

Part 4 Determinations: Request for Clarification and/or Amendment

Please complete the table below and email to:

regulation.branch@comcom.govt.nz – Attn: Dane Gunnell

Transpower issue reference	IM_02 – (Treatment of fully depreciated assets within a regulatory period updated)
Date of request	First submitted 29 March 2011 by letter. Update submitted 14 June 2013
Party requesting clarification or amendment	Transpower New Zealand Limited
Relevant determination (Decision number)	IM – NZCC 17
Clause reference	IM 2.2.6 (2)
Description of clarification or amendment sought. If an amendment is proposed, provide the suggested wording of the determination.	<p>Clause 2.2.6(2) of the IM requires that when an asset becomes fully depreciated during a regulatory period, the physical life of that asset must be set to equal the duration of the regulatory period, which means that depreciation of the asset is spread evenly over the regulatory period. This provision is inconsistent with GAAP (under GAAP the asset would be depreciated for its remaining life).</p> <p>We recommend deletion of clause 2.2.6(2) from the Transpower IM.</p>
Reason why clarification or amendment is required	<p>The IM currently requires depreciation to be spread evenly over each year of the control period in which the asset is fully depreciated. Unlike first year depreciation spreading, this is an explicit and clearly intentional feature of the Transpower IMs. There is limited discussion of the rationale for spreading in the reasons paper, however the basis appears to be to prevent Transpower having an incentive to bring asset retirement forward into the early years of a control period. At the time the IMs were in development, Transpower supported this approach.</p> <p>On further reflection, we believe there is no such incentive and, accordingly, no reason for the spreading rule. This is because, unlike in Australia, we have an annual wash-up for capital, depreciation and tax building blocks. As such, there is no depreciation-linked incentive to bring forward or defer retirement of an asset.</p> <p>Depreciation spreading has similar resource demands and other practical challenges to non-GAAP treatment of first year depreciation (refer to IM_01) . As with IM_01 we can see no benefit to the current drafting but obvious disbenefit in terms of complexity, transparency and additional cost.</p> <p>The proposed amendment, which is NPV neutral, is consistent with provisions elsewhere in the IM that refer to GAAP, such as the “value of commissioned assets”.</p>

Reasons Paper reference (if applicable)	Paragraph 4.4.140 to 4.5.1
Date amendment is required to be made by and why (if applicable)	The amendment should be made to apply from the beginning of RCP2.