

Thursday, 4 October 2007

To

2013 Review

Electricity Group
Energy and Communications Branch
Ministry of Economic Development
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Wellington, New Zealand

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This submission is made on the **Review of Section 62 of the
Electricity Act 1992 'Continuance of Supply' (2013
review)** on behalf of Eastland Network Ltd.

This submission is from

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I/ we do not wish to be heard in support of my/ our submission.

1.0 Introduction

- 1.1** Eastland Network Limited (ENL) owns and operates the lines for the upper East Coast of the North Island. We distribute approximately 302 GWh of electricity to approximately 26,000 consumers, of which almost two thirds are in Gisborne City and Wairoa Township. The remaining connections are scattered widely, across two isolated distribution networks covering 11,952km², resulting in an overall line density of less than seven connections per kilometre of line.
- 1.2** The modern lifestyle and our quality of living are heavily dependent on electricity and we are aware of the resulting responsibility and importance to find an efficient and economic supply solution for our customers after 2013.
- 1.3** On behalf of ENL we thank the Ministry of Economic Development for the opportunity to comment on the 'Review of Section 62 of the Electricity Act 1992 - Continuance of Supply'.

2.0 Summary

- 2.1** It is vital that a regulatory environment is created that aligns the regulations for electricity lines businesses and the obligation to supply regulations in a coherent manner.
- 2.2** Any regulatory outcome must provide long term certainty for both the consumers and the electricity lines business.
- 2.3** Of the options suggested in the consultation paper, we favour Option D which provides continuance of supply, using lines or alternatives with no expiry date. This option delivers a level of certainty for all affected parties. Pre-1993 customers are assured a continuance of supply. In addition, Option D allows lines companies to choose supply alternatives where this is more efficient. In this context, we note that it must be possible for lines companies to make an adequate return on their investment that is not based on the Optimal Deprival Valuation (ODV) but on real expenditure.
- 2.4** It is vital that the necessary incentives are in place to drive investment in the distribution infrastructure. Using supply alternatives has the ability to

reduce the extent of cross-subsidisation. If lines companies are able to utilise supply alternatives that prove to be more cost effective than the distribution line, the benefits could be passed on to consumers. It is likely that regulatory alignment will require cross-subsidisation between urban and rural consumers to be explicitly provided for.

3.0 Comments

3.1 We have identified the following major issues and would like to make comments and discuss the questions raised in the document respectively.

3.2 Overall, we feel there needs to be a strong alignment between the obligation to supply regulations and the regulations for electricity lines businesses.

3.3 Any regulatory outcome must provide long term certainty for both the consumers and the distribution asset owners.

3.4 Option A: Continuance of supply expires but lines companies provide information on intentions in advance

3.4.1 As a consequence of Option A, the Act would require a modification replacing the continuance of supply by lines with a requirement for lines companies to provide information on intentions and notification if they plan a change in, or a removal of the supply to pre-1993 consumers.

3.4.2 Although this Option does not require a lines company to provide electricity lines after 2013, the practicability of this approach is questionable. As raised in the discussion paper, economic deliberations will likely cause distributors to not replace lines as soon as repair and maintenance cost are getting too high. Additionally, damage to lines caused by extreme events cannot be foreseen. In this case it is impossible to provide the necessary information for the affected consumers.

3.4.3 We would also like to point out, despite the fact that this Option is very favourable for lines businesses, we feel it creates a high degree uncertainty for the consumers.

3.5 Option B: Continuance of supply expires but lines companies assist transition from lines supply to alternative

3.5.1 We do not support Option B for similar reasons as outlined above. Even more, this option potentially imposes increased costs on the lines companies as they would be obliged to manage the transition to alternative supplies. As it is not yet clarified who is responsible after the transition period, without further definition, Option B creates uncertainty for the consumers and the lines businesses.

3.6 Option C: Continuance of supply by lines with no expiry date

3.6.1 Option C is not favourable as it hinders the opportunity for lines companies to be able to make an economic return on their network investments or provide their customers with alternative supply solutions. Option C retains the status quo, meaning distributors would have to continue the provision of uneconomic lines to remote customers. The inability for electricity lines businesses to place supply alternatives is a major weakness of this option. Supply alternatives as a replacement for uneconomic lines might ultimately have positive spill-over effects for their total consumer base in terms of cost reduction and quality of service.

3.7 Option D: Continuance of supply, using lines or alternatives, with no expiry date

3.7.1 Of the options suggested, we favour Option D as it is the likeliest to meet the needs of both, customers and lines businesses.

3.7.2 This option delivers an amount of certainty for all affected parties. Pre-1993 customers are assured continuance of supply. In addition, Option D allows lines companies to choose supply alternatives in cases where lines prove uneconomic.

3.7.3 It is vital that the necessary incentives are in place to drive investments in the distribution infrastructure. Using supply alternatives has the ability to reduce the extent of cross-subsidisation. If lines companies were able to utilise supply alternatives that prove to be more cost effective than lines cost benefits could be passed on to customers. It is likely that regulatory alignment will require cross-subsidisation between urban and rural consumers to be explicitly provided for.

3.7.4 Regulation must also make it possible for lines companies to gain an adequate return on their total investment that is not based on the Optimal Deprival Valuation (ODV) but on real expenditure.

3.8 Option E: Continuance of supply for a limited time beyond 2013

3.8.1 ENL does not favour the Option of continuing supply for a limited time beyond 2013. A delay of the decision would arguably not provide an acceptable solution for either distribution companies or consumers. The implementation of Option E would likely create a high degree of uncertainty for all affected parties if it was left undecided what happens after the transition period expires. Furthermore, this option does not create incentives for further investments into network assets and involves incremental costs for the distribution companies.

3.9 Option F: Continuance of supply using lines or alternatives with no expiry date subsidised by *all* electricity users

3.9.1 The introduction of a new regulatory framework which would require a new legal instrument to fund the continuous cross-subsidy of electricity services to consumers connected to lines as at April 1993 entails significant costs for

- (i) the Government in setting up and administering the required legal entity,
- (ii) the consumers who might be exposed to increased electricity charges due to the subsidies for remote connections, and
- (iii) lines companies as they would have to comply with the extra administrative requirements and would keep the supply responsibility.

Option F ensures the continuous supply for remote customers and enables distributors to employ alternative supply solutions as well. However, as at this stage the design of a new regulatory framework is not further specified the consequences lines companies would face under the new regime are vague. In addition, lines companies already operate in a stringent regulatory system. The introduction of another regulatory scheme would likely imply an extra burden which especially smaller lines businesses might find hard to carry.