

Electricity Networks Association

7th Floor, Computerland House, 154 Featherston Street

PO Box 1017

Wellington, New Zealand

Telephone: 64-4-471 1335 *Fax:* 64-4-496 5209

E-mail adj@electricity.org.nz

Submission on the draft Optimised Deprivation Valuation Handbook and draft Information Disclosure Requirements

Submitted by :

Electricity Networks Association

9 February 2004

CONTENTS

1.	Introduction	2
2.	Improvements in the proposed draft ODV handbook.....	3
3.	Lack of transparency by the Commission.....	3
4.	Shortcomings in the draft ODV handbook	4
4.1	Insufficient replacement cost or multipliers	4
	4.1.1 Multiple circuits in a single trench.....	4
	4.1.2 Allowance for traffic management.....	4
	4.1.3 Upgraded requirement for backfilling of trenches	4
	4.1.4 Scale of construction works.....	5
4.2	Planning periods	5
4.3	Stranded assets	6
4.4	Exclusion of assets.....	7
	4.4.1 Core business assets excluded from system fixed asset base	7
	4.4.2 Intangible assets.....	7
	4.4.3 Assets to be included under incremental business units	8
4.5	Probabilistic approach to quality of supply levels.....	9
4.6	Retention of the EV test	10
5.	Proposed setting of replacement values.....	10
6.	Updating of Schedules.....	11
7.	Draft information disclosure requirements	11

1. Introduction

This submission is in response to the invitation issued on 23 December 2003 by the Commerce Commission to comment on the draft Optimised Deprivation Valuation (ODV) Handbook and draft Information Disclosure Requirements. It builds on the earlier submission by the ENA¹ on the development of the ODV Handbook and a submission by Prof Tony van Zijl, LECG, submitted on behalf of the ENA.²

Our earlier submission on the development of the ODV handbook expressed concern regarding the lack of a broader view as to how the ODV handbook would fit into the overall targeted control regime for electricity lines businesses (ELBs) and the purposes for which these valuations may be used under this regime. This issue has again been largely ignored in the proposed ODV and Information Disclosure Handbooks and in the Commission's accompanying reports.^{3 4} This lack of context is a serious shortcoming and an aspect that the Commission needs to address urgently. A key principle for consultation to be meaningful is that there must be sufficient information available to the parties to enable them to be adequately informed so as to be able to make useful responses.⁵ In ENA's view, the lack of explanation by the Commission as to the purpose and use of the valuation methods means insufficient information has been supplied for meaningful consultation.

The current draft documents can therefore once again be assessed only in isolation, without the benefit of a complete understanding of the overall context within which they are intended to apply. While our submission highlights particular aspects of the draft ODV handbook and information disclosure requirements which we consider need improvement, we emphasise that our interpretation and response may have been different if a clear understanding of the role of the handbook and information disclosure in the overall regulation context had been provided. We note that in preparing the draft ODV handbook, PB Associates also had to assume that its purpose would be consistent with current information disclosure requirements.⁶

Section 2 lists improvements in the draft ODV handbook relative to the current handbook, and section 3 outlines issues on which ENA considers further improvements should and could be made.

Section 4 considers the process for updating the handbook Schedules of asset values, but does not comment on the values themselves. Various ENA-member ELBs will be commenting on these values.

Section 5 provides brief comment on the draft information disclosure requirements and the intended phase two stage in developing the information requirements, but does not

¹ ENA submission to the Commerce Commission, titled "Submission on the Development of a Handbook for Optimised Deprivation Valuation of Electricity Lines businesses System Fixed Assets", dated 14 November 2003

² Van Zijl, T., October 2003, "Valuation principles for Electricity lines Businesses in the Context of the Targeted Control Regime", LECG, 10pp

³ Commerce Commission report titled "Electricity Information Disclosure Requirements 2004", dated 24 December 2003.

⁴ PB Associates draft report titled "Development of a handbook for optimised deprivation valuation of system fixed assets of electricity lines businesses", dated 23 December 2004.

⁵ See *Wellington Airport Ltd v Air New Zealand* [1993] 1 NZLR 671.

⁶ *Ibid*, par 2.3.1

include a detailed assessment of the draft relative to the existing requirements. Various ENA-member ELBs will be commenting on these requirements in detail.

