

Friday, 2 July 2004

Gas Pipeline Inquiry  
Commerce Commission  
PO Box 2351  
**WELLINGTON**

**RE: CONFIDENTIAL ASPECTS OF DRAFT REPORT**

1. We are writing to the Commission on behalf of Powerco Limited (“**Powerco**”) in respect of a number of factual errors contained in the Gas Control Inquiry Confidential Draft Report (“**Draft Report**”) dated 21 May 2004.
2. We request that the Commission treat this letter as Restricted Information in accordance with the terms of the 25 May 2004 order made by the Commission under section 100 of the Commerce Act 1986. The basis for that is that the submission is directed at information already subject to a section 100 order.

**Paragraph 11.6**

3. Paragraph 11.6 states that “the majority [ ] of Powerco’s customers are in the residential and small commercial market”. Powerco’s figures show that this number is actually closer to [ ] of total installation control points (“**ICPs**”).
4. We also do not understand the necessity or relevance of the statement in paragraph 11.6 of the Draft Report that “[ ] of Powerco’s revenue is derived from its gas pipeline business”. Powerco would be grateful if the Commission would explain why this fact was included.

**Paragraph 11.37**

5. Paragraph 11.37 states that “the ODV of Powerco’s meters is estimated at between [ ] and [ ]”.
6. Powerco advises that in addition to that information in paragraph 11.37, the Optimised Depreciated Replacement Cost (“**ODRC**”) of Powerco’s meters was [ ] at 31 March 2004. In periods prior to the year ended 31 March 2004, the ODRC for Powerco’s meters has been as low as [ ].

**Paragraph 11.39**

7. Paragraph 11.39 states that:

[  
]

8. Powerco has a number of concerns regarding that statement. [ ]. The Draft Handbook was never finalised, and the methodology specified in it never came into force.
9. Secondly, irrespective of the fact that the methodology specified by the Draft ODV Handbook has not come into force, Powerco submits that the Commission's conclusion that [ ] is incorrect. ODV comprises only a small part of the many assumptions which comprise the NAB. For this reason, it is incorrect for the Commission to assume that ODV directly affects the measurement of NAB.
10. This error is compounded by the fact that the Commission has based its conclusion regarding NAB on an ODV assessment of Powerco's Taranaki networks. These assets comprise only 20% approximately of Powerco's total ODV asset base. This means that it is inaccurate for the Commission to extrapolate asset valuations for Powerco's entire network based solely on Taranaki networks information. The Taranaki networks information is by no means representative of the treatment of ODV by Powerco across its entire network. Powerco has acquired a significant proportion of its total asset base over the past year. In many cases, the assets valuations for these recently acquired assets were done by the previous owner. Powerco continues to use those asset valuations.

**Paragraph 11.47**

11. The statement in paragraph 11.47 is incorrect. Powerco has introduced an amount of [ ].

**Paragraph 11.49**

12. Paragraph 11.49 contains table 11.2, which presents the key variable of the analysis, using the base case in 2003 as an example. However, the figures which the Commission has used are all 2004 forecast figures. In addition, Powerco has found a number of errors present in these figures, as follows:

*Revenue*

- (a) 2003 Revenue: [ ]
- (b) The listed figure of [ ] forecast for 2004 is incorrect. This amount includes [ ];
- (c) The correct 2004 forecast figure is [ ].

*Net Earnings*

- (d) Powerco suggests that the Commission revisit its assumptions regarding Powerco's net earnings. Powerco cannot reconcile how the Commission has calculated the net earnings figure of [ ]. Further, Powerco notes that the Commission's calculation of net earnings:
- (i) incorrectly includes [ ];
  - (ii) has been incorrectly adjusted for regulatory and rates costs. The total amount of regulatory and rates costs is approximately [ ].

*Actual Quantities*

- (e) 2003 Actual Quantities: [ ]

*Actual Price*

- (f) 2003 Actual Price: [ ]
- (g) The figure of [ ] /GJ is incorrect. The correct 2004 forecast price is [ ] \$/GJ.

**Paragraph 11.52**

13. Paragraph 11.52 contains table 11.3, which presents the results of the Commission's base case over the period 1997 – 2008.
14. The average per annum excess returns figure of [ ] will need to be amended to take into account the errors corrected above. Powerco also notes that any changes regarding the Commission's assumptions in respect of taxation will affect the average per annum excess returns figure.
15. Please do not hesitate to contact the writer, or to contact Powerco directly, if you would like to clarify any of the matters raised.

Yours sincerely



**Victoria Heine**  
Partner