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Dear Matthew

Operating leases - Draft decision - cross submission and technical submission to the determination

1. This is Vector's cross-submission to the Commerce Commission's (Commission) draft decision on the treatment of operating leases and technical submission on the draft input methodologies (IM) amendments determination.
2. As raised in our submission on the operating leases draft decision, we request the Commission -
 - Publish worked examples of how its draft decision relating to the IRIS model applies for the operating expenditure (opex) and capital expenditure (capex) IRIS calculations, including a model/scenario for Electricity Distribution Businesses (EDB) who adopted IFRS 16 in Regulatory Year (RY) 2019; and
 - Introduce an EDB specific right of use (ROU) asset categories in its financial models for the default price-quality path beginning 1 April 2020 (DPP3) to correct the under-recovery of depreciation in DPP3 that would otherwise occur under the draft decision.

Impact of decision on DPP3

3. Powerco's submission noted the draft decision is complex and that while Powerco "remain confident in [its] understanding of the intent of the draft decision, the translation of these principles to implementation remains ambiguous in places." Similarly, the Electricity Networks Association's (ENA) submission highlighted that more explicit illustration of the impact of the decision on EDB revenue paths is needed.
4. The ENA noted, "This is a particular issue in the short term because it is not entirely clear what information, in respect of operating leases, the Commission plans to use when setting the DPP3 revenue allowances. The complexity arises because different EDBs have adopted the lease standard at different times, and because the DPP3 revenue path relies on historical (including RAB) and forecast information which is derived from the transitional period."
5. We appreciate the Commission's companion paper to the updated models for DPP3 has provided further instruction that "businesses wishing to assess expected impact of the change in treatment of operating leases on their DPP3 opex and capex forecasts as used

in the financial and IRIS models should insert the s 53ZD data they have provided to the Commission into the input sheet of the operating lease model.”

6. However, we still support our suggestion for the Commission to publish worked examples that demonstrate the DPP3 impact for EDBs who adopted in RY19 and those who adopted in RY20. Otherwise there is a risk EDBs may inadvertently take a different approach than the Commission when they input their s53ZD data into the operating lease model.

Draft determination

7. We agree with Transpower’s drafting suggestions for the Transpower IM that -
 - The formula in the definition of “lease expenses” should be deleted and replaced with reference to the GAAP definition; and
 - The current drafting to exclude pass-through and recoverable costs from capitalisation excludes an entire right of use asset even where only a small component was funded through a pass-through / recoverable cost. The drafting should be amended to exclude only the component funded through the pass-through / recoverable cost.
8. These suggestions should also be applied to the EDB IM.
9. These drafting changes will best give effect to the Commission’s draft decision, the IM purpose in s52R of the *Commerce Act 1986* (the Act) and Part 4 of the Act by promoting alignment with GAAP to minimise regulatory complexity and cost; and for bullet point two, by ensuring stakeholders are not disincentivised from seeking the most efficient funding arrangements.

Yours sincerely
For and on behalf of Vector Limited



Richard Sharp
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