

COMMERCE

MINISTRY OF COMMERCE
Te Manatū Tauhokohoko

**PROPOSALS FOR AMENDING THE
GAS (INFORMATION DISCLOSURE) REGULATIONS 1997**

**INDUSTRY CONSULTATION DOCUMENT
FOR DISCUSSION AT
THE MINISTRY OF COMMERCE'S FORUM
TO BE HELD ON 22 FEBRUARY 2000**

Energy Markets Policy Group
Resources & Networks Branch
Ministry of Commerce
Wellington

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1 INTRODUCTION

1 The Ministry of Commerce has organised a forum to provide gas industry participants and other interested parties with an opportunity to give feedback on the Ministry's proposals for amending the Gas (Information Disclosure) Regulations 1997 ("the Regulations"). This consultation document has been prepared for discussion at the forum. The consultation document was prepared by PricewaterhouseCoopers and Rod Crone Consulting, in conjunction with the Ministry.

1.1 Background

2 The Ministry released a discussion paper on 11 October 1999 entitled *Proposals for Amending the Gas (Information Disclosure) Regulations 1997*. The discussion paper (paragraphs 7 and 8) noted that the Ministry would consult further on the development of a Gas Information Disclosure Handbook, derivation table of adjustments to disclosed financial statements for the purpose of calculating financial performance measures; mandatory Optimised Deprival Valuation (ODV) Handbook and standard formats for Internet and Gazette disclosures.

3 This industry consultation document covers the development of a Gas Information Disclosure Handbook, and the derivation table of adjustments to disclosed financial statements for the purpose of calculating financial performance measures. The Ministry plans to consult with industry separately on the development of an ODV Handbook.

1.2 Structure of the forum

4 The forum will be held on Tuesday 22 February 2000 in the 12th floor Conference Room, Ministry of Commerce Building, 33 Bowen Street, Wellington, starting at 1pm. There is no fee for attendance. Afternoon tea will be provided. It is expected that the forum will conclude at around 5pm. If you have not already registered to attend the forum, please contact Julie Hartstone (ph (04) 472-0030) or e-mail julie.hartstone@moc.govt.nz before Thursday 17 February.

5 The forum will be chaired by the Ministry, with support from PricewaterhouseCoopers and Rod Crone Consulting. It is expected that representatives will attend the forum from a wide range of gas utilities, consumer groups and auditors.

6 In order to ensure that as many industry participants as possible are represented and that participants in the forum have adequate opportunity to express their views, the Ministry requests that each organisation invited send no more than two representatives.

7 The Ministry intends that the following issues will be discussed at the forum:

- (i) The proposed mandatory avoidable cost allocation methodology (ACAM);
- (ii) The proposals for allocation of "boundary items" amongst the businesses;

- (iii) The proposed list of items which will be required to be individually disclosed as part of the Pipeline businesses' financial statement disclosures;
- (iv) The proposed derivation table of adjustments to disclosed financial statements for the purpose of calculating financial performance measures; and
- (v) The proposed Asset Management Plan information disclosure requirements.

8 Issues (i) to (iv) will be dealt with from 1pm to 3.30pm, and (v) will be dealt with from 3.30pm to 5pm. It is intended that a brief presentation will be made on each item. Participants will be encouraged to comment on issues as they arise. *The Ministry is particularly interested in views on the compliance costs associated with each proposal.*

1.3 Written submissions

9 The Ministry also invites written comments on the issues raised in this consultation document and in the forum. We would appreciate any written comments by Friday 25 February 2000. Comments should be sent to:

Tony Fenwick
Manager
Energy Markets Policy Group
Ministry of Commerce
P O Box 1473
WELLINGTON

Fax (04) 473 7010
Or by e-mail to: julie.hartstone@moc.govt.nz
(Please ensure that e-mailed submissions clearly identify the organisation making the submission.)

10 Respondents should note that written comments provided to the Ministry in response to this discussion paper will be among the information we hold which is subject to public release under the Official Information Act 1982. If the Ministry receives a request for this material we will be required to consider its release, in whole or in part, in terms of the criteria set out in the Act. The Act requires us to make the information available unless: (i) we consider that there is good reason, pursuant to the Act, to withhold the information; and (ii) that good reason outweighs the desirability, in the public interest, of making the information available. The grounds for withholding information are set out in the Official Information Act.

11 In providing your comments, please advise the Ministry if you have any objections to the release of any material and, if you do object the specific material that you would wish withheld, the grounds for withholding. The Ministry will carefully review any representations that you make in this regard in considering any Official Information Act requests that might be received relating to this material. You should note, however, that the decision on release rests with the Ministry. Any decision to withhold information is subject to appeal to the Ombudsman.

1.4 Implementation of the amendments to the Regulations

12 Following the forum, the Ministry will proceed to prepare (in consultation with other government departments) a paper for Cabinet, with specific proposals for amending the Regulations. It is envisaged that, following Cabinet discussion, the proposals agreed by Cabinet would then be forwarded to the Parliamentary Counsel Office for preparation of the amendments.

13 It is expected that these processes will be completed in time to enable introduction of the proposals for the 2000/01 financial year (that is, pipeline owners' 1999/2000 disclosures will be prepared on the basis of the current Regulations). Assuming the proposals are introduced disclosed financial statements for the 2000/01 financial year would be required to be based on ACAM, and comply with generally accepted accounting practice (GAAP). The first Asset Management Plan information disclosures would be required by the end of the companies' 2001 financial year (as defined in the Regulations).

2 AVOIDABLE COST ALLOCATION METHODOLOGY

2.1 Avoidable Cost Allocation Methodology

14 The Gas (Information Disclosure) Regulations 1997 require pipeline owners to disclose separate financial statements for their wholesale (in the case of NGC), transmission, distribution and retailing activities (Regulations 6 and 7). The Regulations do not specify the cost allocation methodology to be used, but pipeline owners are required to disclose the allocation methodology that they used (Regulation 21).

2.1.1 Proposed Requirements

15 The Ministry proposes to replace Regulation 21 with a requirement that pipeline owners use a mandatory avoidable cost allocation methodology (ACAM), and fully comply with generally accepted accounting practice (GAAP). The ACAM would define the (natural monopoly) pipeline business as the “stand-alone” business, excluding expenses, revenues, assets and liabilities (“items”) that would be avoided by pipeline owners if they did not operate their “Other” business (gas wholesaling, gas retailing and any other activities). The components of the items that would be avoided would be allocated to the Other business. More details about ACAM are provided in Annex 1.

16 Under the proposed ACAM, pipeline owners would be required to disclose “stand-alone” financial statements for their:

- distribution business, if they provide gas distribution services;
- transmission business, if they provide gas transmission services; and
- combined distribution plus transmission business¹, if they provide both gas distribution and transmission services.

17 Financial statements would no longer be required to be disclosed for (contestable) gas wholesaling and retailing activities.

18 The Ministry also proposes that pipeline owners would be required to disclose the details of how they applied ACAM, including:

- any models used;
- all significant assumptions and estimates underlying the calculations; and
- the nature of, reasons for and financial impact of any changes in the application of ACAM.

¹ This is consistent with “option 2” in section 4.3 of the October 1999 discussion paper.

2.1.2 Rationale for Proposal

19 The Ministry is proposing a mandatory ACAM for the following reasons.

20 First and foremost, the ACAM is an economically robust methodology for identifying monopoly profits earned by natural monopolies and for allocating costs in a way that does not effectively cross-subsidises contestable activities.

