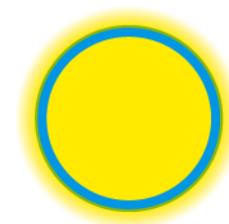


31 March 2014

Brett Woods
Senior Analyst
Regulation Branch
Commerce Commission

[Sent by email to: regulation.branch@comcom.govt.nz]



Dear Brett

RE: POWERCO SUBMISSION ON “PROPOSED AMENDMENTS TO INPUT METHODOLOGIES FOR TRANSPOWER”

Powerco welcomes the opportunity to comment on the consultation paper, “Proposed amendments to input methodologies (IMs) for Transpower”, published by the Commerce Commission on 11 March 2014. The Commission is seeking feedback on three changes. Powerco’s response to each of Transpower’s proposed changes is below.

As a general comment, Powerco has developed a regulatory ledger that implements the input methodologies as currently written. This had to tackle a number of challenges, as the IMs have several very specific requirements. Changes, such as to depreciation, require modifications to our ledger software which incur cost. 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.

Removing the requirement to spread depreciation for “end-of-life” assets

The proposed amendment is to delete clause 2.2.6(2) of the Transpower input methodologies, which requires the spreading of depreciation for “end-of-life” assets. Powerco supports this change, as spreading the depreciation adds to compliance costs for no apparent benefit. We also recommend the same clause be deleted from the CPP IMs (clause 2.2.8(4)), following appropriate consultation with the EDB and GPB sectors as mentioned above.

Strategic land purchases as base capex – “commissioned” when acquired

The Commission is seeking feedback on whether the existing Transpower IM definition of “commissioned” is sufficient to allow strategic land with a cost below \$20m to be eligible to enter the regulatory asset base in the year in which it is acquired, if a base capex allowance for Transpower is determined by the Commission for that year.

Powerco agrees with the Commission that land acquired for strategic purposes should be commissioned in the year of acquisition. However, we do not believe that the current definition of “commissioned” in the Transpower IMs is sufficiently clear that, by approving a base capex allowance which is then used, in part, to purchase strategic land, the Commission has, by implication, approved the acquisition of land that is not easement

land or an easement. Consequently, we believe that the definition of “commissioned” should be amended to clarify that, with respect to land and easements that are base capex, “commissioned” means acquired by Transpower.

Allowing for part-year depreciation for assets in the year of commissioning

Transpower has requested that the IMs be amended so that newly-commissioned assets receive a part-year depreciation allowance for regulatory purposes in their year of commissioning, and it has suggested a methodology to use. The Commission has asked for views from other sectors on whether a similar approach should be applied to their sectors.

Powerco is open to a part-year depreciation approach. 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. We also note that EDBs may have different accounting approaches to Transpower (eg with how well RAB and historic cost align). Consultation with EDBs and GPBs would identify if wording needed to be changed.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richard Fletcher', written in a cursive style.

Richard Fletcher
General Manager, Regulation and Government Relations