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_01** – (No Depreciation allowance in the year the asset is commissioned)
Date of request	First submitted 29 March 2011 by letter. Resubmitted 14 June 2013
Party requesting clarification or amendment	Transpower New Zealand Limited
Relevant determination (Decision number)	IM – NZCC 17
Clause reference	IM 2.2.4 (1) & (2)
Description of clarification or amendment sought. If an amendment is proposed, provide the suggested wording of the determination.	The depreciation formulae in IM paragraphs 2.2.4 (1) and (2) require assets to have an opening balance in order for a depreciation amount to be applied in the year ahead. That means assets capitalised during any particular year will have a zero opening balance and no depreciation will be calculated. Under GAAP, as applied during the settlement period and consistent with Transpower's current accounting policies, depreciation is applied in the year in which an asset is commissioned. For example, if an asset were commissioned half way through the year it would receive six months' worth of depreciation. We recommend amendment of clauses 2.2.4 (1) and (2) to allow depreciation to commence from the date of asset commissioning and be calculated in accordance with GAAP. Proposed drafting: (1) Unallocated depreciation, in the case of an asset with an **unallocated opening RAB value**, is determined, subject to subclause (3) and clause 2.2.5, in accordance with ~~the formula~~ GAAP ~~[1 ÷ **remaining asset life**] × **unallocated opening RAB value**.~~ (2) Depreciation, in the case of an asset with an **opening RAB value**, is determined, subject to subclause (3)(a), in accordance with ~~the formula~~ GAAP ~~[1 ÷ **remaining asset life**] × **opening RAB value**.~~ In addition, there may be some consequential drafting changes that we have not identified at this point.
Reason why clarification or amendment is required	The depreciation calculations as set out in the IM result in accounting treatments that diverge from GAAP. This requires Transpower to assess forecast and actual depreciation for revenue setting purposes using a separate process from our

	general GAAP-based coprporate accounting. For our 2010/11 MAR wash-up, we adopted a manual spreadsheet-based, project-level approach to assess the depreciation wash-up. A similarly manual approach was required for the initial RCP1 MAR forecasting exercise. Together, these exercises required more than 10 FTE days of internal resource, plus a commensurate amount of external auditing resource. Each year, the manual wash-up process will be repeated and each control period the manual forecasting process will be repeated. In addition to these resourcing concerns, a manual process is inherently more error-prone, less robust and less flexible than the systems approach we could use if depreciation rules aligned with GAAP. Overall we can see no benefit to the current drafting but considerable disbenefit in terms of complexity, transparency and additional cost. 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”. Adherence to GAAP would help maintain consistency (and transparency for stakeholders) as well as minimise compliance costs. It would also be consistent with the precedent set by the Commerce Act (Transpower Thresholds) Notice 2008 and other regulatory provisions, including the transmission pricing methodology in Schedule 12.4 of Part 12 of the Electricity Industry Participation Code, which uses GAAP to determine charges for connection assets.
Reasons Paper reference (if applicable)	The policy shift away from GAAP in this area was not signalled during the consultation process and we can find no reference to it in the Reasons Paper
Date amendment is required to be made by and why (if applicable)	The amendment should be made to apply from the beginning of RCP2, with provision to align depreciation of assets commissioned during RCP1.