

Submission to the
Ministry of Economic Development
In the matter of
The Review of s62 of the Electricity Act
From *Local Government New Zealand*

28th September

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INTRODUCTION

1. *Local Government New Zealand* thanks the Ministry for Economic Development for the opportunity to put in a submission on the discussion paper *Review of s62 of the Electricity Act 1992 'Continuance of Supply'*.

PROCESS TO PREPARE THIS SUBMISSION: INPUT FROM THE SECTOR

4. *Local Government New Zealand* contacted all local authorities to provide comments for inclusion in this submission. The feedback received has been used to inform this submission. We have not accessed technical expertise relating to the electricity sector in developing this submission.
5. The timeframe available for comment on the discussion document was relatively short. As such many Councils were unable to seek a mandate from their elected members. *Local Government New Zealand* itself was unable to place this submission before its National Council (our governance body of elected members) within the timeframe. Consequently, this submission reflects the views of staff. In future stages of the review, we expect that there will be more time to consider material from the Ministry, and for the local government sector to have the opportunity to develop submissions through the standard channels involving elected members.

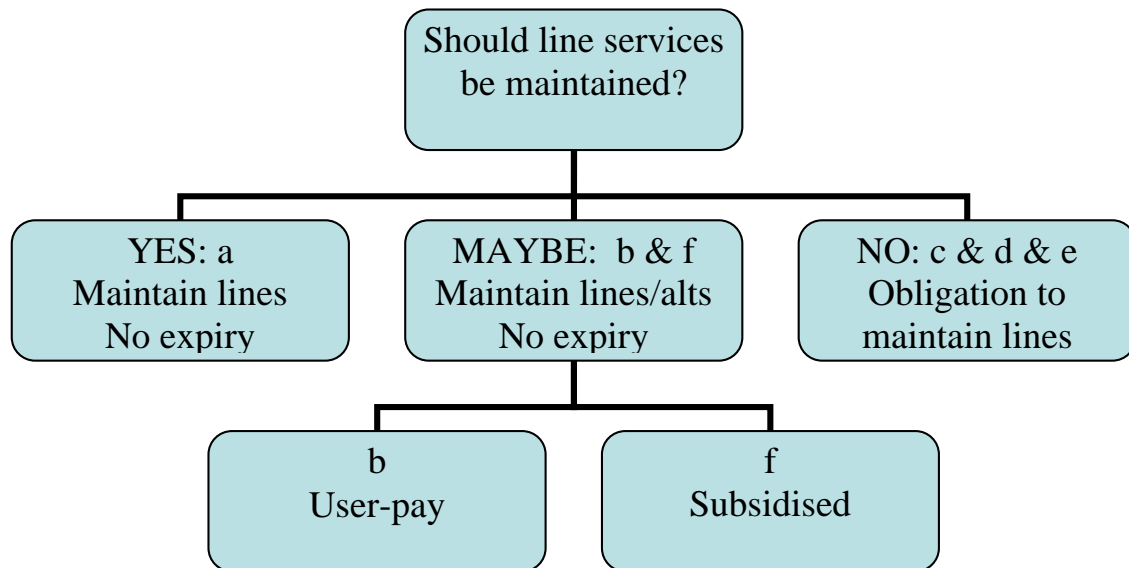
PROCESS TO PREPARE THIS SUBMISSION: ASSESSING THE OPTIONS

6. The discussion document put forward a number of options for outcomes from the review of s 62, and potential criteria for assessment (efficiency, fairness, reliability and environmental sustainability). While these criteria were useful, there was no explicit analysis of the options against these criteria apparent in the discussion document. Rather the document identified the impacts of each of the options on the following groups of stakeholders: consumers (both rural and urban); lines companies; and 'the market' for alternative supplies.
7. In order to provide some meaningful assessment of the options, *Local Government New Zealand* therefore undertook its own assessment. This involved consideration of the criteria proposed by MED in the discussion paper and a number of other criteria relevant to local government (including alignment with previous local government sector positions and impacts on community wellbeing).
8. While *Local Government New Zealand* supports the criteria identified by MED, it was often difficult to apply these in any meaningful way. For example, it was difficult to assess the "environmental sustainability" of alternative supplies in comparison to existing supplies. Firstly, we can not automatically assume that alternative energy supplies are more environmentally sustainable (nor more sustainable in terms of economic, social or cultural outcomes). Secondly, the range of options for alternative supply will differ in different sites. Thirdly, the

separation of generation, transmission, and distribution creates additional variables in terms of assessing sustainability. These aren't readily factored into consideration of outcomes or options, and make an overall assessment (or ranking) of the environmental sustainability of options difficult.

