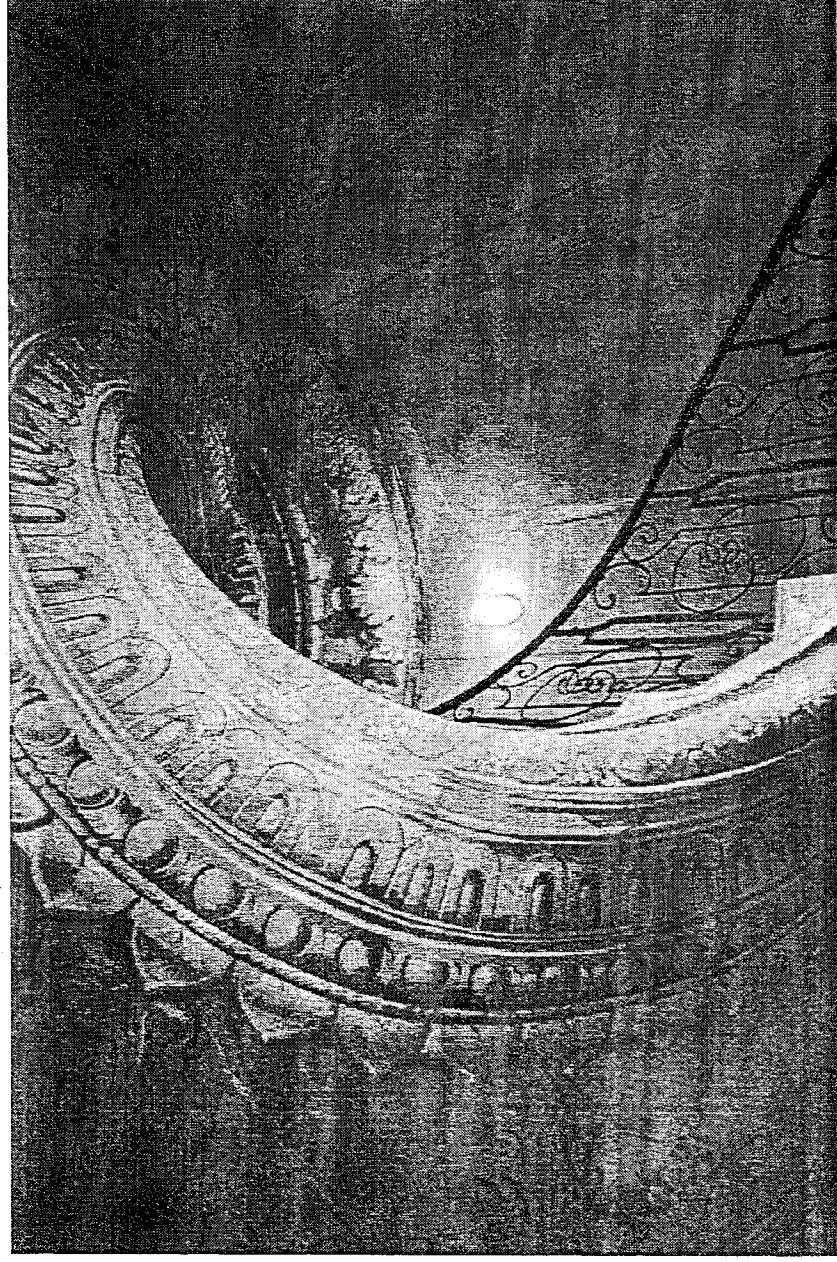


Presentation to Commerce Commission
Review of Information Disclosure and Implementing
Valuation Choice for System Fixed Assets
18 March 2005

