



**INFORMATION DISCLOSURE
DISCUSSION PAPER**

11 September 2009

Introduction

1. Powerco welcomes the opportunity to comment on the Commerce Commission's *Information Disclosure Discussion Paper*, published on 29 July 2009.
2. The information disclosure requirements under Part 4 of the Commerce Act are heavily influenced by the final input methodology determinations and default price path (DPP). This submission should therefore be read alongside Powerco's submissions on the Commission's other Part 4 discussion documents.
3. Powerco has also seen a copy of the Electricity Networks Association's (ENA) submission and supports its recommendations.
4. If the Commission wish to discuss any aspects of this submission please contact:

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1. Executive Summary and Recommendations

5. This submission begins by discussing aspects of information disclosure that are generic to electricity distribution and gas pipelines. It then considers each sector individually.
6. We look forward to providing more detailed technical comments at a later stage of the consultation process and we support the Commission's proposal to hold workshops to assist this. At this stage, our comments focus on the purpose and framework discussions.
7. One important framework issue that needs to be addressed upfront is our concern that the Commission's discussion paper has not addressed the appropriate role of information disclosure regulation when a firm is already regulated by price control.
8. The objective in setting the level and form of price control is to ensure that the purpose of Part 4 of the Commerce Act is met. Provided that there is confidence that the terms of the price control are being adhered to, there should also be confidence that the long term benefit of consumers is being promoted.
9. When thinking about the role of information disclosure, the starting point should be that the Commission has regulated price and quality in respect of gas pipelines and electricity distribution businesses to promote the purpose of Part 4. We recognise that the Act requires the Commission to implement an information disclosure regime. This may assist interested persons to assess whether default or customised price paths are achieving the purpose of Part 4 (in addition to knowing that the Commission has regulated price and quality). A much lesser degree of information than the Commission has proposed is needed to do this.
10. The Commission seems to be requiring a level of information that shifts it away from creating a structure of incentives, towards detailed analysis of management decision-making. For the sake of efficiency, the Commission must trust the incentives built into price control regulation to deliver the correct outcomes and leave operational decisions to suppliers.
11. The most important part of running a dynamically efficient electricity or gas distribution company is asset management planning. In a distribution business, in the long run, potential capital efficiencies far outweigh potential operational efficiencies. In developing the information disclosure regime, the Commission should have the promotion of best practice asset management at the front of its mind. Diverting engineering analytical resource to compile detailed and audited technical statistics every year will not improve asset management planning.

12. In addition, the Commission has proposed 13 KPIs to analyse performance over time and across sectors. Using these indicators has the potential to create perverse incentives, acting against the inbuilt incentives in DPP/PPP. An example is the KPI to assess the return on investment. Excess earnings should be eliminated by price control. Portraying a high ROI in a negative light may discourage firms from actively pursuing efficiency gains.
13. The Commission also intends the KPIs to be a communication tool. This has a fundamental flaw, as the knowledge required to understand the KPIs carries with it a knowledge that the measures are limited in what they show. There is a large risk that the KPIs are misinterpreted and provide a misleading picture of the success of the DPP/PPP in implementing the Part 4 purpose statement.
14. Finally, the differences between the gas pipeline and electricity distribution sectors must be recognised. Reticulated gas is a competitive fuel and Powerco competes with an unregulated firm, Nova Gas, for customers. The additional compliance cost of information disclosure places Powerco at an unfair competitive disadvantage. The Commission can address this by reducing the information disclosure requirements on gas pipeline businesses.

2. Purpose of Information Disclosure

15. In the Commission's discussion of the role and design of the information disclosure regime, it has not addressed the appropriate role for an information disclosure regime where a firm is already regulated under a price control regime (either a DPP or a CPP regime). Indeed, if the Commerce Act did not mandate an information disclosure regime (discussed below), there would be a good argument that imposing information disclosure on a firm that is already subject to a robust control regime is redundant. This is because the objective, in setting the level and form of control over the prices of regulated firms, is to ensure that the purpose of Part 4 is met. Thus, provided there is confidence that the terms of the price control are being adhered to (which is typically a straightforward compliance matter), there should also be confidence that the purpose of Part 4 is being achieved.
16. Powerco acknowledges that the Commerce Act requires firms that are already subject to control also to be subject to a disclosure regime, and that the Commission is therefore charged with setting requirements for information disclosure for those businesses. However, the Commission must still consider the interaction between the regimes – and in particular, the potential for a disclosure regime applied over a control regime to generate outcomes that are inferior to those generated by control in isolation.
17. Both forms of control that apply to Powerco's assets – namely the DPP and CPP regimes – are price cap regulation. At the heart of price cap regulation – and the key distinction from rate of return regulatory regimes observed in the United States as well as in several other jurisdictions – is that the control over prices is locked in for a defined period. This provides the asset owner with a known financial benefit from any incremental improvements in cost efficiency (or a disbenefit from efficiency declines). The prospect of earning a known reward for improvements (or suffering a known penalty for a decline in performance) is what provides the businesses with incentives to strive for cost reductions and other efficiency gains.¹ This can be contrasted with a rate of return regulatory regime, where an efficiency gain that leads to the firm earning higher returns could provoke a price reset by the regulator. This lack of certainty about the payoff to the firm from its efficiency initiatives acts as a significant dampener to the incentive to pursue such devote the management attention and resources necessary to pursue such initiatives.
18. The main purpose of the previous disclosure regime (particularly while it applied as the sole form of regulation to the EDBs) was to identify and direct

¹ As Powerco has argued in other submissions, the incentive to make efficiency gains can be enhanced by permitting part or all of the benefit earned within a regulatory period to continue to be earned into the next regulatory period, which would be a highly desirable enhancement to the DPP / CPP regime.

public attention to the presence of potential excess returns. This in turn was intended to dissuade firms from setting prices that delivered what may be considered as excessive returns, including by making more realistic the threat of control.