2. Improvements in the proposed draft ODV handbook

There are a number of improvements suggested in the draft ODV handbook relative to the current handbook, notably the following :

- The requirement to optimise underground cable circuits to overhead structures has been removed.
- The asset schedules in the handbook have been somewhat extended, providing a more appropriate reflection of assets actually in wide use by ELBs.
- Additional allowance has been made for factors that increase construction costs, such as traffic management and safety requirements. However, we believe that these allowances are still in many cases insufficient to reflect actual construction costs, as discussed in section 4.1 below.
- The requirement to conduct an economic value (EV) test on rural distribution spurs has been removed. This accounts for the bulk of situations where variances between the economic value and the optimised replacement value occurred in the past. However, as noted in section 4.6 below, the EV requirement remains in place for certain assets. We believe the value of the EV test is not worth the cost of implementing it and the test should be removed from the handbook.
- Basic replacement values are generally updated to better reflect the actual costs that would be incurred by ELBs to replace assets, given large-scale projects under average conditions. However, we are concerned about the assumptions surrounding project-size – this is discussed in section 4.1.
- The information to be included in valuation reports is better described than before.

3. Lack of transparency by the Commission

Some of our members have tried to obtain information about the manner in which standard replacement costs have been calculated, the sources used for these values and the engineering standards implied. This has not been forthcoming, with the Commission claiming key information to be confidential.

We find it unacceptable that the Commission expects our members to act transparently and offer up information on all parts of their networks and operations, yet has not provided the quantitative basis on which costs have been calculated by which our members will be regulated. As some of the replacement costs, and particularly the suggested multipliers vary quite markedly from the actual construction costs experienced by our members, this is a serious concern. To allow our members to assess these replacement rates effectively and to strive for the same engineering standards and to obtain the same construction costs for future projects, the following information is required:

- The sources of the basic costs used by the Commission for construction materials and the actual numbers obtained.
- The sources used by the Commission for construction costs and the actual numbers obtained.

- The design standards assumed by the Commission to calculate the replacement costs (highlighting the assumptions made, including those around such aspects as backfilling, reinstatement and resurfacing standards).
- The scale of construction projects assumed.

If the Commission is constrained in revealing the sources of its information, we request that it at least confirm the geographical location of those sources (i.e. for what locations in New Zealand the costs applied).

4. Shortcomings in the draft ODV handbook

In spite of the improvements listed in section 2 above, there are still a number of shortcomings in the proposed ODV handbook that the Commission needs to address. These are discussed below.

4.1 Insufficient replacement cost or multipliers

In many instances, the replacement costs or multipliers included in the draft handbook are not sufficient to reflect the actual cost of installations.

4.1.1 Multiple circuits in a single trench

Although there is a saving from installing more than one cable circuit in a trench, there are costs associated with the second circuit in addition to the marginal cost of the extra cable and its installation allowed for in the handbook (par A17). The thermal capacity of underground circuits is negatively affected by the proximity of other circuits. From a safety and ease of maintenance perspective, sufficient clearance distances also have to be allowed between circuits.

The effect of this is that cable trenches for multiple circuits have to be wider, or deeper than for single circuits. The additional trenching and reinstatement costs also have to be included in the standard replacement costs.

4.1.2 Allowance for traffic management

While the inclusion of an allowance to reflect traffic management costs is a step in the right direction, the actual amount allowed (\$4,000 per km, par A20) is not even closely reflective of the actual cost of such arrangements in urban areas. In certain cases, where cables are installed under road surfaces in busy arterial routes, our members found that the cost for traffic management can in practice exceed \$ 40,000 per kilometer.

If the Commission intends to adopt average rates for traffic management cost, allowance will have to be made to reflect actual costs for different conditions, using different rates for installations in heavy vehicular traffic areas and in less densely trafficked areas.

Alternatively, provision should be made for ELBs to include the actual costs for traffic management in the value of the relevant assets (after demonstrating these costs to the Commission). This is the approach recommended by the ENA.

4.1.3 Upgraded requirement for backfilling of trenches

PB Associates discusses the increasingly onerous requirements many ELBs are experiencing with regard to trench backfilling and state that the CBD multiplier was

adjusted to accommodate this.⁷ However, the actual multipliers used in the draft handbook (par A15) to compensate for this are unchanged from those in the current handbook.

Evidence from construction projects undertaken by some of our members has indicated that these (current) multipliers are often totally insufficient to reflect the actual additional costs imposed by special backfilling and reinstatement requirements. We therefore recommend a review of the multipliers, to reflect the factors discussed by PB Associates and actual CBD construction costs experienced by our members.

