



# MAJOR ELECTRICITY USERS' GROUP

23 February 2005

Mr Paolo Ryan  
Manager Network Performance  
Commerce Commission  
By email to [electricity@comcom.govt.nz](mailto:electricity@comcom.govt.nz)

Dear Paolo

## **Submission on Implementing Valuation Choice for System Fixed Assets Draft Decisions and Discussion Paper**

This is a submission by the Major Electricity Users' Group (MEUG) on the *Implementing Valuation Choice for System Fixed Assets Draft Decisions and Discussion Paper* released by the Commission on 24 December 2004. Two comments follow:

1. Table 6, "*Risk Comparison between IHC and ODV*," notes the greater risk of optimisation across all assets under Optimised Deprival Valuation (ODV) compared to the ongoing prudency review risk of new expenditure only under Indexed Historic Cost (IHC). This alone should lead to a difference in the Weighted Average Cost of Capital (WACC) for each valuation method; however that is not mentioned in the conclusions.

The table does not compare the difference in treatment of stranded assets. Under ODV the risk of an asset being stranded is borne by the line business. Under IHC, once initially approved, future consumers will bear the cost of stranded assets. ODV creates an incentive on line businesses to mitigate stranding risk through contracts, IHC does not. Stranding risks to date have been bypass lines (rare, if ever); large users going out of business and in the future as a consequence of increased distributed generation (this can also create demand for line upgrades).

The risks and incentives between ODV and IHC are significantly different due to expected future stranding risks. The price for different risks involved presumably should be reflected in WACC.

2. The discussion paper proposes line businesses which choose ODV need only have a full ODV valuation every 5 years and in between capital additions would be rolled in and indexed on a basis yet to be decided. This is a fix for what is perceived to be a problem of requiring companies to undertake an ODV valuation every year. MEUG believe this assumption needs to be tested.

Routinely undertaking an annual ODV should not be expensive for most line businesses that have steady predictable growth; whereas the yet to be designed patch for rolling in capital between full ODV valuations and the resulting lack of good disclosure information during those years is untidy. As line businesses must prepare and publish asset management plans (AMP) each year (refer Commerce Commission, Electricity Information

Disclosure Requirements 2004, published 7 May 2004, Requirement 24(1)), there should be little incremental cost in preparing and publishing an annual ODV reports.

Without a full ODV each year it would be difficult to undertake an up to date AMP. MEUG would be concerned if there were any change to requiring annual publication of AMP because they are the foundation for a range of matters of interest to consumers such as expected future network enhancements and reliability forecasts.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', with a stylized flourish at the end.

Ralph Matthes  
Executive Director