19. In contrast, under a control regime, the task of eliminating any expectations of earning excess returns has already been undertaken by the fact of establishing control. Drawing attention to prima facie excess returns and portraying those returns in a negative light may discourage companies from devoting the management attention and resources necessary to pursue efficiency gains.
20. Powerco considers that the most appropriate role of an information disclosure regime that sits alongside a price cap regime would be to require disclosure of the information that gives an understanding about how the outcomes under the regulatory regime compare to what was forecast, which in turn provide an indication about both the emerging issues and the likely outcome of the next price review. This level of disclosure would be at a much higher level than many of the very narrow proposals in the Commission's discussion paper, such as disclosure of a firm's sponsorship policy.

Role of summary and analysis

21. The Commission's annual commentary should explain the workings of price cap regulation and the role of profit therein. Importantly, its commentary should acknowledge that, under price control, prima facie excess returns provide scope for prices to be reduced when prices are next reviewed, and should therefore be seen in a positive light as an indicator of future customer benefit.
22. The commentary should also highlight that it is the potential to make a higher return that provides price-controlled businesses with the incentive to contain costs and pursue efficiency gains, the benefit of which must be shared with consumers over time, by way of future price reductions. Such efficiencies may not have existed in the absence of higher returns.

3. Key performance indicators

23. The Commission has proposed the disclosure of 13 key performance indicators, which it describes as relatively easy to understand and when taken together, would provide a rounded picture of the performance of regulated suppliers.²

Issues with KPIs

24. Powerco is not opposed to performance indicators per se. Like many businesses, a balanced scorecard forms a central part of our internal performance assessment and our Asset Management Plan has a number of key performance indicators³.

25. However, the issues of using KPIs to monitor the performance of complex areas are well documented. As already mentioned, if suppliers' feel that their performance is being judged too heavily by the KPIs there is an incentive to change behaviours away from best practice decision-making. The issues around the return on investment have already been described. Another example is the "capacity" KPI. With this measure, a supplier has an incentive to prioritise investment in urban areas to the detriment of rural areas as this is likely to provide a higher rating.

26. The table below summarises where we support the proposed KPIs and where we feel there are issues:

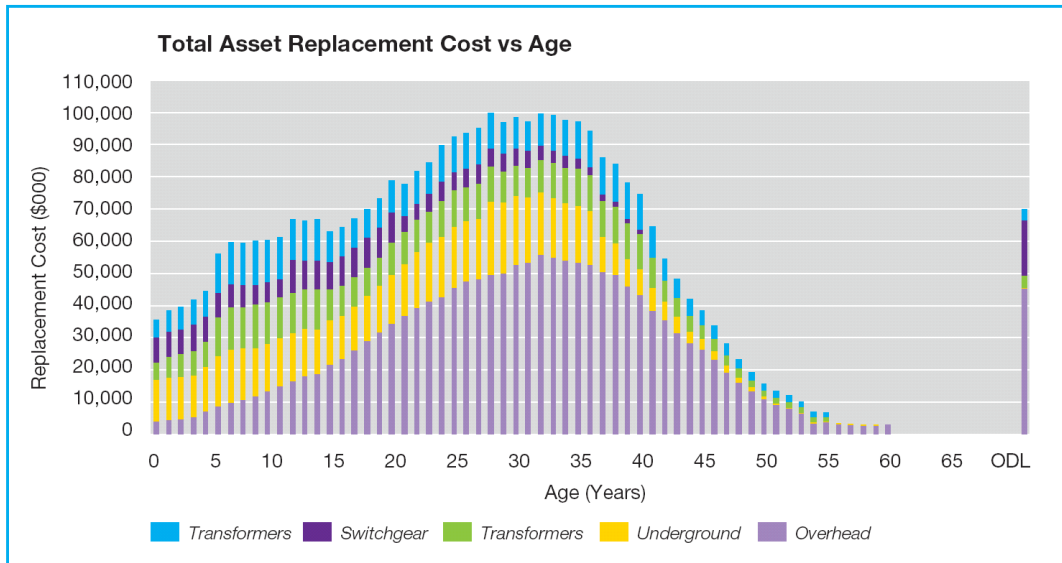
Key Performance Area	Performance Indicator	Comments
Innovation and Investment	AMP Review Rating: Innovation and Investment	Unable to comment until further information is provided. Timing issues should be noted. Eg a rating decided 9 months after an AMP is published can not feed into the development of the next year's AMP.
	Capital Expenditure Ratio	Disagree This is not very useful or meaningful as will vary by type of network. Would prefer asset base to be valued by replacement cost if indicator used.

² Commerce Commission, *Information Disclosure Discussion Paper*, 29 July 2009, p. III.

³ In Powerco's AMP there are a range of performance areas across the following categories: asset efficiency, asset utilisation, direct cost performance, network loss performance, non-network and non-asset solutions, adoption of new technology, performance of contractors, performance of safety, environmental responsibility, statutory compliance and risk management.

	Renewal Ratio	Agree Although note that this KPI will not account for the lumpiness of the renewal profile. This is shown in Graph 1 below, which suggests the Commission should use a rolling average.
	Capital Expenditure Growth Ratio	Agree Although note that some companies will have large catch-up needs or large capital expenditure spare capacity vs not much capacity. This will also vary by the characteristics of the network.
Efficiency	Operational Expenditure Ratio	Disagree We support the old measure by direct opex/ km of line. This allows historical comparisons. The Commission does not seem to have specified how this is linked to the new opex categories.
	Overhead Operational Expenditure Ratio	Disagree We support the old measure of indirect costs/ ICPs. This allows historical comparisons.
	Maintenance Expenditure Ratio	The Commission does not seem to have specified how this is linked to the new opex maintenance expenditure categories.
	Capacity	Disagree This could be called "ruralness indicator" as the major variation will be by remoteness or ruralness of the network.
	Relative Unit Price Index	Disagree Please see Powerco's comments in the "pricing disclosure" section.
Quality	SAIDI and SAIFI	Agree Powerco supports this measure as a performance indicator.
	AMP Review Rating: Quality	Unable to comment until further information provided. Timing issues should be noted. Eg a rating decided a year after an AMP is published can not feed into the development of the next year's AMP.
	Customer Perception	Disagree Please see Powerco's comments in the Electricity Distribution section.
Prices and Profits	Return on Investment (ROI)	Partially disagree In incentive regulation a high ROI may indicate improvements in efficiency, rather than extracting excessive profits. As previously mentioned the Commission needs to clearly explain the role of profit in incentive regulation.

