



SUBMISSION TO

Ministry of Economic Development

On the

**REVIEW OF SECTION 62 OF THE ELECTRICITY ACT 1992
'CONTINUANCE OF SUPPLY' (2013 REVIEW)**

By

FEDERATED FARMERS OF NEW ZEALAND (INC)

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1. INTRODUCTION

- 1.1 Federated Farmers of New Zealand (Inc) welcomes the opportunity to comment to the Ministry of Economic Development on its Review of Section 62 of the Electricity Act 1992 'Continuance of Supply' (2013 Review).
- 1.2 Federated Farmers is a primary sector organisation that represents approximately 17,000 farmers and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand's farming communities, primary producers and agricultural exporters.
- 1.3 The Federation aims to add value to its members' business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:
 - Our members may operate their business in a fair and flexible commercial environment;
 - Our members' families and their staff have access to services essential to the needs of the rural community; and
 - Our members adopt responsible management and environmental practices.
- 1.4 The farming community has a vital interest in ensuring reliable supplies of energy and other utility services demanded by rural consumers at prices that protect their competitiveness. Federated Farmers' interest in the electricity sector is reflected by the large number of submissions made to select committees and government agencies and its involvement in various reference and advisory groups.
- 1.5 Section 62 of the Electricity Act 1992 provides that electricity lines companies must maintain line services to connections established as at 1 April 1993. Subsection 6 states that section 62 will expire on 31 March 2013. At the time the legislation was considered by Parliament it was thought that by 2013 cost-effective alternative supply options would be widely available making supply less reliant on lines.
- 1.6 Alternative supply options are available and in some circumstances they are attractive. However, as 2013 has approached it has become evident that, generally speaking, alternatives are still very expensive (especially in terms of capital costs), they are not as reliable as supply by lines, and individually they do not have enough generating capacity to supply an average household, let alone a farm. As a result a number of our members, particularly those in remote rural areas, are becoming increasingly concerned about the uncertainty of electricity supply beyond 2013. There have also been allegations in some areas that maintenance of some uneconomic lines is being neglected in anticipation of the obligation to supply concluding in 2013.
- 1.7 Federated Farmers is therefore pleased that the Government has agreed to undertake this review well in advance of the 2013 expiry of the supply obligation.

2. GENERAL COMMENT: IMPORTANCE OF RELIABLE SUPPLY FOR RURAL CONSUMERS

- 2.1 Rural businesses and communities have made huge investments into agricultural expansion and shifting resources to areas where they believe the greatest returns on that investment can be realised. This has seen greater use of irrigation in many areas which has in turn lead to greater intensification of land that was otherwise under-utilised. This expansion has in most cases involved greater use of energy and relies on that supply of energy continuing beyond 2013.
- 2.2 Federated Farmers has always been concerned that lines companies not being obliged to supply electricity beyond 2013, especially where it was deemed 'uneconomic' to do so. The subsection 6 of section 62 of the Electricity Act has left the rural community extremely vulnerable to lines companies making arbitrary financial decisions that could force communities to seek alternative sources of power.
- 2.3 Rural communities have assisted with the building of the lines in some parts of New Zealand and may have directly paid for their construction (when they were first built). However, ownership has changed over time. Having gone from helping build the lines, many communities now face the real possibility of having to buy them back or build a new supply and network.
- 2.4 Federated Farmers welcomes the review of the 2013 'continuance of supply obligation' clause. The scale of the problem of uncertainty for the rural communities scattered across the country is far too great for the Federation to solve. The best we can do as an organisation is relay the concerns of those communities we represent and submitting on this review is an important part of seeing that this happens.
- 2.5 Our members have concerns that lines companies have probably decided which part of the network is economic or not and harbour a strong feeling that lines companies will reduce their maintenance of uneconomic lines after this year if they haven't already done so. Whether real or not, this is a perception among many of our members as they see many of the lines around them fall into varying stages of disrepair.
- 2.6 As a rural organisation, we do not want to see lines becoming a major work and be a liability for rural communities while there remains an obligation on the companies to see that this doesn't happen. This not only makes it more difficult to address an already difficult issue, but it also hampers the ability of rural consumers to address their energy needs beyond the sunset clause.
- 2.7 A specific concern we have fielded from our members has been what are their options beyond 2013? Adverse events in recent years have shown how vitally important it is to have some form of electricity supply to support human health and welfare through some very trying times. The 2006 South Island snow event relied on farmers operating their small-scale diesel generators to keep phone lines up. None of this would have been possible without that back-up generation already being in place on many farms.
- 2.8 The removal of the obligation to supply risks telecommunications infrastructure, whether Telecom and Vodafone cell-sites or the police radio telephone network. The snow event highlighted the reliance of such infrastructure on farmers who owned diesel generators but this did not always prove adequate. Work is underway between Telecom and farmers around so

