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Th Hon David Caygill  
Chairman  
Office of the Ministerial Inquiry into the Electricity Industry  
P O Box 1473  
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Wellington

Dear Sir,

The solution to the problem of bringing genuine competition to the electricity retailing sector is simple in my opinion provided there is the will to carry it out in the face of hostility from the energy trading companies and other vested interests.

Nothing was more important when deregulation of the industry was first proposed than separation of line and energy charges. The difficulty of ensuring this is really what was behind the Electricity Industry Reform Act which I believe was a step in the right direction although it did not go far enough. Allowing the energy trader to have anything to do with the local network charge seems to me to be the major error.

Note in the enclosed cutting from the Southland Times that the chairmen of both Southland networks believe that 'repackaging' of the network charge by the energy trader circumvents true competition:- *The Government's electricity reforms gave electricity retailers like Contact the ability to repackage the network charge 'exactly how it suits them' which meant the actual costs could be concealed.* The reforms did *not* give energy retailers that ability but should have forbidden it.

Reading through the Issues Paper prepared by the Inquiry Panel I find no reference to some of the fundamental issues which ought to be considered:-

1. Ownership of the meter
  2. Ownership of the customer
  3. The necessity for use of system agreements
- 
1. The network company should fix and collect its own network charges.  
The network company should own and also read the meters.
  2. The network company should 'own' the customer. Customer inquiries for faults or accounts should go to the local network owner domiciled in the area.
  3. 'Use of system agreements' are only necessary because of the original conception (in my opinion, flawed) that the retailer -owner of the customer- had to be the energy trader collecting the local network charge on behalf of the network owner. But the network owner can, just as readily, collect the energy charge and pass it on to the energy trader.

The network owner cannot 'package' the energy charge, it is fixed by the energy company. The network company will have to add a fixed percentage to this charge for the capital risk but that should be no more than the percentage added now by the energy company.

Transpower should fix the charge from the point of entry into the grid to the point of supply to the network with this charge borne by the energy trader.

Any claim that this imposes unsolvable technical problems should not be readily accepted.

### **Why would these simple changes make any difference?**

Changing retailers will be no more complicated than changing a telephone number.

Meridian says it has won 30,000 new customers since the middle of last year. 10,000 of them have waited four months and have still not received a bill because of the "novelty and complexity of the transfer process". If the network company owns and reads the meter, fixes and collects the network charge, then a change of retailer for a consumer is a simple keyboard entry into the network company's computer.

### **The energy trader should sell energy only**

If the energy trader sells just energy it is quite simply the price per unit. Competitive advantages will be readily discernible to the consumer. The price per unit will include the Transpower charge which is the 'freight' to get the energy to the consumer's network. The reason for this is that the further the source of supply is from the consumer the higher the price will be, which is what it ought to be. The energy traders may insist that 'time of day' will affect this price but if it does then they will have to devise some method of allowing for this as they do already. If they claim that one of their own meters is required then they could install it or come to an arrangement with the network company or the consumer but it could lose them business.

### **The network company should fix and collect its own charges**

The network company does set the network charge for each consumer. The network company is more concerned with 'time of day' than the energy retailer and must also take account of maximum demand, average load, power factor, load factor, line losses and to a small extent, quantity. The ability of the network company to correctly apportion these charges is severely limited if it has to pass the charge to an energy retailer to collect on its behalf. In the past consumers received considerably reduced charges for ripple control which is now not possible because the energy trader cannot get that benefit.

Under the present system the energy trader adds a percentage to the network charge and on-charges it to the consumer. When United Electricity was the energy trader in the Southland area that was 5% and is probably still something of this order. But on top of that now there is 'packaging' which could mean anything.

### **Ownership of the meter**

The meter should be owned by the network company if it is not owned by the consumer. This is a fundamental issue but *Issues* does not mention it. Genuine competition between energy retailers is impossible if the meter has to be changed each time the retailer is changed. Legislation to require energy companies to transfer ownership between themselves has been suggested but would be hopelessly impractical, costly and unnecessary.

