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Dear Gareth

## **Regulation of Electricity Lines Businesses: Development of Information Disclosure Regime: Process Paper**

### **1 Introduction**

- 1.1 We refer to the Commission's Process Paper in relation to the Development of an Information Disclosure Regime ("the Process Paper").
- 1.2 The purpose of this letter is to set out our comments on the Process Paper.

### **2 Background**

- 2.1 The Process Paper advises that the Commission intends:
  - a. That its information disclosure regime for the 2003/2004 disclosure year will largely replicate the existing information disclosure regime for lines businesses provided for by the Electricity (Information Disclosure) Regulations 1999;
  - b. The new information disclosure regime will refer to the Commission's new ODV Handbook rather than the MED's ODV Handbook; and
  - c. All lines businesses (including Transpower) will be required to prepare and disclose a valuation report for their system fixed assets, as at the end of their 2003/2004 disclosure year, using the Commission's new ODV Handbook. The new valuations would flow through to the relevant financial performance measures disclosed for that financial year, and would provide for the opening valuation under the targeted control regime for the new regulatory period beginning in 2004.

### 3 **Comments**

- 3.1 In conjunction with this letter Transpower has also forwarded to the Commission Transpower's submission on the Development of a Handbook for Optimised Deprival Valuation of Electricity Lines Business System Fixed Assets Issues Paper, September 2003 ("the Issues Paper").
- 3.2 This submission:
- a. notes that the Issues Paper addresses the development of an ODV Handbook only and not the development of a depreciated historic cost ("DHC") Handbook as well;
  - b. seeks confirmation of the Commission's draft decisions (Targeting Control Regime, Draft Decisions, 23 December 2002 and 21 January 2003) giving electricity lines businesses a choice between ODV or DHC valuation methodologies for the valuation of system fixed assets going forward from an opening ODV valuation; and
  - c. states that Transpower is likely to prefer to use the DHC valuation methodology for ongoing valuation of its system fixed assets.
- 3.3 In addition, Transpower advocates that Transpower's opening (June 2004) valuation of its system fixed assets for the purpose of the targeted control regime should be its June 2003 ODV valuation based on the MED ODV Handbook with adjustments for additions and disposals (for the year ending 30 June 2004) at historical cost.
- 3.4 Accordingly, it is submitted that the Commission's information disclosure regime for the 2003/2004 year should, in the case of Transpower:
- a. require Transpower to prepare and disclose a valuation report for its system fixed assets, as at the end of its 2003/2004 disclosure year, using its June 2003 ODV valuation based on the MED ODV Handbook with adjustments for additions and disposals at historic cost; and
  - b. the Commission accommodate in its process for the development of its new information disclosure regime for disclosure years following the 2003/2004 disclosure year, the use of a DHC Handbook by Transpower and other lines businesses that choose the DHC valuation methodology going forward.

### 4 **Conclusion**

- 4.1 In order to reduce compliance costs, avoid adverse impact on dynamic efficiency and reduce regulatory uncertainty (as set out in the ODV Handbook submission referred to above), Transpower submits that the points made in paragraph 3.4 should be adopted.

4.2 In other respects, Transpower supports the Commission's proposals for the 2003/2004 information disclosure regime and that the Commission undertakes a comprehensive review of the regime during 2004.

Yours sincerely

[signed]

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**Industry Integration Manager**