



**Cross-Submission to the Commerce Commission on the IDRs  
for Electricity Distribution Businesses and Gas Pipeline  
Businesses**

**23 March 2012**

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## **INTRODUCTION**

1. Vector welcomes the opportunity to make a cross-submission on the Commerce Commission's Draft Reasons Paper "IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses", dated 16 January 2012, and the related Draft Commerce Act (Information Disclosure) Determinations (IDDs) 2012, for Electricity Distribution Businesses (EDBs), Gas Distribution Businesses (GDBs) and Gas Transmission Businesses (GTBs).
2. Vector reminds the Commission that we support the Electricity Network Association's (ENA's) submission, except to the extent there may be any conflicts between our submissions. Vector, accordingly, does not comment specifically on the ENA's submission in this cross-submission.
3. Vector's contact person for this cross-submission is:  

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4. No part of Vector's cross-submission is confidential. Vector is happy for our cross-submission to be publicly released.

## **WIDESPREAD AGREEMENT ON KEY AREAS OF CONCERN**

5. Vector **notes** that there is widespread concern amongst submitters on a number of matters including, but not limited to:
- a. The level of detail the Commission is proposing to require to be disclosed is excessive.
  - b. Not all aspects of the proposals are adequately justified in terms of the purpose of information disclosure.
  - c. The prescriptive nature of the Commission's related party transaction disclosure/price setting proposals is inappropriate.
  - d. Regulated suppliers should not be required to disclose prices directly to consumers.
  - e. The new Return on Investment (ROI) formulae the Commission is proposing should not be introduced. The Commission should adapt the current electricity ROI, with changes reflecting the Input Methodologies, for the Information Disclosure Requirements (IDRs).
  - f. There are problems with the interaction of the Electricity Authority's pricing principles/disclosure requirements and the Commission's pricing methodology disclosure requirements. The Commission and Authority should ensure there is a single set of pricing methodology disclosure requirements.
  - g. Greater use of Asset Management Plans (AMPs) should be made for Default Price Path (DPP)/Customised Price Path (CPP) setting; particularly if the AMP disclosure requirements are going to be substantially more onerous than the existing electricity AMP disclosure requirements.
  - h. Retrospectivity of the disclosure requirements is undesirable and problematic; particularly in relation to non-financial disclosures/Gas AMPs.
  - i. Disclosure of Asset Management Maturity Assessment Tools (AMMATs) should be biennial, not annual, in line with AMP disclosure.
  - j. The Commission's proposals will impose undue audit costs, and auditors should not be required to provide a "duty of care" to the Commission.

### **Insufficient justification for aspects of the disclosure proposals**

6. A general theme of submissions was that the Commission's proposed IDRs require an excessive amount of detail to be disclosed, and that not all aspects of the proposals were adequately justified (beyond generalities). The comments made by Unison sum up this issue well:<sup>1</sup>

Unison submits that under this focussed requirement, the Commission should be able to clearly explain how each proposed Requirement (or logically grouped set of Requirements) links to a measure or indicator of performance relevant to each component of the Purpose Statement.

In particular, we submit that the Commission has not provided justification for the proposed Requirements set out in Schedules 14, 15, 16a, b and c, and 19c, because the Commission has not explained how the information would be used to inform on whether or not the Purpose of Part 4 is being met. In many cases the Commission has not specified how it will carry out its Summary and Analysis, or how it expects interested persons will use the

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<sup>1</sup> Paragraphs 2a and 2c, Unison, Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses – Draft Reasons Paper, 9 March 2012.

proposed information. This is a crucial step, which must be undertaken before finalising these aspects of the ID requirements.

