

**From:** John Coulter [John.Coulter@Transpower.co.nz]  
**Sent:** Monday, September 20, 2010 3:06 PM  
**To:** Grant Weston  
**Cc:** Richard Fletcher; Alex Sim  
**Subject:** RE: Operating lease assets

Hi Grant

Under existing GAAP there are two types of leased assets.

1. Finance Lease assets where effectively the assets might as well be owned, these are held on the fixed asset register; a typical example might be a laptop that is leased for 3 years (its useful life).
2. Operating Lease assets, this is where the asset is still owned by the leasing company; a typical example being the rent of a building, these assets are not held on our fixed asset register for financial accounting purposes.

Under the EV process both as included in the RAB. The rationale for this is that ownership of the underlying assets is separate from the service rec'd. This avoids the situation where Transpower was incentivised to purchase a building rather than lease a building.

The existing accounting standards governing leases are;

NZ IAS 17 (which you indicated). But there is also NZ SIC 15 and 27 which provide some further guidance.

There is a new exposure draft on leasing ED / 2010/ 9 (which is being consulted on now): Most of the CA firms have some analysis on it. The new exposure draft is heading in the direction of not distinguishing between finance and operating leases which is currently something of a bright line test. The ED indicates that we will move closer to the EV treatment.

Essentially the adjustment we do for operating leases (no adjustment is needed for finance leases) is that we work out what the future opex is on these leases and then we NPV this back.

So we have a lease of a building that runs for 5 years, we NPV the 5 years of payments to work out an NPV asset amount, we then calculate depreciation on this NPV (with a life of 5 years) and also get a WACC return (since is in the RAB). We exclude from opex the lease payments.

Hope this makes sense

Regards

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-----Original Message-----

**From:** Grant Weston [mailto:Grant.Weston@comcom.govt.nz]  
**Sent:** Friday, 17 September 2010 19:43  
**To:** John Coulter  
**Cc:** Richard Fletcher; Alex Sim  
**Subject:** RE: Operating lease assets

Thanks John. Monday is OK.

Regards

Grant

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From: John Coulter [John.Coulter@Transpower.co.nz]  
Sent: Friday, September 17, 2010 5:14 PM  
To: Grant Weston  
Cc: Richard Fletcher; Alex Sim  
Subject: RE: Operating lease assets

Hi Grant

I will respond by Monday, hope that is ok.

Regards

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From: Grant Weston [mailto:Grant.Weston@comcom.govt.nz]  
Sent: Friday, 17 September 2010 09:59  
To: John Coulter  
Cc: Richard Fletcher; Alex Sim  
Subject: Operating lease assets

Hi John

I am reviewing the Transpower submission on the treatment of operating lease assets and am considering the point about the inclusion in the 1 July 2011 RAB and the point about inclusion of any future assets under the Capex rules going forward. I would like to confirm the current treatment so I can check consistency with other IM decisions made by the Commission.

Can you let me know whether:

- \* the applicable assets are capitalised for financial reporting purposes (versus regulatory purposes) and the accounting standard that applies (NZ IAS 17?);
- \* the assets are recorded in the fixed asset records as capitalised assets for RAB purposes and are depreciated accordingly;
- \* the asset value at which the asset is capitalised is the net present value of the asset at the time of commitment to the lease (as per the settlement agreement), or is the full "cost" of the asset (in which case I would have thought that the revenue cost of capital component and depreciation would need to be factored down for regulated revenue purposes to approximate the NPV effect); any further information that would help our understanding.

Thanks

Grant

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