### **The meter should be read by the network company**

The Power Company and Electricity Invercargill do own the meters but they are read by the energy traders. There are now two energy retailers in this area with Meridian obtaining a number of consumers last November. The network company should read the meter and pass the information to the appropriate energy trader. What is supposed to be wrong with that? Is it any different from the energy trader collecting the network charge from each consumer and transferring it to the network company? Yes it is different. It is much safer from the point of view of the energy trader, the network company and the consumer because even if an error is made in reading the meter it will be corrected for everyone next time it is read..

### **Two accounts?**

If there is to be just one account then it is more logical for it to come from the network company than from the energy trader. The network company is domiciled in the area, accessible to the consumer. It is, however, quite possible that two accounts, one from the network company and one from the energy retailer would prove to be the cheapest for the consumer. I am well aware that the simplistic approach to this suggestion is to immediately proclaim that it would cost more and throw it out the window. It has to be properly costed.

### **Ownership of the customer:**

Recently consumers in the Central Otago area had serious problems with weather related outages. They were required to deal with an energy company as far away as Auckland, with that company then passing the information back to the network operator within a mile of the consumer. Surely the customer should belong to the network. I have my Internet and toll account with Clear but get an account from Telecom for the network charge. I have no quarrel with this but I would if I was forced to contact Clear to ask Telecom to fix a line fault on my telephone. There is competition between Telecom and Clear for distinct services which they provide and for which separate accounts are sent.

**The Future:** Ideally in the future energy traders should be just producers- the owners of the hydro and thermal plants. When wheeling was first proposed outside of New Zealand it was always envisaged that it would be from producers to consumers- never from networks or brokers.

### **Regulation of network companies**

There are three separate cases to consider:

1. Networks owned by private companies
2. Networks owned by local authorities
3. Networks owned by consumer trusts

The reform of the electricity distribution sector which had its beginnings in 1988 envisaged network companies purchasing electricity on the wholesale market and then selling the energy both within and outside their own networks through wheeling. As competing businesses the company structure was deemed to be appropriate. Maximisation of profits for shareholders was the aim but with an outright monopoly owned by a private sector company, maximisation is intolerable so the Government must regulate. It is an unfortunate fact that there is no satisfactory basis for assessing the value of a network now that the companies have been traded on a market which attempted to predict the behaviour of the regulators. If any companies can be shown to have paid an excess amount for a network they should not now be allowed to recover that excess.

**Local authority ownership:** Municipal Electricity Departments were criticised for making excess profits from electricity consumers especially from commercial consumers and using the revenue to offset rates. The 1992 legislation which required local councils to convert their electricity departments into local authority trading enterprises envisaged them as competing for business with other electricity suppliers. S594Q of the Local Government Act "*The principal objective of every local authority trading enterprise shall be to operate as a successful business*". But networks are now undeniably monopolies with no more claim to being a business than the drainage or water reticulation. Operating a network as a successful business is a pushover. The Panel may consider if it is reasonable for local authorities to cross- subsidise rates with network charges or to what extent they should be allowed to do so.

**Consumer Trusts:** If they want to overcharge themselves and get the money back as a dividend less company tax they have only themselves to blame. That is provided they do have control over the company. The company structure for a consumer trust owning just a network is not just pointless but is an extra expense. Management is responsible for the efficient operation of the network and the manager can be chosen by the elected trustees in the same fashion as for a territorial local authority. Regulation to ensure that consumers are fairly treated is necessary- the same as in MED's, commercial consumers could be overcharged. But no other regulation should be required for a consumer trust.

I have no interest or connection with any power company, network, board or local authority but do have technical knowledge of the electricity distribution industry and have written articles for the Southland Times on the electricity reforms..

Yours sincerely,

Max Skerrett

