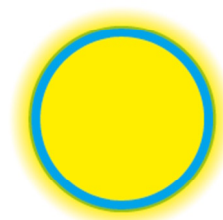


8 August 2011

Dr Mark Berry  
Chair  
Commerce Commission  
44 The Terrace  
PO Box 2351  
Wellington 6140

**POWERCO**



Dear Mark

## **CHANGE TO DISCOUNTING APPROACH IN DRAFT STARTING PRICE ADJUSTMENT METHODOLOGY**

- 1 The Commerce Commission's (*Commission*) Draft Decisions Paper for the 2010-15 Default Price-Quality Path for Electricity Distribution (July 2011) briefly outlines a change to the discounting approach for the purpose of the present value calculation: paragraph 2.29.
- 2 This is a substantial change to the starting price adjustment methodology, yet the reasons given for the change are minimal and unclear. The Draft Decisions Paper mentions that the change in approach "should reduce much of the modelling bias towards EDBs". However, if that modelling bias does exist, it has not been clearly quantified and the effects of the changes assessed against this.
- 3 The change in discounting approach has had a significant negative impact on the indicative adjustment to Powerco's maximum allowable net revenue. On that basis, we sought to gain a greater understanding of the reasons for the change in our meeting with Commission staff on 2 August 2011 and in earlier telephone conversations. Commission staff gave the following reasons for the change:
  - It is necessary to preserve Financial Capital Maintenance;
  - It is necessary to ensure consistency with the input methodologies;
  - The new approach is consistent with international approaches; and
  - The new approach is consistent with the historic practices of the Commission.
- 4 Powerco is unable to effectively respond to the Commission's proposals when the reasons given by the Commission are unclear, lacking in detail, and variable. We expect that other interested stakeholders are similarly effected. We need something more concrete and precise before we can meaningfully participate in the Commission's consultation. It is also difficult attempting to explain to our investors why Powerco's indicative maximum allowable revenue has substantially decreased when we are unsure of the precise reasons ourselves.

- 5 Given the significance of the change and the impact on Powerco's indicative revenues, we ask that the Commission publish an addendum to the Draft Decisions Paper which properly explains the reasons for the change in discounting approach. In Powerco's view, this is necessary for us to assess validity of the change and to respond in a meaningful way.
- 6 I look forward to hearing of your proposed action to correct this deficiency in the consultation process, and also ask that if you would like to discuss this with me, please do give me a call.

Kind regards

A handwritten signature in blue ink that reads "Goodeve". The signature is written in a cursive style with a large initial 'G'.

**Paul Goodeve**  
Regulatory & Business Manager