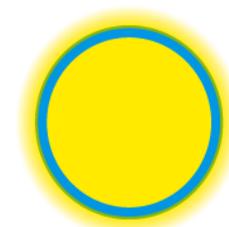


7 July 2014

Brett Woods
Senior Analyst
Regulation Branch
Commerce Commission
PO Box 2351
WELLINGTON 6140



Dear Brett

Re: Proposed amendments to input methodologies for electricity distribution services – June 2014

This is Powerco Limited's submission on the Commerce Commission's 24 June 2014 consultation paper *Proposed amendments to input methodologies for Electricity Distribution Services*. We appreciate the opportunity to comment on this paper.

We note that the amendments proposed primarily affect the structure of the financial model the Commission uses to set starting prices.

The three sets of amendments proposed aim to achieve the following:

- modify the definition of notional deductible interest to reflect a mid-year cash flow timing assumption;
- correct the current double deduction of the term credit spread differential allowance applied when calculating the regulatory tax allowance;
- correct the definition of amortisation of initial differences in asset values to ensure that subsequent changes due to the ageing, sale or acquisition of assets are treated correctly.

We briefly discuss these proposed changes below.

Amendments to the definition of notional deductible interest

Powerco supports the proposed amendments. The changes proposed will correctly recognise that suppliers pay interest during the year and also align the timing assumptions for interest tax deductions with the timing assumptions applied to other cash flows.

Correction of the double deduction of the term credit spread differential

Powerco supports this amendment. The current definition of regulatory profit/ (loss) before tax in clause 4.3.1(4) of the input methodologies results in an incorrect double deduction of the term credit spread differential when calculating the regulatory tax allowance. The proposed amendment will remedy this error.

Correction of the definition of amortisation of initial differences in asset values

Powerco supports these amendments. The substitution of the Part 2 definition of the amortisation of initial differences in assets values will remedy a problem with the treatment of subsequent changes to the initial differences that all non-exempt electricity distribution businesses have encountered.

In summary, Powerco supports the proposed amendments as sensible means by which to remedy several significant problems with the current wording of the Electricity Distribution Services Input Methodologies Determination 2012.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Fletcher', written in a cursive style.

Richard Fletcher
General Manager Regulation and Government Affairs