



TRANSPOWER

Keeping the energy flowing

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18 September 2019

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Commerce Commission

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Operating leases draft decision and IMs determinations

Transpower appreciates the opportunity to respond to the draft decision and determination for the treatment of Operating Leases under changes to accounting standard NZ IRFS16. This submission responds to the draft decision (submission due 18 September), and is an early response to the draft determination (submission due 2 October.)

Draft decision submission

Consistent with our July [submission](#) to the earlier [issues paper](#), we agree with the draft decision to:

- Align with NZ IFRS 16 for Price-Quality and Information Disclosure regulation purposes to calculate allowable revenue and returns on investment using capitalised 'right-of-use' asset values (excluding charges specified as pass-through or recoverable costs); and
- Continue to treat operating leases as operating expenditure for IRIS purposes.¹

Transpower draft Input methodologies submission

We agree with the draft amendments to the Capex IM.

For the Transpower IM, our feedback is via explanatory comment boxes in the draft amendment determination which is attached.

Please contact Micky Cave (micky.cave@transpower.co.nz) if you have any questions about these submissions.

Yours sincerely

Gordon Davidson
Chief Financial Officer

¹ refer section 4.4.1 and 4.4.2 draft [decision paper](#)



ISBN 978-1-869457-60-0
Decision Series
Project no. 14.09/16543

Public version

[DRAFT] Transpower Input Methodologies Amendments Determination (No. 2) 2019

[2019] NZCC xx

The Commission: Sue Begg
Dr Stephen Gale
Elisabeth Welson
John Crawford

Date of decision: XXXX 2019

[Drafting notes:

- This amendments determination amends the *Commerce Act (Transpower Input Methodologies) Determination 2010* [2012] NZCC 17 ('principal determination').
- The included amendments are made under s 52X of the Commerce Act 1986.]

Commerce Commission

Wellington, New Zealand

Pursuant to Part 4 of the Commerce Act 1986 (the **Act**) the Commerce Commission makes the following determination:

1. DETERMINATION AMENDED

This determination amends the *Commerce Act (Transpower Input Methodologies) Determination 2010* [2012] NZCC 17, as previously amended (the **principal determination**).

2. COMMENCEMENT

- 2.1 Subject to clause 2.2 of this determination, this determination comes into force on the date on which notice of the determination is given in the New Zealand Gazette in accordance with section 52W of the **Act**.
- 2.2 Amendments in this determination affecting Part 3 of the **principal determination**, including any amended definitions in clause 4.1-4.32 of this determination affecting Part 3 of the **principal determination**, apply for any **IPP determination** in force from 1 April 2020 onwards.
- 2.3 For the avoidance of doubt, if the **Commission** determines that any forecast values are required to be calculated consistent with Part 3 of the **principal determination** for the determination of an **IPP** that is to come into force from 1 April 2020, Part 3 of the **principal determination** and any applicable definitions in clause 1.1.4(2) of the **principal determination** will apply as amended by this determination to the setting of those forecast values.

3. INTERPRETATION

- 3.1 Terms in bold type have the meaning given to those terms in the **principal determination**. Terms in bold type used in this determination that are defined in the **Act**, but not this determination, have the same meaning as in the **Act**.

4. TRANSPOWER INPUT METHODOLOGIES DETERMINATION AMENDMENTS

- 4.1 In the **principal determination** insert the following definitions to clause 1.1.4(2):

4.1.1 "~~lease expense~~ means, in relation to a ~~disclosure year~~, the allowance for that ~~disclosure year~~ to account for the allocation of a ~~right-of-use asset cost~~ over the ~~remaining asset life~~ of that ~~right-of-use asset~~, and is determined in accordance with the following formula:

$$[1 + \text{remaining asset life}]$$

x

Commented [A1]: The formula in this definition has problems:

- As the remaining life of the asset gets shorter, the annual lease expense will increase, which does not appear to be the intent.
- It is unclear what "additional" lease payments are or why they should be added to the capitalised cost of the asset. The lease payments (additional or otherwise) will determine the capitalised cost under GAAP.
- The definition captures finance leases as well as operating leases.

In our view this definition should be deleted and the determination should just rely on the GAAP definition of "lease payment" (applying to operating leases only).

~~[cost of the right-of-use asset + any additional lease payment];~~”;

4.1.1~~2~~ “lease payment means a lease payment under an **operating lease**, as ‘lease payment’ is defined ~~has the same meaning as under GAAP, excluding any lease payment that is a pass-through cost or recoverable cost;~~”;

Commented [A2]: Only lease payments in respect of operating leases should be factored into IRIS. The IM determination does not currently contain a definition of “operating lease” so one will need to be added.

Commented [A3]: It is better to deal with this here than in the definition of “right-of-use asset”. The treatment in the current definition of right-of-use asset has the effect of completely excluding the asset even if only part a small part of it is funded by way of pass-through cost or recoverable cost.

4.1.2 “**operating lease** has the same meaning as under **GAAP**.”;

4.1.3 “**right-of-use asset** has the same meaning as under **GAAP**, ~~but excludes an asset whose cost (wholly or partly) includes pass-through costs or recoverable costs;~~”.

4.2 In the **principal determination** amend the definition of ‘**identifiable non-monetary asset**’ in clause 1.1.4(2) to now read:

“has the same meaning as under **GAAP** save that goodwill is excluded, ~~and includes a right-of-use asset;~~”.

Commented [A4]: We think this should be stated explicitly to avoid any doubt.

4.24.3 In the **principal determination** amend the definition of ‘**operating expenditure**’ in clause 1.1.4(2) to now read:

- “(a) except for the purpose of Subpart 6 of Part 3, means **operating costs** after applying clause 3.2.1(1); and
- (b) for the purpose of Subpart 6 of Part 3, means **operating costs** after applying clause 3.2.1(1) plus any ~~lease payment expense;~~”.

4.34.4 In the **principal determination** amend clause 2.2.6(1)(h) to now read:

“(h) a non-network asset or ~~network~~ **right-of-use asset**, its asset life determined under **GAAP**.”;

Commented [A5]: This word should be deleted to avoid any implication that the underlying asset must be part of a network.

4.4 ~~In the principal determination amend clause 2.2.7(1)(a) to now read:~~

- ~~“(a) an intangible asset is nil, unless it is-~~
- ~~(i) a finance lease; or~~
- ~~(ii) an identifiable non-monetary asset whose costs do not include (wholly or partly) pass-through costs or recoverable costs;”.~~

Commented [A6]: This clause can be deleted if the pass-through cost/recoverable cost issue is dealt with as proposed above.

4.5 In the **principal determination** amend clause 3.6.3(8) to now read:

“(8) ‘Actual opex’ is the amount of ~~operating expenditure costs allocated to electricity transmission services~~ for the relevant **disclosure year** ~~calculated in accordance with Part 2, plus any lease expense~~”.

4.6 In the **principal determination** amend clause 3.6.5(2) to now read:

“(2) **Where an alteration to Part 2 or an ID determination requirement affecting the quantification of operating expenditure occurs in a disclosure year and- ...**”

[Signature]

Commissioner

Dated at Wellington this xx day of xx 2019.

COMMERCE COMMISSION

Commented [A7]: This clause (which is in Subpart 6 or Part 3) can be simplified by using the amended definition of “operating expenditure”.

We note that this clause is drafted incorrectly at the moment because “electricity transmission services” includes system operator services, the costs allocated to which should be ignored. This is also the reason for the proposed change to clause 3.6.5(2) below.