

ELECTRICITY CONSUMERS ASSOCIATION

14 Breckons Ave.,
Nawton,
HAMILTON.
4 NOV .02.

Submissions on the Review of Asset Valuation Methodologies

- Electricity Lines Businesses.

COMMERCE COMMISSION,
44 – 52 THE TERRACE,
P.O.BOX 2351,
WELLINGTON.

Thank you for sending us the document Review of Asset Valuation Methodologies

- Electricity Lines Businesses.

Five copies arrived last Tuesday; we've distributed them amongst key members and held telephone canvass as to opinion and concerns.

The Electricity Consumers Association is an interested body representing consumers in the WEL Energy Networks area. Two of our members are now on the WEL Energy Trust.

As a group, we are against the Optimal Deprival Value [ODV] as the basis for determining asset value in order to establish a "fair" price regime for line charges. Rather, we prefer a continuation of the Depreciated Historic Cost [PHC] system.

It is clear that ODV {a euphemism for new replacement cost} is inflationary since the ODV of fixed line and ancillary assets bears no relation to their actual capacity for service and/or their physical condition, let alone the efficiency of the electrical gear (transformers, switches, meters etc.) in its ability to perform at the specifications pertinent to the requirements of today. For older residential areas, conditions may not have changed for 50 – 80 years, nor has the distribution equipment. Of course, weather and time have taken their toll – the lines and gear installed 50 – 80- years ago are still performing their role (perhaps not at their original efficiency) but their monetary worth depreciated to zero 25 – 50 years ago. Since then, of course, huge profits have been taken from these assets, book value zero, a highly inflationary action in itself. Those profits would have paid for installation of new equipment several times over.

ODV would monetarily reinstate and revalue assets long since written off. It would hugely increase the profit margin and separate profit from actual costs. In this sense, ODV would be unethical.

We can see that business interests would favour ODV since it artificially inflates asset value. Since asset value is deemed the basis for determining line charges (a "fair" return on "investment"), profits in a monopolistic situation thereby bear a direct relation to assets. High asset value allows high line charges which means high profits. Of course, high profits usually means good dividends to shareholders. Good dividends promote high share prices which, it seems, only foreign investors can afford. ODV would promote further privatisation of N.Z's assets and further weaken our economy.

Hoping that you see fit to consider our views, I am

For the committee,

Yours faithfully,

A handwritten signature in black ink, appearing to read 'B. Cope', written in a cursive style.

Barry Cope
(secretary)