4.1.4 Scale of construction works

The draft handbook requires (par 2.13) that costs should be determined on a basis commensurate with a significant scale of construction, rather than with piecemeal additions. There are two major problems with this approach.

- a) There is a significant variance in the size of ELBs and their distribution networks. In addition, the rates of expansion or upgrading of these networks also vary greatly. What is therefore considered a significant construction project for some, would be relatively minor for others. The definition of a “significant scale of construction” should therefore be based on actual average projects carried out in New Zealand, rather than on a hypothetical ideal.
- b) While the theory behind the ODV approach is to replicate costs as if a complete new network can be constructed, in reality this is obviously impossible. Most construction projects carried out by ELBs take the form of relatively small increments to existing network assets, such as the addition or replacement of switchgear, sections of subtransmission or distribution circuits and reticulation for (mostly small) new subdivisions. For a mature network, it may well be found that most of its assets have been constructed on a piecemeal basis, rather than as a relatively small collection of significant construction projects. In general, construction of such incremental projects is more complex and the costs higher for each asset than for major new projects, especially where removal and disposal of obsolete assets are also required.

Our recommendations for an efficient replacement cost schedule is discussed in section 5 below.

4.2 **Planning periods**

While some increases in the planning period to accommodate future growth are allowed in the draft handbook, the draft handbook is still too restrictive in this regard. There is also a fundamental incompatibility and inconsistency between short planning periods and wholesale reconstruction of a deprived asset. An ELB would not build a whole network to cater for loading in the immediate future only.

As proposed in our earlier submission, where ELBs can demonstrate to the Commission that it would be more cost effective to consider longer planning periods, the ODV guidelines should be sufficiently flexible to accommodate this.

PB Associates⁸ maintains that ELBs are in a better position to manage the risks associated with shorter planning periods than customers would be and that a

⁷ Supra note 4, par 4.3.3

⁸ Supra note 4, par 5.3

regulator should therefore transfer more of this risk to ELBs by using such shorter periods. We fail to see how ELBs can manage this risk if non-optimal planning periods are prescribed – this would merely force companies to take a shorter-term view and make less efficient capital investment decisions. In the long run this would lead to unnecessary capital expenditure, the cost of which would be borne by customers.⁹

We note that PB Associates also suggest that the WACC should be adapted to compensate for the additional risk that would be borne by ELBs as a result of the shorter planning periods. This is not the case, as WACC reflects “systematic” risks only, and this particular risk does not fall into that category. Furthermore, to date the Commission has not been willing to adopt margins over WACC to compensate for additional risks created by regulatory decisions. We therefore consider compensating in the cost of the capital for this risk that arises due to a mis-specified regulatory rule is impractical, unnecessary and would only raise costs to consumers. The appropriate approach is to correct the regulatory rule and extend planning horizons.

4.3 Stranded assets

The draft handbook requires stranded assets to be excluded from the optimised network. ELBs mostly have little control over the stranding of assets. The chance of having such assets excluded from the asset base on which a reasonable return is allowed therefore adds to the overall risk profile of the business.¹⁰

Since reasonable investors expect to be compensated for the risks that are inherent to their investment, they would need compensation for the risk associated with stranded assets.¹¹ Compensation for this risk can take three forms:

- through the valuation methodology - allowing stranded assets to remain part of the asset base on which a return is earned,
- ex-ante compensation, typically by increasing the rate of return (weighted average cost of capital, or WACC) allowed on the remaining asset base, or
- ex-post compensation, if and when the stranding event occurs.

If stranded assets are to be excluded from the ODV asset base, the Commission has to ensure that an ex-ante or ex-post compensation measure is put into place.

We note that in its draft decisions on the targeted control regime for ELBs, dated 31 January 2003, the Commission proposed a margin of 0.15% to be added to the WACC of companies that use the ODV asset valuation methodology (par 140). This is to compensate for the overall optimisation risk. However, it did not make any specific allowance for the risk of stranded assets (par 138), which forms part of the optimisation risk. We also note that the Commission’s expert on the cost of capital, Prof Martin Lally, has recommended¹²

⁹ provided that the investment decision was made in accordance with the ODV handbook guidelines

¹⁰ We also noted in our earlier submission that the by having to avoid the stranding of assets, a negative incentive for innovative network solutions is created.

¹¹ Failure to receive adequate compensation would lead investors to under-invest in their lines businesses in preference to investments that provide a superior risk-adjusted return.

