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Dane Gunnel  
Manager, Price-Quality Regulation  
Commerce Commission

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## Treatment of operating leases

Thank you for the opportunity to submit to the consultation on the *Treatment of Operating Leases* Issues paper, published 6 June.

The 2016 changes to the international financial reporting standard for leases (NZ IFRS 16) requires attention by the Commission and regulated suppliers because the new standard “fundamentally changes the accounting treatment of operating leases for lessees, by requiring the capitalisation of operating lease expenditure.”<sup>1</sup>

We agree with the Commission’s conclusions that it should:

1. “Accept alignment with the new financial reporting standard for price-quality regulation and ID purposes, as it maintains consistency with a reporting framework that helps to keep compliance costs low for suppliers.”<sup>2</sup>

For RCP2 the principle for calculating our revenue requirement under the IPP and supporting IMs is that income, expenses and assets are recognised at their GAAP values. We support the Commission’s view, which maintains consistency with GAAP and so avoids complications and duplications that would follow from adopting another approach.

2. “Amend the IMs so that operating leases continue to be treated as operating expenditure for IRIS purposes, as this would be simpler to administer and avoid the potential for suppliers to skew their IRIS outcomes.”<sup>3</sup>

Our own review of the potential ways that leases might be brought into an incentive mechanism concluded this approach is the most straightforward and delivers the least volatile pricing outcomes.

Yours sincerely

**Gordon Davidson**  
Chief Financial Officer

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<sup>1</sup> Section X3 of the f the [consultation paper](#)

<sup>2</sup> Ibid, Section X8.1

<sup>3</sup> Ibid, Section X8.2