9 February 2004

Commerce Commission
PO Box 2351
Level 10, 44-52 The Terrace
WELLINGTON

Dear Sir

SUBMISSION ON THE DRAFT OPTIMISED DEPRIVAL VALUATION HANDBOOK

WEL Networks welcomes the opportunity to comment on the Draft ODV Handbook released on 23 December 2003 by the Commerce Commission.

We are pleased to note a number of improvements to the draft ODV Handbook compared to the current Handbook, these being:

- The requirement to optimise underground cables to overhead has been removed;
- There has been some movement in allowable planning periods, however it is our view this is still insufficient as outlined below;
- The requirement for economic value EV test on spur lines has been removed although the Commission has reserved the right to apply an EV test if it considers it necessary;
- The asset categories have been expanded and that the replacement costs have been updated.

We believe there are still areas where improvements to the draft ODV Handbook can be made.

- **Exclusion of assets**
  - Computer systems such as the Geographic Information Systems (GIS) and Asset Management Systems (AMS) are core to the Electricity Lines Businesses (ELB) ability to provide efficient and reliable conveyance of electricity. If an ELB was deprived of its assets it would be inconceivable that it would replace the assets without a modern GIS and AMS.
  - The load control systems' primary function is for managing network demand at both the Transpower connection point and utilisation of ELB's assets. It is an anomaly that ripple injection plants can be included in the ODV whereas the control relays at customers premises cannot.

It is our contention that computer systems such as GIS and AMS and Load Control Relays be included in the ODV.

- **Planning Periods**

As mentioned above, while there has been some movement in the planning periods they are still too short. In line with our earlier submission, in order to cater for load growth and encourage efficient investments, an ELB deprived of its assets, when replacing them would take into account their long lives and use assets that covered appropriate planning periods. Therefore planning periods should be increased to:

Transmission Networks, Subtransmission (33kV and above)	20 years
– Zone Substations	20 years
– HV and LV Distribution and other network assets	10 years
– Distribution transformers	5 years

- **Security of supply**

We support being able to have the flexibility of deciding whether to use a deterministic and probabilistic approach for determining the security of supply levels. However we do not believe it should be one method or the other. If the areas the methods apply to are clearly defined in the ELB's Quality of Supply Standards a combination of approaches should be allowed.

- **Multiple cables in a single trench**

While it is recognised there are savings from installing multiple cables in a single trench, it is more than just the incremental cost of the cable involved. The more cables that are placed in a single trench the greater the trench dimensions need to be both in depth and width. Depending on cable derating factors and soil type special backfill requirements may also be necessary. This, together with additional labour, all adds to the cost which must be recognised as part of standard replacement cost or a multiplier applied.

- **Using less than three phase distribution lines**

We agree where an existing line is less than three phase that they be valued accordingly. We disagree that three phase distribution spur lines in rural areas should be optimised to single phase two wire lines where there are no existing three phase customers. Modern power systems are constructed using three phases to ensure balanced loadings through the entire system. Also, rural customers would typically have three phase loads such as water pumps and milking equipment. We do not have records as to how many phases a customer is connected to and the costs of collecting it and keeping it up to date would

outweigh any perceived advantage for the valuation. It is our belief the requirement to optimise three phase rural spurs to single phase two wire lines should be deleted.

- **Updating schedules**

The draft ODV Handbook is silent on how and when the various schedules will be updated. We consider it is essential that this is clearly defined in the ODV Handbook. In our earlier submission we suggested that a three yearly cycle in line with the Commission's valuation review cycle would be appropriate. Replacement costs should be updated in consultation with the industry and based on actual costs obtained by competitive tender for significant sized projects.

Given that the current MED ODV Handbook values have not been updated in nearly ten years, a more regular review will avoid large changes in value due to replacement cost increases/decreases.

Conclusion

We appreciate the small number of improvements made in the draft ODV Handbook over the current MED ODV Handbook. There are a number of areas where the draft ODV Handbook needs further modification as outlined above.

Also, WEL strongly supports the submission presented by the Electricity Networks Association.

We would be happy to discuss any of the points raised in this submission with the Commerce Commission or its Advisors if this would be helpful in finalising the ODV Handbook.

Yours sincerely

Mike Underhill
CHIEF EXECUTIVE