7. In a similar vein, PricewaterhouseCoopers notes "the Commission has not yet determined how it will use the data that it proposes to be disclosed" so "[i]t does not seem possible ... that the Commission can claim ... that the information ... will be useful".<sup>2</sup>
8. The Office of the Auditor-General also expressed significant concerns on the cost-effectiveness of the Commission's proposals. There are any number of examples of matters where Vector and other submitters have expressed concern about the level of detail required to be disclosed, and that the Commission has not specifically explained or justified.
9. For example, we agree with PricewaterhouseCoopers that "[t]he proposed depreciation disclosures are too onerous and not practical to implement. It is unnecessary for EDBs to continually separate and disclose information about assets with standard and non-standard asset lives ..."<sup>3</sup> It will be difficult to report depreciation into the different categories of "no standard life assets" and "standard assets" (Schedule 5c(i) Regulatory depreciation). The Commission is asking for a higher level of detail than was required in the original request notices as part of the IMs. It is not clear why the Commission now requires this level of detail.
10. Likewise, PricewaterhouseCoopers states that "[a]sset life data should also be calculated for the total asset base on Schedule 5c(vi)", rather than by asset category, "as this is a useful measure for comparing networks and the impact of the investment in assets over time for a single network."<sup>4</sup> Some of the asset classes the Commission has asked for are very difficult to provide (Schedule 5c(vi) Disclosure by Asset Category) eg Gas transmission requests specific asset valuation details for Main-line valves. These cannot be reported from the SAP system as there is no separate class for these in SAP.
11. Another example, from PricewaterhouseCoopers, is their objection to the proposed requirement "to provide a comparison of actual (to date) versus forecasts made at the beginning of the DPP regulatory period. We note that forecasts are updated annually, and for AMP expenditure, this is a regulatory requirement. There is no reason why the forecast at the beginning of a regulatory period would be a better benchmark than forecasts which are made subsequent to that date."<sup>5</sup>
12. Vector reiterates its **recommendation** that if the Commission cannot explicitly demonstrate how a particular IDR would meet the purpose of information disclosure, including how it would help identify whether a specific subpart or subparts of s.52(A)(1) are being met, then the requirement should be removed from the IDRs.<sup>6</sup>

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<sup>2</sup> Paragraphs 55 and 56, PricewaterhouseCoopers, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>3</sup> Page 25 PricewaterhouseCoopers, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>4</sup> Page 25 PricewaterhouseCoopers, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>5</sup> Page 26 PricewaterhouseCoopers, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>6</sup> Paragraph 63, Vector, Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses, 9 March 2012.

## **Inappropriate form of intervention in related party transactions**

13. Other submissions reinforce Vector's concerns that the Commission's proposed related party transaction disclosure requirements on how related party transactions should be priced are inappropriate.

14. Unison and Wellington Electricity, for example, make the following comments on why the Commission's related party transaction proposals would be inappropriate:

The proposal to regulate the value of related party transactions exceeds this purpose, by explicitly setting out how actual transaction prices are to be determined (mark-up on direct cost of no greater than 17.2%). Under section 53B of the Act, the Commission may monitor and analyse information disclosed, and publish a summary and analysis. However, Unison submits that there is no authority to specify how an EDB is to behave (such as regulating the price of a related party transaction).<sup>7</sup>

The Draft Determination ... proposes requiring EDBs to disclose related party transactions *on an arm's length basis* however the detailed proposals mean that in practice the value disclosed for transactions may, and in many cases will, differ from the transaction value, even if these are established on an arm's length basis.<sup>8</sup>

... EDBs should have alternative means to demonstrate that their contract costs are fair and reasonable where an open tender process conducted in a competitive market may not be feasible, practicable or is inefficient.<sup>9</sup>

15. PricewaterhouseCoopers makes the useful observation that the disclosure requirements creep into making "efficiency adjustments"<sup>10</sup> and that it is the role of DPP/CPs to encourage efficiency improvements rather than for Information Disclosure to set what the Commission considers efficient.<sup>11</sup>

16. Vector reiterates its **recommendation** that the Commission not prescribe how the prices for related party transactions be set and, instead, consider whether greater disclosure of how the prices for related party transactions are set should be introduced.<sup>12</sup>

## **Regulated suppliers should not be required to disclose prices directly to consumers**

17. Requiring regulated suppliers to disclose prices directly to consumers would reintroduce disclosure requirements from the Electricity Information Disclosure Regulations 1994 that were removed in the 1999 amendments. We remind the Commission that they were removed because, following the introduction of the Electricity Industry Restructuring Act 1998, EDBs did not have a direct relationship with end-users and the disclosure requirement was of very limited value anyway.

18. Unison, for example, makes the following comments:<sup>13</sup>

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<sup>7</sup> Paragraphs 29 and 40, Unison, Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses – Draft Reasons Paper, 9 March 2012.

