

10 July 2019

Dane Gunnell
Manager Price-Quality Regulation
Commerce Commission
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Sent via email: regulation.branch@comcom.govt.nz

Dear Dane

Treatment of operating leases

First Gas welcomes the opportunity to make a submission to the Commerce Commission (the Commission) on its issues paper *"Treatment of operating leases"*.

Our submission focusses on our support for retaining alignment of regulatory reporting with Generally Accepted Accounting Principles (GAAP). We believe that moving away from GAAP adds unnecessary complexity and cost without obvious benefits. While issues have been identified by the Commission for further discussion, there is no evidence of their materiality. We encourage the Commission to consider the materiality of any identified issues before significantly altering the current Input Methodologies or moving away from the GAPP treatment of operating leases.

While the issues paper is directed at electricity distribution businesses and Transpower, we recognise that the treatment of operating leases for regulatory purposes will affect all regulated suppliers. We welcome the Commission's proposed consultation with gas pipeline businesses later (GPBs) this year.

Support for aligning regulatory approach with GAAP

First Gas supports an approach that keeps the regulatory regime as simple as possible, while meeting the requirements of Part Four of the Commerce Act 1986. We agree with the Commission that aligning the requirements for information disclosure and price-quality regulation to GAAP for the treatment of leases maintains this simplicity and "consistency with a reporting framework that helps keep compliance costs low for suppliers."¹ We recommend the value of right of use leases, and the life of these assets, follow the approach taken under GAAP.

We complete the regulatory disclosures for our gas transmission and distribution businesses at the same time as our statutory accounts. Aligning the rules for disclosures to GAAP means that our Finance team do not need to adjust results between the financial and regulatory disclosure. Aligning to GAAP (rather than having a different approach for regulatory reporting) therefore saves First Gas time during year-end, removes the need for reconciliation between financial and regulatory reporting, and reduces the audit review time and cost.

We recognise maintaining alignment with GAAP means that there may be consequences in other areas of the regulatory framework, such as the treatment of regulatory tax. While we have not considered these issues in depth, in principle we would support an approach that keeps the regulatory regime as simple as possible. We anticipate further discussion on these issues during the GPB consultation.

¹ Page 4, *Treatment of operating leases issues paper*, Commerce Commission.

Consultation with gas pipeline businesses

We look forward to working with the Commission on the treatment of operating leases for GPBs. We note that the Commission has signalled its intent to carry out a separate consultation process with our sector on any proposed amendments to the Information Disclosure requirements or Input Methodologies.

While the timing is not clear, we anticipate the consultation with GPBs will occur later this year. We would prefer any amendments to information disclosure reporting take effect for disclosure year 2020. This would align with the adoption of NZ IFRS 16 in financial reporting in that same year. We request the Commission provide an update on the consultation timeframe for GPBs so we can make sure personnel are available to review any proposed amendments.

Contact details

If you have any questions regarding this submission, please contact me on 027 405 5634 or via email at lynette.taylor@firstgas.co.nz.

Yours sincerely



Lynette Taylor
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