SEPARATING SUPPLY AND PRICING CONSIDERATIONS?

9. The options outlined in the document incorporate aspects of supply and pricing/who pays. For example, the distinction between options b and f appears to relate to how the lines supply or alternative is funded. Pricing matters should be viewed as a separate issue from whether the lines supply should be maintained. We suggest that these may need to be separated out as shown below:



10. The decision on how supply is funded will require careful management. There is a wide range of funding options, from total user-pay to total subsidisation, to be analysed. This analysis should be managed carefully and separately from the lines maintenance issue. Additional consultation and discussion should take place before decisions are made. A fair and transparent process needs to be developed that results in a clear policy on funding, only after considering all options carefully.

PRINCIPLES AND ASSUMPTIONS UNDERLYING OUR SUBMISSION

11. Our submission is based on a number of principles and assumptions which are outlined below.

Principle 1 - Electricity contributes to the public, as well as private, good

12. The supply of electricity has both public and private good elements, and consideration of both supply and pricing need to acknowledge these elements. Electricity is a fundamental requirement of modern life. There is a need to maintain essential infrastructure necessary to support communities. Communities reasonably expect an adequate electricity infrastructure with national coverage. It is not in the public interest to have communities cut off from electricity supply.
13. We are particularly concerned about the impacts that a lack of guaranteed supply might have on particular sections of the population, specifically those in the lower socio-economic groups most likely to be affected and least able to mitigate the impacts. The Far North District Council highlighted in its submission to us that there have been 54 deaths due to fire in that district in the last five years. Many of these are due to the use of candles in areas where there is no access to a continuous electricity supply.
14. It is our view that, whilst there is a decentralized electricity generation and supply network in New Zealand, electricity infrastructure and the supply of electricity to the consumer should be considered on the national level. Electricity supply is as essential as telecommunications and roading. The telecommunications and roading infrastructures are perceived and managed as national networks that provide benefit on the local, regional and national level. The electricity infrastructure should be perceived and managed in the same way.

Principle 2 - Incentives to develop sustainable alternatives are required

15. Greater incentives to encourage sustainable alternative generation and supply need to be provided through Government policy frameworks (in addition to this review). Regardless of which option(s) are chosen in this review, adequate incentives to research and develop sustainable alternatives are required.
16. Flexibility of supply should be provided where appropriate. This allows for changes to more economic or more sustainable alternatives, (so long as the true environmental costs are included in the economic assessment of alternatives). Consumers need to be able to have a choice. Choice of existing supply or which alternative should not be left to the supply companies alone.

Principle 3 - Pricing must recognize the public-private good nature of electricity supply and incentivise sustainable alternatives (reflecting Principles 1 and 2)

17. As noted above, we suggest that additional consultation and discussion should take place in relation to pricing. However, we wish to make some initial comments here.
18. A key assumption through the discussion document is that current policy requiring line charges to rural and urban areas to be pegged will remain. This policy is set out in paragraph 99 of the current Government Policy Statement on Electricity

Governance (GPS 99, October 2006):

The Government expects distribution companies keep any changes to rural line charges in line with urban line charges. The Electricity Commission should monitor developments in rural charges.

19. This assumption is extremely significant. Whether this policy remains may have a bigger impact on future choices than the options outlined in the paper, as any requirement for rural customers to pay the full costs of transmission would significantly alter the assessment of the options. The paper implicitly assumes that this policy will remain, but we seek greater clarification and confirmation from the Government on this.