<sup>8</sup> Paragraph 24, PricewaterhouseCoopers, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>9</sup> Page 5, Wellington Electricity, RE: Information Disclosure Requirements (IDR) – Draft Reasons Paper, 9 March 2012.

<sup>10</sup> Paragraph 103, PricewaterhouseCoopers, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>11</sup> Paragraphs 107 – 111, PricewaterhouseCoopers, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>12</sup> Paragraph 125, Vector, Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses, 9 March 2012.

<sup>13</sup> Paragraph 29, Unison, Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses – Draft Reasons Paper, 9 March 2012.

Unison does not support the proposal to give written notice of new prices to each consumer by whom the price is payable. Such a requirement on an EDB would be time intensive, impractical, costly and causes consumer confusion due to their retailer relationship.

Apart from a few large industrial customers, Unison does not have a direct relationship with the end consumer. The end consumer's contractual relationship is with their chosen retailer. We would welcome clarification of the Commission's intention for such a proposal, especially when EDBs are already required to "publicly disclose" a price change, or introduction of a new price.

19. Vector reiterates its **recommendation** that the Commission not require disclosure of prices directly to consumers.<sup>14</sup>

### **The new ROI formulae should not be adopted**

20. MEUG has suggested that "[i]nterested parties will wish to compare ROI calculated using the standard approach to date".<sup>15</sup> This reinforces our view that "[t]he current ROI formula in electricity is relatively simple and most consistent with profit measures used by interested persons such as investors, shareholders etc"<sup>16</sup> and that the current ROI formula in electricity should be adapted for the purposes of the new IDRs.
21. We also note, in particular, PricewaterhouseCoopers' comments on the ROI formula and its view that it "is not technically an accurate IRR formula. In particular, it is not reasonable ... to include the '50% of additions adjustment' to the closing asset value (the numerator of the final term. When the Drafts [sic] Reasons Paper states that the current ROI formula is derived from an IRR formula, this is only true at the simplified level of the discussion in that paper."<sup>17</sup>
22. Vector reiterates its **recommendation** that the Commission adopt the existing electricity ROI approach, with modifications to accommodate the new IMs, for all the IDR determinations.<sup>18</sup>

### **Further interaction with other regulators is required**

23. Vector agrees with Wellington Electricity that "[t]he Commission should coordinate its regulatory position with the EA so that the two regulators have a stream-lined approach to the regulation of distribution prices ... This should involve having one set of documents which makes clear EDBs' responsibilities to the two regulators."<sup>19</sup>
24. Vector reiterates its **recommendation** that the Commission liaise with the Electricity Authority to ensure the Authority's needs, in relation to pricing methodology disclosure, where reasonable and aligned with the purpose of

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<sup>14</sup> Paragraph 126l, Vector, Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses, 9 March 2012.

<sup>15</sup> Paragraph 4, MEUG, Submission on draft Information Disclosure Requirements for EDB and GPB, 9 March 2012.

<sup>16</sup> Paragraph 103c, Vector, Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses, 9 March 2012.

<sup>17</sup> Paragraph 84, PricewaterhouseCoopers, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>17</sup> Paragraphs 29 and 40, Unison, Submission on Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses – Draft Reasons Paper, 9 March 2012.

<sup>18</sup> Paragraph 126e, Vector, Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses, 9 March 2012.

<sup>19</sup> Page 11, Wellington Electricity, RE: Information Disclosure Requirements (IDR) – Draft Reasons Paper, 9 March 2012.

information disclosure, are accommodated within the Commission's Electricity IDRs.<sup>20</sup>

### **Greater use of AMPs should be made for DPP/ CPP setting**

25. Vector's submission **noted** that we consider a key justification the Commission would need for substantially more onerous AMP disclosure requirements is that the Commission would then rely on this information for price setting purposes.<sup>21</sup>
26. This is supported, for example, by the comment made by PricewaterhouseCoopers urging the Commission to make as much use of AMPs as possible:

EDBs invest considerable effort in these documents and the processes, systems and decisions which underpin them. We believe these are underutilised in regulatory decision making at present ... In addition, we submit they should have a wider role in the context of price and quality regulation. We believe that the requirements on EDBs in respect of AMPs are unreasonable if they are not able to be used to assist in setting price and quality standards.

