



03 October 2017

Keston Ruxton
Manager EAD Development
Regulation Branch
Commerce Commission

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Dear Keston,

VALUATION OF RELATED PARTY TRANSACTIONS – CROSS SUBMISSION

Unison wishes to respond to a number of comments in ERANZ' submission.

“Related party transactions in the absence of competitive tender processes”

ERANZ endorses further consideration of MEUG's proposition that where an EDB has not conducted an open competitive tender then there should be full transparency of the transaction values. Unison does not support this approach. For example, Unison purchases its transformers from its related party ETEL, which has a material market share in New Zealand (testament to its competitive product offering). Related party transaction values are readily benchmarked to the prices paid by other EDBs. If Unison were forced to disclose those transaction prices, this would significantly threaten ETEL's competitive position.

“Related party definition is frustrated by poor service definition”

ERANZ has concerns that the service definition for the regulated service is inadequate. Unison disagrees. Only those costs and assets incurred necessary to provide the regulated service are capable of being recognised within the disclosed accounts. Audit scrutiny applies to what costs enter into the disclosed accounts with the cost allocation rules applying to any shared costs or assets.

ERANZ further states that there is lack of clarity about whether the definition in “limb b” applies to particular internal services such as “repairs and maintenance, vegetation management and[/or] minor capex builds performed by a part branch or division of the legal entity.” Unison submits that there is no such ambiguity. The Commission's guidance is that any activity within the legal entity that does not supply the regulated service, but is used to operate the regulated service is a related party transaction. Accordingly, under the Commission's proposals, anything that is not an asset used in supplying the regulated service would be a related party transaction. As stated in Unison's

primary submission, this proposal is unworkable, and not required. Unison's position is that limb "b" of the related party definition is not required, with the cost allocation and cost recognition rules sufficient to address internal activities that may be used to provide regulated and unregulated services.

"Independent assurance report – 65% threshold"

ERANZ is in favour of lowering the threshold for when an independent assurance report is required. As set out in Unison's primary submission we do not support the requirement for an independent report on top of what auditors will require to satisfy themselves of compliance with the general valuation rules. We note and endorse PwC Auditors submissions on their concerns with the proposal.

"Director Certification"

ERANZ sets out its support for removing the ability to use Director certification. Unison disagrees that Director certification is not a suitable option to address circumstances where direct observable benchmarks are not available for particular goods or services and the business must make a judgement based on a variety of information available that a transaction meets the general valuation rule.

"Map of anticipated network expenditure and network constraints"

ERANZ advocates for a wider provision of network maps than just parties with related parties. We agree with ERANZ to the extent that this is an issue that is unrelated to related party transactions, and as such should be addressed as part of a wider review of disclosure requirements.

While we agree that information could be provided in a more user-friendly, accessible format, we are concerned that ERANZ considers simple network maps of expenditures and constraints will be suitable as a basis for offering new services. Networks must meet various technical standards to ensure that consumers achieve a particular level of power quality and reliability, so "dumbing down" information in AMPs will not necessarily be appropriate. Instead those who wish to provide services need to upskill to understand network's technical operating requirements, so they can offer technically appropriate solutions. As we suggest, a more considered review of what information would be useful and required should be undertaken as a separate process.

Closing comment

Thank you for considering this cross-submission. If you have any questions on any aspect of this submission, please feel free to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nathan Strong' with a stylized flourish at the end.

Nathan Strong
GENERAL MANAGER BUSINESS ASSURANCE