

NetworkTasman

Network Tasman Limited

281 Queen Street
PO Box 3005
Richmond 7031
Nelson, New Zealand

Tel: 64-3-544 8098
Toll-free: 0800 508 098
Fax: 64-3-544 6066
website: www.networktasman.co.nz
email: info@networktasman.co.nz

5 April 2002

Mr Peter Alsop
Manager Network Performance
Commerce Commission
PO Box 2351
Wellington

Dear Mr. Alsop

REVIEW OF ASSET VALUATION METHODOLOGIES

Your letter of 14 March 2002 to Network Tasman's CEO Wayne Mackey refers.

Network Tasman (NTL) appreciates the opportunity the Commerce Commission has provided to make submissions at this formative stage of the process.

We have reviewed the Valuation Issues Paper and in general concur with items identified. However Network Tasman requests that explicit consideration also be given to the following additional issues:

1. The incentives and consequences associated with any ongoing EV criteria be evaluated. EV testing will potentially impact on the continuance of line services supply to marginal areas beyond 2013.
2. The economic impact alternative valuation methodologies might have where lines companies can make choices between capital and operational expenditure.
3. The impact alternative valuation methodologies may have upon the ability of line companies to meet future quality of supply expectations.
4. The treatment alternative valuation methodologies might apply to undergrounding costs. The growing public pressure and resource consent / easement difficulties associated with building new overhead lines or augmenting existing overhead lines should not be further exacerbated by an excessively rigid and unfriendly view of undergrounding in the chosen valuation methodology.
5. The impact alternative valuation methodologies may have with regard to the governments GPS goals for sustainable energy development and greenhouse emissions.

6. Any economic impact alternative valuation methodologies may have on innovation and the uptake of new technologies- both within traditional lines business and with respect to distributed generation
7. That the regulatory valuation methodology chosen to be fully consistent with the financial reporting requirements under FRS3. This will help avoid confusion for external users and duplication of effort by lines companies.
8. That any major change of direction away from ODV be well supported by a benefit / cost analysis. Considerable effort and resource has already been committed to establish and support the existing methodology, so the benefits and costs of making a wholesale change require careful consideration.
9. That consideration be given to the treatment of assets which have reached the end of their standard lives yet retain useful service potential. Additional life & value could be assigned to these assets based on an appropriate engineering assessment or by a prescriptive rule to remove the incentive in current ODV rulebook to invest simply to maintain/increase ODV when there is no engineering basis (assumes a potential for regulation of excess returns).
10. The valuation rules, as much as possible, should be objective, clear, and not open to subjective interpretation.

I appreciate that some of the issues NTL has identified above overlap or may be contained within the items already identified by the Commission However we believe these items above are worthy of direct consideration.

I will have placed 15 hard copies of this email in the post this evening.

Please contact me should you have any further queries.

Yours sincerely



Network Tasman Limited
Colin Starnes
Commercial Manger

DDI 03 543 9607
Fax 03 544 6066
Email colin.starnes@networktasman.co.nz