narrowing the need to undertake such costly investigations.
- 46 Accordingly, information disclosure needs to support a set of arrangements that intends to provide periodic adjustments to prices based on observable past performance and extrapolation of trends, with an opt-out for those companies for whom past performance is not a good indicator. At that point the Commission's other tools (e.g., s98/s70E Notices) can be used to obtain the right information to support more detailed regulatory processes. Under the revised Commerce Act arrangements, lines businesses will be required to furnish a detailed proposal that is compliant with the Commission's input methodologies. Viewed in that light, it is unnecessary to have exhaustive information disclosures, or forward-looking information and reconciliations to group accounts.

### **3 DISCUSSION OF SUBSTANTIVE ISSUES**

#### **3.1 Valuation Methodology for Regulatory Asset Base**

- 47 Over the past few years, the Commission has considered the valuation method for the RAB on a number of occasions. The preferred approach has varied between Optimised Deprival Value (ODV), Depreciated Historic Cost (DHC) and Indexed Historic Cost (IHC). The Commission's current proposal indicates a preference for IHC for setting and rolling forward the regulatory asset base (RAB) in future.
- 48 Valuation of the sunk asset base is absolutely critical to investor confidence. Given investors in electricity assets are committing significant sunk capital when they make new investments, failing to define the asset valuation methodology, and worse, retracting decisions on asset valuation approach (e.g., the Commission's proposal to defer and possibly abandon its earlier decision to update ODVs in 2008) is a cause of significant harm to the regulated infrastructure sectors and ultimately the long-term interests of consumers.
- 49 While Vector would like certainty about the asset valuation approach as soon as possible, as outlined above, at this point in time it is impossible for Vector to make meaningful or useful comment on the Commission's proposal, given the absence of a comprehensively defined set of input methodologies. The Commission, for example, has indicated a preference for a tax payable basis for regulatory tax allowances, but this too is an incomplete proposal. A key issue for investors is how the tax book value relates to the RAB, and how the valuations may be affected over time by inter-sector transactions. Similarly, the risks attendant with different valuation approaches affect the WACC, so again, unless there is a clearly laid out set of linkages between input methods, it is impossible to make submissions on an isolated proposal.
- 50 Furthermore, the options provided are narrow. Vector considers that there should be further investigation and consultation on the range of options in order to formulate a cohesive design. Vector believes that non-indexed approaches have the following properties that require it to be given further consideration as well:
- Improved cashflow profiles which lower investor's commercial risks. This is becoming particularly important in the current energy policy environment;
  - The precedent of using non-indexed roll-forward as an important asset valuation metric in the case of Transpower;
  - Its compatibility with GAAP;

- Mitigation of regulatory risks associated with the Commission's suggested inability to legally bind future Commissions.

51 Again, Vector submits that the right approach to follow is for the Commission to swiftly proceed to articulating a comprehensive set of internally consistent options for input methodologies. Only then will submitters be in a position to make useful and meaningful comments.

### **3.2 Definition of Return on Investment (ROI)**

52 Vector notes that there are at least three definitions of ROI currently on the table and further development and/or convergence is being considered. Information disclosure requirements will differ depending on how these issues are resolved.

53 Importantly, the bases for ROI being considered for information disclosure and threshold design respectively do not appear necessarily to be on a convergent track. Furthermore, the bases being considered for ROI in the information disclosure context include an aggregate value for a given year or an internal rate of return (IRR) over the year in question.

54 Vector wishes to emphasise that it has no issue with the fact that multiple options are being explored; in fact it considers this type of analysis and consultation to be of vital importance, provided the appropriate process sequence is followed. However, Vector considers efforts to converge on a definitive design for ROI at this time to be premature, absent understanding of what the design (or design principles) of the future compliance instruments (thresholds or legislated default price paths) will be.

55 Vector submits that any attempt to converge on definitive designs for ROI and its information disclosure requirements at this time will be speculative and lead to rework, inefficiency and diminished investor confidence.