¹² Paper to the Commission of 4 August 2003, titled “The Weighted Average Cost of Capital for Electricity Lines Businesses” .

“... in respect of asymmetric risks, the Commission would have to decide whether to incorporate an ex-ante allowance for them into the Lines Businesses output price, or offer ex-post compensation in the event of relevant events occurring.”¹³

Final decisions by the Commission in this regard are still awaited. The ENA would prefer an approach that allows stranded assets to remain part of the asset base, due to the simplicity of implementing such an approach. However, the key issue is consistency between the valuation method and the estimation of the cost of capital, such that investors are able to obtain an appropriate risk-adjusted return.

4.4 Exclusion of assets

The draft handbook requires a number of assets that ELBs use as part of their business to convey electricity to be excluded from the system fixed asset base.

In some cases, for disclosure purposes, such assets can be included as fixed assets under other categories and are therefore included in the asset base on which a lines business' rate of return is calculated.

In other cases assets are totally excluded from the core business assets and are deemed to belong to incremental business units. Where such assets are necessary to conduct the core business of electricity distribution, transfer payments have to be made to the other business units, demonstrating that such transactions occur at an arms-length distance and at competitive rates.

There are a number of potential problems or shortcomings inherent to this approach.

4.4.1 Core business assets excluded from system fixed asset base

Under the current information disclosure regime, as well as under the new draft information disclosure requirements, the categorisation of an asset as a fixed asset, but not a system fixed asset has a relatively minor impact on rate of return or other performance based calculations¹⁴.

However, no final decisions have as yet been taken with regard to the purposes to which the ODV valuation may be put under the final targeted control regime. It is conceivable that the ODV value of a network (system fixed assets only) may be used as a key parameter during future investigations of threshold breaches, and the setting of prices if an ELB is controlled. Under such circumstances the exclusion of assets from the ODV base could have serious financial consequences for the ELB. This highlights the importance of understanding the full context as to the purpose of the ODV valuations before final comments can be made on the valuation methodology.

4.4.2 Intangible assets

Intangible assets are by definition not addressed in the ODV handbook, yet they form an important part of the overall asset base of efficient ELBs.¹⁵ If the true

¹³ Asymmetric risks, in this context, include the risk of stranded assets.

¹⁴ Optimisation and the economic value tests do not apply to those assets falling outside system fixed assets.

¹⁵ In our earlier submission (supra note 1), a description is provided of typical intangible assets that could be owned by ELBs and are essential for their operation. These includes contractual and statutory rights “owned” by ELBs.

market value of such companies had to be determined, intangible assets would form a very significant portion of this value.

As with system fixed assets, it is therefore important to recognise the value of those intangible assets that are an essential part of the asset base used by ELBs to conduct their core business. These assets should be included in the asset base used to determine the rate of return and other financial efficiency measures, or in any investigations into potential threshold breaches, or in the setting of prices under control.

4.4.3 Assets to be included under incremental business units

The guidelines used to determine which assets should be allocated to incremental business units appear to be somewhat arbitrary. We believe that the test for inclusion of an asset in the system fixed asset base should be determined on the basis as to whether or not it is required to deliver the desired service, and not with respect to the technical nature of the asset or whether its supply is contestable.

For example, the mere fact that an asset could be geographically portable does not mean that the service provided by it cannot be an essential part of conveying electricity at the required level of security. Some ELBs are, for example, considering the use of mobile substations or generators as alternatives to installing traditional distribution networks to achieve required levels of security. These assets would help avoid or delay other capital expenditure and would be an integral part of the electricity conveyance service, although capable of being moved from position to position.

Similarly, the mere fact that a sub-service can be provided on a contestable basis would not imply that it is not an integral part of the conveyance of electricity. It is, for example, conceivable that a supplier of network equipment could operate and lease substations to ELBs. The fact that such competitive offerings are in the market would not, however, suggest that substations should then cease to be included in the definition of system fixed assets for those ELBs that own rather than lease them.

When assessing assets such as mobile substations, generators and load control relays, ENA considers the test for inclusion as part of the system fixed asset base should be whether these are integral components of the system required to convey electricity at the required service quality levels. Hence, where ELBs own mobile substations or generators and these form an integral part of the electricity conveyance network (by replacing otherwise necessary distribution assets), these assets should be included in the system fixed asset base. This approach will encourage such solutions, rather than make them unattractive because of the manner in which the ODV valuation is conducted.

