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Information Disclosure Review
Network Performance Branch
Commerce Commission
P.O. Box 2351
Wellington

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Submission on Review of Information Disclosure Regime

1. Vector welcomes the opportunity to submit on the Commerce Commission's (Commission) latest proposed changes to the Information Disclosure Requirements.
2. Vector has seen the submission on this issue from the Electricity Networks Association and endorses the ENA's recommendations.

General comments

Process

3. Vector remains concerned that the sequence and timing of relevant regulatory decisions is not progressing in a logical manner. In particular, Vector finds it very difficult to properly assess the proposed information disclosure requirements while key decisions have not been made (i.e. definition of input methodologies and uncertainty about whether ODV or IHC will be used in future). It is premature to make wide-ranging changes to the information disclosure regime before these key decisions are made.
4. It is clear also that under the Commerce Amendment Bill materially different processes are intended to be used to establish price path and quality arrangements. Default price-quality paths are intended to be low cost arrangements and the Bill provides clear guidance on the methods that may and may not be used to establish these arrangements. Given the significant increase in

compliance costs that are likely to arise from the proposed set of arrangements, Vector submits that it would be appropriate to test whether the Commission's current proposals are fit for purpose under the proposed new regime. It would therefore be appropriate for the Commission to delay making a final decision on these arrangements, pending the passage of the Commerce Amendment Bill. It will become clear within the next month whether the Bill will be passed before the election.

5. Vector is disappointed that the substantive issues that were discussed in our previous submission (7 March 2008), notably regarding regulatory tax principles, do not appear to have been addressed or acknowledged by the Commission. Vector believes it is good practice to respond to and acknowledge points made by respondents in their submissions before progressing the information disclosure regime.

Scope and depth of information required

6. Vector welcomes the Commission's decision to defer the requirement to disclose information relating to unregulated services using network assets or relating to gains and losses on asset disposals. Vector's view is that these requirements have not been adequately justified.

7. Vector re-iterates our view that it is unacceptable to require lines companies to provide information without a clear view of why it is needed. As it is very costly to collect and present information in a manner that can be readily subject to external audit there should be a clear and stated reason why each piece of information is required.

Principles

8. Vector remains of the view that the same set of objectives and principles should be used for the threshold reset, asset valuation and the review of disclosure requirements, as they are all components of the same regulatory regime.

Regulatory tax approach

9. Vector is concerned that the Explanatory Draft did not acknowledge or address the concerns raised in previous submissions that the tax expense-based methodology is preferable to the proposed tax payable methodology. As noted in Vector's previous submission, tax expense is more consistent with a regulatory philosophy of matching revenues with the use of assets over their economic lifetimes, and reduces commercial risks.

10. Vector is disappointed that the Commission has not provided the analysis that has been done on the regulatory taxation approach to enable meaningful and informed consultation. Vector considers it inappropriate for the Commission to change the regulatory tax approach without proper consultation or acknowledgement of the submitted views of interested parties. Vector believes that, at a minimum, the Commission needs to provide further explanation of how it intends to overcome the downsides of the tax payable methodology, and fully explain how this methodology would apply when assets are transferred and depreciation clawbacks arise. The Commission has not provided a rigorous or comprehensive account of how the tax payable methodology could be employed consistently over time. In light of such uncertainty, the Commission will not promote efficiency in the sector over time, in particular, through efficient industry rationalisation.

Regulatory Asset Base (RAB) and Return on Investment (ROI)

11. As noted in our previous submission, it is not possible for Vector to make meaningful or useful comment on the Commission's proposals regarding the valuation methodology for the RAB or the definition of ROI while a comprehensively defined set of input methodologies remains unavailable. Vector recommends that the Commission articulates a comprehensive set of input methodologies before deciding on valuation methodologies for the RAB or designing information disclosure requirements relating to ROI. To adopt a new approach now will be inefficient and risks unnecessary expense and uncertainty as further changes are likely to be needed once input methodologies are defined.

Detailed comments

Financial performance / Regulatory Asset Base

12. In report FS1, Vector notes that categories falling under Total Operational Expenditure do not now need to be disclosed for 2008 and 2009. However, through note FS1c Material items (>15%) need to be disclosed. Vector is unclear as to whether lines businesses are required to disclose material items for 2008 and 2009. If so, it would still be necessary to categorise the items listed in report FS1 to determine whether any of the categories are above 15%. If that is the case, the exemption will have no effect. Vector believes the exemption for 2008 and 2009 should apply to material items.

13. Vector requests clarity about whether regulatory depreciation (in report FS3) is based on the assumed ODV average class life of 56 years.

14. Vector believes it would be helpful for the Commission to state the CPI values for each year to ensure the lines businesses use consistent data.

15. In report AV3, Vector is concerned that the Commission has not fully considered the compliance cost and system implications for the requirement to disclose replacement cost and depreciated replacement cost for the years 2005, 2006, 2007 and 2008 through the historic cost approach. Over these years, Vector has recorded data according to ODV requirements that were in place at the time. Disclosure of assets using historic cost will carry a substantial cost and it is likely that we will need to make a number of assumptions and estimates. Vector submits that the Commission should accept that, in compiling this information, it would be reasonable for lines businesses to use assumptions and estimates to derive such information, with appropriate disclosure of the approach taken and assumptions made. In circumstances where the Commission is requiring retrospective calculation of information, this is an appropriate, proportionate approach.

