



TRANSPOWER

Keeping the energy flowing

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Brett Woods
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Regulation Branch
Commerce Commission
WELLINGTON

By email: regulation.branch@comcom.govt.nz

Dear Brett

Proposed amendments to input methodologies for Transpower cross submission

This is our cross submission to the submissions made in response to the Commission's consultation paper "*Proposed amendments to input methodologies for Transpower*", published 11 March 2014 (the consultation paper).

The Powerco and Vector submissions support the Commission's proposals relating to the spreading of depreciation for end of life assets across the terminating control period and to clarify that "commissioned", with regard to land and easements, means acquired by Transpower.

Although the submissions did not raise any issues with the depreciation in year of commissioning (DIYOC) proposal there was some discussion about flow through to other sectors. We comment briefly on the Vector and Powerco submissions on this point below.

Depreciation in the year of Commissioning – flow through to other sectors

Vector supports the (Transpower) proposal to allow depreciation on assets in their year of commissioning and Powerco is open to the proposal. We note and welcome Vector's and Powerco's support for the DIYOC proposal. Vector identifies the issue of diverging accounting treatments as an issue for other regulated suppliers as well as Transpower and identifies electricity and gas distribution and gas transmission. Vector goes on to state, at paragraph 5:

"Therefore, Vector recommends that if the Commission goes forward with its proposal to amend clauses 2.2.4(1) and (2) of Transpower's IMs, it should also amend the equivalent provisions in the electricity distribution and gas pipeline IMs. There is no reason to apply a different approach to this issue for Transpower compared to electricity distribution and gas pipeline businesses."

While we see no obvious reason not to flow through a change from the Transpower IM to electricity and gas distribution or gas transmission we have not considered the issue in context of those sectors so are unable express a view at this point.

Powerco also comment on this issue including observing, as a general comment, that they have developed a "regulatory ledger" that implements the IMs as currently drafted. It is perhaps unsurprising therefore that, while open to the DIYOC proposal, it states:

"It is important that the Commission consult again if considering making any changes to the IMs applying to electricity and gas distribution businesses, so we can assess whether or not the benefit outweighs the cost of change.

While the change to the Transpower IM affects only Transpower, a decision to flow such a change through to the other IMs will affect a number of firms – potentially in different ways. It would be necessary, as it has done in this case, for the Commission to consult on those

changes specifically. One option would be to consider flow through of any change to the Transpower IMs could be done as part of the upcoming section 52Y review of the IMs. In any event, consideration of whether to flow through to other sectors has no bearing on whether to proceed with the change to the Transpower IM.

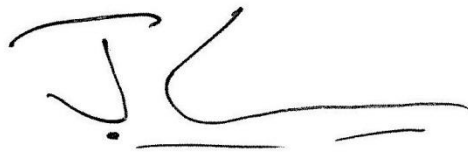
Powerco also makes reference to the draft IM change included in the consultation paper noting that:

“Some of the wording in the proposed IM is a little confusing, but we understand that Transpower and the Commission have identified this and will improve it.”

In our submission in response to the Commission’s recent consultation we stated our principal concern is that the substantive issue is addressed - not necessarily that the specific drafting we proposed is adopted. We agreed the draft wording is too blunt as it may preclude non-GAAP treatment, which is not our intention.

Please let me know if you would like clarify or discuss any of the points made in this submission. We are also available to assist Commission staff with drafting that addresses the substantive issue without unintended consequences. You can contact me on 04 590 7544 or jeremy.cain@transpower.co.nz.

Yours sincerely

A handwritten signature in black ink, appearing to be 'JC' followed by a long horizontal stroke.

Jeremy Cain
Chief Regulatory Advisor