RESPONSE TO THE COMMERCE COMMISSION

On

Regulation of Electricity Lines Businesses

Draft Handbook for Optimised Deprival Valuation of System Fixed Assets.

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1.0 Introduction

This response is made as a result of the invitation from the Commerce Commission, for comment on the Draft ODV Handbook released on 9 July 2004.

The many changes made to the Handbook have been noted.
In view of the relatively minor alterations to values arising from the Recalibrations carried out by the Commission in 2001, it is disappointing that the Commission has chosen to continue to increase the level of prescription, thereby adding further to the compliance costs of the ELB's.

While it has been interesting to see the tabulation of the asset values tabled by the various submitters, it has not greatly improved our understanding of the logic behind some of the decisions made by the Commission.

2.0 General Issues for Comment

In reviewing the Draft ODV Handbook, there are two main issues that I propose to address. These are:

- Assets not included in the valuation
- Optimisation

2.1 Assets for inclusion in the ODV valuation. Ref cl 2.7. Mobile substations and generators are listed as assets NOT to be included in the valuation.
This is not realistic for ELB's with long feeders out to remote districts, who find the most cost effective solution of maintaining both security and quality of supply, by the provision of a temporary generator. This solution is far more cost effective than the investment of capital for the upgrading of a line, since an adequate return could not be generated due often to the light loads and intermittent nature of the demand.
The provision of a generator (with its associated substation) is the cost effective alternate to capital investment in line assets and as equivalent assets should be included as part of the asset valuation.

A similar argument also applies to the matter of load control relays. Load control relays play a vital part in the management of demand on the network thereby enabling cost effective utilisation of the network assets. Without such control, significant additional capital expenditure would be required to give the same level of service, i.e. the assets would have a lower utilisation than at present.
These items are an essential part of the network to enable effective real time management of demands to match capacity, and as such should be included as part of the asset valuation.

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2.2 Optimisation of Distribution Transformers-Ref cl B11. The requirement to achieve a capacity utilisation of not less than 30%, is unreasonable for ELB's with significant rural content. This statement is made, since the decision to install a distribution transformer at a particular location in a rural environment, is not usually made purely on technical or economic efficient utilisation criteria, but because that is where the customer has the demand. This can be some distance from other customers and the demand may only occur for comparatively short periods only a few times a year. Demands of this nature may be from shearing sheds or irrigation pumps and could be outside the times of the normal recorded network peak demand. These situations are quite different from urban areas where high load densities ensure capacity utilisations are always well above 30%.
If any supplier were to consider entry into the market as an alternate to the incumbent ELB, they would need to meet the needs of these existing customers at their existing locations, so the assets should be fully valued as there is no potential deprival issue arising from the alternate supplier.

3.0 Outstanding Questions

3.1 It would be helpful for the Commission to clarify the manner in which they envisage the allowances for Traffic Management would be applied. E.g. Where there is both a principal line and an underbuilt line adjacent to a classified road, is the allowance applied to both? After all, if work were required on either line, traffic management procedures of the same nature would be required irrespective of whether the work was on the principal line or the underbuilt one.

3.2 The second point applies to depreciation of the allowance. Does the Commission envisage that the allowance would be depreciated in the same way as the line with which it is associated?