21 Secondly, a mandatory ACAM is necessary to avoid arbitrary and/or inconsistent allocations between the business activities. The use of different allocators (which may satisfy “fair and reasonable” tests) could result in markedly different financial statements. This is supported by experience in the gas, electricity and telecommunications industries, where reliance on non-mandatory allocation rules has not provided comparable information amongst the companies or over time. It follows that the current non-mandatory rules allow companies to allocate inappropriate costs to artificially suppress their line business profitability (to hide monopoly profits) and reduce the costs included in their contestable activities (to hide subsidies).

2.1.3 Additional comments

22 The discussion paper entitled *Proposals for Amending the Gas (Information Disclosure) Regulations 1997* stated (section 4.4) that the Ministry was intending to integrate the ACAM in the Electricity (Information Disclosure) Regulations 1999 and the proposed ACAM for gas. The Ministry does not intend to pursue this proposal at this stage. The Ministry may review the proposal at a later date.

2.2 Allocation of boundary items under the avoidable cost allocation methodology

23 This section identifies how “boundary items” should be treated under the proposed ACAM methodology. Boundary items are defined as items (expenses, revenue, assets and liabilities) where it may be open to interpretation which business (or businesses) they should be allocated to. Specifically, the section:

- (i) identifies the items that fall within the boundary of gas distribution/transmission and “other” activities, and of gas distribution and gas transmission; and
- (ii) proposes which business(es) these items should be allocated to.

24 Summary information on the proposals and their rationales are provided below. Full details are provided in Annex 2.

2.2.1 Proposed Requirements

25 The Ministry proposes the following allocations of boundary items between the Pipeline business (transmission and/or distribution) and the Other business:

- *Gas Measurement Systems* - filters, regulators and over pressure protection allocated to the Pipeline business; and meters² to the Other business.
- *Isolation valves* – allocate to the Pipeline business.
- *SCADA* – allocate to the Pipeline business.
- *Gas meter test facility and testing* – allocate to the Other business.
- *Meter reading and provision of meter reading (or processed energy) information* – allocate to the Other business. Where the line business requires metering information (eg for its own variable charges and/or asset management purposes) a transfer payment for metering services would be appropriate (the proposed list of items in Annex 3 provides for this transfer).
- *Contracting activities (eg pipeline construction)* – allocate to the Other business, with transfer payments from the Pipeline business to the Other business for provision of contracting services.
- *Unaccounted-for gas* – Allocate to the Other business for distribution, allocate to the Pipeline business for transmission (with a transfer payment for purchase of gas where appropriate – see the proposed list of items in Annex 3).
- *Transmission system receipt point and custody point of transfer* – Allocate the assets from the custody point of transfer at receipt points to the custody point of transfer at delivery points to the Pipeline business. Except for meters which should be allocated to the Other business, with provision for transfer payments from the Pipeline business to the Other business for metering information.
- *Network growth (marketing) incentives* – Allocate to Pipeline business, with provision for transfer payments from the Pipeline business to the Other business for internal payments. These transfer payments would have to be disclosed in the Pipeline business's financial statements (see Annex 3).
- *Allocation & reconciliation services* - Allocation and reconciliation expenses should be allocated to the Other business. Allocation and reconciliation charges should be unbundled from line charges and allocated to the Other business.
- *Research and development expenses* – Allocate to the Other business.

² Meters that are within the network – that is meters other than the customer based (GMS) meters and meters that are part of the transmission system receipt point – should be allocated to the Pipeline business.

- *Capital works under construction* – If works under construction are a Pipeline business asset, allocate to Pipeline business. Otherwise allocate to the Other business.
- *Intangible assets other than goodwill* – Allocate to the Other business.
- *Billing system (also used as connection and consumption databases)* – This asset and the associated costs are common to (or shared by) each of the businesses. The asset and costs should be split between the Pipeline business and the Other business using ACAM principles (see Annex 1).
- *Mergers and acquisitions expenses* – Treat as a common cost and allocate between the Pipeline and Other businesses using ACAM Principle II (see Annex 1).
- *Take-over defense expenses* – Treat as a common cost and allocate between the Pipeline and Other businesses using ACAM Principle II (see Annex 1).
- *Investments, losses/gains on sale of investments and returns (dividends/interest) on investments* – Treat short-term investments as a common cost, and allocate between Pipeline and Other businesses using ACAM principles. Allocate long-term investments to the Other business.

26 The Ministry proposes the following allocations of boundary items between the gas distribution and gas transmission business (to apply to pipeline businesses, where they contain both gas distribution and gas transmission):

- *Gate stations* – Allocate to transmission.
- *Pressure reduction from Transmission to Distribution* – Allocate to transmission.
- *Load/flow control at gate stations* – Allocate to transmission.
- *Cathodic protection* – Directly allocable to transmission and distribution.

2.2.2 Rationale for Proposal

27 The allocation of boundary items between the Pipeline and Other businesses was based on the following criteria:

- (i) The allocation should be consistent with ACAM.
- (ii) Where more than one option is consistent with this criterion, the allocation should minimise compliance costs.

28 The proposed allocation of boundary items between distribution and transmission takes into account all extant definitions of the two functions in legislation and standards.

3 ITEMS TO BE INDIVIDUALLY DISCLOSED IN PIPELINE OWNERS' FINANCIAL STATEMENTS

3.1.1 Proposed Requirements

29 The Ministry proposes that pipeline owners be required to specifically identify the following items in their disclosed financial statements³:

- (i) all material transactions between related parties;
- (ii) a range of prescribed significant items;
- (iii) those items which form the basis of the financial performance measures; and
- (iv) all items that are of such a size, nature or incidence that their disclosure is necessary for understanding of the business (consistent with GAAP).

30 A list of items covering (i), (ii) and (iii) is provided in Annex 3. This list is not exhaustive and does not preclude the disclosure of other individual items, particularly if required under GAAP.

3.1.2 Rationale for Proposal

31 A requirement to disclose certain information in the financial statements would facilitate (i) analysis of the performance of Pipeline businesses; (ii) analysis of the appropriateness of pipeline owners' allocations amongst their different businesses; (iii) reconstruction of the financial performance measures (if disclosed allocations are deemed inappropriate); and (iv) consistency with GAAP.

³ Consistent with GAAP, pipeline owners will be required to disclose a full set of financial statements.

4 DERIVATION TABLE OF ADJUSTMENTS TO DISCLOSED FINANCIAL STATEMENTS FOR THE PURPOSES OF FINANCIAL PERFORMANCE MEASURES DISCLOSURE

4.1 Introduction of a derivation table

4.1.1 Proposed Requirements

32 The Ministry has developed a draft table (in Excel format) for derivation of financial performance measures from the financial statements (see Annex 4). The table is based on the derivation table used in the Electricity (Information Disclosure) Regulations 1999. All pipeline owners will be required to complete and disclose the table. The following points about the introduction of the derivation table should be noted:

- It is proposed that the terminology in the financial performance measures (and derivation table) be updated to reflect the terminology used in current financial reporting. This is reflected in Annex 3 and 4. Changes to the financial performance measures consist of:
 - return on funds (instead of accounting return on total assets) – defined as earnings before interest and tax (as adjusted) divided by average total funds employed;
 - return on equity (instead of accounting return on equity) – defined as net profit after tax (as adjusted) divided by average total equity (as adjusted); and
 - return on investment (instead of accounting rate of profit)– the formula is likely to follow the formula in the Electricity (Information Disclosure) Regulations 1999.

Additional changes in terminology include such things as replacing “Earnings before interest and tax” with “Operating surplus before interest and income tax”, and replacing “Net profit after tax” with “Net surplus after tax”.