### **Retrospective disclosure requirements are problematic**

27. Vector **recommended** the Commission defer the introduction of the new IDRs for non-financial disclosures.<sup>22</sup>
28. GasNet is of the view that developing an AMP by September this year would be "impossible"<sup>23</sup> and Powerco reiterates its view "that the proposed requirement to submit the initial Gas AMP should be deferred until 2013 (October) as we believe it is unreasonable to expect GDBs to prepare (and make public) a detailed AMP submission, in accordance with the new information requirements, within a few months of the Final Determination being published in 2012."<sup>24</sup>
29. Powerco recognises "that the Commission may require information on forecast opex and capex expenditures at some time in 2012 to inform the gas distribution DPP starting price."<sup>25</sup> We have sympathy for this position. Vector **recommends** the Commission consider introduction of an intermediate option for 2012 whereby GPBs disclose AMP information (including opex and capex forecasts that would be used directly in DPP price setting).

### **AMMAT disclosure should be biennial**

30. Vector **recommended** that disclosure of AMMATs be biennial, in line with AMP disclosure.<sup>26</sup>
31. Powerco, for example, states that it supports "a view that the proposed Asset Management Maturity Assessment Tool (AMMAT) disclosure coincides with the

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<sup>20</sup> Paragraph 97a, Vector, Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses, 9 March 2012.

<sup>21</sup> Paragraph 127c, Vector, Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses, 9 March 2012.

<sup>22</sup> Paragraph 127h, page 38, Vector, Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses, 9 March 2012.

<sup>23</sup> Paragraph 8, GasNet, Submission on Information Disclosure Requirements for Gas Pipelines Businesses - Draft Determination, 9 March 2012.

<sup>24</sup> Paragraph 28, Powerco, Submission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 & Draft Commerce Act (Gas Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>25</sup> Paragraph 29, Powerco, Submission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 & Draft Commerce Act (Gas Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>26</sup> Paragraph 45, Vector, Submission to the Commerce Commission on the IDRs for Electricity Distribution Businesses and Gas Pipeline Businesses, 9 March 2012.



biennial AMP submission".<sup>27</sup> Similarly, PricewaterhouseCoopers states that AMMAT Report disclosure "should align with disclosure of the full AMP" and should not be required in the years of the Update Report.<sup>28</sup>

### **Audit costs and duty of care**

32. Vector shares the concerns raised by the Office of the Auditor-General (and other submitters) about the compliance costs that the proposed new IDRs will cause.
33. Vector **notes** that the Office of the Auditor-General's submission raises a number of substantive concerns about the significant likely compliance costs for both preparers and auditors of the new IDRs.
34. Vector also agrees with the Office of the Auditor-General that the proposal to require auditors to state that they owe a duty of care to the Commission in the audit requirement goes beyond the Commission's legal powers. Specifically we agree that a duty of care to the Commission would not aid in ensuring that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met (s 53A, Commerce Act) and therefore "necessary or desirable to promote the purpose of information disclosure" (s.53C(3)(f), Commerce Act). Further, the Office of the Auditor-General rightly questions, in Vector's view, whether the Commission has a power under the Commerce Act to impose such a requirement on third parties who provide services to regulated suppliers (the regulatory powers under Part 4 are in relation to suppliers of regulated goods and services).
35. The Office of the Auditor-General also raises valid questions about the nature and legal status of the duty of care proposed by the Commission. The Office of the Auditor-General notes that the Commission has not provided any explanation why it proposes such a duty of care. This illustrates the point made by a number of submitters<sup>29</sup> that the Commission has not adequately explained how each of its proposals would assist in the achievement of the purpose of information disclosure.
36. Vector **recommends** that the Commission:
  - a. Address the issues raised about the divergence between GAAP and the IDRs that the 2012 Draft IDRs create;
  - b. Provide clarity around what is meant by "all material respects" required to determine that in the opinion of the auditor "Information has been prepared in all material respects in accordance with the determination; and
  - c. Remove the proposed Auditor duty of care to the Commission and/or explain why the Commission considers the duty of care requirement is: (i) necessary or desirable to promote the purpose of information disclosure regulation; and/or (ii) is a requirement that can be set within the Commission's powers under the Act.

