

COMMERCE COMMISSION

Please refer to:

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Nathan Strong
General Manager Regulation and Pricing
Unison Networks Limited
1101 Omahu Road, Box 555
HASTINGS

25 February 2011

Dear Nathan,

Re: Treatment of transactions between related parties

Thank you for your letter of 25 January 2011, in which Unison requests an amendment to clauses 2.2.11(1)(g) and 5.3.11(1)(g) of the input methodologies determination for electricity distribution services (Decision 710).

Currently, these clauses require an asset purchased from a related party to be given a regulatory value equal to the depreciated historic cost to that related party. If sufficient information is not available to establish this cost, the regulatory value of the asset is set at its market value as at its commissioning date as determined by a valuer.

Unison proposes that clauses 2.2.11(1)(g) and 5.3.11(1)(g) of Decision 710 are amended to permit market valuations irrespective of whether historic cost information exists. This is because Unison maintains that it acquires transformers from a wholly-owned manufacturing business, ETEL, on market terms, and should therefore not be required to record regulatory asset values lower than Unison's purchase price.

Unison submits that the amendment should be made because:

- this change would be in the long-term interest of consumers, as it would allow Unison to continue to purchase ETEL transformers and avoid write-downs of previously installed ETEL transformers, purchased at market rates;
- the specification in the Determination creates an unintended consequence that Unison could not viably purchase from its related party; and
- its request is consistent with the Commission's intentions as explained in the Commission's reasoning.

Having considered the scenario outlined in your letter, the Commission agrees that an amendment to Decision 710 may be warranted. One possibility to address the first two bullet points above is that, for assets sold to Unison by a related party on arm's length terms in the ordinary course of business, the cost of the asset to Unison (i.e. Unison's purchase price)

could be adopted as the regulatory value. This would align with the general requirements for assets acquired from non-related parties.

However, in respect of the third bullet point, the Commission is satisfied that the drafting of clauses 2.2.11(1)(g) and 5.3.11(1)(g) as set out in the Revised Draft Determination and in Decision 710 achieves the effect intended by the Commission, i.e. that it should not be at the discretion of the regulated supplier to choose between alternative valuation methods when acquiring assets from related parties.

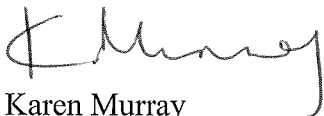
The Commission would like to give further consideration to how any changes would be given effect in the input methodologies determination, and consult on its preferred option and proposed wording for any amendment with Unison and other interested parties. Such an amendment may also affect other input methodologies determinations.

The Commission will shortly release a brief memorandum on the process it expects to follow on potential amendments. At this stage I expect that an amendment to address your request would be made as part of the first amendment, which is currently scheduled for 1 July 2011. Please feel free to contact me if you have any concerns with this timing. It is envisaged that a short consultation paper would be released in May 2011 and I anticipate that a 2 week period would be sufficient for parties to comment.

As outlined in the memorandum on process, all interested parties will be made aware of requests for amendments or clarifications to the input methodologies determinations by the Commission publishing the request and its status on the Commission's website. I will publish your letter along with my response for this purpose.

If you would like to discuss any of the above please feel free to call me on (04) 924 3823.

Yours sincerely,



Karen Murray
Manager (Acting), Regulation Branch