



12 JUN 2003

Mr G Henry  
Queensland Competition Authority  
GPO Box 2257  
BRISBANE QLD 4001

Dear Mr Henry

Thank you for the invitation to provide comment on the Queensland Competition Authority's (QCA) discussion paper *Electricity Distribution: Valuation of Easements*. The discussion paper proposes the following four alternative approaches for the valuation of easements of Distribution Network Service Providers:

- Historical cost;
- Historical cost, indexed for inflation;
- Market value of the land on which the easement sits [consistent with the Depreciated Optimised Replacement Cost (DORC) methodology]; and
- Zero value (assuming easements represent a sunk cost).

Treasury supports the view that existing easements should carry some value, rather than be treated as a sunk cost. However, a market value approach to valuation is not appropriate given:

- easements do not depreciate like other assets;
- easements are granted in perpetuity and are generally not replaced; and
- where an easement is no longer required there is generally no alternative use for the easement.

On this basis, Treasury believes indexed historical cost provides the most appropriate approach for the valuation of easements given it preserves the real value of an owner's original investment and provides adequate incentives ensuring efficient future investment decisions are made.

Should you wish to discuss this matter further, please contact Louise Dunne on (07) 3225 8717.

Yours sincerely

A handwritten signature in black ink, appearing to read 'T. Spencer'. The signature is fluid and cursive, with the first letter 'T' being large and prominent.

(T. Spencer)  
Deputy Under Treasurer