

PRESENTATION TO THE COMMERCE COMMISSION

On

Regulation of Electricity Lines Businesses

Draft Handbook for Optimised Deprival Valuation of System Fixed Assets.

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to
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1.0 Introduction

This submission is made in response to the invitation contained in the Commerce Commission release of the Draft ODV Handbook on 23 December 2003.

It has been assumed that editorial matters will be captured elsewhere, so comment is confined to the content only.

Some comments refer also the PB Associates Draft Report dated 23 December 2003, since this report forms the basis of the Draft ODV Handbook.

2.0 General Comments Regarding Replacement Costs and Lives.

2.1 .Development of Revised Replacement Costs for 11kV Overhead Lines

2.1.1 I have no new information to add to that put forward with my submission dated 14 November 2003. Having read the PB Draft Report (ref cl 4.3.5), I am still of the view (shown in my report), that there is a much larger cost differential between the unit cost of medium and heavy conductor lines, than the \$3.00 shown on Table A1. The cost increase is present in conductor, cross arms, and insulators, without considering the likely reduction in span length to maintain loading safety margins on the poles. At it may be some time before a further review is made to the cost structures, it would be appropriate to capture the realistic values now.

2.2 Asset Lives (ref cl 4.3.7), Distribution Lines

2.2.1 This clause has made reference to the fact that it is difficult (using the present approach) to assign a life to a portion of line, as the various component parts have different total lives and different ages. This leads to the conclusion that an ‘average age’ should be used.

In most cases, lines are ‘maintained in perpetuity’ by the continual repair/renewal of the various components, irrespective of actual life of each component.

Here there is clearly a case to calculate the remaining value i.e. the depreciated value of a line, from the sum of the depreciated values of each of the components. Hence when any part is changed (irrespective whether it was for maintenance, repair, refurbishment, or renewal), the new current value of such part can be correctly represented for the component and the line of which it is part.

This approach not only removes need to try to establish an ‘average age’, but also provides companies with improved information on value of the network arising from maintenance/alterations.

3.0 General Comments from PB Draft Report

3 1. Ref cl 4.3.3 Backfilling requirements. The comment made is that this is covered by an adjustment of the CBD multiplier. The Draft Handbook multipliers shown are unchanged from the current Handbook. The subsequent comment in cl 4.3.6 which permits both the CBD multiplier and the traffic control allowance to be applied, does not really address the point, that there are increased costs to achieve the reinstatement levels now demanded in these areas. These should not be confused with traffic management requirements, which may be needed irrespective of the standard of finish demanded of the road surface. These two issues, namely backfilling requirements and traffic management, should stand on their own and be treated separately.

3 2. Ref cl 4.3.6 Remote Location Multiplier. The clause notes the Draft Handbook allows this multiplier to be applied to “other construction works”. Clause A.10 of the Draft Handbook would need to be amended to include this extension.

3 3. Ref cl 4.3.7 Accommodation for Distribution Transformers. The clause notes the extension of the life of the accommodation assets to 55 years based on appropriate maintenance programmes. Clause A.42 of the Draft Handbook would need to be modified to include this.

3 4. Ref Issue 22 Cost Rationalisation in Handbook.
There does not appear to have been any change at this stage in the pricing of similar assets owned by distribution businesses and Transpower. It this to be addressed at a later date?