that farmer-owned diesel generation can be used to power up rural and remote cell-sites when electricity supply is severed as a consequence of adverse events. However, such measures should not be assumed to be sustainable alternatives to on-going connection to distribution networks.

- 2.9 Although helpful as a backup, the risk to security of supply in rural areas is such that the limited energy supply from small-scale diesel generators could never handle. Better solutions are needed, whether self-generation, community-level distributed generation or continued investment in transmission and distribution networks. The ultimate outcome from all this must be that rural energy needs can continue to be met.
- 2.10 The Federation is acutely aware of the impact on rural communities and farm businesses from frequent and or lengthy electricity outages. The impact goes beyond the simple hampering of efficient farm operation to broader issues of animal health and welfare. Statements that average quality across the lines companies' network is improving is of little comfort to those who suffer inferior and in some cases deteriorating quality of supply among some rural communities.
- 2.11 If the review was to ask what would be an acceptable level of reliability, we cannot be specific as to the number of interruptions my members would accept every year. No one likes outages and no one wants to suffer them, and this is true whether an urban or rural consumer. Conversely we accept that the costs of close to 100% reliability are prohibitive, if at all possible, so some balance needs to be found where the lines company manages outages without driving charges up too high with "too high" being the % increase from the status quo. It may help to approach this from a more general sense of as few outages as can be managed, for as little time as can be managed, at more convenient times of the days as can be managed.
- 2.12 Far too often the Federation has heard from members of how they have suffered from un-notified outages or outages that have been planned at the most inconvenient times of the day for their farming operation. In the same way as lines companies have their schedules and factors limiting when this might happen, so too do farmers have schedules and factors limiting when they can handle outages in their farming operation. There needs to be better communication between line companies and consumer on outages.
- 2.13 When considering options post-2013, the review might want to consider the effectiveness of consultation on reliability of service. This discussion does not appear to have happened in rural areas. As it stands, rural consumers pay lines charges for the privilege of accessing electricity and many see these charges increasing despite no discernible improvement in quality or reliability of service. Indeed in some areas outage-prone consumers continue to suffer outages while others do not. This creates a difficult feedback loop and clearly there would need to be much better communication if some of the options suggested in the paper are to be pursued.
- 2.14 Another area that could benefit from better communication between lines companies and rural consumers is how lines companies comply with the Hazards from Trees regulations. Again this issue is relevant to this review given the possibility that lines supply might be disconnected if there are significant issues with vegetation. Informal arrangements between the contractor and the rural consumer have worked very well over the years along

many rural lines. It is a shame that many of these have since been abandoned in favour of more formal cut or trim notices that confuse and in many cases infuriate our members.