- The introduction of ACAM creates a transitional issue, as the opening balances from the (previous year’s) Statement of Financial Position are unlikely to have been calculated on a basis consistent with ACAM. It is proposed that this be rectified through the Statement of Movements in Equity, rather than through the Statement of Financial Performance⁴. The opening balances for assets, liabilities and equity used in the calculation of the financial performance measures should, in the first year of disclosure using the prescribed ACAM methodology, be those after any such adjustment in the Statement of Movements in Equity.

⁴ There are two reasons for requiring the adjustments to be made through the Statement of Movements in Equity. First, it will make the effect of the change in allocation methodology more transparent. Secondly, it will avoid distorting the Statement of Financial Performance, and the resulting financial performance measures. For example, if (under ACAM) meters have to be allocated to the Other business instead of the Pipeline business, the Statement of Financial Performance would treat the adjustment as a sale, which would impact on the Pipeline business’s profits in the year that ACAM is introduced.

- Retrospective ODVs will not be required to be calculated for the beginning of the financial year that ODVs are introduced, for the purpose of calculating financial performance measures. Current system fixed asset valuations will suffice.

4.1.2 Rationale for Proposal

33 The table will assist companies in preparing the performance measure calculations and make the compliance process more consistent and transparent. Experience with the derivation table in the Electricity (Information Disclosure) Regulations is that it has made compliance with the Regulations more straightforward, and has also reduced (basic) errors in the derivation of financial performance measures. It has also made it easier for the Ministry to check on compliance with the Regulations⁵.

⁵ The Ministry proposes to place the derivation table on its website for pipeline owners (and others) to download.

5 PROPOSED DISCLOSURE OF ASSET MANAGEMENT PLAN INFORMATION

5.1 Details of asset management plan information that would be required to be disclosed

5.1.1 Proposed Requirements

34 The Ministry proposes that pipeline owners be required to disclose asset management plan (AMP) information for their gas networks. In summary, the Ministry proposes that the AMP disclosures contain information on the following:

- Background and objectives;
- The date the information was completed and the period to which it relates;
- Asset management systems and information;
- Network and asset description;
- Service level objectives;
- Life-cycle asset management and development plans;
- Risk assessment; and
- Performance and plans for improvement.

35 Details of the proposed AMP information disclosure requirements are provided in Annex 5.

5.1.2 Rationale for Proposal

36 Ensuring the safety and reliability of gas networks is a matter of legitimate public interest. The Ministry considers that disclosure of AMP information would help promote strong incentives to put in place and maintain good asset management practices by pipeline owners, and would assist pipeline owners in demonstrating they follow high standards. In particular, the Ministry expects that disclosure of AMP information would enhance the quality of discussions between pipeline owners and those parties who have the ability and incentive to review the plans, eg major users. A strong measure of peer review within the industry would also be possible following disclosure. The Ministry also expects that disclosure of AMP information would help interested parties analyse the reasonableness of pipeline owners' ODVs, and forecasted service reliability targets.

5.2 Proposed differences between the electricity and gas AMP information disclosure requirements

5.2.1 Proposed Requirements

37 The Electricity (Information Disclosure) Regulations include AMP disclosure requirements (these were included in Annex 3 of the discussion paper entitled *Proposals for Amending the Gas (Information Disclosure) Regulations 1997*). The proposed gas AMP information disclosures are based on these, but with key differences.

- (i) The gas AMP disclosure requirements make it explicit that the AMP that is required to be disclosed is a document which must contain certain asset management information (practices and performance measures). The form of this information may be an extract(s) from the AMP used in practice or a separate document prepared for AMP disclosure purposes, provided that the disclosed AMP information is consistent with the AMP the utility uses, and contains the information specified.
- (ii) The gas AMP disclosure requirements do not include development plans and expenditure projections.
- (iii) The gas AMP disclosure requirements specify that “descriptions” of certain AMP information should be provided, rather than “details”.
- (iv) The gas AMP disclosure requirements for Network and Asset description provide more specificity on what is required, and focuses more on the condition of the assets.
- (v) The gas AMP disclosure requirements in relation to performance targets are to be based on the definition used for the service reliability targets specified in Schedule 1 of the Gas (Information Disclosure) Regulations.

5.2.2 Rationale for Proposal

38 The rationale for each of these variations is listed below (in consistent order):

- (i) This variation does not result in a difference between the disclosure requirements of the Electricity and Gas (Information Disclosure) Regulations. Rather it is simply intended to make clear what the requirements on gas utilities are. Compliance with the AMP disclosure requirements in the Electricity and Gas (Information Disclosure) Regulations does not mean that full disclosure of AMP documents used in practice is required. Such documents may be extremely bulky, and go well beyond the requirements specified in the Handbook (and include commercially sensitive material). If pipeline owners were required to disclose all such material, they may have incentives to prepare less detailed AMPs for practical use in the future. Clearly such a result would be contrary to the intentions of the AMP disclosure requirements, which is to encourage better and more transparent asset management practices.

- (ii) Gas networks (at least at the distribution level) arguably face stronger inter-fuel competition, substitutability and risk of bypass than electricity networks. Therefore, commercial information (eg development and expenditure plans) is of potentially greater sensitivity. It should also be noted though that the proposed AMP disclosure requirements include descriptions of the policies and planning processes to create and replace network assets (which will provide information on development plans without raising undue commercial sensitivity issues).
- (iii) It is considered that in many cases descriptions of asset management policies and practices will be more meaningful to a reader than “details” (as prescribed in the electricity disclosure template), and in some cases actual details may include commercially sensitive information (eg load shedding lists in the emergency response plan).
- (iv) This is intended to improve on the requirements of the Electricity (Information Disclosure) Regulations, which are very generic in this area.
- (v) These performance measures are relevant to asset management planning and, therefore, it makes sense that they be used for asset management targets, rather than leaving their use optional. This approach has been made possible by the proposal to adopt a wider range of reliability performance measures.

5.3 Treatment of transmission and distribution activities under the AMP information disclosure requirements

5.3.1 Proposed Requirements

39 The Ministry proposes that where a pipeline owner has both distribution and transmission systems the pipeline owner should be required to disclose only one set of AMP information covering all its systems.

5.3.2 Rationale for Proposal

40 The major difference between transmission and distribution systems is pressure (2000 kPa being the threshold), and this results in some different asset management requirements. However, whether AMP information is disclosed separately or combined, it would be expected that the key AMP information relevant to both systems should be disclosed in a way that enables the reader to distinguish between the approaches in the two separate systems.

ANNEX 1: AVOIDABLE COST ALLOCATION METHODOLOGY

Mandatory avoidable cost allocation methodology

1 The avoidable cost allocation methodology (ACAM) defines the Pipeline business as the “stand-alone” business and makes an assessment of the expenses, revenues, assets and liabilities (“items”) that would be avoided by the pipeline owner if it did not operate its Other (“incremental”) business. The components of the items that would not be avoided are allocated to the line business, and the components that would be avoided are allocated to the Other business⁶.

2 *Explanatory note: Conceptually there are two approaches to ACAM: (a) a "bottom-up" approach which asks what would the pipeline owner's financial statements look like if it only provided Pipeline business services; and (b) a "top-down" approach which asks what the pipeline owner's financial statements would like if it ceased operating its Other business (assuming away transitional factors, such as redundancy costs and down-sizing of fixed assets). With the bracketed assumption in (b), the bottom-up and top-down approaches should provide identical financial statements.*

Treatment of gas distribution and gas transmission under the avoidable cost allocation methodology

3 Pipeline owners are required to disclose the following Pipeline business financial statements:

- (i) stand-alone financial statements for gas distribution (SAC[GDB]), if they provide gas distribution services; and
- (ii) stand-alone financial statements for gas transmission (SAC[GTB]), if they provide gas transmission services; and
- (iii) stand-alone financial statements for the combined gas transmission + distribution (SAC[GDB + GTB]), if they provide both distribution and transmission services.