Graph 1: Total Asset Age Profile



27. The graph above shows that Powerco’s capital expenditure is unlikely to follow a smooth trend as the relationship between replacement cost and asset age does not follow a smooth trend. This suggests using a rolling average.

What is the best way to communicate to interested persons?

28. The Commission indicates that KPIs will be a good tool to communicate performance to interested persons. In Powerco’s view, those who understand the KPIs will know that they provide a limited picture of performance and are not a robust basis by which to judge suppliers. There is however, a major risk of misinterpretation by some people who have an interest in performance, but less understanding of what the indicators mean.

29. The diagram below groups interested persons into three categories:
- The majority of people who will have a limited interest in performance and limited understanding of the KPIs. They are probably most interested in the price change to their total electricity bill and the likelihood of an outage.
 - The Commerce Commission, suppliers and the Ministry of Economic Development who may be able to understand the KPIs, but will also understand the indicators’ limitations.
 - People who have a high interest in performance, but less understanding of the limitations of the KPIs. There is a high risk of misinterpretation by this group.

Table illustrating risk of KPIs

Ability to interpret KPI information	High		<p>Suppliers</p> <p>Commerce Commission</p> <p>MED</p>
	Low	<p>Mass market consumers</p> <p>Major users</p>	<p>Consumer representative groups, media & Ministers of Commerce & Energy</p>
		Low	High

Interest in distributors performance

30. For companies on the DPP/ CPP, the KPIs are more likely to be used to judge the effectiveness of the DPP/ CPP and the Commission’s performance in using them. The risk of misinterpretation by the third group shown above exists for the Commission as well as suppliers.
31. This is where it is important for the Commission, in carrying out its annual commentary, to acknowledge that prima facie excess returns provide scope for prices to be reduced when prices for controlled businesses are next reviewed, and should therefore be seen in a positive light as an indicator of future customer benefit.

Recommendation

32. Powerco does not oppose the Commission using these measures internally as part of its analysis of the success of the DPP/ CPP. However, we do not support the use of these KPIs by interested persons in assessing whether the purpose of Part 4 is being met. The Commission’s annual commentary should be worded to minimise communication risks, particularly around the level of ROI.
33. If the Commission is seeking a simple tool to communicate to a wide audience it should use uncomplicated KPIs such as:
- percentage average price change or percentage price change in proportion of average total electricity bill
 - percentage change in reliability (SAIDI)
 - rolling average figures on investment levels (eg renewal ratio and capital expenditure growth ratio).

4. Financial and Asset Base Information

34. The Commission states that its proposed financial and asset base disclosures are consistent with the current electricity information disclosure requirements, except for the inclusion of a consolidation statement.
35. Powerco agrees with ENA's submission that the Commission has confused the assessment of performance and the assessment of compliance. The Commission requires a RAB value as part of information disclosure. It does not require a detailed derivation of this. It is the role of the auditor to ensure the RAB figure supplied is correct.
36. Powerco recommends the following detailed derivations or statements are excluded from the proposals:
 - a) consolidation statements
 - b) RAB
 - c) RIV
 - d) regulatory tax
 - e) replacement cost values
 - f) depreciated replacement cost values.

5. Asset Management Plans

37. High quality asset management planning is a vital part of improving dynamic efficiency and integral to electricity and gas distribution. Powerco agrees with the Commission that sound planning takes substantial resources and the Commission must tread a delicate balance between promoting best practice and diverting engineering analytical resource to producing information that goes further than required by the Act.

PAS 55

38. The Commission has asked if suppliers should have to apply a recognised AMP standard. Firstly, Powerco already applies a standard by virtue of the information disclosure requirements. Secondly, we support the Commission's proposed view that there should not be compulsory application of the PAS 55 standard. This is for the following reasons:
- a) PAS 55 is a specification of an asset management system, of which the AMP is just one output. Therefore, under a compulsory system the Commission would need to review that entire asset management function to decide if the AMP is compliant with PAS 55. This would take substantial resource.
 - b) Implementing PAS 55 takes significant effort and time and this level of change must be driven by committed suppliers. Compulsory imposition by the Commission is unlikely to succeed.
 - c) The purpose of PAS 55 is to optimise value and deliver strategic objectives. The supplier should be free to decide those objectives, based on its business priorities and regulatory instruments such as the DPP and CPP.

Timing of AMPs

39. The Commission must consider the disclosure timeline and implications for what can be included in an AMP. For example, the Commission recognised that the findings from the review of the 2006/07 AMPs were not available at the time that EDBs were preparing their 2007/08 plans. As a consequence, EDBs did not have the opportunity to incorporate the recommendations from the previous review into their 2007/08 AMPs. This issue is likely to apply to the ability of EDBs to react to any KPI AMP ratings.

6. Pricing disclosures

Pricing methodologies

40. The Commission has proposed that suppliers provide pricing methodologies, prices and pricing statistics to assess the extent to which allocative efficiency is being achieved.
41. Powerco supports the disclosure of a pricing methodology by every regulated supplier. Powerco agrees with the level of disclosure described in paragraph 484 as the maximum material that would need to be included.

The preliminary view of the Commission that the minimum disclosure should include:

- a description of the methodology used and how the methodology links to any applicable pricing principles;
- the rationale for customer groupings and the method for determining the allocation of customers to the customer groupings;
- quantification of key components of regulated revenue and costs;
- description of the methodology and quantification of allocation of revenues and costs to the customer groupings; and
- customer and volume statistics.

