

FACT SHEET

Regulatory treatment of finance leases

January 2015

IPART sets the maximum prices for a number of agencies delivering monopoly services across a range of industries including water, transport and energy. Some of the agencies we regulate have finance lease agreements for some of their major assets.

We have recently reviewed how we treat finance leases in our regulatory decisions. We do not propose to change the way we treat finance leases for new assets, which will continue to be apportioned between efficient capital expenditure and operating expenditure.

The decisions set out in this fact sheet relate to changes in the way we propose to treat existing assets. Specifically, where an existing asset is transferred to a finance lease, or an operating lease is converted to a finance lease.

1.1 Our preferred approach


We have decided that our preferred approach is to include the efficient value of the underlying asset in the regulatory asset base (RAB).

The efficient operating costs required to deliver the services associated with the asset will be passed through to customers as operating expenditure.

1.2 Valuing the asset to be included in the RAB

Existing assets

Existing assets include assets which are currently under a finance lease but not included in the RAB in regulatory determinations, or assets which are converted from a different form of ownership or lease arrangement, including operating lease, to a finance lease.



For existing assets being converted from an operating lease to a finance lease, the value of the asset to be added to the RAB will be determined as either:

- ▼ the depreciated efficient capital cost of the asset, or
- ▼ the discounted future lease payments, with the discount rate being the interest rate in the lease agreement.

The methodology adopted to value the asset will be determined based on the most appropriate approach given the information available.

New assets

For new assets subject to a finance lease agreement, the value of the asset added to the RAB will be the efficient capital expenditure. Efficient operating expenditure is separately assessed.

Depreciation allowance

The allowance for depreciation will be calculated using the remaining economic life of the asset.

1.3 Discussion

The final methodology adopted for price-setting purposes will be determined within the price review process and will be based on the principles outlined in this Fact Sheet. We will carefully consider the proposals and arguments put forward by regulated agencies and other stakeholders and make a final decision on the methodology in that context.

For questions, please contact:

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