Exemption - If the common costs and assets accounted for less than 5% of the pipeline owner’s Pipeline business costs and assets, the pipeline owner would not be required to disclose the combined set of financial statements. (Explanatory note: If this threshold was satisfied the maximum level of the monopoly profits understatement through “double counting” of common costs would be too small to worry about.)

4 *Explanatory note: These requirements are illustrated diagrammatically below:*

- (i) $SAC[GDB] = IC[GDB] + CC$;
- (ii) $SAC[GTB] = IC[GTB] + CC$; and

⁶ The “stand-alone cost” of a service is the cost that would be incurred if that was the sole service provided. The “incremental cost” of a service is the cost incurred in supplying that service, excluding all costs which would not be incurred if that service were not supplied.

(iii) $SAC[GDB + GTB] = SAC[GDB] + SAC[GTB] - CC.$

	IC[OB]	
IC[GDB]	CC	IC[GTB]

Where SAC = stand-alone cost, IC= incremental cost, CC = common (or shared) costs, R = Revenue, GTB = Gas Transmission Business, GDB = Gas Distribution Business and OB = Other Business.

Avoidable cost allocation methodology principles

5 ACAM consists of two mandatory principles:

- I. *Principle I.* The stand-alone and incremental businesses would be defined in such a way that: (i) the stand-alone business is confined solely to provision of natural monopoly gas activities; and (ii) all contestable (and potentially contestable) activities are provided by the incremental businesses.

Explanatory note: Defining the stand-alone and incremental businesses in this way may mean they provide each other with goods and services. Transfer payments are made for any goods and services businesses provide each other.

- II. *Principle II.* The expenses, revenues, assets, and liabilities (“items”) would be allocated to the stand-alone and incremental businesses in such a way that: (i) those items (and components of the items) that would not be avoided if the pipeline owner did not operate the incremental business are allocated to the stand-alone business; and (ii) those items (and components of the items) that would be avoided are allocated to the incremental business.

Explanatory note: Items that are directly attributable to one of the stand-alone or incremental businesses would be allocated to those businesses. Items that are shared amongst some or all of the businesses would be allocated amongst those businesses, by:

- (i) *direct allocation of any components of these items which are directly attributable to one of the businesses; and*
- (ii) *for any components that are not directly attributable;*
 - (a) *assessing the proportions of these components which are avoidable and non-avoidable; and*
 - (b) *allocating these components amongst the businesses on the basis of those proportions (in a manner consistent with Principle I).*

ANNEX 2: ALLOCATION OF BOUNDARY ITEMS

1 The purpose of this Annex is to:

- (i) identify the items that fall within the boundary of gas distribution/transmission business (“Pipeline business”) and the Other business, and of gas distribution and gas transmission; and
- (ii) develop proposals for which business(es) these items should be allocated to under the avoidable cost allocation methodology (ACAM) in the Gas (Information Disclosure) Regulations.

2 Boundary items are defined as items (expenses, revenue, assets and liabilities) where it may be unclear which business (or businesses) they should be allocated to.

Allocation of boundary items between the Pipeline and Other Businesses

3 The criteria for allocation of boundary items is:

- (i) The allocation should be consistent with ACAM.
- (ii) Where more than one possible allocation would be consistent with this criterion, the allocation should minimise compliance costs.

Gas Measurement Systems

Definition and background

4 A gas measurement system (GMS) is defined in the Gas Act as –

“a system for measuring the quantity of gas...and includes any equipment that forms part of, or is ancillary to, any such system”.

5 The standard components are:

- Meter (includes corrector, TOU equipment, telemetry equipment, and transducers) – measures the volume of gas consumed.
- Filter(s) – to prevent dust, oil, condensed hydrocarbons or other deleterious substances from affecting the performance of the pressure control equipment, the metering equipment or reaching the consumer’s gas installation downstream.
- Regulator(s) – to ensure a constant delivery pressure (within normally accepted limits).
- Over pressure protection (relief valve or over pressure shut-off valve) – to ensure the downstream equipment (meter, consumer’s gas installation) is not subject to excess pressure following upstream equipment failure.

Assessment against criteria

6 All components of the GMS apart from the meter (ie filter, pressure regulator, over pressure protection and valves) fit more naturally with the operation of the network system, as they facilitate/contribute to quality of delivery of gas.

7 Meter ownership and associated services could be unbundled and provided by any person on a contestable basis, although slightly less so for large consumers (because in the case of large consumers the GMS mechanical configuration is generally somewhat more complex and site specific with the pipework designed to incorporate a particular meter).

Proposed allocation

8 The Ministry proposes that:

- filters, regulators and over pressure protection should be allocated to the Pipeline business; and
- meters should be allocated to the Other business⁷. Where the Pipeline business requires metering information (eg for its own variable charges and/or asset management purposes) provision for a transfer payment for metering services would be appropriate.

Isolation valves

Definition and background

9 Isolation valves are devices for controlling or shutting off the flow of gas. NZS 5258 Gas Distribution requires all services to have a valve at the point of custody transfer. It also requires a valve to be installed at the inlet of the service regulator, or if there is no regulator (previously common for the old LP systems), at the inlet of the meter. This valve must be accessible in an emergency. In most mass market situations one valve serves both purposes, but for larger delivery points an additional valve is installed downstream of the regulating/metering equipment to enable the consumer's gas installation to be isolated without affecting the distributor's upstream equipment.

Assessment against criteria

10 The valve at the end of the service connection is clearly part of the network. Note there are many isolation valves in a network. See also commentary above re large consumer GMSs where there is often an isolation valve at the end of the GMS to isolate the consumer's gas installation. The Ministry proposes that this valve be treated as part of the Pipeline business.

Proposed allocation

11 The Ministry proposes that isolation valves be allocated to the Pipeline business.

⁷ Meters that are within the network – that is meters other than the customer based (GMS) meters and meters that are part of the transmission system receipt point – should be allocated to the Pipeline business.

Supervisory, Control and Data Acquisition (SCADA)

Definition and background

12 SCADA equipment has been installed by some network operators to enable continuous monitoring of parts of their network (pressures, flows etc).

Assessment against criteria

13 SCADA equipment is an integral part of the gas network, although the data acquired using the SCADA system and associated with large consumer sites may be of value to the retailer as well.

Proposed allocation

14 The Ministry proposes that SCADA equipment be allocated the Pipeline business, with provision for transfer payments from “other” for SCADA data.

Gas meter test facility and testing

Definition and background

15 Gas meter testing facilities are used to perform calibration tests in accordance with the requirements of NZS 5259 Gas Measurement.

Assessment against criteria

16 Gas meter testing is contestable, especially for mass-market meters. Testing for large meters is potentially contestable, although in practice there is generally not enough business to operate commercially. NGC is now the only provider of large meter testing (which it does for its own purposes and for all retailers).

Proposed allocation

17 The Ministry proposes that gas meter testing facilities and testing be allocated to the Other business.

Meter reading and provision of meter reading (or processed energy) information

Definition and background

18 Gas measurement involves reading the meter, converting metered volume to standard volume using several factors, and then converting the standard volume to energy by application of the calorific value. Most often the conversion is done within the billing system in one step. The metering information transferred between parties may include one or more of the following - meter readings, metered volume, standard volume, conversion factor(s), or energy quantity.

