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6 September 2018

Submission on proposed amendments to Electricity Distribution Services IMs in related to accelerated depreciation

Dear Dane,

Introduction

1. This letter forms our submission on the Commerce Commission's (Commission's) paper, "Proposed amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation" published on 23 August 2018 (the Consultation Paper), and the associated draft input methodologies (IMs) amendments determination (the Draft Determination).
2. We support the three amendments proposed in the Consultation Paper. However we have identified a small number of issues with the proposed technical drafting, and below we suggest alternative clause amendments in these cases.

Applicable adjustment factor

3. The Consultation Paper proposes amending the formula used to determine the 'average remaining asset life for existing assets' for the purpose of determining depreciation under the DPP. The purpose of the proposed amendment is to ensure that the IMs are consistent with the policy intent for the adjustment to remaining asset lives to occur at the start of a DPP period.
4. The proposed new clause 4.2.2(4) clarifies that there can be a different 'adjustment factor' value in each year, and it attempts to specify the value for years within a DPP period (subclause (a)) and for the year immediately following the base year (subclause (b)). We have identified two issues with the drafting of this clause:
 - a. The proposed subclause (b) implicitly presumes that the base year will be the penultimate year of the previous DPP period. However the Commission has discretion over which disclosure year is used as the base year, and hence such a presumption cannot be made. The proposed drafting is not sufficiently flexible in this regard, and it will not work as intended if the base year is not the penultimate year of the previous DPP period.
 - b. The proposed subclause (a) includes the term "average adjustment factor across all existing assets", whereas the clause 4.2.2(3)(a)(ii) uses the term "adjustment factor". To avoid



confusion, we suggest these terms be made identical, and also that “adjustment factor” be explicitly defined.

5. We suggest the following alternative drafting of the new clause 4.2.2(4):

“(4) For the purpose of subclause (3)(a)(ii), ‘adjustment factor’ means, for-

- (a) a **disclosure year** of a **DPP regulatory period** for which the **Commission** has applied an adjustment factor, the value determined by the **Commission** of not lower than 0.85 nor higher than 1, subject to the conditions in subclause (5) being met; and
- (b) a **disclosure year** after the **base year** and before the start of the **DPP regulatory period, 1.**”

6. We trust this submission provides useful input in considering amendments to the IMs. We would be happy to answer any questions you may have regarding this submission.

Yours sincerely

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

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