



COMMERCE COMMISSION

Please refer to:

12165
1239432_1

15 August 2011

Mr Paul Goodeve
Regulatory & Business Manager
Powerco Limited
Private Bag 2061
New Plymouth

Dear Paul

Change to discounting approach in the starting price adjustment draft decisions

Thank you for your letter of 8 August 2011 in which you raise a concern about a specific refinement within the Commission's proposed modelling approach for the present value calculation as described in our *2010-15 Default Price-Quality Path for Electricity Distribution, Draft Decisions Paper* (19 July 2011) (the Paper), and particularly the reasoning supplied for that change.

You have suggested that PowerCo is unable to effectively respond to the Paper because clear, detailed reasoning has not been given for this refinement. We consider the draft decisions consultation package provides enough information for all interested parties to effectively participate in the consultation process. However, to assist PowerCo we have set out further explanation below.

The Paper and accompanying documents published on our website on 19 July set out our proposed approach to modelling revenues as being received in the middle of the year as a proxy for receipt through the year. The Paper sets out our reasons for this proposal. The derivation of the formula for the present value of allowed revenues is provided in a standalone document, with the approach implemented in the model being consistent with our draft decisions.

Our reason for proposing this refinement to the model was relatively straightforward. As set out in the Paper, the change simply reflects the reality that revenues are received by non-exempt electricity distribution businesses (EDBs) throughout the year and not simply at year-end (as previously modelled). We therefore made the change to improve the accuracy with which we model the present value of the revenue stream that EDBs will earn as a result of the prices that we propose to set in 2012/13. The same approach applied to operating expenditure.

The summary in your letter of the explanation provided by Commission staff as to the basis for the proposed modelling approach for the present value calculation appears to reflect a misunderstanding. At the workshop on 2 August 2011 held for industry representatives, our staff reiterated the reasons set out above for the proposed modelling approach for the present value calculation. The reasons contained in paragraph 3 of your letter appear to be similar to some answers our staff gave to explain why the intra-year timing of depreciation has been retained.

Please note that we published today an Issues Register with queries that we have received for clarification on technical matters including those raised in the 2 August workshop, and our responses. Should you have any further questions please feel free to send them through to Anthony Merritt and they will be addressed as part of the Issues Register. We do not, however, think it is necessary to publish any further more formal documents as suggested in your letter.

In the meantime, should you not believe that we have addressed your specific concern, could you please write back to me specifying exactly what further information PowerCo believes that it needs to receive.

Finally, I assure you that we retain an open mind at all stages of the consultation process and encourage comprehensive submissions on all issues. As always, written submissions remain the principal avenue by which we seek and receive the views of interested parties, and should be supported by evidence where appropriate. We look forward to receiving PowerCo's response.

Please note that we have published a copy your letter and this response on our website.

Yours sincerely

A handwritten signature in black ink, appearing to read "Mark Berry". The signature is written in a cursive style with a horizontal line under the name.

Dr Mark Berry
Chair