Assessment against criteria

19 Meter reading is a contestable activity. Meter reading can be provided by the incumbent (network owner), the retailer or a third party. Industry practice varies at present:

- NGC Networks requires all readings and processes volume to energy for each site. It reads some sites and relies on retailers to provide readings for other sites.
- Powerco requires all retailers to provide readings for each site.
- Wanganui Gas reads all sites and provides readings to retailers who then have to process volume to energy.
- Orion Networks requires retailers to read all sites and do their own processing to energy, then provide energy quantities to Orion Networks by site.

Proposed allocation

20 The Ministry proposes that meter reading be allocated to the Other business, with allowance for transfer payments from the Pipeline business for metering information.

Contracting activities (eg pipeline construction)

Definition and background

21 Contracting activities can be for both Pipeline and Other business activities. They can also be provided by both external and internal sources.

Assessment against criteria

22 Contracting activities that relate to Other business, regardless of whether they are provided externally or internally, are contestable. These activities are not discussed further. In relation to contracting activities for the Pipeline business (for example, construction, maintenance and repairs), the costs are a necessary cost of operating and managing a gas network. However, although it is legitimate for a gas network to incur such costs, the network does not need to provide the service itself. Furthermore, contracting activities are a contestable service.

Proposed allocation

23 Contracting activities should be allocated to the Other business, with provision for transfer payments from the Pipeline business to the Other business for contracting services required by the network.

Unaccounted-for gas

Definition and background

24 Unaccounted-for gas (UFG) is the difference between gas metered entering a pipeline system and gas metered leaving that system in a given period, after allowing for any change in the amount of gas contained in the system

25 UFG is currently dealt with in the following ways:

- For distribution systems UFG may be purchased by the network owner (most likely from own retail operation) and included in network charges (Wanganui Gas), or purchased by retailers based on allocated quantities (NGC, Orion, Powerco); and
- For transmission UFG is purchased by NGCT (most likely from own wholesale operation) and included in transmission charges. To avoid the complication of having to allocate UFG to customers, NGCT takes responsibility for all UFG. NGCT is also responsible for maintaining the overall balance of the transmission system. It has arrangements in place to buy gas (most likely from its own wholesale operation) for system use, such as operating line heaters and compressors, and for correcting limited system imbalances. (There is not a corresponding requirement at the distribution level.)

Assessment against criteria

26 UFG is effectively dealt with by the retailer either purchasing the lost gas directly (on the basis of allocated quantities) or indirectly through the incumbent network owner's wholesale or retail businesses (in which case they are bundled into transmission or distribution charges). The latter approach is indirect because it requires the incumbent to effectively purchase and on-sell the lost gas, with purchasing and sale of gas being a wholesale/retail activity.

27 The only circumstances where Pipeline businesses need to purchase gas (given that sale of gas is a producer/wholesaler/retailer activity) is where it requires gas for its own purposes – this is only the case at the transmission level where gas is required for system use, such as operating line heaters and compressors, and for correcting limited system imbalances. Such use makes up the majority of UFG at the transmission level.

Proposed allocation

28 The Ministry proposes that UFG on distribution pipelines be allocated to the Other business. Where retailers make payments to the incumbent network owner for UFG this should be unbundled from the distribution charges, and the revenue allocated to the Other business. At the transmission level, the Ministry proposes that UFG be allocated to the Pipeline business, with a transfer payment to the Other business for purchase of the UFG on the transmission network (which would be required to be disclosed in Pipeline business's financial statements).

Transmission system receipt point and custody point of transfer

Definition and background

29 Transmission system receipt points typically comprise the following:

- a compound owned by the producer;
- a pig receiver owned by the producer;
- a custody point of transfer (generally a flange containing an electrical isolation device) which is the interconnection point between the producer's delivery system and the

transmission system, and also the point of sale between producer/wholesaler and wholesaler/retailer;

- compression equipment, metering equipment, odourisation facilities and pig launcher owned by NGCT.

30 NGCT owns and operates all of the facilities up to the point of interconnection with any downstream system, that is the delivery point. This custody point of transfer is generally a flange downstream of all of the delivery point equipment owned by NGCT.

31 Having purchased gas at the receipt points, retailers (including NGC Retail) are then responsible for arranging transmission service and distribution service respectively to consumer's offtake points.

Assessment against criteria

32 While odourisation has traditionally been the supplier's (ie retailer's) responsibility⁸, the deregulated market with multiple retailers trading within each network has made this requirement impractical⁹. Recognising this NGCT has taken the initiative and installed sufficient odourisation injection facilities to ensure that in normal circumstances the gas complies with the NZ Code of Practice for Odourisation GCP3 when delivered through an average distribution network.

33 Compression is important for the operation of the pipeline system (in terms of pressure and flow). Meters – as with customer based meters (part of the GMS) – are contestable.

34 Pig launchers are an integral part of the transmission system, and should therefore be treated as part of the natural monopoly. All the delivery point facilities are considered an integral part of the transmission system.

Proposed allocation

35 The Ministry proposes that the assets from the custody point of transfer at receipt points (as currently defined) to the custody point of transfer at delivery points (as currently defined) be allocated to the Pipeline business. The exception would be for meters which should be allocated to the Other business, with provision for transfer payments from the Pipeline business to the Other business for metering information.

⁸ Currently the Gas Regulations state that the responsibility for gas odourisation to GCP3 is the supplier's responsibility. "Supplier" translates to "retailer" in the deregulated market.

⁹ The Gas Regulations and GCP3 were written when organisational structures were different to those existing in the deregulated market, and there was only one retailer per network. Until the last few years the distributors (combined network operator/retail businesses) injected odourant at gate stations. This was relatively inefficient in terms of the overall gas pipeline infrastructure. NGCT then took the initiative and installed odourant equipment upstream at receipt points and distributors have mostly now removed their equipment that existed at gate stations. It is logical that the pipeline system owner takes responsibility for odourisation as the key requirement is for gas to be readily detected when it escapes from the system. Each producer (and by contract the wholesaler/retailers purchasing the gas) could be held responsible for odourant injection at each receipt point, but what would happen when there is non-compliance downstream after co-mingling of the various retailers' gas?

Network growth (marketing) incentives

Definition and background

36 These are payments offered by network owners to reward retailers who connect new load, and for retention of existing load, for example:

- NGC Networks and Wanganui Gas have a “market maintenance incentive” which is an annual payment made to retailers based on the number of mass market connections they supply and is subject to the retailer demonstrating they have undertaken marketing activity to promote gas usage; and
- NGC Networks has a “new connection reward” and “large appliance incentive” that are aimed at new connections and the load installed.

Assessment against criteria

37 Network growth incentives are effectively a form of network charge rebate – designed to encourage certain behaviour that is to the benefit of the network. They could actually be merged into network charges.

Proposed allocation

38 The Ministry proposes that network growth incentives be allocated to the Pipeline business, and that the pipeline owners would have to disclose these separately (see Annex 3).

Allocation & reconciliation services

Definition and background

39 Allocation and reconciliation is the service provided to allow multiple retailers to operate on one network with one receipt point meter. The service allocates the shared meter quantity to each of the retailers using a process agreed between the retailers and documented in an allocation agreement. These quantities are then fed upstream to enable billing of the correct quantities for transmission and wholesale gas. The agreement sets out the charges for the service, although some network owners have elected in the early stages of competition to provide the service as part of the network service charges. The industry definition is “Allocation is the process of attributing quantities of energy to persons with an interest in any gas at a point of transfer.”

Assessment against criteria

40 Provision of allocation and reconciliation is contestable service. In practice it is provided by allocation agents and either included in transmission or distribution charges or provided separately on a contestable basis.