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<sup>27</sup> Paragraph 24, Powerco, Submission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 & Draft Commerce Act (Gas Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>28</sup> Paragraph 34, PricewaterhouseCoopers, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>29</sup> Including also correspondence between the ENA and the Commerce Commission.

## OTHER EXAMPLES OF AREAS OF AGREEMENT

### Accessibility of disclosed information

37. Vector **endorses** Meridian's proposal that the Commission act as a "central repository" for disclosed data "so all relevant disclosures are located in one place".<sup>30</sup>
38. We believe this would be much more practical and efficient than Meridian's alternative suggestion "that access to disclosed information could be facilitated further if distributors adopted a standardised website structure to house this information. Variations in where information is located across the 29 EDBs can result in significant search times to find all required data."<sup>31</sup> One problem with this suggestion is that each regulated supplier has its own customised website, and this gives rise to the differences in location etc. It would not be reasonable to expect regulated suppliers to standardise their websites, for the sake of Information Disclosure which is just one function of the websites.
39. Accessibility of disclosed information (particularly numerical data) could be enhanced if the Commission made publicly available its databases and spreadsheets, such that other parties do not have to replicate them. This would address PricewaterhouseCoopers' concern that, while the Commission will "presumably create databases and spreadsheets to collate the disclosure information for further analysis ... other interested parties will not be so fortunate ... in practice, interested parties will be reliant on the Commission's summary and analysis, unless they invest considerable resource to manually enter the detailed data into their own databases/spreadsheets in order to analyse it."<sup>32</sup>
40. Vector **recommends** the Commission make publicly available on its website databases and spreadsheets of disclosed data.

### Opex

41. Vector **agrees** with MDL that "[d]irect Billing is an irrelevant opex category" for GTBs.<sup>33</sup> Vector's GTB has no direct billed customers that would fall within the proposed definition of "direct billing". Vector's GDB only has one. The Direct Billing category would be an immaterial item. This illustrates our and other submitters' point that the Commission is proposing an excessive level of disaggregation. Moreover, to require disclosure and disaggregation of immaterial and hard to separate opex costs will not provide meaningful data that meets the Part 4 purpose for Vector's network services.

### SAIDI and SAIFI

42. Vector **agrees** with Powerco that the requirement for forecasted assessed values for SAIDI and SAIFI should be removed. We agree that "SAIDI and SAIFI assessed values differ to the standard Class B and Class C SAIDI and SAIFI targets by the application of the Major Event Days (MED) boundary value to the calculation. It is not possible to estimate MEDs in advance so the requirement to

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<sup>30</sup> Page 1, Meridian Energy, Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses – Draft Reasons Paper, 9 March 2012,

<sup>31</sup> Page 1, Meridian Energy, Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses – Draft Reasons Paper, 9 March 2012,

<sup>32</sup> Paragraph 65, PricewaterhouseCoopers, Submission to the Commerce Commission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>33</sup> Paragraph 56.2, MDL, untitled submission, 9 March 2012.

predict this measure is not appropriate. This is more suited to calculation and reporting on a historical basis."<sup>34</sup>

## Maps

43. Vector **agrees** with Powerco that it is neither practical nor useful to print the maps under clause 7.2 of the AMP disclosure requirements and they should, instead, be held at the regulated suppliers main office for public access, with a copy provided to the regulator."<sup>35</sup> As the Commission is aware, Vector's maps are 4 CDs in size and need to be printed in very large form to be legible.

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<sup>34</sup> Clause 6, Appendix A, Powerco, Submission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 & Draft Commerce Act (Gas Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>35</sup> Clause 6, Appendix A, Powerco, Submission on Draft Commerce Act (Electricity Distribution Services Information Disclosure) Determination 2012 & Draft Commerce Act (Gas Distribution Services Information Disclosure) Determination 2012, 9 March 2012.

## **SUBMISSIONS VECTOR DISAGREES WITH**

### **Timing of provision of data**

44. The Major Electricity Users' Group's (MEUG's) proposal "that information be publicly disclosed no later than 5 working days after the Directors have seen that information" is not appropriate. The information may still not be in a form that is fully compliant with the IDRs and may not be the final version that will be publicly disclosed.