Prices

42. Powerco supports the disclosure of price changes by suppliers. However, Powerco does not support the current electricity information disclosure requirement 27:

Disclosure of new line charges payable by 5 or more consumers—

- (1) This requirement applies to a line charge if the number or estimated number of consumers by whom the line charge is to be paid is 5 or greater.
- (2) Every disclosing entity other than Transpower must, at least 20 working days before introducing a new line charge,—
- (a) Publicly disclose and disclose to the public on the Internet the prescribed information in respect of that charge; and
- (b) In addition, either—
- (i) Ensure that each consumer by whom that line charge is payable is given written notice of the prescribed information in respect of that line charge; or
- (ii) Notify in the news sections of 2 separate editions of each newspaper that is widely read by electricity consumers connected to lines of that line owner, the prescribed information in respect of that line charge.

43. This requirement means that each year when Powerco must advertise its new line charges in six newspapers. In January 2009 this amounted to \$95,000. Powerco does not consider this to be consistent with cost effective regulation. If newspaper advertising is seen as beneficial, Powerco submits

that it should only have to disclose the URL location of its prices. This is consistent with the level of information suppliers are required to provide in the Gazette.

Pricing statistics

44. The Commission is proposing in paragraph 409 that gas and electricity suppliers,

Where appropriate, suppliers should be required to disclose pricing statistics across a variety of services, consumer classes and/or geographic areas. Unit price statistics for each category should be derived by dividing the gross income for each customer group by the total units for each group.

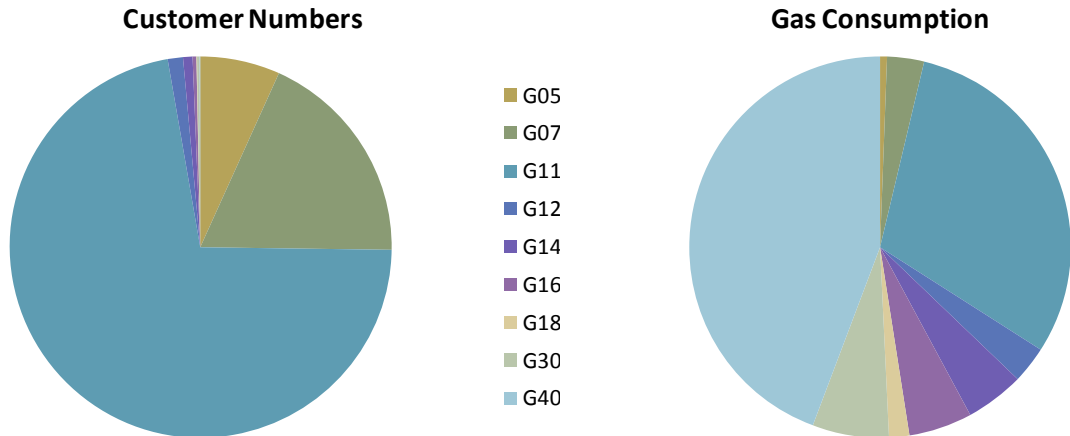
45. Powerco does not support the level of breakdown required in the current electricity requirements. We also do not support the unit price index as very little of an electricity or a gas network’s cost structure is throughput related and hence networks do not price on fully variable charges. Network costs reflect the supply of capacity to meet the peak demand at the locations required by customers. The Commission’s indicator is overly simplistic.

46. In the Gas Authorisation Annual Statement Powerco has to provide a breakdown by load group by region, but Powerco does not support this level of detail. As described in the electricity section, Powerco opposes providing a break down of statistics for small, medium and large customers.

47. If the Commission remains of the view that such a breakdown is required, Powerco suggests the following groupings:

Group	Load size (Scm/hr)	Powerco load group
Small	≤ 10	G05 - G11
Medium	≤ 200	G12 – G30
Large	> 200	G40

48. We recommend this division as generally under 10 scm/hr is the residential market. The medium category broadly captures commercial and industrial customers. The large category accounts for very large customers. While this group (G40) is small, it accounts for a substantial amount of gas consumption as shown in the diagrams below.



Terms and conditions

49. The Commission’s preliminary view is that the scope of contract disclosures is limited initially to the terms and conditions for the supply of regulated services. Currently in electricity, contracts should be publicly disclosed within one month of taking effect and include:
- description of goods or services;
 - quantity or method of determining quantity;
 - price;
 - timing of payment;
 - security of payment; and
 - modifications of terms and conditions.
50. Powerco does not support this level of disclosure due to the substantial compliance cost. We also do not give differential pricing or contract terms to retailers, so this requirement is not necessary.

7. Policies

51. The Commission has proposed the disclosure of the following policies to “enable an assessment of risks that could materially impact on the profitability or viability of the regulated business”:⁴
- credit policy: the level of protection of debtor balances and risk exposure of prudential requirements;
 - delegated authority policy: levels of accountability regarding entering the company into commitments with financial obligations;
 - profit distribution policy: returns that are made to stakeholders, such as consumers, shareholders and employees;
 - sponsorship policy: if community support is distributed in a manner than provides benefits to consumers; and
 - insurance policy: the level of self insurance and associated risk exposure.
52. Powerco considers that this proposal goes much further than required by section 53A of the Act, and is wholly inconsistent with the Commission’s cost effectiveness implementation principle. It is therefore unjustified

8. Audit Requirements

53. In paragraph 536 the Commission has proposed that the auditing requirements for prospective financial and non-financial information should be similar to the standard of assurance required by the Securities Regulations 1983 in respect of prospectus information for equity securities. Powerco notes that new regulations will align the Securities Act standard with the Financial Reporting Act.
54. Powerco does not agree that the standard of assurance applicable to securities law, which has the intention of investor protection, is appropriate for prospective non-financial information under the information disclosure regime. As the Commission rightly recognises, the auditor will be reliant on technical experts in relation to non-financial information and will be able to give only limited assurance.
55. While we acknowledge the need for a certain level of verification, requiring application of the onerous security law standard is also unnecessary for prospective financial information as, in the context of an information disclosure regime, investors will not be relying on the information in order to make investments. Further, Powerco is already under an obligation to report its financial information (including some prospective information) to high assurance standards.