- 2.15 The Federation's policy advisors field numerous calls from members desperately seeking advice on how to deal with what they see as a threatening and legalistic way of dealing with an issue they had otherwise thought was working quite well. We raise this because it highlights how company efforts to ensure network security of supply goes beyond outages and continuance of supply to more mundane matters of whether vegetation risks taking a line down. The regulations were created as a backstop, an option of final resort where arrangements couldn't be found between line company and landowner. Surely the best way to deal with issues like these is through whatever means leaves the company and rural consumer in the best position moving forward.
- 2.16 Another question worth considering is whether lines companies should invest more or should consumers defer loads to off-peak capacity. For dairy farming businesses, for example, the timing of energy use is dependent on tanker schedules for milk pick-up, animal welfare considerations with cows needing a stable milking routine, not to mention labour issues from milking too early or late in the day. Granted not every farm is a dairy farm, but dairy farming operations tend to require a consistently stable energy supply at particular times of the day for extended periods of the year. The ability for rural energy users to move their load to different parts of the day isn't a simple matter.
- 2.17 To conclude, having a reliable and affordable electricity supply to rural areas is absolutely essential for New Zealand as a whole. This is a very serious issue and of particular concern for rural people who could be literally "left in the dark" after 2013 under the current legislation.

3. GENERAL COMMENT: 'URBAN-RURAL CROSS-SUBSIDY'

- 3.1 Federated Farmers recognises that a key assumption behind the obligation to supply is continuation of current government policy to peg *changes* in line charges in rural areas to *changes* in line charges to urban areas. This implies a degree of cross-subsidisation from urban to rural consumers but it is important to recognise that the statement refers to *changes* in prices not the absolute level of prices.
- 3.2 Federated Farmers supports this policy as it is consistent with our position on infrastructure generally, including roading and telecommunications. Although in the case of electricity it means that some consumers do not face the full costs of supply by lines, reliable and affordable supply of electricity is vital for social well-being and cohesiveness of rural communities and it is critical for the economic viability of the primary sector. Over half of New Zealand's merchandise exports are contributed by agriculture, forestry and fishing, and electricity is a key input into growing and processing primary products for both domestic and export markets. A reliable and affordable supply of electricity is therefore a key issue for productivity and competitiveness not just for the primary sector but for the economy as a whole.
- 3.3 Some might suggest that the primary sector's contribution to the New Zealand economy translates to high incomes and therefore greater ability to pay the unsubsidised costs of lines or alternative energy sources. This is not so.

Although much has been written about the large impending payout for dairy farmers this comes after relatively poor returns in recent years and meat and wool growers have had poor returns over the past few years. Many are struggling and some are becoming unviable. The plight of meat and wool growers is particularly relevant for this review because most of the consumers being serviced by 'uneconomic' lines are likely to be extensive sheep and beef operations, many of them in difficult hill or high country.

3.4 The Federation therefore submits that there is a strong case for continuing the current policy. This view also has implications for the subject of this review, the continuation of supply beyond 2013.

3.5 Recommendation 1: Federated Farmers recommends continuation of current government policy to peg changes in lines charges to rural areas to changes in line charges to urban areas.

4. COMMENT ON OPTIONS

4.1 The discussion paper suggests that there are six options, all of which imply a change in the current arrangements. We note that the status quo (i.e., allowing the supply obligation to expire in 2013) is not one of the options in the paper. We agree that the status quo is not a desirable option and we believe that something needs to be done to ensure the needs of rural consumers are met.

4.2 The six options are:

- A. Continuation of obligation to maintain line function services with no expiry date.
- B. Continuation of obligation to maintain supply, using lines or alternatives, with no expiry date.
- C. Continuance of obligation to maintain line function services expires but lines companies provide information on intentions in advance.
- D. Continuance of obligation to maintain line function services expires but lines companies assist transition from lines supply to alternative.
- E. Continuance of obligation to maintain supply, using lines or alternatives, for a limited time beyond 2013.
- F. Continuance of supply, using lines or alternatives, with no expiry date but subsidy is from all electricity consumers.