56 Vector submits that analysis and consultation should continue during 2008 to enable convergence towards and definitive design of an ROI measure that will be "fit-for-purpose" in relation to the compliance instrument of choice consequent to the Part 4A amendment process. Vector recommends that the design of the information disclosure requirements relating to ROI (and generally) should be deferred until the appropriate measure and its input methodologies have been resolved.

### 3.3 Regulatory Tax Principle

- 57 The Commerce Commission proposes using tax payable (i.e. cash tax). In Vector's view, tax expense should be used with deferred tax balance adjustments to the RAB. Vector refers the Commission to the PwC paper on taxation issues for the gas final authorisation for further details in relation to this issue.<sup>5</sup>
- 58 Vector submits that there are strong reasons to prefer the tax expense based methodology. It mitigates commercial risks associated with asymmetric consequences of extreme weather and geological events, is more consistent with a regulatory philosophy of matching revenues with the use of assets over their economic lifetimes, and reduces regulatory risks. Moreover, the Commission's tax payable proposal has not been comprehensively specified. In particular it does not account for past and future asset sales and their impacts on tax depreciation. Tax expense with comprehensive deferred tax accounting provides a ready-made approach for dealing with issues that the Commission will need to confront.

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<sup>5</sup> "Draft Decisions Paper, Authorisation for the Control of Supply of Natural Gas Distribution Services by Powerco Ltd and Vector Ltd – Taxation Issues", PwC, 30 November 2007.

## 5 APPENDIX 1 – VECTOR’S TECHNICAL COMMENTS

59 Vector’s submission focuses primarily on the high level issues associated with process and scope. While not exhaustive, this appendix emphasises a selection of Vector’s key technical comments and points of clarification in relation to the proposed requirements. Vector has sighted the PwC appendix which addresses a large number of the more detailed, technical issues in its submission on behalf of 21 EDBs. The issues raised by PwC clearly require considerable thought and engagement, and it appears to Vector that the best way to proceed is to hold a series of work-shops to resolve the difficult issues raised.

60 Vector provides its comments on technical issues without prejudice to our recommendations on high level issues, presented in the body of this submission.

### 3.1 Key technical comments

61 *Handbook* - As an introductory comment, Vector notes that there appears to be inconsistency between the handbook and the Exposure Draft. In particular, NZ GAAP financial statements and Cash flow statements are no longer required in the Regulatory Profit Statement but this is not supported in the handbook. Also, the disclosure of old financial statements is not required (2.1.3) however 2.9.1 of the handbook states otherwise. Vector believes the handbook requires considerable rework before it is a useful accompanying document.

62 *FS1 - Capital contributions* – the treatment of capital contributions as a one-off revenue impact (while consistent with GAAP) is likely to lead to significant volatility in ROI. Vector believes any revenue associated with capital contributions should be recognised over the life of the asset (with appropriate recognition of the time value of money). Vector notes that there is the potential for varying treatments of capital contributions under NZ IFRS.

63 *Materiality* - Supporting Paper para 150 - In Vector’s view, the 3% materiality requirement is excessive and will impose substantial additional costs on the industry. Vector believes the Commission needs to clarify what benefits derive from such a high level of accuracy around changes. (the Commission may well have misinterpreted what was done for 2004 when auditors looked to see if each individual component would move by 3% of the total valuation, not the component value).

64 *Total and non-contiguous reporting* – Vector supports the proposed requirement for total and each non-contiguous network however we believe

