

9 November 2007

Transpower Post-Breach Inquiry
Networks Branch
Commerce Commission
PO Box 2351
WELLINGTON

Re: Submission by BARNZ on draft decision to accept administrative settlement from Transpower (draft Transpower decision)

The Board of Airline Representatives New Zealand Inc (BARNZ) is the Association which represents the airlines operating scheduled services to, from and within New Zealand.

A profile of BARNZ members together with a brief explanation of how we operate is attached.

In the course of consultations over charges with airport companies under the Airport Authorities Act, BARNZ uses as its starting point, the pricing principles developed by the Commerce Commission in the Airport Price Inquiry, and in subsequent inquiries and reports.

BARNZ has approached its review of the Commission's draft Transpower decision from this perspective. BARNZ has thus focused its attention on those matters in the draft decision which are of a more general principled application and is not therefore proposing to respond to all of the Commission's queries.

As a general comment, BARNZ supports the concept of the Commission accepting industry developed administrative settlements wherever these are in accordance with the Commission's views on appropriate pricing principles, rather than placing goods or services under control.

Capital Expenditure

- BARNZ agrees with the underlying concepts of there being a rigorous ex ante approval process for new capital expenditure (para 218) and with capital expenditure only entering the asset base when it becomes used (commissioned) (para 205). (Question 2)
- BARNZ considers that the requirement for independent approval of increases in forecast capex above the P90 level, should place sufficient incentives on Transpower to endeavour to keep its capital expenditure costs below this level. As the Commission notes, repeated requests for increases will no doubt cause the Electricity Commission to take a closer look. However, BARNZ notes that whether this creates sufficiently strong signals for efficiency necessarily depends on how robust the original capital expenditure approval process was, and whether the original estimate represented an efficient price with any unnecessary fat having been removed. (Question 3)
- BARNZ is of the firm view that assets held for future use should not be included in the asset base on which today's customers are charged. This would not occur in a competitive market. However, BARNZ acknowledges that where an independent regulator has undertaken an ex ante analysis to determine that it will be in the net public

interest of the consumers for the land to be purchased today, and a return earned on it, then this is a permissible exception to the general rule. BARNZ emphasises that in situations where an independent regulator is not present, then this exemption should not be applicable without specific agreements entered into with customers. (Question 4)

- From a user's perspective, BARNZ considers that the proposed transmission (non-Part F) capital expenditure threshold process in para 238, is appropriate. (Question 5)

Valuation of Regulatory Asset Base

- BARNZ agrees that the need for a rigorous ex ante capital expenditure approval process is crucial when using DHC as the asset valuation methodology. BARNZ notes that as well as determining whether investment is required and appropriately scoped and efficiently priced, this process also needs to consider the impact on current assets – ie does the proposed capital expenditure plan make the best use of existing assets or does it result in an unnecessarily large degree of asset stranding? (Question 8)
- BARNZ considers the methodology Transpower proposes using to adopt DHC is appropriate. The adjustments previously made by Transpower to the customers' EV accounts recognised asset revaluations (and devaluations) and took these into account as income (or a loss) when determining charges. As such, if Transpower is now reducing its RAB to DHC, then it is appropriate that the reduction in value is similarly taken into account. BARNZ notes that the situation of Transpower differs to the case of a firm which has not appropriately treated revaluation gains as income in its charge setting process in the past. BARNZ also notes that if at any time in the future, Transpower decides to revert to ODV, then it would similarly need to reflect revaluation changes in the EV accounts (or through some similar mechanism). (Question 8)

Operating costs

- As a general perspective, BARNZ does not consider that allowing operating costs to increase with CPI provides sufficient incentive for a firm to improve efficiency. However, this has to be considered against factors such as whether output is increasing and the degree to which the cost base is already considered efficient (ie have operating costs been increasing or reducing over recent times). As a general rule, BARNZ looks to have operating costs reducing on a per unit basis. (Question 14)

Allocation of costs

- BARNZ does not consider that the use of ACAM is appropriate as an allocation methodology for allocating costs between Grid and System Operator functions. BARNZ considers that ACAM represents an extreme position which ignores any economies of scope and does not result in a fair and reasonable allocation of costs between different activities. BARNZ considers that where costs or assets are shared between activities, then these should be allocated on the basis of use or benefit, and that any efficiencies achieved as a result of both activities being undertaken, should be shared between the two activities. (Question 26)

If the Commission or the Commission's staff have any queries on these points, then BARNZ is able to expand on these matters.

Yours sincerely



Stewart Milne
Executive Director

BARNZ PROFILE

1. The Board of Airline Representatives New Zealand Inc (“BARNZ”) is an incorporated society comprising 23 member airlines operating scheduled and code share international and domestic services. Its members are:

Full membership:

<i>Aerolineas Argentinas</i>	<i>Air Calin</i>
<i>Air New Zealand (Freedom Air)</i>	<i>Air Pacific</i>
<i>Airwork</i>	<i>Air Tahiti Nui</i>
<i>Air Vanuatu</i>	<i>Asian Express</i>
<i>Cathay Pacific Airways</i>	<i>Emirates</i>
<i>EVA Airways</i>	<i>Fieldair</i>
<i>Japan Airlines</i>	<i>Korean Air</i>
<i>LAN Airlines</i>	<i>Malaysia Airlines</i>
<i>Pacific Blue</i>	<i>Qantas Airways (Jet Connect/Jetstar)</i>
<i>Royal Brunei</i>	<i>Singapore Airlines</i>
<i>Thai Airways International</i>	

Associate membership: (code share)

<i>Garuda Indonesia</i>	<i>Menzies Aviation</i>
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2. Decisions within BARNZ are made by an Executive Committee of elected members.

The objectives of BARNZ include:

- (i) the establishment of recognised means of communication between member airlines and other bodies whose interests or actions affect member airlines and the aviation industry;
 - (ii) representation of members in matters affecting their common interests;
 - (iii) determining the position of members on legislative, judicial and administrative actions affecting the provision of air services and the representation of member airlines before decision-making bodies;
 - (iv) the promotion and advancement of the interests of its members in relation to scheduled international and domestic airline operations at New Zealand Airports.
3. Decision making within BARNZ is undertaken on a consensus basis. This means that although BARNZ may take a position on an issue, individual airlines remain free to present their own views separately from BARNZ.