4.3 Federated Farmers' strong preference is for the continuance of the obligation to maintain supply. As discussed above, although alternatives exist they are very expensive, they are not as reliable as supply by lines, and they would require investment in a number of technologies to generate sufficient capacity to supply an average household, let alone a farm. A clear commitment to Option A would immediately address the uncertainty felt by many rural consumers. The Federation considers that a mechanism such as that described under Option F could also be used to help fund the ongoing obligation to supply by lines (see discussion below).

4.4 Recommendation 2: Federated Farmers recommends that subsection 6 of section 62 of the Electricity Act 1992 should be repealed so that line function services must be supplied in perpetuity (Option A).

- 4.5 Without prejudice to Federated Farmers' first preference, if Option A were not tenable then our second preference would be Option B. Unlike some of the other options, this ensures that lines companies retain a meaningful obligation to their consumers.
- 4.6 However, under Option B there would need to be assurances that the problems with alternatives identified above are addressed. There would also be a need for further work to determine the respective responsibilities (immediate and ongoing) of consumers and lines companies, including the issues around both capital and operating costs. For example, would the lines companies be required to meet all of the capital costs of the alternatives? If not, what would be the cost sharing arrangements?
- 4.7 Recommendation 3: Federated Farmers recommends that without prejudice to its preferred option, Option B (continuation of obligation to maintain supply, using lines or alternatives, with no expiry date) is its second preference and deserves further consideration**
- 4.8 As discussed in section 2 of this submission, many farmers are concerned about their existing relationships and communications with lines companies. We do not consider that Option C (information provision) or D (assisting with transition) would provide sufficiently meaningful obligations on lines companies to their consumers and neither of these options would satisfactorily address uncertainty for consumers.
- 4.9 However, in the event that this Review was to recommend the end of the existing obligation to continue supply, then Federated Farmers' preference would be Option D. However, this option would require more work around how any transition would be managed and/or funded.
- 4.10 Option E (extending the obligation by a few more years) would only push the problem out a few more years and it would not address uncertainty for either consumers or lines companies.
- 4.11 Recommendation 4: Federated Farmers recommends that if the obligation to continue supply ends then its preferred option would be Option D, subject to further work around transition issues.**
- 4.12 Recommendation 5: Federated Farmers recommends that Options C and E should be discarded from further consideration.**
- 4.13 Option F, the provision of an explicit subsidy from *all* electricity users, might be a way to fund maintenance of uneconomic lines and/or costs of alternatives. As discussed earlier in this submission there is already an implicit subsidy but it is between the urban and rural consumers within each individual lines company. Option F goes somewhat further and would mean the costs would be spread over a much larger base of consumers. Presumably the subsidy would be recovered through a new levy similar to that for the old Rural Electrical Reticulation Council. On the face of it this option seems similar to the telecommunications service obligation (TSO) and we believe it might be a useful way to implement either Option A or B.
- 4.14 Recommendation 6: Federated Farmers recommends that Option F (continuance of supply, using lines or alternatives, with no expiry date**

but subsidy is from all electricity consumers) should be subject to further consideration.

5. SUMMARY OF RECOMMENDATIONS

5.1 Federated Farmers recommends:

1. Continuation of current government policy to peg changes in lines charges to rural areas to changes in line charges to urban areas.
2. That subsection 6 of section 62 of the Electricity Act 1992 should be repealed so that line function services must be supplied in perpetuity (Option A).

5.2 Without prejudice to our preferred post-2013 option (Option A), Federated Farmers recommends that:

3. Option B (continuation of obligation to maintain supply, using lines or alternatives, with no expiry date) is its second preference and deserves further consideration.
4. If the obligation to continue supply ends, then its preferred option would be Option D, subject to further work around transition issues.
5. That Options C and E should be discarded from further consideration.
6. That Option F (continuance of supply, using lines or alternatives, with no expiry date but subsidy is from all electricity consumers) should be subject to further consideration for helping to fund Option A or B.