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84 McLauchlan Street
BLENHEIM

Phone: 03 577 8318
04 802 0305

24 February 2000

The Manager
Inquiry into the Electricity Industry
Level 11, Ministry of Commerce Building
33 Bowen Street, P O Box 1473
WELLINGTON

Dear Sir

Submission to Inquiry into Electricity Industry

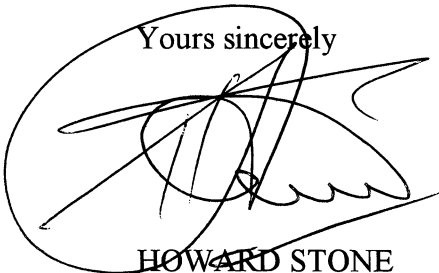
I am attaching a submission to the above inquiry. I have also provided an electronic copy as requested for publication on your website.

With regard to appearing before the Inquiry, I would comment as follows.

The key points in the submission are such that they have been made and do not really require further elucidation through oral representation at the Inquiry. However, if the Review Committee wishes to debate or contest the contentions and representations made then I am more than happy to accommodate that by further representation at the time of hearing submissions. I will leave this in the hands of the Review Group.

Thank you again for the opportunity to make the submission on what I consider to be a fundamental issue for this nation.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Howard Stone', enclosed within a large, hand-drawn oval. The signature is fluid and somewhat abstract, with several loops and a long horizontal stroke extending to the right.

HOWARD STONE

SUBMISSION TO

MINISTERIAL INQUIRY INTO THE ELECTRICITY INDUSTRY

FROM

H.J. STONE
84 McLACHLAN STREET
BLenheim

Thank you for the opportunity to make this submission on behalf of myself, the citizens and electricity consumers of Marlborough.

CONTENTIONS:

The submission has three fundamental contentions:

First: That the reforms of 1999 are fundamentally flawed in their theoretical and practical conception when considered in the light of how commercial enterprises behave when confronted with competition.

Second: That from an operational perspective, the production and delivery of a network dependent product such as electricity will be more effectively managed by integrating and co-ordinating its asset base, not artificially segmenting it.

Third: That communities should have the absolute right to choose how they organise the means of production and delivery of electricity if they are prepared to accept the risks involved and that such choices do not run contrary to the national interest.

COMMENT:

By way of explanation of and expansion on these contentions I would comment as follows:

1. The natural response of private enterprise to competition is not the striving for reduced prices which reformers seem to think it is. Particularly with utilities, which rarely if ever go broke, the response is to reduce competition by acquisition, merger or even informal agreements.

The evidence of this abounds nationally and internationally. Competitive tendering in the public transport sector since 1991 yielded an initial flash of enthusiasm followed by a period of acquisition and merger so that we now have no effective competition in the greater Wellington Region.

Such an outcome may be tolerable under public ownership but not under private sector regimes. Not only does the price paid for goodwill in the acquisition process have to be recovered but also the full commercial return on the assets employed. This can only result in price inflation with the electricity consumer paying the full cost of profit ambitions. The evidence of this is clear to see in the short time since the reforms.

Internationally, the mega merger and acquisition trail is news of the day. It would be incredible if these historic and current lessons were not considered in your deliberations.

2. Network businesses are most effectively and efficiently run when they remain integrated.

Reformers have endeavoured to rectify shortfalls in efficiency through restructuring the models. In fact in most cases the model was fine, it was the governance structure and management quality which were defective. They were, I suspect, through missionary zeal, applying a solution without first identifying the problem.

I submit that it is still not too late to remedy this fundamental error through amending the regulatory framework. However, such a move would need to guard against monopolistic tendencies from the privately owned utility companies.

3. Probably most important is the issue of community choice, or lack of it under the reformed industry.

If Marlborough, for example, wished to retain its consumer owned, integrated utility then it should have been permitted to do so. In fact, Marlborough made representations similar to this but these were ignored in the pursuit of a futile and flawed “model”. In my opinion, this is a flagrant breach of local democracy and should be rectified within the scope of the review.

I challenge the review group to put forward a rational argument as to why Marlborough should not pursue the public ownership of its own fully integrated electricity utility if it is the will of the community and consumers to do so. It is a choice for Marlborough – not for others.

Finally, I would submit that the review inquiry recommend to Government that it:

- Recognises the flawed thinking behind electricity reform and allows publicly owned utility operators to pursue a process of acquisition so that integrated and efficient community owned utilities can be developed.
- Notes that such flexibility should not be extended to electricity utilities which are not under public ownership.

- Acknowledges the rights of local communities to pursue an integrated utility, where feasible, if it is the will of the community to so do.
- Specifically allows Marlborough Electric Power Trust to reacquire generation capacity so that it can meet the explicit demands of its community.

HOWARD STONE

23 February 2000