Proposed allocation

41 Allocation and reconciliation expenses should be allocated to the Other business. Allocation and reconciliation charges should be unbundled from line charges, with revenue from these charges being allocated to the Other business.

Research and development expenses

Definition and background

42 Research and development can relate to development of network technologies or other products.

Assessment against criteria

43 Research and development activity, be it related to networks or otherwise, is a discretionary activity. It is not clear a natural monopoly should undertake its own research and development.

Proposed allocation

44 The Ministry currently proposes that research and development activity be allocated to the Other business.

Capital works under construction

Definition and background

45 Works under construction are assets that are not yet operational. In the case of network assets there is a short life before they become operating fixed assets.

Assessment against criteria

46 Works under construction do not belong in the ODV, as they do not relate to the operating component of the network. Nevertheless, works under construction are a legitimate non-performing asset, which has an associated capital cost to the Pipeline businesses.

Proposed allocation

47 The Ministry proposes that capital works under construction be allocated as they will be when they are completed and operational. Where they relate to gas system fixed assets or other network assets, they should be allocated to the gas network. Otherwise they should be allocated to the Other business.

Intangible assets other than goodwill

Definition and background

48 Intangible assets (other than goodwill) include such things as deferred development costs, patents, trademarks and licences.

Assessment against criteria

49 Intangible assets, such as deferred development costs and patents, are not a necessary part of natural monopoly activity.

Proposed allocation

50 The Ministry proposes that intangible assets (other than goodwill) be allocated to the Other business.

Billing system (also used as connection and consumption databases)

Definition and background

51 Billing systems are required for charging for wholesale, transmission, distribution, retail and other activities. Industry practice varies at present:

- NGC has a retail billing system which is used to meet both retail and distribution requirements.
- Powerco has retained the retail billing system it used as a bundled business.
- Wanganui Gas has a retail billing system which is used to meet both retail and distribution requirements. The Pipeline business only owns information on connections and volume consumption, while the retail business owns the additional processed energy information.
- Orion Networks has established a new cut-down database to reflect its reduced information requirements, while Orion Gas Trading has established its own retail billing system to suit its large customer billing requirements.

Assessment against criteria

52 Billing costs are a legitimate cost for each business area (as billing is necessary for recovery of each business's charges), though it would be expected that the retail business would incur the bulk of the costs. This is because the retail business would have direct contractual arrangements with the bulk of consumers – only large consumers are likely to have separate contractual arrangements with transmission and distribution businesses.

Proposed allocation

53 The Ministry proposes that billing costs be treated as a common cost, and allocated on the basis of ACAM Principle II (see Annex 1, paragraph 5).

Mergers and acquisitions expenses

Definition and background

54 The costs of investigating potential mergers and acquisitions are incurred whether the merger or acquisition occurs or not. The expenses include legal and consulting fees, and losses/gains on sale of investments entered into with a view to mergers and acquisitions.

Assessment against criteria

55 Any of a gas utility's businesses can be expected to potentially derive benefits from mergers and acquisitions, for example, through economies of scale. A gas utility that was limited to gas distribution and transmission may still legitimately seek to investigate potential mergers and acquisitions.

Proposed allocation

56 The Ministry proposes that merger and acquisition costs be able to be allocated to both business. If the potential merger and acquisition opportunity is with a business that is solely a Pipeline business, then the costs would be allocated solely to the Pipeline business (consistent with ACAM Principle I – see Annex 1). Likewise, if the opportunity is with a business that is in contestable gas activities and/or other services (excluding gas networks), then the costs would be allocated solely to the Other business (consistent with ACAM Principle I – see Annex 1). Where the opportunity is with a business that provides services which fall into both categories (Pipeline and Other business), ACAM requires that the amount that would be allocated to the Pipeline business would be the amount that would have been incurred if the opportunity was with a business that only provided Pipeline services, and the remainder of the costs should be allocated to the Other business (consistent with ACAM Principle II – see Annex 1).

Take-over defense expenses

Definition and background

57 Take-over defence is the cost of protecting against hostile take-overs, and may include legal and consulting fees.

Assessment against criteria

58 Take-overs are the flip side of mergers and acquisitions. Therefore the same analysis and conclusions can be made about mergers and acquisitions. They are a legitimate cost of each of the businesses.

Proposed allocation

59 The Ministry proposes that the cost of take-over defences be treated as a common cost, and allocated to each business on the basis of ACAM Principle II (see Annex 1). The amount that should be allocated to the Pipeline business should be the amount that would have been incurred if the business only provided Pipeline services, and the remainder of the costs should be allocated to the Other business.

Investments, losses/gains on sale of investments and returns (dividends/interest) on investments.

Definition and background

60 There are three components to investments: the assets themselves, losses/gains from the sale of the investments and the return earned (eg dividends and interest) from the investments. These components should all be treated in a consistent manner.

Assessment against criteria

61 Two categories of investment are considered below.

62 Short-term investments may substitute for holding cash in the bank. It may be efficient to hold money, needed for working capital purposes, in short-term investments rather than in the bank to earn a higher return. Therefore, holding short-term investments is legitimate for each of the businesses.

63 Long-term investments are not a necessary part of natural monopoly activities. Note that some such investments may be held in anticipation of future capital expenditure. Without commenting on the appropriateness of such practices, the investment should be treated as part of the Other business activities, with a transfer to the Pipeline business when the finance is required.

Proposed allocation

64 The Ministry proposes that short-term investments be treated as a common cost, and allocated to both the Pipeline and Other business on the basis of ACAM Principle II (see Annex 1). Long-term investments would be allocated to the Other business.

Allocation of items between gas distribution and gas transmission

65 Under the proposed gas ACAM rules, gas utilities (only NGC, in practice) will be required to disclose separate financial statements for their gas distribution and gas transmission businesses, in addition to combined gas distribution plus transmission financial statements (option 2 in the discussion paper entitled “*Proposals for Amending the Gas (Information Disclosure) Regulations 1997*”).

66 The boundary between transmission and distribution therefore needs to be defined. The criterion used to determine which items should be allocated to the network and which to the Other business is not helpful in this regard, because both the transmission and distribution businesses are to be treated as stand-alone and limited to natural monopoly activities. To determine the boundary between distribution and transmission it is necessary to define what transmission and distribution mean. The following clarifies the demarcation between the two systems:

- The Gas Act 1992 defines transmission as including high pressures pipelines operated at a pressure exceeding 2,000 kPa, and distribution as being the pipework under the control of

a gas distributor from the boundary of the gasworks or gate station outlet flange supplying gas for distribution to the outlet of the gas measurement system.

- The Gas (Information Disclosure) Regulations 1997 define transmission system as that part of a system that conveys gas from the point where gas leaves a gas processing facility to the boundary of the gasworks or gate station outlet flange supplying gas for distribution, or to a customer where gas does not enter a distribution system.
- NZS 5258 Gas Distribution covers systems operating at distribution pressures which are defined as low pressure or LP (< 7 kPa), medium pressure or MP (7 – 700 kPa), and intermediate pressure (700 – 2000 kPa). Systems above 2000 kPa are referred to as high pressure or HP systems and are covered by NZS 5223:Part 1.
- Although the recent Health and Safety in Employment (Pipelines) Regulations 1999 have further refined the definition of pipelines requiring special treatment as for HP pipelines (includes pipelines conveying both gas and other than natural gas), the definitions above serve adequately to define the different systems for the purposes of disclosure.

67 The major difference between transmission and distribution systems therefore is pressure (2000 kPa). The Ministry proposes that the distinction between transmission and distribution be defined on this basis.