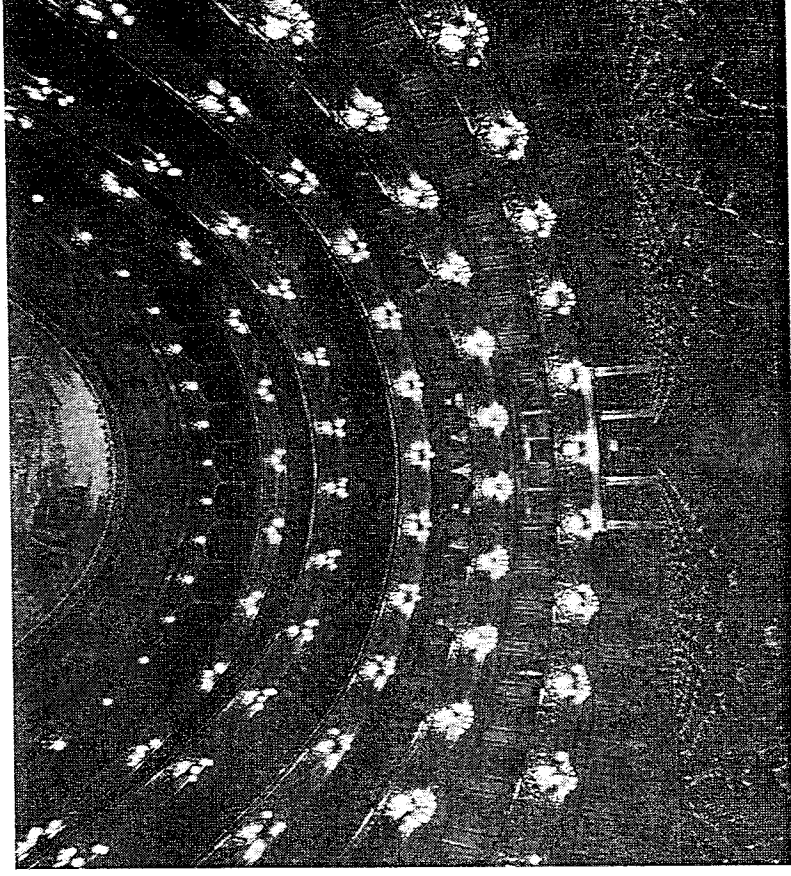


Introduction

- This Submission is being presented on behalf of the following 21 Electricity Line Businesses:
 - Alpine Energy Limited
 - Aurora Energy Limited
 - Counties Power Limited
 - Eastland Network Limited
 - Electra Limited
 - Electricity Ashburton Limited
 - Electricity Invercargill Limited
 - Horizon Energy Distribution Limited
 - MainPower New Zealand Limited
 - Marlborough Lines Limited
 - Nelson Electricity Limited
 - Network Tasman Limited
 - Network Waitaki Limited
 - Northpower Limited
 - OtagoNet Joint Venture
 - Scanpower Limited
 - The Lines Company Limited
 - The Power Company Limited
 - Top Energy Limited
 - Waipa Networks Limited
 - Westpower Limited

Information Disclosure – Statutory Framework

- Existing Information Disclosure is a valid starting point
- Continued focus on outcome regulation (price and quality) is required
- Recognise the contribution of the **targeted control regime** to the Purpose Statement, when defining information disclosure requirements
- The purpose of Subpart 3 is to promote the efficient operation of markets directly related to **electricity distribution and transmission services**



Information Disclosure – Objectives, Principles and Information Needs

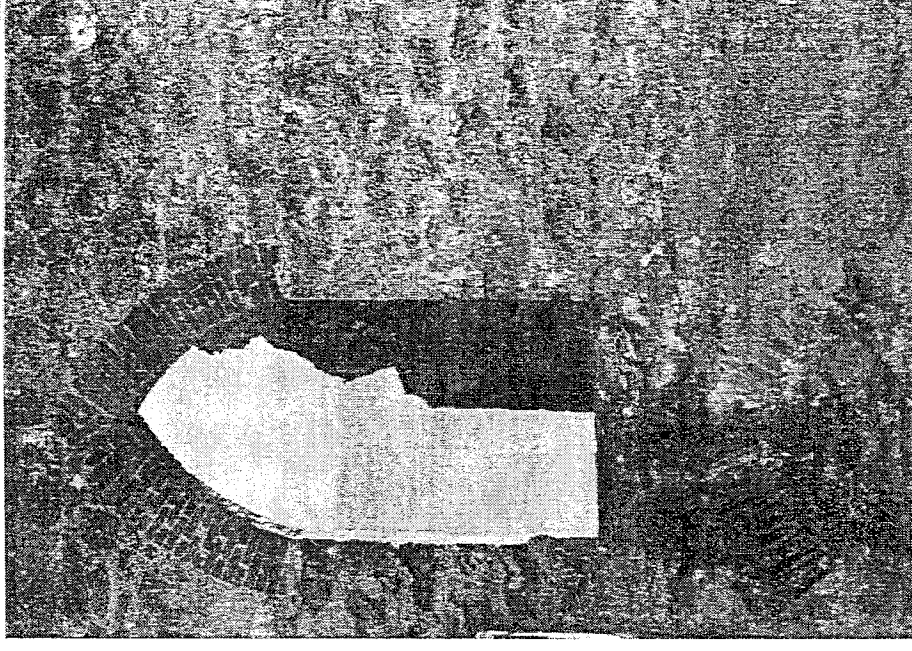
- Widespread disclosures should not be implemented as a substitute for well thought out, targeted disclosures
- The current review should:
 - define indicators and associated information needs
 - develop guidance
 - develop robust certification and audit processes
- Minimise compliance costs and superfluous disclosures
- ELB specific information is available during a post breach inquiry. Disclosure requirements for all ELBs should not substitute for this
- Consistency is important and may be achieved with appropriate guidance and review

