

Sinclair Knight Merz

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Waipa Networks
240 Harrison Drive
Te Awamutu 3800
PO Box 505

Attention: Lee Goddard

19 April 2013

ZP00385.14

Dear Lee,

**Statement Regarding Engineer's Report on the
Load Control Relay RAB Adjustment for Waipa Networks**

Introduction

Sinclair Knight Merz Ltd (SKM) was requested by Waipa Networks (Waipa) to undertake an independent review of proposed adjustments to Waipa's regulatory asset base as at 31st March 2004. This review was undertaken to determine the appropriateness of the proposed adjustments in respect of the process set out in clause 2.2.1 of the "Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010", 22 December 2010 (EDB IM).

SKM's findings are set out in the enclosed report which has been prepared to comply with the requirements for the Engineer's report in Attachment C of the Commerce Commission's information disclosure titled "Electricity Distribution Information Disclosure Determination 2012" (EDB ID), dated 1 October 2012.

Confirmation of Independence and Qualifications

I, as a chartered professional engineer (as defined in section 6 of the Chartered Professional Engineers Act 2002), can confirm that:

- 1) SKM has acted independently with respect to Waipa and its subsidiaries and affiliates;
- 2) SKM has significant experience in New Zealand, Australia and the United Kingdom in relation to the valuation of electricity networks for both regulatory and financial reporting purposes. SKM's review and the preparation of the report has been undertaken by Mr Cameron Parker and Dr Richard Fairbairn. Dr Fairbairn and Mr Parker are professionally qualified and experienced in the type of work concerned and are familiar with Waipa's network;

Sinclair Knight Merz Limited

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- 3) the report is in writing and accessible in electronic (PDF file-type) format and includes a copy of the written instructions provided to SKM by Waipa (included as Appendix B to the enclosed report), including any subsequent variations or modifications;
- 4) the report includes a table summarising the various asset value adjustments corresponding to Schedule 5i of the Information Disclosure Notice Templates (please see Appendix A to the enclosed report);
- 5) the report provides the minimum information for each category of asset adjustment outlined in Table 1 of Attachment C of the EDB ID, together with such additional information sufficient to allow a reader:
 - i. to understand the data, information, calculations and assumptions employed in respect of each category of asset adjustment;
 - ii. to understand the extent to which professional judgement was exercised by SKM and the effect of that judgement in deriving the resultant asset values;
 - iii. to verify the arithmetical accuracy of the asset adjustment calculations; and
- 6) the report may be publicly disclosed by Waipa pursuant to an information disclosure determination in relation to Waipa made by the Commission under section 52P of the Commerce Act (1986).

I can confirm that SKM is satisfied that:

- i. the rules in the ODV handbook have been properly applied for assets which had not had an ODV valuation calculated originally, as required by clause 2.2.1 of the EDB IM;
- ii. where values under Generally Accepted Accounting Practice (GAAP) have been relied on, those values have been supplied or reviewed by an appropriately qualified party (e.g. accounting practitioner); and
- iii. the report meets the requirements of Attachment C of the EDB ID.

SIGNED on behalf of Sinclair Knight Merz Ltd by:

Designated Engineer



R Fairbairn, MIPENZ, CPEng

Independent Engineer's Report on the Asset Adjustment Process relating to Load Control Relays for Waipa Networks.

1. Introduction

Sinclair Knight Merz (SKM) was requested by Waipa Networks (Waipa) to undertake an independent review of Waipa's asset adjustment process. SKM's review was undertaken to determine the appropriateness of the proposed adjustments in respect of the asset adjustment process as set out in clause 2.2.1 of the "Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010", 22 December 2010 (EDB IM).

This report details the findings of the independent review and has been prepared to comply with the requirements for the Engineer's Report in Attachment C of the Commerce Commission's Decision no. NZCC 22 on information disclosure titled "Electricity Distribution Information Disclosure Determination 2012" (EDB ID), dated 1 October 2012.

A copy of Waipa's letter of instruction provided to SKM is included in Appendix B of this report, and the engineer's signed statement, as outlined in Clause 3 of Attachment C of the EDB ID, is provided as a prelude to this report.

SKM's review principally considered the inclusion of Load Control Relays asset as an adjustment to Waipa's initial Regulatory Asset Base (RAB).

1.1 Processes and information provided by Waipa

The preparation of this report has been the responsibility of SKM. We have relied upon the accuracy of information provided by Waipa for this review. SKM has not undertaken a site visit to Waipa Networks.

Waipa supplied the following information in order for SKM to complete its review of Waipa's asset adjustment proposal:

- 2004 ODV Report (PricewaterhouseCoopers, PwC);
- Waipa Networks 2009 Annual Report;
- an extract from Waipa's 2010 Annual Report – indicating electrical asset values as at 31st March 2009;
- a copy of Waipa's Asset Ledger as at 31 March 2010 – indicating a the opening balance of its Load Control Relays as at 31 March 2009; and
- commentary via email as to the make-up of Waipa's Electrical asset value and the contribution of load control relays to this value.