- the definition should apply to geographically non-contiguous networks as opposed to electrically non-contiguous networks.
- 65 *Reporting on service quality* - Vector supports the shift of the consumer engagement obligation from the thresholds to an information disclosure requirement. However, prior to requiring lines businesses to carry out further consultation, Vector submits that the Commission should work with the industry to develop best practice guidelines for carrying out such engagement. Eliciting meaningful comment from consumers on their price-quality tradeoffs is very difficult and there are apparently a wide range of approaches taken by lines businesses.
- 66 Further, Vector notes that the Commission proposes to require further disaggregation of quality information in order to support the development of quality thresholds. As outlined in our thresholds submission, Vector does not believe that robust comparisons can be made between companies and therefore that it is not feasible to develop an S-factor linking financial incentives and penalties with other networks. We therefore do not support the translation of this into further information disclosure requirements in relation to further disaggregated quality data.
- 67 *MP1 – Network information* – The proposals require EDBs to provide information at a number of levels of disaggregation, some of which are not possible based on the information available to EDBs and some which Vector does not believe will be meaningful.
- *"Underbuilt" lines* – The disclosure for breakdown of network information has been expanded to include "underbuilt" lines/cables. The definition of underbuilt is not clear, and Vector's interpretation may be different to other EDBs. In our ODV we determine which lines/cables are underbuilt based on the ODV Handbook definition and applying a rule of approximately 1.3m or 1.5m. This information is disclosed as part of our ODV.
  - *Coincident and non-coincident demand* - It is not clear how the breakdown between coincident and non-coincident demand and the subsequent diversity at each network level is useful to the Commission. In order to comply with the draft requirements a significant amount of aggregation of data at multiple levels is required and may potentially incur significant audit cost with unclear benefits. EDBs typically build each piece of network to cater for the anytime (non-coincident) peak demand. It would be preferable to only require non-coincident demands for everything other than the system demand which should only be the coincident demand.

- The requirements prescribe for demand information in MW however Vector believes that MVA is a more appropriate measure. The MVA measure is more consistent with the technical rating of infrastructure and using this measure for demand would have more relevance to network design, and when determining utilisation and network security.
- *Embedded generation output* – Embedded generation is becoming more prevalent at smaller capacity levels into the residential market for example photovoltaic cells. At this level the necessary metering to record demand information is not available – we can only measure what comes onto our network (not what has been used on-site). Vector is unlikely to be able to comply with the requirements to report distributed generation demand. It would be preferable to redefine these requirements in the context of throughput (kWh) measures.
- *Customer demand (LV)* – A very small portion customers connected to Vector’s network has metering capable of recording demand information. The Commission assumes in their 20 December consultation paper paragraph 398 that EDBs profile load and that only a small portion of system demand would be attributable to profiled load. Unfortunately neither of these assumptions are correct, load profiling is undertaken in the industry as part of the energy reconciliation which EDBs are typically not directly involved in and a significant portion (for example all domestic customers) of total load would require profiling. Vector would not be able to provide the information specified. It would be more appropriate to change the requirements from a demand measure to a throughput (kWh) measure.
- *5 Year system maximum demand growth forecast* – The asset management plan already provides for this information, and providing it again will be a duplication of effort.
- *Electricity Volumes carried* – The requirements provide for a breakdown of electricity volume carried into two segments, LV customers and the top 5 customers. It is unclear what the intent of obtaining volumes of the largest five customers is intended to achieve. Vector submits that aggregate volumes should be sufficient for regulatory purposes.

#### 68 *MP2 – Performance measures*

- In this schedule EDBs are required to provide “distribution transformer capacity utilisation”. The distribution transformer capacity utilisation is defined as the ratio of System Maximum Demand to Distribution Transformer Capacity. Distribution Transformer Capacity is defined as the

sum of the name-plate ratings (kVA capacity) of all distribution transformers on the EDBs networks; divided by 1000 (i.e. the sum is disclosed in MVA). System Maximum Demand is defined as the aggregate peak demand for the EDBs network, being the coincident maximum sum of GXP demand and embedded generation, measured in kW. By definition, the dimension "distribution transformer capacity utilisation" is kVA/kW, and is not a "pure ratio", and cannot be expressed as a %. The maximum demand should be expressed as kVA instead of kW for the formula to be valid.

#### 69 *MP3 – Price and Quality*

- *Price information by customer class* – The requirements prescribe four classes of customer to disaggregate pricing information into; small, medium, large and the largest 5 customers. The customer types are defined by a LV connection type below and above 20kVA for small and medium customers and an HV connection type for large customers. Unfortunately the customer segments the Commission has proposed do not align with connection types Vector currently uses. Reliable capacity information is not readily available for every connection type. This will likely lead to significant cost in allocating customers to the groups proposed as well as significant audit cost validating the allocations each year. The Commission has not defined the basis for the segmentations they have selected, nor what benefits the disaggregated approach provides. It would be beneficial to consider a more aggregated approach or further consultation around customer segmentation.