20. Overall, we consider that a wider range of costs need to be included when considering pricing and subsidisation. Economic viability is dependant on the relationship between the value placed by customers on the cost / benefit position (what they are willing to pay), and that by the suppliers (what they charge). Unless these both are fully reflective of all costs, then a false economy is perpetuated. Costs should include the wider aspects of subsidization such as:

- the national cost of potential market failure should rural production become uneconomic due to power costs
- the need to reflect the true cost, including related greenhouse gas emissions and sustainability, of energy generation choices and energy use
- the cost and efficiency of the energy from each generator supplying the national grid, given that neither rural nor urban users can select their supply generation type
- the cost and efficiency of alternative local generation versus those for a national supply approach
- safety management related to continuity of communications, emergency services and the lighting of public areas etc.
- equity in relation to pricing. The cost burden balance between provider, local users, and other users, needs to be considered.

21. The cost burden should be balanced between:

- lines companies (to reflect the business case for ongoing investment from their profit margin in their infrastructure, including alternative provision), recognizing that this would then put the companies in a position to provide improved services and to match their fees appropriately
- local users (to incentivise proactive responses to sustainability needs and the sharing by all of responsibility for energy efficiency and conservation)
- all users (to reflect the national benefit from continuity and affordability of supply, and the limited local influence).

OPTIONS PREFERRED BY LOCAL GOVERNMENT NEW ZEALAND

22. This submission supports the maintenance of guaranteed electricity supply and incentives for *sustainable* alternative supply. So, the key question for us is: Which options provide for guaranteed supply whilst providing appropriate incentives for sustainable alternatives to lines supply?
23. *Local Government New Zealand* supports further consideration of options a, b, and f. Options c, d and e are not generally supported because the obligation to maintain lines expires (although one council suggested that Option e could provide opportunities for transition from the status quo to alternative supply).
24. There are some differing views within the sector as to whether the status quo (Option a) provides appropriate incentives for the adoption of alternative supplies:
- Some Councils consider that the exploration of alternatives does not necessarily depend on taking away the lines supply, although a lack of guaranteed supply is like to create greater incentives for exploring and using alternatives. Exploration and uptake of alternatives depends on efficiency and affordability criteria, including how long it will take to recoup the cost of installing an alternative. Cost is the real barrier, not the existence of lines supply.
 - Others considered that Option a does not provide incentives to make the supply more sustainable, only more economic. They argued that the chosen option should encourage lines companies to change, improve or expand services where this benefits customers, or the country as a whole.
25. Options b & f are also supported because they both require some form of supply to be maintained. They also provide incentives for the development alternative supply. The distinction between them is around pricing and who pays: Option b is a user-pay system; option f is subsidised.

Supported			Not supported		
No expiry			Expiry in 2013		Expiry at a later date
<i>Option (a)</i> Maintain lines with no expiry date	<i>Option (b)</i> Maintain supply using lines or alternatives – presumably cost recovered from users	<i>Option (f)</i> Maintain supply using lines or alternatives – subsidized by all electricity users	<i>Option (d)</i> Expiry with transition assistance from lines company	<i>Option (c)</i> Expiry with information from lines company in advance	<i>Option (e)</i> Shift expiry to later date

26. The options proposed may not necessarily be mutually exclusive. It may be possible to utilize a range of options simultaneously or over time.

RECOMMENDATIONS

27. *Local Government New Zealand* makes the following recommendations to the review. We recommend that:

- a. Considerations of supply and pricing be separated out for further consideration;
- b. The Government clarify its intentions for its policy requiring line charges to rural and urban areas to be pegged;
- c. Greater incentives to encourage sustainable alternative generation and supply be provided through Government policy frameworks (in addition to this review);
- d. Options a, b, and f be subject to further consideration and consultation in the next stages of the review;
- e. Government provide opportunities for local government to contribute to the next stage of the review, and ensure that sufficient time is provided to enable local government elected members to be appropriately involved.

If you have any questions or would like to speak with us further please feel free to contact me on 04 924 1221 or victoria.owen@lgnz.co.nz.

Yours sincerely

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