⁴ Ibid, p. 109.

9. Electricity Distribution Proposals

56. As the proposals are generally the same as the current electricity information disclosure requirements Powerco re-iterates key points from its previous submissions on the December 2007 and July 2008 discussion papers on information disclosure.

Customer service

57. The Commission is seeking the views of interested parties on the customer service dimension of service quality. Powerco is aware that in the past Parson Brinckerhoff Associates (PBA) has stated that:

Further consultation is required on what the appropriate service quality indices should be, but we suggest that this be drawn from the following broad categories:

- quality of telephone response (typically the percentage of calls not answered within a set time, the number of “dropped” calls, etc.);
- average time to respond to customer problems;
- average time to substantially address customer queries;
- average time to provide connections (or some other distribution service);
- percentage of connections (or other distribution service) not provided at the agreed date; and
- annual number of service complaints received (resolved and unresolved).

58. Powerco does not believe that this level of reporting is justified. The reason for quality reporting is to ensure EDBs do not reduce expenditure to earn higher returns on investment. Expenditure on customer service is minor compared to capital expenditure and customer service would have to be dramatically reduced to make any noticeable impact on return on investment.
59. This level of reporting will also increase compliance costs. Powerco is required to report on 15 quality indicators under the Gas Authorisation. Many of these indicators are similar to the PBA suggestions above. The cost to Powerco to implement systems to provide the auditable data required was significant.
60. In addition, customer service is intrinsically linked to the separation of retail and distribution. It will be very difficult to effectively measure EDBs’ performance on these points under the current industry structure of an interposed customer relations model. While EDBs could provide data on these measures, it would give a limited indication of the overall customer experience. Powerco has no control over what time has elapsed or what interaction has taken place between the customer and the retailer before

Powerco becomes involved. The interposed model means that Powerco's efforts to work with retailers are as important as how quickly telephone calls are answered. If the Commission would like more information on customer service, a better indicator is the number of complaints submitted to the Electricity and Gas Complaints Commission each year. This gives a much better overall picture of how distributors are engaging and responding to customers.

Customer perception KPI

61. The main change is that consumer consultation has shifted from the compliance statement to information disclosure requirements. The Commission has also proposed a "customer perceptions" KPI and asked submitters what methods should be used to calculate electricity distribution customer perception (question 142). In paragraph 799 (in the airports section of the paper) the Commission states that perceptions can often provide a direct assessment of performance against expectations and that they are an appropriate means for assessing customer service.
62. Powerco agrees that understanding consumers' requirements and priorities is important. However, the Commission should appreciate the limitations of consumer quantitative surveys. Most consumers do not understand the supply chain in the electricity and gas industry and many do not know who their distributor is. Consumers must have adequate knowledge in order to be able to make accurate and useful input and this makes it difficult to gain useful information from surveys.
63. In Powerco's experience, most mass market consumers are apathetic about, or do not understand, distribution. This experience is borne out in the PBA best practice recommendations, "New Zealand has a reliable electricity system compared to many countries and historically low electricity prices....and most small consumers show little interest in such price/quality trade-offs"⁵. Many consumers only think about electricity quality when they lose supply, and that is not a common occurrence for the majority of consumers in New Zealand.
64. Powerco has found it more useful to hold meetings with specific groups of consumers who experience more regular problems and lower levels of reliability, such as remote rural consumers.
65. The Commission should rule out a need to consult with mass market consumers. Robust quantitative information for this group is better sourced from national research. For example, the Electricity Commission plan to update the value of lost load for electricity consumers. This research could provide an indication of consumer expectations. The Electricity

⁵ Parson Brinkerhoff Associates, *Quality Thresholds: Research Report*, 19 December 2007.

Commission's reports in this area illustrate how complicated this type of research is and the difficulties of surveying people about electricity quality.

“Supply quality – other”

66. The Commission has proposed reviewing if characteristics such as voltage, magnitude, frequency and waveform should be monitored in the future. Powerco opposes monitoring of this type. As the Commission states in paragraph 609, “technical quality is largely out of direct EDB control”, and there is no justification of how this type of disclosure meets the s53A purpose statement.

10. Gas Pipeline Proposals

Gas pipelines should have fewer requirements than electricity

67. Regulation must be proportionate to the size of an industry. The electricity distribution sector has nearly 2 million customers, while the gas distribution sector has around 260,000 customers. This links to earlier comments on the purpose of information disclosure. The gas pipeline and electricity industries are already regulated by the default/ customised regulation. Interested persons do not require the proposed level of detail to understand if section 52A has been met.
68. While electricity is a necessity for most people, gas is a discretionary fuel. Requiring the proposed level of disclosure increases costs which must ultimately be passed onto consumers. An increase in price makes gas less competitive with other fuel sources. Powerco believes that increasing the use of gas is in customers' interests, as it will enable the cost of gas distribution to decrease; and it is in New Zealand's interests, as the direct use of gas is an efficient, low-carbon option. As gas consumption is declining, costs need to be as low as possible to ensure prices are as low as possible.
69. The gas pipeline industry is also different to electricity distribution in that it faces bypass competition. Nova Gas, for example, competes with Powerco for a number of customers across our network. Nova Gas is exempt from Part 4 under Schedule 6 of the Commerce Act and therefore is not subject to the additional costs of meeting information disclosure requirements. This provides Nova with a competitive advantage over Powerco. The Commerce Commission cannot require Nova Gas to meet the requirements, therefore the next best alternative is to reduce the requirements on regulated gas pipeline businesses.