We do not agree with the PB Associates view that load control is mainly an incremental service provided to retailers or street light providers and that load control relays, where owned by an ELB, should therefore be excluded from the system fixed asset base.¹⁶ Demand management through load control is practised by many ELBs and will become an increasingly important aspect of capacity planning in future. We therefore expect ownership levels of load control relays, especially for commercial and industrial applications, to increase markedly in future. The test of whether these assets should be included in the system fixed asset

¹⁶ Supra note 4, par 3.1

base should once again be on a service basis – are they an integral part of the asset base conveying electricity at the required service level – rather than on an asset category basis.

This approach would allow ELBs the flexibility to pursue load management techniques to effect optimal networks, as they see fit. Rather than discourage investment in load control systems, as would be implied by the approach suggested in the draft ODV handbook, we believe that ELBs should be encouraged to maximise the use of such systems.¹⁷

Similar issues will arise in future as consideration of distributed generation becomes more important – in some cases ELBs may decide to use distributed generation to substitute parts of the conventional distribution network. These systems would therefore in that sense constitute “system fixed assets” used for electricity conveyance. The fact that generation is a contestable service, supplied in the electricity market should not have a bearing on whether these assets should then be included in the system fixed asset base – the same service-based test discussed above should apply.

4.5 Probabilistic approach to quality of supply levels

We agree that ELBs should have the flexibility to decide on the basis on which the quality of supply in its network is determined. We also support the flexibility provided to ELBs to apply different degrees of security to different parts of their networks (allowing, for example, a higher degree of security to central business or industrial areas), or to use a probabilistic approach to determining the degree of security.

However, the draft handbook requires that one method should be applied consistently across a network, thereby implying that either a probabilistic or a deterministic approach could be applied, but not both. In practice, the probabilistic approach to the degree of security is quite new and would therefore only have been applied to parts of distribution networks that were altered or constructed in the recent past.

To accommodate this, it is recommended that the ODV handbook should allow the flexibility to apply both deterministic and probabilistic approaches to different parts of the same network, as appropriate.

We would also like to express our concern about PB Associates’ somewhat dismissive view on whether the expertise exists in New Zealand for a widespread application of probabilistic planning standards (or distributed generation).¹⁸ We believe that achieving improved efficiency is a goal to strive for and should be encouraged, even if it requires the extension of existing skill sets or “importing” such skills from elsewhere.

¹⁷ Furthermore, it is unclear how the benefit that ELBs obtain from load control systems should be dealt with through transfer payments.

We also disagree with the “blanket” distinction between the central load control equipment and the consumer-based equipment – from a demand management perspective these are all part of the same system and the one cannot function efficiently without the other, or is any more part of the distribution network than the other.

¹⁸ Supra note 4, par 5.2

In its current form, the draft ODV handbook does not encourage innovative techniques at all. In fact ELBs may well be disincentivised to apply these techniques, given the comparatively smaller asset base implied (with associated lower returns), and the higher degree of engineering and network-management input required to successfully implement them. This is contrary to the Commission's stated goal of encouraging dynamic efficiency and against the medium- to long-term interests of electricity consumers in New Zealand.

4.6 Retention of the EV test¹⁹

Although the requirement for an EV test on rural distribution spurs has been omitted, the draft handbook allows for the test to remain in place where the Commission deems it necessary. This would apply especially to high-value, non-standard assets.

We believe that the number of instances where an EV test of such assets would indicate an EV less than the ODRC would be so limited, that the value of retaining the test would not be worth the cost of implementing it. The EV test should therefore be removed from the handbook.

5. Proposed setting of replacement values

As highlighted in section 4.1 above, there are a number of instances where the replacement cost listed in appendix A to the handbook, or the multipliers provided for non-standard installations, are insufficient to reflect actual construction costs. This is in spite of the fact that actual costs were arrived at through competitive tender processes, for projects of significant scale.

We consider this situation demonstrably wrong, unfair and will impede investment.

While we appreciate the Commission's desire to simplify the handbook and the fact that it cannot accommodate a myriad of replacement values to accommodate all construction permutations, this still does not imply that actual replacement costs should not be applied. Our suggestion to achieve this is as follows :

- a) Actual construction costs demonstrated by our members for projects completed over the last five years should be collected, taking into account all representative projects from around the country. (We assume that in preparing the replacement cost schedules, PB Associates would have collected most of this information already.) Allowance should be made for price escalation from the construction dates, in accordance with national statistics in this regard.
- b) Where insufficient project-information is available on some items included in the replacement cost schedule, project-costs should be based on quotes obtained from local suppliers and construction firms, based on hypothetical projects in various project environments. (Again we assume that PB Associates would already have collected a significant volume of data in this regard.)
- c) The benchmark project sizes used as reference should reflect the actual average size of projects undertaken by New Zealand ELBs, which would therefore mainly include smaller, incremental projects rather than theoretical, optimally sized projects. Likewise, the different benchmark project environments should reflect the actual situation experienced by local ELBs.

