



26th September 2017

Keston Ruxton
Manager, EAD Regulation Development
Regulation Branch

Regulation.branch@comcom.govt.nz

Dear Keston,

**Submission to the Input Methodologies Review draft decision
on Related Party Transactions**

Westpower is party to and supports the PWC submission made in respect of this consultation on behalf of 17 Electricity Distribution Businesses.

This supporting submission provides additional justification for the positions taken in the PWC submission, with specific reference to Westpower's related party arrangements.

High Level of Related Party Transactions

In recent years Westpower's spend has moved from weighted towards capital investment and is now significantly based on a maintenance and monitoring spend with a renewal spend appropriate for the age and condition of the network.

As a regional EDB operating in a remote area there is little opportunity for Westpower to contract out a significant proportion of its opex or capex spend across the range of work undertaken to an adequately sized and skilled locally based contractor. In addition to this, and due largely to the remote areas serviced by Westpower, it is important that a critical mass of adequately trained and experienced staff are available within the region to ensure that fault response and day to day maintenance operations are able to be carried out efficiently and effectively.

West Coast's Locally Owned Electricity Distributor

Westpower Limited
146 Tainui Street
PO Box 375, Greymouth
Telephone 03 768 9300
Facsimile 03 768 2766

The training and competency issues, particularly as they relate to ensuring the safety of workers and the public, are a significant consideration when determining service procurement.

On this basis Westpower will for the foreseeable future have the vast majority of its operation undertaken by its related party and will consistently be above the 65% threshold proposed in the draft decision. Westpower's related party provides extensive services to other businesses across various disciplines and for this reason it is treated as a related party and not an internal division of the company.

Westpower's related party transactions are currently priced to ensure that the 17.2% allowable margin, which is recognised as being below arm's length, is not exceeded. This is currently verified through the annual information disclosure audit, an approach which can continue and which can be supplemented with other assurance for the auditor without the need for independent certification.

Given our current related party pricing practices, which are designed with the best interests of our consumers in mind, we strongly believe that any requirement for assurance beyond the annual audit process is disproportionate to whatever perceived problem is intended to be addressed by the review.

The suggested independent review for transactions above 65% would only add cost and deliver assurance that can already be provided through the current audit process.

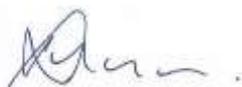
We strongly suggest that the Commission consider the practicalities that have to be taken into account in remote regions with imperfect markets, and the costs of alternative approaches when measured against the volume and quantum of the transactions undertaken by smaller EDB's.

EDB's Internal Divisions

We note in the worked examples in Attachment A it is suggested that internal divisions, for example the asset management division within the EDB, are considered to fall into the related party treatment.

We expect that this was not the intended outcome from the review and is an oversight, however if that is not the case, the Commission should reconsider if it is actually appropriate for these divisions to be treated in the same way. We would consider that it is not.

Yours faithfully,



Rob Caldwell
Chief Executive