### **Consolidated accounts**

45. MEUG has suggested the Commission require disclosure of consolidated accounts.<sup>36</sup> There has been overwhelming opposition to any such requirement, based on sound practical and regulatory compliance cost reasons, which has resulted in the Commission removing this proposal. MEUG's submission does not raise any arguments why the Commission should dismiss the earlier submissions against consolidation. Accordingly, Vector **recommends** the Commission retain its position that consolidated accounts should not be required to be disclosed.
46. In a similar vein, the Major Gas Users Group (MGUG) suggests that full standard financial information including income statements, cash-flow statements and balance sheets should be publicly disclosed, over and above the Commission's requirements for information disclosure.<sup>37</sup>
47. Vector does not support MGUG's suggestion. This would extend the scope of disclosure further than is required to include a "picture of financial performance"<sup>38</sup> which is beyond the picture of regulatory performance required to meet the purpose. Vector **recommends** that the disclosures of financial information not extend to full financial statements as proposed by MGUG.

### **Reconciliation of invoiced line charges**

48. MEUG has proposed that the distribution line charge disclosure requirements be amended to require:<sup>39</sup>

Sufficient information to allow a reasonable individual consumer to accurately calculate EDB charges including transmission charges, which deducted from a retailers invoice, will give the consumer an accurate split between line and contestable charges.

49. This would not be a problem for most electricity and gas distribution businesses, as distribution prices are generally set on a per customer basis. Of course, this should be prefaced with the observation that retailers are free to rebundle/average/etc distribution charges in any way they see fit. Calculation of total retail price minus (disclosed) distribution charges could, in some cases, result in anomalous situations eg potential negative retail margins.
50. It would not be possible to comply with such a requirement if a distribution business is using GXP pricing. MEUG's proposed requirement would effectively either be: (i) unable to be complied with by some distribution businesses; or (ii)

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<sup>36</sup> Paragraphs 13 and 14, MEUG, Submission on draft Information Disclosure Requirements for EDB and GPB, 9 March 2012.

<sup>37</sup> Para 9, Hale and Twomey and Areté on behalf of the Major Gas Users Group, Re: information Disclosure requirements for Electricity Distribution Businesses and Gas Pipelines Businesses Draft Reasons Paper dated 16 January 2012 and Draft Commerce Act (Gas Transmission Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>38</sup> Ibid, para 9.

<sup>39</sup> Paragraph 10, MEUG, Submission on draft Information Disclosure Requirements for EDB and GPB, 9 March 2012.

act as a prohibition on GXP pricing. It is inappropriate to use Information Disclosure to act as a form of de facto price regulation.

51. MEUG asserts that “[i]n a workably competitive market consumers would have an ability to unbundle and decide how best to purchase different components of a service. We see no reason the same should not apply to electricity.”<sup>40</sup> MEUG’s assertion is incorrect. Bundling of service offering is prevalent in competitive markets. We also found this argument to be confusing given unbundling of line and energy charges serves no useful purpose for determining who to purchase energy retail services from.

52. We agree with Mighty River’s views on unbundling:<sup>41</sup>

If a customer wants to determine whether one retailer is better value/priced than another retailer it should compare their overall charges, not subcomponents of the charges. At the Electricity Commission’s workshop on Electricity Distribution Pricing Methodologies, held on 17 June 2009, we cited by way of analogy, the example of an airline customer choosing whether to fly Air New Zealand or JetStar from Auckland to Wellington. Knowing what the airport component of Air New Zealand and JetStar’s respective air ticket prices would not help the customer one iota to decide which airline is better value. What matters are the overall price and other considerations such as service quality.

53. MEUG’s submission is also not helped by the lack of explanation of the purpose of its proposals, beyond that of the Commission’s proposed IDRs.

54. Vector **recommends** the Commission not adopt MEUG’s proposals for invoiced line charge reconciliation.

### **Asset Management Information**

55. MGUG has suggested the disclosure time-line for historic asset information should not be extended to five months and should rather be provided within a two month timeframe. MGUG argues that GTBs have been able to provide this information within a two month timeframe in the past and should continue to do so.<sup>42</sup>

56. Apart from the gas transmission capacity disclosure, under the Gas (Information Disclosure) Regulations 1997, the asset management information disclosure requirements are new requirements for GTBs. Vector **recommends** that the timeframes for historically disclosed asset management information should continue to be aligned to the historic financial disclosure requirements and be disclosed five months after the end of the disclosure year.