¹⁹ We note that in par 2.60 of the draft handbook, the reference to clause 2.58 should read clause 2.59.

- d) Based on the actual and quoted values obtained, average replacement costs should be calculated. These would form the default replacement values.
- e) Default replacement values should make allowance for the reset period between updates of the schedule. A price inflation schedule should therefore be determined, based on forecast inflation rates for salaries and wages and materials used in the electricity sector.
- f) Where actual costs are different from the average costs contained in the replacement schedules, the ENA requests that such actual costs should be used in the ODV, provided that the ELB validates these via the Valuer and also demonstrates that projects were conducted on a competitive basis.²⁰
- g) Where actual costs cannot be demonstrated for historic projects, but it is known that costs exceeded the average values (due to project-specific factors such as the location or soil-condition), multiplier factors should be applied to the average costs. These factors should reflect the range between the average replacement costs determined in accordance with (d) and (e) and the maximum project costs obtained from the data collected in accordance with (a) and (b). ELBs should be allowed to use multipliers up to the maximum figure, provided they can validate the multiplier rate used to the Valuer.
- h) In its valuation report, The ELB must report any deviations from standard values and provide the evidence to support the deviation.

The optimisation rules suggested in the draft ODV handbook would remain in place.

6. Updating of Schedules

Although not addressed in the current ODV handbook, we believe that it is essential that the manner of regularly updating the ODV schedules should be considered and described in the handbook in detail. In our earlier submission we suggested a procedure to achieve this.²¹

Given the period that has lapsed since the ODV schedules were originally created (almost 10 years), it is not surprising that there is a significant jump in the proposed replacement cost for most items in the new schedule. To reduce such large step-movements in future, more regular updating of the schedules is required.

If the ODV values are used as part of an investigation following threshold breaches, or for setting prices under control, it will be especially important that correct, up-to-date asset values are used.

This ENA submission does not comment on the actual values used in draft Schedules, as ENA members are better placed to comment on these in their own submissions.

7. Draft information disclosure requirements

ENA understands the draft of the information disclosure requirements is the first phase of a two phase process. In this first phase the Commission is largely replicating the current

²⁰ We strongly believe the threshold regime provides sufficient incentive to ELBs to avoid "goldplating" of construction projects and that actual construction prices would therefore be a fair reflection of optimised asset values.

²¹ Supra note 1, section 5.4.1

regulations, and aligning them with the definitions and processes set out in the Commerce Act. The Commission has requested that submissions “should address whether the Requirements effectively replicate the disclosure regime contained in the Regulations” (paragraph 12 of the Commission paper). This ENA submission does not provide detailed comment on the draft, as ENA members are better placed to do so in their own submissions.

The ENA however does wish to emphasise the importance of the second phase of the review of information disclosures. In order to achieve a useful result, ENA suggests that the second phase commence with a draft policy paper that sets out clearly the uses to which the disclosed information is expected to be put, and on the basis of that draft policy proposes what information is required.

The recent re-setting of thresholds has provided useful lessons as to what information is required in order to re-set the thresholds in an improved manner in five years time. For example, the absence of any explicit trade-off between price and service quality in the thresholds (although recognised as desirable) appears to be due to insufficient information. Meyrick and Associates, in their report on performance analysis of ELBs, concluded that :

“With respect to future regulatory resets, the priority for work in this area is improving the quality and quantity of relevant data available

... Much of the Disclosure Data currently required from businesses is not used for developing comparative performance measures that would be relevant for forming B and C factors. The usefulness of this data should be reviewed with a view to reducing the amount of data required but making its composition more relevant.”²²

The ENA considers this review of information disclosure requirements is an important opportunity for the Commission to set medium term policy, and gather relevant information in a cost effective manner, that improves the predictability of the targeted control regime going forward.

²² Meyrick and Associates, “Regulation of Electricity Lines Businesses, Analysis of Lines Business Performance - 1996-2003 : Report prepared for Commerce Commission, Wellington, New Zealand”, 19 December 2003. (Section 7, p67)