Timing and content of disclosure

70. In paragraph 519 the Commission has proposed the disclosure period aligns with the regulatory period (1 July to 30 June). This is sensible, although Powerco notes that it will not align with Vector's and Powerco's annual price changes while they are under control. We recommend that the first disclosure period begins at 1 July 2012, as this corresponds with all gas pipeline businesses having the same regulatory period.
71. The Commission's paper does not analyse all the current information disclosure requirements on gas pipelines and the amount of duplication. For example, Powerco has to meet the Gas (Information Disclosure) Statistics regulations which duplicate information on volume demand. Powerco considers the Commission should use a whole of government approach in its consideration of information required.
72. The Commission does also not appear to be aware of the Safety Management System requirements in the proposed Gas Safety and Measurement Regulations that will duplicate many of the indicators listed, in name at least. The Regulations will not be as prescriptive as the Commission, allowing those required to produce a safety management system to determine appropriate key performance indicators for the operation, maintenance and inspection of their business. The New Zealand Standards Protocols and Industry Protocols specify a preference for measures that allow assessment of performance over time and benchmarking within New Zealand and overseas organisations. These will record significant amounts of independently audited data that is useful for measuring the safety and performance of a gas network. Collecting and auditing the data for the Authorisation on a different basis to that actually used for managing the business appears counter intuitive. It is important to note that it is unlikely that a gas distributor could adopt the measures proposed by the Commission as a means of meeting the requirements of the Gas Safety and Measurement Regulations.
73. In paragraph 78, the Commission states the importance of consistency with previous disclosures. However, the Commission seems to discount many previously-used definitions by changing the basis on which the information is collected. Such changes include the definitions of data that feed into the disclosed information such as; what is an interruption, what is planned work, what is a service, what is the length of pipe in a network etc. While not appearing significant to an outsider, these apparently small changes can have significant affects on the resulting outputs and result in the loss of valid comparisons against historical reporting and other organisations. A SAIDI figure in one jurisdiction is not comparable to a SAIDI figure in another unless it is assessed on the same basis.

74. The Commission lists excluded services in paragraph 686. It is not clear what is meant by the definition of “administration of balancing services”. If this refers to pipeline balancing for transmission, then this is not relevant to gas distribution.

Non-contiguous networks

75. In paragraph 739 the Commission states that it sees value in assessing the performance between non-contiguous networks due to the risk of quality being compromised in one network in favour of another or risks of cross subsidisation.
76. The Commission recognises that this may mean numerous disclosures for gas businesses as there may be many isolated small rural networks. The Commission proposes to use a threshold size to avoid this. In electricity distribution this threshold is described below:

Non-contiguous network, in relation to a Distribution business, means Line business activities of the business that are geographically separate from all other Line business activities of the business; and, for the purposes of this definition, -

(a) the existence of Line business activities of another Distribution business between different Line business activities of the business is to be regarded as a geographical separation; but

(b) Line business activities of the business are not to be regarded as geographically separate from all other Line business activities of the business if

(i) the total circuit length of the electric lines that are used in the Line business activities and are capable of conveying electricity at a voltage equal to or greater than 3.3 kilovolts is less than 25 kilometres; or

(ii) the electricity conveyed is less than 20 gigawatt hours per annum; or

(iii) the electric lines that are used in the Line business activities are not connected, directly or indirectly, to the national grid; or

(iv) the Line Business activities serve less than 2000 ICPs (as defined in Schedule 1).

77. Powerco attaches a map of its network in Annex A. This shows that Powerco has 34 geographically separated networks divided into 5 regions. As Powerco only has around 100,000 gas ICPs, it is not cost effective to require Powerco to disclose all the information for five regions. This would be a substantial undertaking. The threshold should be scaled up to reflect lower gas consumer density and lower number of customers.

Technical comments

Gas Key Performance Indicators

78. The Commission's proposed KPIs of "capital expenditure growth ratio" and "capacity utilisation" both require a measure of capacity. While in electricity distribution this can be measured by transformer capacity, in gas there is no standard equivalent measure. An alternative the Commission might consider is the capacity of District Regulating Stations (DRS). Powerco disagrees with this measure as the capacity of a DRS can be changed with a simple adjustment to the equipment, making it unsuitable for a measure of asset performance.

Asset categories and asset lives

79. The Commission's preliminary view is that asset categories should distinguish between assets with different accounting treatments and major classes of assets. Powerco agrees with the asset categories proposed by the Commission in paragraph 714.
80. In paragraph 716 the Commission proposes using either the standard asset lives in the MED updated (2002) draft *Gas ODV Handbook*, or the Commission's valuation methodology for the Gas Authorisation. Powerco supports the use of the MED Handbook. Powerco does not support the meter lives recorded in these handbooks, but notes that this is not part of the information disclosure, so is not a significant issue.

Statistics and capacity utilisation

81. The Commission has suggested a range of statistics that are similar to the current electricity information disclosure requirements. The majority of the following comments focus on where these measures are not transferable to the gas pipeline sector, can not easily be measured, or serve no useful purpose.
82. The inclusion of operational meters under the Commerce Act is subject to confirmation from the Commission. If these meters are included Powerco notes that the capacity of intake and offtake injection points can not be measured in any meaningful manner. While in electricity the transformer capacity or fuse capacity could be recorded, in gas it is more difficult. Distributors have no legal relationship with the owners of injection points to their systems (transmission system owners) and cannot require them to provide this information. The Commission could require the information from these parties by extending the information disclosure requirements to them. Distributors can obtain the badge capacity of a meter (excluded under, but not the amount of gas flowing through it). There is also the question if the capacity relates to the regulated pipeline or any constraining limits outside these assets i.e. the upstream system or downstream from the service valve

to the burner tip. The capacity of some offtake points is required to be disclosed under regulation 23 of the Gas (Information Disclosure) Requirements 1997, however, gas pipeline companies have had difficulties disclosing this in the past and the information has no practical use for assessing the performance of a gas network.