### **Gas Transmission Capacity Disclosure**

57. The Commission is proposing that gas transmission capacity be disclosed in November of each year. Vector considers this to be appropriate as the winter of that calendar year will have passed so disclosed peak period data should be recent. The selection of the regulatory year will also minimise the risk that a peak could span two regulatory periods.

58. In most years the 5 day peak for a pipeline and the peak of most of the offtake points on that pipeline will be captured if the disclosure relates to a year ending September. Vector **recommends** that, regardless of when the regulatory period

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<sup>40</sup> Paragraph 11, MEUG, Submission on draft Information Disclosure Requirements for EDB and GPB, 9 March 2012.

<sup>41</sup> Paragraph 14, Mighty River Power, submission to the Electricity Commission, Transparency of charge components, 14 December 2009.

<sup>42</sup> Paragraph 12, Hale and Twomey and Aretê Consulting Ltd, representing MGUG, Re: Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses Draft Reasons Paper dated 16 January 2012, and Draft Commerce Act (Gas Transmission Services Information Disclosure) Determination 2012, 9 March 2012.

begins and ends for disclosure, the transmission capacity disclosure should continue to be required as a public disclosure in November, and relate to the year ending September of the same calendar year.

59. In the context of MGUG's comments regarding asset information it is noted that, but for the first year transition, assuming no change to the proposed disclosure year and without prejudice to Vector's submission on this point, the proposed pipeline capacity disclosure would continue to be two months following the disclosure year. Vector **recommends** that the two month period following the end of the disclosure year be maintained, subject to Vector's previous recommendation regarding optimal disclosure timing for the pipeline capacity disclosure.
60. MGUG suggests that the cut-off point for intake and offtake reporting during the peak week should, rather than 2000 GJs, be lowered proportionally to 1,500 GJs.<sup>43</sup> No clear reasoning is given by MGUG. MGUG's proposal is contrary to Vector's submission which noted that the current threshold of 2000 GJs is too low, and requires an unnecessary amount of information to be provided, either for a 5 day or 7 day peak. At the 2000 GJ level a GTB is required to analyse a number of delivery points (intake or offtake points) where there is little or no likelihood of any significant increase in transmission capacity being required. If new load should eventuate at such offtake points then the threshold will likely be surpassed and reporting from the next disclosure year onwards will reveal that.
61. Vector reiterates its **recommendation** to increase the reporting threshold from 2000 GJs to 3000 GJs, for the 5 day peak.
62. MGUG proposes that historical daily gas flows at the injection/receipt points [should be] readily available to enable modelling of capacity utilisation.<sup>44</sup>
63. Daily and hourly gas receipt and delivery quantities are available on OATIS to all Shippers (GTB customers) for all receipt and delivery points. This is a result of a past agreement between Vector and its Shippers/customers.
64. Vector has no problem, in principle, with this information being made available via OATIS to other parties. Vector notes, however, that OATIS was developed at substantial cost to Shippers. Having canvassed those Shippers following a request from a consultant for access to the information for modelling purposes, their view was that access should be provided, at a reasonable fee. It is not fair, or accurate, for MGUG to insinuate that for "reasons best understood by the GTBs themselves the level of transparency, readily available in the electricity market for example, has never been provided to interested parties in the gas market."<sup>45</sup>
65. Should consultants be prepared to pay reasonable fees, they would be allowed access to OATIS information. Given that information in OATIS is in a more granular form than is sought by MGUG in its submission, it would be inappropriate to provide the information MGUG seeks, since that would simply be a mere recombination or replication of the more useful and readily available data. It is only reasonable (and efficient) that the 'user/beneficiary-pays principle' would be adhered to with respect to parties wishing to access OATIS information. Recovering costs from database users is not uncommon. Statistics New Zealand charges users who request complex data sets, and we understand a similar

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<sup>43</sup> Ibid, paragraph 16.

