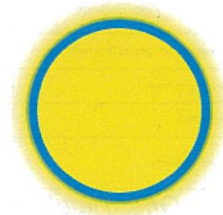


28 February 2011

Matthew Lewer
Regulation Branch
Commerce Commission
PO Box 2351
Wellington

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

POWERCO



Dear Matthew

Powerco Submission on Draft Electricity DPP Starting Price Adjustment Information Request

Introduction

1. Thank you for the opportunity to submit on the "Notice to supply information to the Commerce Commission, Section 532D of the Commerce Act 1986" (Draft Information Request) and "Consultation Paper on Draft Information Request and Process Update" (Consultation Paper). The Commission states its consultation aim is to help facilitate electricity distribution businesses (EDBs) in complying with the Starting Price Adjustment (Po) Information Request.
2. Powerco has focused this submission on major issues and potential solutions. In the short timeframe, Powerco's Finance Team, asset engineers, auditor and independent engineer have not had time to fully consider and assess the proposals. We are sure many more issues and questions will emerge as a large number of people attempt to interpret the input methodologies for the first time.

Deadline of 27 May 2011

3. In our submission on 28 January we raised concerns over the 27 May deadline. These concerns are still very real, although we recognise the deadline is driven by the Commission's challenge to produce the Starting Price Adjustment Decision Paper by 20 October.
4. The timing challenge is mainly driven by the following:
 - Powerco and its auditors having different interpretations of the input methodologies (IMs). While we have designed a process to engage our auditors as early as possible, there will inevitably be different interpretations of the very high level IMs requiring discussion, clarification from the Commission and potentially re-work.
 - The asset adjustment and cost allocation processes are not straight-forward. For example, correcting errors requires collecting evidence. This can involve sending people to physically check individual assets, which is very time consuming.

5. Part of the issue is the volume of work related to disclosures and financial accounts over the next six months. The table below shows timelines for Powerco's major disclosures and financial accounts.

Disclosure	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11
(a) Regulatory Disclosures						
Gas Authorisation	Audit of Draft Statement	Audit with Final CPI Audit Committee Review Board Review	File by 1 May			
Pricing Methodology and Asset Management Plan	Completion of Methodology De Board Review	File 1 April				
Electricity DPP		Completion of Statement Audit	Audit Committee Review Board Review			
Electricity Po Request	Asset Adjustment completion and documentation Completion of Schedules	Schedules Audited	Technical Audit Audit Committee Review Board Review			
Electricity Information Disclosure		MP3 completed MP3 audit	MP1 & AV Schedules completed Audit MP1 & AV Schedules	FS Model completed FS model audited	Audit final schedules and full Disclosure	Audit Committee Review Board Review
(b) Financial Accounts/Disclosures						
March Interim Audit	Finance Completion	Reporting	Audit			
June Year End				Finance Completion	Audit	
Statutory Accounts					Finance Completion Audit	Audit Audit Committee Review Board Review

Table One: Timeline for Powerco Commerce Commission and Financial Account Disclosures March- August 2011

6. As the table demonstrates, Powerco has four audits in April to meet the Commission's disclosure deadlines. In addition, Powerco completes an interim audit in March due to its June/ July financial year. The majority of EDBs have March/ April financial years, and auditors and finance teams will be stretched across year end and Statutory Accounts. It would be very helpful if the deadlines for the electricity default price path compliance statement and electricity information disclosure were shifted backwards, to not co-incide with the Po information request.

Reliance on interpretation of Input Methodologies

7. The Commission has provided very few definitions or explanations of how the terms in the Draft Information Request should be interpreted. While the references to the IM clauses at each row is helpful, the IMs are at a high level. Examples of questions that could emerge are below. We have not had time to consider all the issues, and are sure more will become apparent when we begin to complete the disclosure.
- A6 on regulatory tax only includes the end result of a series of calculations, which EDBs are required to interpret from the IMs. To eliminate the potential for mistakes, we recommend the Commission publishes more detailed regulatory tax schedules.
 - In calculating recoverable costs, should Powerco assume that the Commission has approved all relevant costs (eg assets brought from Transpower)?
8. Powerco understands that the Electricity Networks Association (ENA) is developing more detailed templates that will also be more easily reconciled to the 2010 information disclosure. Powerco fully supports the ENA's work.

Disclosure should calculate return on investment

9. The Draft Information Request does not calculate the new ROI. This makes it difficult to fully reconcile the information request to the 2010 disclosure. The information templates should mirror the FS and AV schedules where applicable in order to calculate ROI, in the same manner that this is calculated in MP2 of the Electricity Information Disclosure Requirement templates.

10. For example, we are unsure why the Commission requires "proportionate value of commissioned assets by date of asset" and concerned that we have a different interpretation of calculating ROI under the IMs to the Commission. Publication of the ROI calculation promotes certainty.

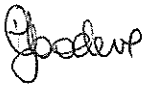
Audit Opinion

11. We have asked our auditors, Deloitte, to comment on the Draft Information Request, and it is currently being reviewed by its National Technical Office. Deloitte had immediate concerns that the Independent Assurance Report provided in Schedule E will not be consistent with its international auditing standards. Due to time constraints, a separate submission on auditing issues may be provided on this.

Asset Adjustment Process

12. There are some requirements in Schedule C which do not make sense. For example, the requirement on p19 under "correct asset register errors" that, "ODV value of the asset (or sum value of each similar asset type) as of the day the asset was first commissioned after the disclosure year 2004, or the value that would have resulted from applying the Electricity Information Disclosure Requirements 2004 if an ODV value is not applicable."
13. Powerco recommends that this is clarified and the information request also states that Table 1 is a précis of the requirements that are set out in the IM Determination and the Reasons Paper, and that reference should be made to those documents if there is doubt about the interpretation of the table and wording.

Yours sincerely



Paul Goodeve
Regulatory and Business Manager