
**SUBMISSION TO COMMERCE COMMISSION ON
REGULATION OF ELECTRICITY LINES BUSINESSES – IMPLEMENTING
VALUATION CHOICE FOR SYSTEM FIXED ASSETS**

**WEL NETWORKS LIMITED
23 FEBRUARY 2005**



This submission is in response to the Commerce Commission's draft decisions and discussion paper on Implementing Valuation Choice for System Fixed Assets dated 24 December 2004.

In WEL's view the Commission should be very explicit in how it is going to use the regulatory asset base and regulatory cost and revenues to determine and calculate excess returns. Without this clear indication making detailed comments is extremely difficult. However more seriously this uncertainty could have the unintended consequence of dissuading lines companies from making essential investment in their networks.

Overall WEL can see very little point to having a choice between valuation methodologies where the Commission's stated aim is to make the impact of each valuation methodology the same. Unless lines companies are presented with a choice which allows them to make a decision which is a real choice between two significantly different options then we believe the Commission should simply offer one choice. WEL's view is the key determinant of that choice should be to select a valuation methodology which most closely conforms to generally accepted accounting principals (GAAP). In our view the ODV valuation methodology is the method which most closely represents the principals of FRS3. WEL therefore submits that a single ODV methodology should be adopted.

WEL supports an indexed methodology to allow revaluations to occur annually in between the full revaluations. WEL's view is that CPI is likely to give rise to a significant revaluation adjustment every time a comprehensive valuation is undertaken. On this basis we support an index which more closely represents the change in replacement cost of assets. This index could be generated by the Commission using a representative sample of assets and determining the revised replacement costs of those assets on an annual basis.

We note in paragraph 98 that the Commission introduces a new term called efficient operating cost. No where in the paper does the Commission explain how this cost is to be derived. Further discussion on this point is significant to the concept of asset valuation as throughout the life of an asset lines companies will be presented with choices to make regarding whether to further maintain the asset or simply to replace it. The Commission needs to ensure that it does not inadvertently create perverse operating decisions by creating inequity between the treatment of money spent on maintenance to that spent on capital.

As with our submission on Information Disclosure WEL advocates the use of generally accepted accounting principals wherever possible.