83. Thirdly, gas demand statistics can not be easily gathered. An electricity network can use its SCADA system to provide real time information on electricity flows. As gas is a compressible fluid it is very difficult to measure real time volumes. Peak demand is not measured on gas networks, hourly flow for a network is generally measured by another party, and non-coincident maximum demand is not particularly relevant to capacity in gas networks and is also near impossible to measure.
84. Some of Powerco's customers have metering equipment that can measure hourly consumption, but this is not the case for the majority of customers and the amount recorded will be less than peak demand. In many cases this information is not available to Powerco as it is often not collected by Retailers, who have no need for it.
85. Fourthly, load factor is an electricity term and does not correlate well to pipeline gas, providing no useful information for the management of the gas assets.
86. The indicators above are not generally measures a gas business uses in asset management planning, and if they were provided they would not be sufficient for the assessment of a gas system. Powerco has programs in place to monitor pressure, analyse current network performance and predict potential issues; this information informs future Capex plans. Due to the dynamic nature of this work it is not possible to reduce the output to a simple set of performance measures.
87. Fifthly, unaccounted for gas (UFG) is a function of meter error, billing cycles and estimates. Technical losses from gas pipelines in New Zealand are infinitesimal and cannot be isolated from the out of scope items. Powerco recommends that the Commission use the Gas Industry Company definition and values of UFG.

Quality

88. Powerco opposed a number of the quality indicators proposed for the gas authorization. This submission repeats a number of the points Powerco made in our submission to the Commission in October 2008.⁶ Powerco has had to invest substantial resources to obtain auditable information for the quality indicators in the Gas Authorisation. Much of this resource has been

⁶ Powerco, Submission on Draft Authorisation and Accompanying Explanatory Paper, 24 October 2008.

on indicators that we do not feel provide a significant benefit to consumers, or to the management of the business.

Reliability

89. In paragraph 731 the Commission proposes that the measures of reliability used in the Gas Authorisation may usefully be applied to information disclosure for the gas pipelines sector.. The separation of safety and reliability is poorly conceived, any plans to manage a gas network must take account of both these factors. Gas distributors are legally required to operate their assets in a manner that is both safe and reliable. Reporting and producing management plans that ignore safety means additional work is required to create these, it also means that Directors will not be able to certify that the AMP produced is used if safety is ignored.
90. Recording accurate times of outages in a gas network is much more difficult than in an electricity network, there is no gas equivalent to a time-stamped record for a switch opening or closing. The gas network does not completely switch off, pressures just drop when an event occurs and this may or may not cause an interruption. Achieving an accurate figure is dependent on having an accurate recording system, ie a gas engineer accurately recording the time that the fault or interruption is fixed. In the field the focus is on working safely and fixing the fault, data recording is a follow up task once this is done. Powerco could move to using Service Provider Applications (hand-held devices which allow contractors to time-stamp activities), although these would cost between \$2 to 3 million to implement. At the moment Powerco is working with its service providers to provide a higher degree of accuracy of job completion time, but this type of culture change takes time.
91. Powerco could not understand how our SAIFI threshold was determined in the Gas Authorisation. It was also strange that Vector has a higher SAIFI threshold, when Powerco's SAIDI is higher than Vector's SAIDI. This illustrates the difficulty of setting targets from disclosed information. Again Powerco has had to invest substantial resources on putting auditable systems in place to collect information.

Consumer consultation

92. In electricity distribution, suppliers are required to consult with consumers on the appropriate price quality trade off. It is not clear if the Commission is proposing the same requirements for the gas sector.
93. The provision of a safe and reliable gas network distribution service is an integral part of Powerco's business. Consumer safety is paramount in the management and operation of a gas pipeline network. Gas pipeline faults are inherently more dangerous to consumers than electricity network

outages, and consequently there are more stringent safety requirements on gas pipeline operators.

94. As a result of these risks, Powerco targets and achieves a very high level of availability across its networks, and this standard is available to all customer classes. As the level of availability is so high across the network, the network is interconnected and consumers of different classes are geographically diverse, it is not appropriate that different levels of quality be offered to different customers. The practical implication is that all customers regardless of their requirements receive the same level of service quality.

Response to questions

Question Number	Response
1	<p>Yes, the timeline for new gas and electricity disclosure requirements should be based on consultation responses. In deciding the timeline Powerco recommends that the Commission gives suppliers time to implement auditable systems to collect information.</p> <p>For example, as the input methodologies will be finalised on 30 June 2010 at the earliest, the new requirements for electricity could be published by 31 October, allowing suppliers 5 months to implement changes. Suppliers could begin collecting information from 1 April 2011, with the first disclosure being made 5 months after 31 March 2012.</p> <p>Powerco recommends the first gas disclosure period begins on 1 July 2012 (with first disclosure to the Commission on 30 November 2013). This ensures that the disclosure period aligns with Powerco's and Vector's price changes. (Price changes up to the period are on 1 October.)</p>
2	<p>Powerco considers that the Commission is an "interested person". The implementation principles also help guide the interpretation of the term. The "transparency" principle indicates a broad application, while the "cost-effective" principle constrains this to a level of information and interest that is appropriate.</p>
3	<p>Powerco supports using a communication tool that makes it easier for customers to understand distribution performance and the role of regulation.</p> <p>However, we recommend that the Commission uses simple measures to communicate performance to a wide audience such as:</p> <ol style="list-style-type: none"> percentage average price change or percentage price change of total average electricity bill; percentage change in reliability (SAIDI); and rolling average figures on investment levels (eg renewal ratio). <p>This should be accompanied by a detailed report with explanatory text on measures such as ROI and efficiency measures. By using more complex KPIs there is a high risk the KPIs (particularly ROI) are misinterpreted.</p>
4	<p>Yes, Powerco agrees that the same implementation principles should apply across all regulatory instruments of Part 4.</p>
5 - 17	<p>Please see the table in section 2 of this submission. This provides feedback on the KPIs suggested.</p>
18 – 37 & 42 – 48.	<p>Please refer to Powerco's submissions to the December 2007 and July 2008 discussion papers on the electricity information disclosure regime. PwC made a number of practical and useful comments to many of these questions. Some of these questions also relate to the input methodology determinations, which are still to be determined.</p>
38 - 42	<p>Please see section 4 in this submission. Powerco believes the Commission's proposals duplicate the role of the auditor and this is inefficient.</p>
49 - 54	<p>Please see Powerco's comments in section 9. The Commission's approach to understanding quality seems is well thought out, although in developing consumer consultation criteria the Commission must recognise the limitations of surveying the mass market.</p>
55	<p>Please see section 10 on problems of providing demand and capacity information for gas pipelines businesses.</p>
56	<p>Please see section 5 for detailed comments on PAS 55.</p>
57 - 65	<p>The Commission's proposals for AMPs seem generally similar to the current electricity proposals. Powerco supports this approach.</p>
66	<p>Please see section 6 and Powerco's response to the Input Methodologies Discussion Paper. Powerco supports disclosing its pricing methodology.</p>