Gate stations and metering at transmission system delivery points

68 The gate station compounds and meters at transmission system delivery points are owned by NGCT. The pipework within the compound is mostly NGCT's up to the custody transfer point between the transmission system and distribution system (generally a flange containing an electrical isolation device).

Proposed allocation

69 The Ministry proposes that these assets be allocated to transmission.

Pressure reduction from Transmission to Distribution

70 Pressure reduction from transmission to distribution is an integral part of the gate station and therefore part of the transmission system.

Proposed allocation

71 The Ministry proposes that these assets be allocated to transmission.

Load/flow control at gate stations

72 Load/flow control at gate stations is part of transmission, although the distributor may also have additional equipment installed for their own purposes.

Proposed allocation

73 The Ministry proposes that these assets be allocated to transmission.

Cathodic protection

74 Both transmission and distribution networks require cathodic protection for protecting pipelines.

Proposed allocation

75 The Ministry proposes that these assets be allocated to both transmission and distribution – cathodic protection assets used to protect distribution pipelines are to be allocated to transmission and cathodic protection assets used to protection transmission pipelines are to be allocated to transmission.

ANNEX 3: PROPOSED LIST OF ITEMS TO BE DISCLOSED IN FINANCIAL STATEMENTS

The table below provides a list of items (assets, liabilities, expenses, and revenue) that pipeline owners are required to disclose as part of their financial statement disclosures. Pipeline owners' are required to disclose each of these items in their: distribution business's financial statements, transmission business's financial statements, and their combined transmission plus distribution business's financial statements. Pipeline owners are also required to disclose each of these items where there is a nil value (including where the item specifies that the item is "Applicable only to transmission businesses" (zero value for distribution) or "Applicable only to distribution businesses" (zero value for transmission).

ITEM

Statement of Financial Position

1. Current assets

- (a) Cash and bank balances
- (b) Other investments
- (c) Inventories
- (d) Accounts receivable
- (e) Other current assets not listed in (a) to (d)
- (f) **Total current assets** (sum of (a) to (e))

2. Property, plant and equipment

- (a) High pressure system pipelines (>2000kPA)
- (b) Low and medium system pipelines (\leq 2000kPA)
- (c) Mixing, compressor, valve and gate stations
- (d) System monitoring equipment
- (e) Distribution regulator stations¹⁰
- (f) Service connection assets
- (g) Consumer regulator stations
- (h) Gas measurement systems (including filters, regulators and over pressure protection) excluding customer meters (corrector, time of use equipment, telemetry equipment and transducers)¹¹
- (i) Asset information management system assets (eg AM/FM)
- (j) Motor vehicles
- (k) Machinery equipment
- (l) Office equipment
- (m) Land
- (n) Buildings
- (o) Capital works under construction
- (p) Other property, plant and equipment not listed in (a) to (o)
- (q) **Total property, plant and equipment** (sum of (a) to (p))

¹⁰ Applicable only to distribution businesses.

¹¹ Applicable only to distribution businesses.

3. **Other tangible assets not listed above**
4. **Total tangible assets** (1(f) + 2(q) + 3)
5. **Intangible assets (goodwill)**
6. **Total assets** (4 + 5)
7. **Current liabilities**
 - (a) Bank overdraft
 - (b) Borrowings
 - (c) Payables and accruals
 - (d) Dividends payable
 - (e) Income tax
 - (f) Other current liabilities not listed in (a) to (e)
 - (g) **Total current liabilities** (sum of (a) to (f))
8. **Non-current liabilities**
 - (a) Payables and accruals
 - (b) Borrowings
 - (c) Deferred tax
 - (d) Other term liabilities not listed in (a) to (c)
 - (e) **Total non-current liabilities** (sum of (a) to (d))
9. **Equity**
 - (a) Shareholders' equity
 - (i) Share capital
 - (ii) Retained earnings
 - (iii) Reserves
 - (iv) **Total Shareholders' equity** (sum of (i) to (iii))
 - (b) Minority interests in subsidiaries
 - (c) **Total equity** (sum of (a) + (b))
 - (d) Capital notes
 - (e) **Total capital funds** ((c) + (d))
10. **Total equity and liabilities** (6 = 7(e) + 8(e) + 9(e))

Statement of financial performance

11. Operating Revenue

- (a) Revenue from pipeline charges from:
 - (i) end users
 - (ii) gas wholesalers (other than related parties)
 - (iii) gas wholesalers (related parties, transfer payment from the Other business)
 - (iv) gas retailers (other than related parties)
 - (v) gas retailers (related parties, transfer payment from the Other business)
 - (vi) gas distributors (other than related parties)¹²
 - (vii) gas distributors (related parties, transfer payment from distribution business)¹³

¹² Applicable only to transmission businesses.

- (viii) **Total revenue from pipeline charges** (sum of (i) to (vii))
- (b) Other operating revenue
 - (i) Interest on short-term investments
 - (ii) Gain on disposal of property, plant and equipment
 - (iii) Other operating revenue not listed in (i) to (ii) or (a) and (b)
 - (iv) **Total other operating revenue** (sum of (i) to (iii))

12. Total operating revenue (sum of 11(a)(viii) + 11(b)(iv))

13. Operating Expenditure

- (a) Expenditure on transmission services¹⁴ to
 - (i) gas transmitters (other than related parties)
 - (ii) gas transmitters (related parties, transfer payment to transmission business)
 - (iii) **Total expenditure on transmission** (sum of (i) to (ii))
- (b) Transfer payments to the Other business for:
 - (i) Metering services at gas measurement system
 - (ii) Metering services at transmission system receipt points¹⁵
 - (iii) Disconnection/reconnection services
 - (iv) Asset maintenance services
 - (v) Network growth (marketing) expenses
 - (vi) Unaccounted for gas¹⁶
 - (vii) Other goods and services not listed in (i) to (vi)
 - (viii) **Total transfer payment to the Other business** (sum of (i) to (vii))
- (c) Expense to entities that are not related parties for
 - (i) Metering services at gas measurement system
 - (ii) Metering services at transmission system receipt points¹⁷
 - (iii) Disconnection/reconnection services
 - (iv) Asset maintenance services
 - (v) Network growth (marketing) expenses
 - (vi) Unaccounted for gas¹⁸
 - (vii) Sum of (i) to (vi)
- (d) Employee salaries, wages and redundancies
- (e) Asset information management system expense
- (f) Depreciation on
 - (i) High pressure system pipelines
 - (ii) Low and medium system pipelines
 - (iii) Mixing, compressor, valve and gate stations
 - (iv) System monitoring equipment
 - (v) Distribution regulator stations¹⁹
 - (vi) Service connection assets
 - (vii) Consumer regulator stations

¹³ Applicable only to transmission businesses.

¹⁴ Applicable only to distribution businesses.

¹⁵ Applicable only to transmission businesses.

¹⁶ Applicable only to transmission businesses.

¹⁷ Applicable only to transmission businesses.

¹⁸ Applicable only to transmission businesses.

¹⁹ Applicable only to distribution businesses.