<sup>44</sup> Paragraph 17, Hale and Twomey and Aretê Consulting Ltd, representing MGUG, Re: Information Disclosure Requirements for Electricity Distribution Businesses and Gas Pipeline Businesses Draft Reasons Paper dated 16 January 2012, and Draft Commerce Act (Gas Transmission Services Information Disclosure) Determination 2012, 9 March 2012.

<sup>45</sup> Ibid, paragraph 17.

arrangement is in place for access to the Wholesale Information and Trading System in the electricity sector.

66. MGUG further proposes that, in the absence of more granular and timely data being available, a number of simple statistics focused on capacity utilisation could be included as part of the capacity disclosure.<sup>46</sup> Whilst these statistics could easily be calculated from the OATIS data it is not clear why and how they would be of any use at all to interested persons and particularly to customers.
67. MGUG states that the above information is being required of interstate natural gas pipelines in the USA.<sup>47</sup> However, the many pipeline transmission systems in the US are vastly different in scale, scope (with some providing storage services), and complexity than that in New Zealand. It is unclear therefore which interstate pipelines MGUG is referring to and what the relevance of the kind of statistics applicable to them may be in the New Zealand context.
68. Specifically, Vector notes that (a) average transmission system capacity utilisation provides no meaningful data to interested persons. Firstly the system is composed of discrete pipelines and therefore data aggregated at the entire system level would provide nothing meaningful. Moreover, capacity is not revealed by averages. Monthly averages, in particular, are of little use as they bear no resemblance to the time period of the capacity peak (whether theoretical or observed). Pipeline capacity in New Zealand is an observed function of offtake over a sequence of a few days within the five day peak for the relevant pipeline.
69. Vector notes at (b) that MGUG confuses capacity with throughput. MGUG seeks monthly data to reveal a transmission system peak capacity trend. However, Vector and Shippers use far more granular and timely information than monthly and it is unclear how some apparent monthly load factor could provide meaningful data to interested persons.
70. Vector notes that (c) transmission system non peak trend further compounds MGUG's misunderstanding with respect to capacity. Throughput is quite different to capacity, whether it be commercial capacity or physical capacity. Vector has disclosed historical peak throughput data for a number of years. This would not have revealed, for example, that Vector was subsequently able to provide the capacity required by Southdown or the much larger Otahuhu B power station<sup>48</sup>; without having to undertake major pipeline investment. Also, as noted with respect to both (a) and (b) of MGUG's proposed "simple statistics", monthly quantities are meaningless and customers already have access to better data on OATIS.
71. MGUG's final proposal is to apply a simple statistic to produce (d) transmission system average off-peak throughput to display total gas conveyed during the non-peak period of the disclosure.
72. Vector's reiterates its comments regarding throughput and capacity and their relationship. Moreover, the utility of whole transmission system data, as opposed to discrete pipeline data, has also been pointed out. The former does not provide meaningful information to interested persons. Peak and non-peak periods for the different pipelines making up the transmission system are not the same, and vary year on year. It is implicit in the MGUG submission that they believe the peak and

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<sup>46</sup> Ibid, paragraph 17.

<sup>47</sup> Ibid, footnote 3.

<sup>48</sup> 1998 was the year MRP entered into a new contract for transmission services for its Southdown station. Contact followed with a contract for Otahuhu B. Both stations increased their capacity on the North Pipeline to support forecast demand from their power stations.

non-peak periods for each pipeline to be the same so as to be able to then produce transmission system comparisons.

73. The existing data and numerical factor information proposed for disclosure by Vector is far more meaningful than the statistics proposed by MGUG. Vector **recommends** that the Commission maintains the requirement for numerical factors set out in its drafting, and Vector's proposed draft capacity disclosure. In Vector's view, the numerical factor provides far more useful information regarding maximum physical capacity than the statistics recommended by MGUG.
74. The misunderstandings of the technical detail are clearly revealed in MGUG's submission. This supports Vector's position that it would be desirable for the Commission to engage further with interested persons before this disclosure requirement is determined. Vector therefore reiterates its submission and **recommends** that the Commission engage in specific consultation, including work shop, on gas capacity disclosure in order to produce fit for purpose and properly understood gas capacity disclosure requirements.