### **3.2 Points where further clarification is required**

70 *Standards* – Vector believes further clarification is required in relation to relevant accounting standards (GAAP vs IFRS) (e.g. relating to tax treatment, capital contributions). In particular, Vector believes the Commission has not adequately considered the impact that NZ IFRS has on the provision of financial information. The Commission should provide guidance on how NZ IFRS will be considered in light of the proposed regulation. For example, under the NZ IFRS assets held for sale are not depreciated and the question arises if this would also apply in terms of proposed regulation.

#### 71 *Financial disclosure issues*

- Para 141 of the Companion Paper discusses other income but does not consider how revenues such as gains on disposals of assets, associate company income or dividends received should be treated.

- Para 144 of the Companion Paper refers to Refurbishment and Renewal expenditure being significant project work designed to extend asset lives. Expenditure that extends an asset's life is typically considered to be capital expenditure. If capital expenditure is to be included in the calculation of profit, then this would be inconsistent with GAAP.
- It is not clear in para 148 of the Companion Paper if losses on the disposal of fixed assets should be included as other expenditure.
- It is considered important to clarify how the recently announced R&D tax regime will apply to tax related calculations in regulation and disclosure.

72 *Contestable vs non-contestable activities* – Vector believes the Commission should take the opportunity as part of the development of new Information Disclosure Requirements to clarify the distinction between contestable and non-contestable activities (and in particular how this applies to embedded networks). In particular, 2.5.2 in the Draft Handbook states that centralised load control equipment must be allocated to the lines business. Vector strongly disagrees with this contention. Smart metering is set to become ubiquitous and will compete directly with load control.

73 *Part 1 – Preliminary Provisions – Transmission charge and Transmission system* – Vector believes that this definition does not match the Commission's specific inclusion of avoided transmission charges in para 176 of the Supporting Paper. In Vector's view, the requirements should be consistent with the Electricity Commission's stance which also includes transmission alternatives.

74 *Vested assets* - Para 113 of Supporting Paper - Vector believes further clarification is required in relation to the treatment of vested assets (e.g. easements, trenches). In particular, what are the Commission's expectations in relation to materiality?

75 *Changes to asset register information* – Para 125 of Supporting Paper - Vector seeks clarification from the Commission in relation to the treatment of lost/found assets. Vector believes that any found assets should not be treated as a revaluation gain Vector believes there is inconsistency between the Commission's discussion of lost and found assets on pg 6 of the "Supporting Paper". In particular, under "Specification of ROI" states that EDBs should bear the downside (or upside) risks associated with changes in asset register information (e.g. lost or found assets). This appears contrary to the statement under "Roll Forward of the RAB" which states that rolling forward of the RAB involves "adjusting for any changes in the accuracy of asset register information".

- 76 *Loss rental rebates* - Inclusion of Loss Rental Rebates (LRRs) could potentially lead to misrepresentation of ROIs. In order to avoid confusion, Vector believes that the Commission should exclude LRRs given the benefits of inclusion are small.
- 77 *Asset additions* – Supporting Paper para 223 – In Vector’s view it is critical that there is a transparent definition for “efficiently incurred incremental investments”.
- 78 *Schedule MP1* – Vector believes there are some definitions in the proposed schedules which need clarification in order for the disclosure to be meaningful. In particular:
- Definition of urban and rural terrain (in section A9 of the ODV handbook);
  - Demand integration period (i.e. 0.5 hour or 1 hour) interval;
  - Zone substation (i.e. where a zone substation is also a GXP or where no transformers exist at a 22kV zone substation);
  - Zone substation demand – For zone substations with downstream generation, should this be explicitly included?
- 79 *Schedule MP2 - Technical Loss Ratio* – Vector seeks clarification as to the distinction between the loss ratio in MP1 (which refers to total or observable losses) and the technical loss ratio in MP2. Vector believes any disaggregation into technical and non-technical losses is premature given that the calculation of technical loss factors is a complex and time-consuming exercise. Furthermore, the results depend heavily on the observed load profile for the period under consideration, and on a number of assumptions, so there would appear to be little value in repeating the exercise on an annual basis.