1.2 Load control relays

Reference EDB IM cl 2.2.1(2)(a). An EDB may designate a load control relay asset owned by an EDB, except a 2009 disclosed asset, as of 'included' type. Clause 2.2.1(3) goes on to say that assets to which sub-clause (2)(a) applies may be valued as:

- its depreciated historic cost as at 31 March 2009; or
- if there are insufficient records, then its depreciated carrying value from the general purpose financial statements.

Waipa's load control relays are included in its asset register as a single value, a common practice amongst distribution businesses given the value and number of relays typically installed on a distribution network. As at 31 March 2009 Waipa had 22,897 customers on its network, with 17,450 customers associated with load control relays. Waipa has confirmed the depreciated historic cost of its load control relays, as at 31 March 2009, determined by applying Generally Accepted Accounting Practice (GAAP) in a statement to SKM, included in Appendix C of this report.

Waipa's depreciated historic cost of its aggregated load control relays is \$1,320,580.21 as at 31 March 2009. This figure has been included in *Schedule 5i Report on Initial RAB Adjustment* of the EDB ID, included in Appendix A of this report.

2. Summary

Waipa's asset adjustment process has focused on the inclusion of its load control relays as an adjustment to its initial RAB.

Waipa proposes an adjustment of \$1.321 million to its Initial RAB as at 31 March 2009 for the inclusion of its load control relays.

Appendix A Summary of Asset Value Adjustments: Schedule 5i

		Company Name: <u>Waipa Networks</u>					
		For Year Ended: <u>2012</u>					
SCHEDULE 5i: REPORT ON INITIAL RAB ADJUSTMENT							
Under clause 2.2.1 of the IM determination an EDB may undertake an asset adjustment process in setting their initial RAB.							
If the EDB has adjusted its RAB in accordance with clause 2.2.1 of the IM determination, it must complete this schedule when disclosing information relating to the year ending 31 March 2012							
ref		2004 *	2005	2006	2007	2008	2009
		(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
8	Summary of Engineer's Valuation Adjustments (at time asset enters regulatory asset register)						
9							
10	Asset adjustment process - adjustments						
11							
12	Include load control relays						1,321
13	Correct asset register errors for 2004 ODV assets						
14							
15							
16							
17							
18							
19							
20	Correct asset register errors for 2005 – 2009 assets						
21							
22							
23							
24							
25	Re-apply an existing multiplier to 2004 ODV assets						
26							
27							
28							
29							
30	Re-apply a modified multiplier to 2004 ODV assets						
31							
32							
33							
34							
35	Re-apply optimisation or EV tests to 2004 ODV assets						
36							
37							
38							
39							
40							
41	Total value of adjustments by disclosure year						1,321
42	<i>* Includes assets which first entered the regulatory asset register in a disclosure year prior to 2004.</i>						
43							



Appendix B Waipa's Instruction to Engineer

10 April 2013



Sinclair Knight Merz Limited
PO Box 9806
Newmarket
AUCKLAND 1149

Attention: Richard Fairbairn

Dear Richard

Re: Initial RAB Adjustment - Engineers Report

Thank you for your proposal to provide an Independent Engineers Report in relation to the establishment of an initial Regulatory Asset Base (RAB).

We require you to review the changes that we have made to our 2004 ODV and confirm that they meet with the requirements of asset adjustment process outlined in Clause 2.2.1 of the Commerce Commission's Input Methodology Determination.

These adjustments are limited to:

- The inclusion of Load Control Relays.

SKM's output would be in the form of an Independent Engineers Report that meets with the requirements specified in Attachment C of the Commerce Commission Decision No NZCC 22, "Electricity Distribution Information Disclosure Determination 2012" issued on 1 October 2012.

In order to assist your review we would make available all the necessary information/resources and key personnel.

Yours faithfully

A handwritten signature in blue ink, appearing to read "Lee Goddard".

Lee Goddard
NETWORK ASSET MANAGER



WAIPA NETWORKS LTD
240 Harrison Drive
PO Box 505
Te Awamutu, 3840

TE AWAMUTU
Telephone: 07 872 0745
Facsimile: 07 870 2401

CAMBRIDGE
Telephone: 07 827 4014
Facsimile: 07 827 6487



Appendix C Waipa's Load Control Relay Statement

18 April 2013



Sinclair Knight Merz Limited
PO Box 9806 Newmarket
AUCKLAND 1149

Attention: Richard Fairbairn

Dear Richard

Re: Initial RAB Adjustment – Load Control Relays

Waipa Networks confirms the depreciated historic cost of its load control relay assets, as at 31 March 2009, is \$1,320,580.21. This value was determined by applying Generally Accepted Accounting Practice (GAAP).

The Load control relay asset value of \$1,320,580.21 is to be included as an adjustment to Waipa Networks initial RAB.

Yours faithfully

A handwritten signature in blue ink, appearing to read "Lee Goddard".

Lee Goddard
NETWORK ASSET MANAGER
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