- (viii) Gas measurement systems (including filters, regulators and over pressure protection) excluding customer meters (corrector, time of use equipment, telemetry equipment and transducers)²⁰
- (ix) Asset information management system assets (eg AM/FM)
- (v) Motor vehicles
- (vi) Machinery equipment
- (vii) Office equipment
- (viii) Buildings
- (ix) Capital works under construction
- (x) Other assets not listed in (i) to (ix)
- (xi) **Total Depreciation of property, plant and equipment** (sum of (i) to (x))
- (g) Loss on sale of property, plant and equipment
- (h) Impairment of property, plant and equipment
- (i) Devaluation of property, plant and equipment in excess of reserve
- (j) Rental expense on operating lease
- (k) Corporate and administration (eg, communications, insurance and security, accounting, treasury, bank fees and expenses, photocopying and subscriptions)
- (l) Land and building expenses
- (m) Motor vehicle expenses
- (n) Office equipment maintenance
- (o) Human resource expenses (eg FBT, ACC, Superannuation, Training, and Recruitment)
- (p) Marketing/advertising
- (q) Costs of offering credit
 - (i) Bad debts written off
 - (ii) Increase in estimated doubtful debts
- (r) Merger and acquisition expenses
- (s) Take-over defence expenses
- (t) Consultancy and legal expenses
- (u) Donations
- (v) Directors' fees
- (w) Auditors' Fees
 - (i) Audit fees paid to principal auditors
 - (ii) Audit fees paid to other auditors
 - (iii) Fees paid for other services provided by principal auditors
- (x) Amortisation of goodwill
- (y) Subvention payments
- (z) Unusual items
- (aa) Other expenses not listed in (a) to (z), and excluding 16, 17 and 18

14. Total operating expenditure (sum of 13(a) to 13(aa))

15. Operating Surplus before interest and tax (12 – 14)

16. Interest on borrowings

17. Financing charges related to finance leases

18. Other interest

²⁰ Applicable only to distribution businesses.

19. Operating surplus before tax (15 – 16 – 17 – 18)

20. Income tax

21. Net surplus (19 – 20)

ANNEX 4: DERIVATION TABLE FOR CALCULATION OF FINANCIAL PERFORMANCE MEASURES

Please see Excel spreadsheet file at
http://www.moc.govt.nz/ers/inf_disc/gasderivation/index.html

ANNEX 5: ASSET MANAGEMENT PLAN INFORMATION DISCLOSURE REQUIREMENTS

Introduction

Line owners must disclose certain AMP information in the manner set out in Regulation [], and listed in paragraph [] of this Handbook.

The AMP information must be disclosed during the 2000-2001 financial year (ie before 31 March 2001), and within 3 months of the beginning of each financial year.

Comments: AMPs are dynamic documents that are normally updated annually. AMPs will support annual performance measure disclosures and performance assessment.

Disclosed AMP information is intended to provide a window into AM practice and performance.

Comments: The requirement to disclose certain AMP information is not intended to necessarily result in disclosure of full AMPs, though these may be disclosed. The AMP disclosure requirements are intended to provide a reader with a clear insight into the AM practices and performance of the asset owner to the extent that the reader can make a reasonable judgement as to whether appropriate AM systems and processes are in place and are reflected in performance.

Furthermore, while the AMP disclosure requirements do not necessarily require disclosure of full AMPs, the disclosed AMPs must be consistent with any other AMP documents that have been prepared.

Disclosed AMP information must include a summary.

Comments: The inclusion of a summary will aid understanding and reliability. Minimum requirements for summaries are provided below.

Disclosed AMP information must consist of a single document.

Comments: Disclosure of AMP information as a single document will prevent disclosure of disjointed, poorly co-ordinated material that is difficult to understand. In some cases this will require companies to amalgamate information from various documents for disclosure purposes, for example, separate network plans.

The disclosed AMP information should:

- permit assessment of the suitability of asset management practice and assets for current and future service;
- specifically support the achievement of disclosed AM and reliability performance targets; and
- provide a sound basis for on-going risk assessment.

Comments: This is the over-riding intention of AMP disclosure. AMPs should be compiled with these primary criteria firmly in mind.

Disclosed AMP information must clearly identify limitations in availability or completeness of

information, and include details of:

- the assumptions made and basis for asset management planning in the absence of such information, including estimation and assessment methodologies used; and
- plans for improvement in information quality.

Comments: The detail and accuracy of information available will vary. Information gaps should be specifically addressed to enhance the transparency of disclosure, place emphasis on identifying deficiencies and promote improvement.

Mandatory Disclosure Requirements

Summary

This section of the AMP information disclosure requirements is to include an overview of the following:

- Background and objectives;
- The date the information was completed and the period to which it relates;
- Asset management systems and information;
- Network and asset description;
- Service level objectives;
- Life-cycle asset management and development plans;
- Risk assessment; and
- Performance and plans for improvement.

Background and objectives

This section of the disclosed AMP information must include the following:

- A description of the interaction between the AMP's planning processes, corporate goals, business planning processes and other plans;
- Planning periods adopted;
- Stakeholder interests (owners, consumers, etc);
- Accountabilities and responsibilities for asset management; and
- Description of asset management plans, systems and processes including asset management information systems/software and information flows.

***Comments:** The outline of the AMP's structure, and its links to and relationships with business, financial, human resource, business continuance, information systems and other plans will reconcile corporate objectives with asset management objectives, put the detailed provisions in context and reveal the overall approach.*

Skills and resources must be available to support the asset management strategy, and the organisation and identification of personnel accountability support this requirement.

The AMP should explain how information systems support asset management processes and what major AMPs the organisation has in place.

Network and Asset description

The network and asset description must include:

- Description of the physical scale of the system;
- Description, quantity and value of assets by major category;
- Statement on age profile and condition of assets in each major category.

***Comments:** What is owned, where it is and what condition it is in.*

Service levels

The disclosed AMP must detail proposed levels of service and actual performance where known, for:

- Consumer oriented reliability, security and availability (including those specified in Schedule 1); and
- Asset management performance (including those specified above); and
- Justification for target levels of service based on consumer, legislative, regulatory, shareholder and other requirements.

***Comments:** The asset management process is based on the identification of the business need for the use of the assets. For the purposes of information disclosure it is appropriate to concentrate on consumer-related performance measures, although the AMP should also state other commonly used efficiency measures for assessing asset management performance.*

Most line businesses have documented service levels, so their inclusion in the disclosed AMP should not be onerous. The service levels will require careful consideration and definition by each pipeline owner.

Lifecycle asset management planning

Disclosed AMPs must describe the planning processes and plans to create, operate, maintain, rehabilitate, replace, and dispose of system assets to provide the agreed levels of service while optimising life-cycle costs, including:

- A description of planning criteria and assumptions;
- Details of design and operating standards and parameters;
- Details of demand forecasts, network configuration analysis, and service quality assessments;
- Policies with respect to non-asset solutions to alter asset utilisation, upgrade of existing assets, acquisition of new assets, adoption of new technology and disposal of existing assets;
- Analysis of the options available and details of the decisions made to satisfy and meet target levels of service; and
- Description and details of maintenance policies and programme of maintenance/inspection activity planned for each asset group, including associated expenditure projections.

Comments: These requirements will probably form the largest part of the AMP. The requirements are intended to be sufficiently non-prescriptive to avoid compliance costs associated with undue adaptation of existing plans.

Adoption of asset management practice that recognises all elements of the asset life-cycle, including design and planning, procurement, operation and maintenance and disposal costs assists in long term efficiency improvement.

Maintenance policies and strategies designed to specifically address the needs of individual asset groups must be disclosed. Disclosure will reveal whether appropriate steps are being taken to ensure that predictive, failure finding or scheduled maintenance tasks have been identified and are being undertaken.

Risk management

Disclosed AMP information must include details of risk policies, assessment and mitigation, including:

- Methods, details and conclusions of risk analysis; and
- Description of emergency response, and contingency plans.

Evaluation of performance

Disclosed AMP information must cover details of performance measurement, evaluation and improvement, including:

- Reviews of progress against asset management plans (both physical and financial);
- Evaluation and comparison of actual performance against targeted performance objectives; and
- Gap analysis and identification of improvement initiatives.