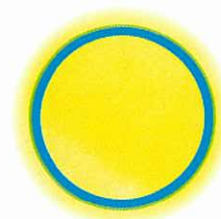


7 March 2008

Information Disclosure Review
Network Performance Branch
Commerce Commission
PO Box 2351
WELLINGTON

electricity@comcom.govt.nz

POWERCO



Dear Sir/Madam

**REVIEW OF THE INFORMATION DISCLOSURE REGIME – 20 DECEMBER
2007**

Powerco Limited (“Powerco”) is pleased to be able to make a submission on the Commerce Commission’s (“Commission”) “Review of the Information Disclosure Regime” dated 20 December 2007. Powerco supports the position of the information disclosure regime in supporting the economic regulation of electricity lines businesses and we welcome the opportunity to comment on the significant amount of work the Commission has undertaken in reviewing the information disclosure regime.

In preparing its comments Powerco has had the opportunity to review:

- the “Companion Paper to the Exposure Draft of the Revised Information Disclosure Requirements”,
- the “Supporting Paper to the Exposure Draft of the Revised Information Disclosure Requirements – Specification of Return on Investment and Revised Draft Methodology for Rolling Forward the Regulatory Asset Base”,
- the “Information Disclosure Regime - Electricity Information Handbook”,
- the “Electricity Distribution (Information Disclosure Requirements 2008” (including spreadsheets reports); and
- the “Electricity Information Disclosure Amendment Requirements 2008”.

Powerco has also had the opportunity to review the “Submission on the Commerce Commission’s Review of Information Disclosure Requirements” prepared by the Electricity Networks Association (“ENA”) and, as per our letter of 6 March 2008, we fully support the approach taken and recommendations made in that submission. This support includes the detailed analysis undertaken by PricewaterhouseCoopers in their submission entitled “PWC Group Submission on the Exposure Draft of the Revised Information Disclosure Requirements”.

Given the detailed work undertaken by ENA and PricewaterhouseCoopers Powerco's comments in this submission are limited to high level issues only.

Reconsideration of Asset Base Roll Forward

The Commission's proposed Information Disclosure Regime uses ODV as the basis for reporting but includes a "preliminary view that there are a number of reasons why it may be preferable to dispense with the current requirement to undertake periodic revaluations using the ODV methodology, and to require the use of IHC in all years instead."

This is a significantly different position from that arrived at through the previous work of the Commission in this area. This work has included:

- in 2002,¹ the Commission issued a report that proposed each Electricity Lines Business have the choice between using either Optimised Deprival Value (ODV) or Depreciated Historic Cost (DHC), with the requirement to remain with whichever method is chosen.
- in 2004,² the Commission issued a report that proposed each Electricity Lines Business have the choice between using either ODV or Indexed Historic Cost (IHC), with the requirement to remain with whichever method is chosen.
- in 2005,³ the Commission issued a decision report mandating ODV for all EDBs.
- In 2006⁴ the Commission issued a paper that stated "*This Decision Paper sets out the Commission's final decisions on valuation implementation matters... (T)he Commission has made the following final decisions regarding the implementation of regulatory valuation requirements.... Distribution ELBs will be required to update their system fixed asset valuations in the year preceding a threshold re-set, by undertaking an ODV valuation. Based on the current timetable, this will be as at 31 March 2008, and every five years thereafter.... Valuations in the intervening years between ODV revaluations will be indexed based on the CPI as at the date of each rolled-forward valuation*"

Powerco agrees with the submission of the ENA that the risk (commercial and regulatory) and costs associated with the use of an indexed roll forward methodology means that a non-indexed methodology is, prima facie, more appropriate. The ENA submission does not comment on the starting point for the RAB roll forward – however Powerco currently believes that the starting point should be, consistent with the Commission's 2006 decision, the 2004 ODV indexed by CPI.

¹ Commerce Commission, *Review of Asset Valuation Methodologies: Electricity Lines Businesses' System Fixed Assets, Discussion Paper*, 1 October 2002

² Commerce Commission, *Regulation of Electricity Lines Businesses, A Companion Report to the Handbook for Optimised Deprival Valuation of System Fixed Assets of Electricity Lines Businesses*, 31 August 2004

³ Commerce Commission, *Asset Valuation Decision Paper & Commerce Commission, Review of the Information Disclosure Regime Decision Paper*, 13 October 2005

⁴ Commerce Commission, *Regulation of Electricity Lines Businesses Valuation of the Regulatory Asset Base (Implementation Matters) for Distribution Line Businesses Decision Paper*, 13 April 2006

Powerco is unable to provide an unconditional view on our preferred roll-forward method or the starting RAB without a full understanding of how the valuation would be used in the regulatory regime and the design of related components.

Cost of information disclosure regime

The Commission has significantly increased the information that would be required to be disclosed by electricity lines businesses under the proposed amendments to the Information Disclosure Regime. There is also an increased auditing regime of this information. The additional information and the increased auditing will impose significant additional costs on electricity lines businesses.

Powerco first raised the issue of the cost of the information disclosure regime in our submission of 11 February 2004 to the Commission's papers of 23 December 2003 where we stated that:

"Powerco is most concerned that the Commission is expanding its information requirements without due regard to the costs on the lines businesses or indeed the purpose to which the information will be put. This growing regulatory burden must ultimately be borne by customers through higher prices and/or lower levels of investment. To avoid this outcome, the Commission should be working to streamline and integrate the regime to minimise the regulatory burden on the lines businesses."

The Commission, itself, has accepted as a principle for designing and implementing the revised disclosure regime that it should be "cost effective". There appears no analysis of the cost of the specific requirements of the proposed Information Disclosure Regime against a "reasonable compliance cost" measure. The Commission should undertake analysis of the cost and benefits of the proposed Information Disclosure Regime prior to any change.

Inability to comply with Timetable Retrospective Implementation

The Commission has currently proposed that aspects of the Information Disclosure Regime apply to the financial year ended 31 March 2007. This financial year is only weeks away from completion and is likely to have been completed prior to the final Information Disclosure Regime being Gazetted. Effectively completed. Aside from being effectively retrospective, the proposed changes will be extremely difficult to implement.

The proposed changes to classification of operating and capital expenditure may require restructuring of an electricity lines business's financial reporting system. Therefore it is appropriate to have the requirements finalised some time in advance of the beginning of a reporting period rather than after the beginning of it (which is likely for the 2008/09 year) or after the end of it (which is most probably the case if the changes are to be implemented for the 2007/08 year).

Electrical or Geographical Non-Contiguous Networks

The proposed Information Disclosure regime would require an electricity lines business to provide data for "the overall distribution network as well as for each geographically or electrically non-contiguous network". Powerco accepts that the breakdown of large geographically discrete networks is appropriate. What is not appropriate is the separation of "electrically non-contiguous networks".

This separation throws up some ad-hoc distinctions which, given the cost involved in the separation, provides little additional information. By way of an example, Powerco's Eastern Electricity network (Coromandel, Thames Valley

and Tauranga) is electrically contiguous as a single Balancing Zone for Global Reconciliation purposes while much of our Western Region is not. To report on the “electrically non-contiguous” parts of our network would require a single report for the Eastern Region and as many as six for our Western Region.

The Commission should reconsider the requirement to report on each “electrically non-contiguous network” and require reporting only on each geographically non-contiguous network.

Powerco thanks the Commission for the opportunity to comment on the proposed changes to the information disclosure regime. We are available to discuss any aspect of our submission if the Commission wishes.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Goodeve".

Paul Goodeve
Regulation Pricing & Risk Manager