Performance Measures

16. Vector requests clarification from the Commission about whether it expects that the non-financial information has to be audited. Vector notes that if this was required it would substantially increase the length of time required for the audit process.

Non-contiguous networks

17. Vector welcomes the decision to only require separate reporting of geographically non-contiguous areas. However, Vector requests clarity from the Commission regarding embedded networks within a lines company area that were constructed by a different lines company. Should data from such networks be included in the area lines company's reporting?

Breakdown of circuit length

18. Vector notes that cells G20 and H29 on report MP1 appear to require the same information. Vector questions whether this duplication is necessary.

Zone substation and distribution transformers

19. Vector is concerned that the requirement to report an "estimate of customer owned transformer capacity" on report MP1 may be overly onerous. It could be difficult to develop a reliable estimate. Vector also notes that there is a risk of

double-counting where embedded networks within a lines company area were constructed by a separate lines company. In such circumstances, which lines company should estimate customer owned transformer capacity for the embedded network?

20. Vector notes that the Commission has added disclosure of zone substation transformer capacity to report MP1, to allow calculation of utilisation at this level. However, Vector does not always take supply from zone substation transformers. Sometimes we take supply directly from Transpower 11kV transformers. Vector questions how such circumstances are to be reported. Are both sets of transformers to be treated as zone substation transformers?

System Fixed Assets

21. Vector does not believe there is any need for the annual reporting of age and total life of system fixed assets on report MP1. Vector supports the unanimous view of stakeholders at the Information Disclosure Workshop on 18 June 2008 that reporting this information was unnecessary and the data would not be meaningful. The age of assets is more appropriately dealt with in the AMP. Vector believes lines businesses should not be required to assign resources to determine the average age of system fixed assets when there is no indication that this information will be useful to anyone.

22. Vector suggests it would be better to look at the average age of all assets rather than the remaining life. The average remaining life of a group of assets is unlikely to be realised by many of the assets in that group, thus estimating the average remaining life could give a misleading picture for any particular asset. Vector also questions the value of estimating average asset life each year as this is not a factor which changes significantly on an annual basis. As noted above, average life information is best reported in the AMP and it is not clear why the Commission wants this information to be reported in form AM1.

Electricity Demand and Volumes Carried

23. Vector notes that a requirement to report the volume of load shedding at the time of system coincident demand has been added to report MP1. It is not possible to report this information, because a lines company does not know how much load has been shed after it has been shed (the lines company would only know the demand). It is only possible to know what is shed at the time of shedding and it is not possible to estimate anything beyond that point. This requirement should therefore be deleted.

24. Regarding reporting requirements for embedded generation, Vector questions whether there is a minimum reporting requirement. Will all embedded generation need to be reported down to the level of micro-wind generators, or just the larger embedded generation?

25. Vector notes that the information required in lines 66 and 69 of report MP1 is the same and questions the need for the duplication.

Customer classes (report MP3)

26. Vector notes the Commission has decided to require reporting of pricing information for standard notional customer classes. These classes do not align with those used by distributors for pricing purposes. Vector does not believe this will provide useful information to consumers as it would have a similar effect to an aggregate approach (i.e. the average price amongst the groups could still be significantly affected by a distributor's customer mix, thus distorting comparisons). Therefore the approach proposed by the Commission is unlikely to improve the transparency of information, although it will lead to increased compliance costs for distributors.

27. Vector notes that the Commission has adopted customer classes consistent with the draft pricing methodology approaches proposed by the Electricity Commission (EC). As the EC's proposal is still under review, adopting their approach at this stage risks needing to make costly changes later if the EC changes their position. Notwithstanding our earlier comments, Vector suggests that 69kVA is a more suitable boundary than 70kVA as it relates specifically to standard fuse sizes.

28. Vector does not believe there is sufficient justification for a customer class of "five largest customers". We note the Commission's point that it would have potential value in identifying the scale of major connection point impacts on the EDB network. However, five is an arbitrary number and there may be less or more "major connection points" on a network. Thus this measure may not provide sufficient information to capture information about all major connection points.

29. Where report MP3 seeks the number of interconnection points, it is not clear whether year end or average indicators are required. Vector requests clarification from the Commission on this point.

30. In report MP3, line 72 mentions the "Relative Unit Price Index". This term should be defined.

SAIDI, SAIFI and CAIDI

31. Vector considers that the definitions of SAIDI, SAIFI and CAIDI should make it clear that these definitions only apply to outages on the 6.6kVA or 11kVA networks and above. The reporting requirement should not apply to low-voltage outages. This would be consistent with SAIDI, SAIFI and CAIDI performance reporting for other purposes.

Asset Management Planning

32. Report AM1 seeks forecast expenditure over the next five years. This information will be in the AMP and the duplication is unnecessary and potentially confusing. As the Commission acknowledges in paragraph 164 of the Explanatory Document, this information would only be in summary form in report AM1 and the reader may need to refer to the AMP to understand it.

33. An additional line item should be added to the capital expenditure part of Report AM1 (lines 10-14) for "relocation capital expenditure", to capture the expenditure where lines companies are required to relocate assets at the request of Councils and Transit NZ. This expenditure cannot be controlled by lines companies.

34. Vector is happy to discuss this submission in more detail if that would be helpful. If you have any queries please contact me (Nathan.Strong@vector.co.nz; 04-462-8711).

Kind regards

A handwritten signature in black ink, appearing to read 'Nathan Strong', is written in a cursive style.

Nathan Strong
Group Manager Regulatory Strategy