

Grey Power

THE ACTIVE ORGANISATION FOR THOSE 50+



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VALUATION OF ELECTRICITY LINES BUSINESSES

As stated in our cross submission of 29/8/2002 on the regulation of electricity lines companies we do not consider that regulation of tariffs based on the valuation of lines companies will be satisfactory.

Our recommendation is that if targeted control is introduced then regulation should be based on consumer density as this tends to be a more accurate indicator of costs. Suitable adjustments have to be made for larger loads that are cheaper to supply than households.

The problem with basing regulation on ODV valuation is that ODV does not take into account the state of repair of the system. As the return is assured regardless of the state of the system then regulation based on ODV will encourage run down systems.

Basing return on depreciated historical cost or book value could encourage possible over expenditure on the system and also the booking of what should properly be regarded as maintenance to capital. This practice has recently received considerable publicity regarding Worldcom, and closer to home, TranzRail.

In all cases of tariff regulation based on valuation the companies objective becomes to raise the valuation and this is one of the reasons why we have seen so much of an increase in ODV. Changes in valuation should not become justification for increasing profits.

This is not to say that valuation has no purpose and should be abandoned. ODV has become an established method of comparing the various companies and its calculations are becoming standardised. Book value is also a guide. And a comparison between book value and ODV used properly could well be a good indicator of the state of the system.

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We wish to appear before and take part in any further conferences and other proceedings.

Yours faithfully,

A handwritten signature in cursive script, reading "David W. H. Berry".

David W. H. Berry.

Secretary to
Grey Power Federation Energy Committee.