

Todd Energy has significant interests in a number of electricity and gas production and retail assets that depend on monopoly service providers to transport its products to market. These include: electricity generating assets which rely on transmission and distribution lines, gas production assets that rely on transmission and distribution pipelines and LPG distribution that relies upon rail transportation.

Todd Energy welcomes the Commerce Commission's study of airfield activities, and in particular its investigation of asset valuation in respect of monopoly utility services. This has long been an area of concern to us and we make a brief submission simply to state our support for most of the Commission's conclusions in respect of asset valuation and related issues.

In particular, we support the following pricing principles: [Reference - Price Control Study of Airfield Activities at Auckland, Wellington and Christchurch International Airports - Draft Report, Commerce Commission, July 2001, executive summary p 9.]

- Today's consumers should only bear today's costs.
- Prices should allow for a "normal" rate of return to be earned by suppliers on average over the medium term.
- Prices should on average, over the medium term, cover efficient operating costs (including any temporary deviations resulting from unexpected changes in external factors), and no more.

We also support the following statements in respect of the selection of asset valuation methodology for assessing whether excess returns have been taken.

- "While the use of ODRC smoothes prices (to some extent), it explicitly involves an element of pre-financing. In accepting ODRC, today's consumers will pay for some of tomorrow's costs. However, there is no guarantee that any pre-financing of future replacement is set aside and kept for that purpose and current users have no guaranteed rights in the future. Given that pre-financing (of the replacement of currently used assets) is seen as undesirable, then historic costs is probably the preferable approach. The Commission considers that historic costs provides investors with a return on the amounts previously invested and preserves incentives to invest in the future." [Ref Price Control Study of Airfield Activities at Auckland, Wellington and Christchurch International Airports - Draft Report, Commerce Commission, July 2001, para 7.43, p 100.]
- "The Commission's preliminary view is that specialised airfield assets should be included in the asset base at historic cost. The assets should also be depreciated and optimised as appropriate." [Ref Price Control

Study of Airfield Activities at Auckland, Wellington and Christchurch International Airports - Draft Report, Commerce Commission, July 2001, executive summary p 11]

· "The Commission's preliminary view is that pre-financing of new investment is generally inappropriate-only "used and useful" assets should be included in the asset base. This should encourage airports only to undertake new investments that will be "used and useful"." [Ref Ibid, p 12]

We have noted that in response to the Commission's report, a number of parties have commented that in departing from ODRC, the Commission was ignoring one of the "accepted" replacement cost valuation methodologies. We find these suggestions curious for, as the Commission's report notes, no valuation methodology has been mandated by government for airfield activities.

"The disclosure regulations do not require the use of any specific methodologies for the purposes of the disclosures or pricing, but simply require compliance with generally accepted accounting practice." [Ref Price Control Study of Airfield Activities at Auckland, Wellington and Christchurch International Airports - Draft Report, Commerce Commission, July 2001, p 25.] Thus, if there is no requirement for information concerning asset values to be disclosed on a particular basis, let alone priced under a specified methodology, then there is no departure in suggesting an historic cost methodology.

We thank the Commission for the opportunity to make this submission.