Information Disclosure – Financial Statements

- Required to reset the price path threshold, for benchmarking and initial post breach assessments
- Must define indicators first, before financial information requirements can be determined
- Disclosures of reconciliations, working papers and projections are not required
- Some prescription is necessary to meet consistency and accuracy objectives. This may justify more prescription than GAAP but not necessarily inconsistency with GAAP
- ACAM is a valid approach, but common costs should not be double counted

Information Disclosure – Valuation of Regulatory Asset Base

- Broadly agree with Commission's assessment of the role of valuation, and the definition of the regulatory asset
- System fixed assets require specific consideration, but the remaining asset base should be consistent with GAAP
- Annual valuation reconciliations should be maintained, with specific requirements for revaluation movements, and updates



Information Disclosure – Performance Measures and Statistics

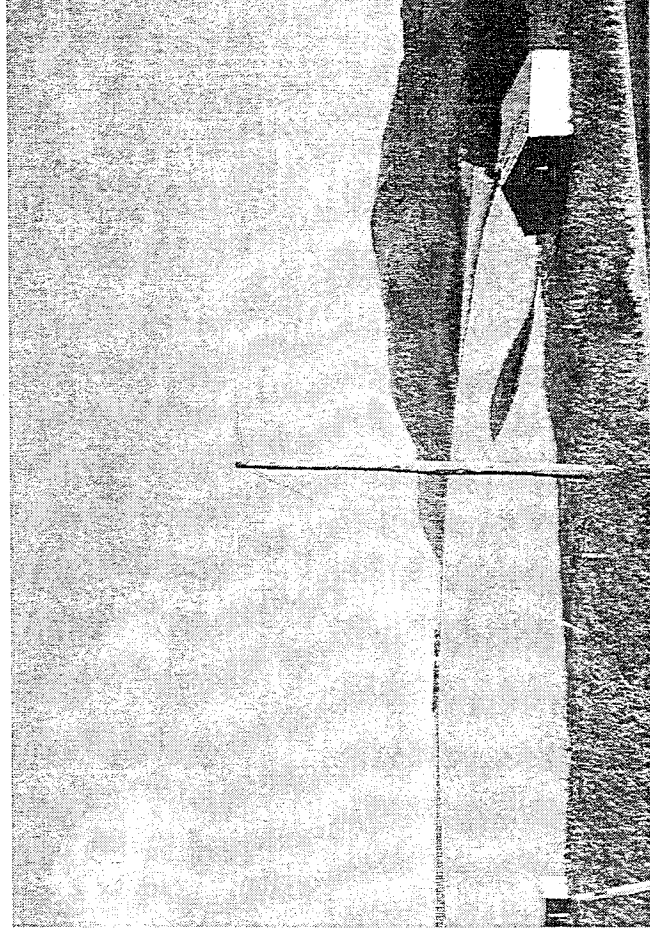
- ROI is acceptable as a preferred return measure, but only as part of a wider set of disclosures
- Additional work is needed to define productive and dynamic efficiency measures
- Continued disclosure of technical efficiency and statistical information is useful
- More guidance on calculating reliability statistics would improve data quality and audit processes
- Disclosures by end use customer type are not valid, but data by feeder or network region may be

Information Disclosure – Auditing, Certification and Statutory Declarations

- Use the audit process and directors statements to minimise disclosure of supporting information
- Provide auditors with sufficient guidance to ensure consistency across ELBs
- Auditors can review quality data
- The current certification and statutory declaration requirements are reasonable
- Do 2004/05 disclosures need to be made in August?
- We would be pleased to contribute to any workshops the Commission may convene to progress this workstreams

Valuation Choice

- Is there sufficient rationale for implementing valuation choice, given the proposed IHC method?
- ELBs are not in the business of making inefficient investments
- Minimise compliance costs by making valuation rules consistent with GAAP



Valuation Choice – Updating Valuations

- Valuations should be updated annually, as follows:

	ODV	IHC
Every five years	Revalue using an updated ODV Handbook	Ex-post prudency review on additions using HC Handbook
Additions	Included at cost in between revaluations	At cost, subject to periodic prudency review
Index (not CPI)	In the interim years between revaluations	Roll forward using same index as applied to ODVs (if IHC adopted)