67	Powerco supports the disclosure of price changes by regulated suppliers, but does not support regulation 27. This requires Powerco to spend nearly \$100,000 on newspaper advertising (as the volume of information we have to disclose takes up a whole page). If newspapers are seen as a legitimate communication tool, Powerco should only have to disclose the URL location of its prices.
68	No, the current electricity regulation is not consistent with the cost effectiveness principle. Powerco is not opposes to providing the terms and conditions of a contract to the Commission or someone <i>if they request it</i> (subject to commercial confidentiality issues). We do have an issue with the current regulation which requires us to provide all terms and conditions automatically to the Commerce Commission. The Commission would be swamped by contracts if all the EDBs, GPBs and airports provided this information. Powerco urges the Commission to remove the requirement to automatically send all of the information to the Commission, particularly as we have never seen the Commission use this information.
69	No, Powerco is strongly against this proposal. The Commission seems to be requiring a level of information that shifts it away from creating a structure of incentives, towards detailed analysis of management decision-making. For the sake of efficiency, the Commission must trust the incentives built into price control regulation to deliver the correct outcomes and leave operational decisions to suppliers. The Commission should be the champion of efficiency, but instead these types of proposals suggest that the cost-effectiveness principle has been demoted to tokenism.
70	Publishing the URL of Powerco's disclosure is not a significant compliance issue. The Gazette is however, an outdated communication tool and we doubt many "interested persons" we consult it for the website location of information disclosures. We'd prefer the Commission to be a moderniser and not require Gazette notices.
71	Yes, Powerco supports the public disclosure of annual, AMP and pricing methodology disclosures.
72	No. We acknowledge that in normal circumstances it would seem sensible for a supplier to notify its customers of price changes. However, due to the retailer interposed model, this is very difficult and likely to confuse customers. For example, many customers do not know who their electricity distributor is and would be confused if they received a notice of change of charges from a company they did not think they had purchased anything from. Similar examples are if I buy a flight with Air New Zealand, I do not expect to be advised by Auckland Airport of its annual price change; and if I buy petrol for my car, I do not expect to be advised if the rent of the petrol station has increased. Customers see distribution as an input into their final product, rather than a product in itself. Powerco supports posting its prices on its website as part of transparency.
73	Powerco supports the idea of a template. The main issue is that the electricity template is overly locked and there have been some implementation issues. For example, pasting a figure into an unlocked cell causes it to lock, which means the figure can not be changed again. We also know that our auditor find it easier to audit the spreadsheet when some formulas are locked. Powerco is keen to work with the Commission and auditors to resolve the issues and make the spreadsheet easier to work with.
74	Yes, 5 months is an appropriate period.
75	Please see our response to question 1.
76 - 85	Please refer to Powerco's submissions to the December 2007 and July 2008 discussion papers on the electricity information disclosure regime. PwC made a number of practical and useful comments to many of these questions.
87	Please see response to question 3.
88	Please see section 9 of this submission.
89	No comment
90	Powerco has disclosed separate annual performance measures for its eastern and western network twice and has seen no analysis of this by the Commission. If the Commission requires this type of information it should do something with it. It takes significant time to compile and audit this breakdown and Powerco would prefer for it to be removed.

92 & 93	No. Powerco has just invested in changing its IT systems to adjust to the Commission's opex and capex definitions (for gas and electricity). Changing these definitions would be extremely frustrating and Powerco urges the Commission to keep the current electricity definitions.
94 – 99	Please see response to the relevant questions in the earlier sections.
100	Please see section 9 of this submission.
101	Energy efficiency is not included in the Part 4 purpose statement and therefore, is not part of information disclosure. Powerco notes that the Commission has an obligation to provide incentives for energy efficiency, but doubts that information disclosure will do this. However, if the Commission implements a robust incentive to be more energy efficient, it would make sense for the Commission to monitor changes in activities by EDBs and the AMP seems an appropriate tool.
102	No comment
103	Yes, this submission mentions a number of them. Please see sections 2, 4 and 6 of this submission in particular.
104 – 119	No comment
120	Yes, gas should have fewer requirements than electricity as: <ul style="list-style-type: none"> ○ information disclosure puts Powerco at a competitive disadvantage to Nova Gas, who is not subject to information disclosure ○ the Commission should be encouraging the uptake of gas due to the environmental benefits of direct use of gas ○ the reticulated gas sector can not sustain this level of disclosure as it has around 260,000 customers, compared to nearly 2 million electricity customers.
121	No, please see response to question 3.
122 & 128	Please see section 3 of this submission.
123 - 124	No. Powerco has just invested in changing its IT systems to adjust to the Commission's electricity opex and capex definitions. Changing these definitions would be extremely frustrating and Powerco urges the Commission to keep the current electricity definitions.
125	No
126 - 133	No, please see section 9 on statistics and capacity utilisation.
134	Please see p22 of this submission. Powerco does not support separate disclosures, particularly given the low customer density of the gas network. If a threshold was required it would need to be significantly higher than electricity due to the nature of the gas network. The appropriate level would need further analysis.
135	Yes.
136	No, the information does not provide any meaningful information and will not help interested persons understand the extent to which the Part 4 purpose statement has been met. Powerco has seen no analysis or use of this information by MED.
137 – 164	No comment

Annex A: Map of showing Powerco's gas networks

