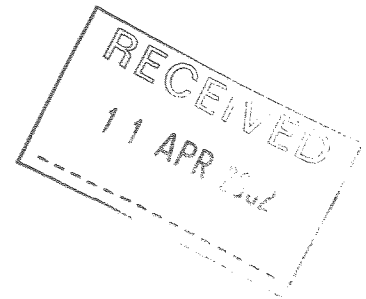


9 April 2002

IU10-12

The Commerce Commission  
P O Box 2351  
WELLINGTON

Attention: Mr Peter Alsop



Dear Sir

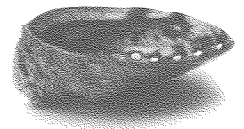
### **Review of Electricity Asset Valuation Methodology**

The letter you have recently written to the Electricity Networks Association has been passed on to *Local Government New Zealand* as *Local Government New Zealand* is currently undertaking a joint exercise with a number of utility companies who undertake their activities in the Roothing Corridor.

As discussed with you, rather than specifically answering the questions in the Issues Paper, there are some developments taking place in the local government sector which you should be aware of.

As you may be aware, utilities are now subject to the Local Government Rating Act 2002 – and this is the rating of telecommunications, gas, and electricity assets. It also applies to the assets owned and maintained by local authorities – water supply, sewerage and storm water. As part of this exercise, these assets have recently been valued for rating purposes. The valuation of a significant number of the assets in these local authorities - in the order of 50 of the 80 local authorities, was undertaken by engineering consultants - Meritec. As part of your review it is suggested that you review the work undertaken in this recent valuation of all these assets.

In addition to this you may not be aware but recently local government has produced a manual titled "*Guidelines for the Valuation and Depreciation of Infrastructural Assets*". This was to improve the consistency of the valuation of these assets by local authorities, particularly roading, water, sewerage and storm water assets. The major reason for producing this guideline was to provide a consistent approach to the definition of components, a systematic methodology for deriving asset lives, and a systematic approach to optimisation. The underlying valuation methodology used for these assets is ODRC. This Guide can be obtained by referring to our website [www.lgnz.co.nz](http://www.lgnz.co.nz) and the reference to this document is found under 'Best Practice'.



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This Guideline was produced in parallel with FRS3 "*Accounting for Fixed Assets*" which provides a framework for defining components and depreciation techniques – which are needed for the valuation process.

It seems that your valuation exercise also has to be undertaken within the framework of that accounting standard, as well as the valuation standards produced by the Institute of Valuers.

As indicated above the issue arising for local authorities is that while there may well be a Valuation Standard and an Accounting Standard, the application of those has in often cases been different and hence the need for a guideline. Therefore it does seem to me that when a new valuation handbook for electricity assets is developed and we would commend that similar methodology is used for your purposes.

It is clear that while these valuations are often used for different purposes, it seems that there should be a common valuation methodology for all infrastructural assets and we would suggest that our Guideline provides a good starting point for your Review.

While these Guidelines have been applied to the infrastructure assets owned by local authorities, there was concern by electricity, gas and communications companies that the recent valuation for rating purposes was also undertaken in different ways by different valuers. To address this issue, you should be aware that *Local Government New Zealand* is seriously considering developing a valuation guideline for telecommunications, gas and electricity assets to provide a more consistent framework in the future for rating purposes. Therefore we would like to be consulted by the Commerce Commission as you undertake your Review to ensure some consistency of approach in the public sector.

We look forward to hearing from you.

Yours faithfully



Tim Davin  
Manager, Development and Infrastructure  
*Local Government New Zealand*