PricewaterhouseCoopers
188 Quay Street
Private Bag 92162
Auckland, New Zealand
DX CP24073
www.pwc.com/nz
Telephone +64 9 355 8000
Facsimile +64 9 355 8001
Direct Phone +64 9 355 8573
Direct Fax +64 9 355 8024

28 September 2007

2013 Review
Electricity Group
Energy and Communications Branch
Ministry of Economic Development
33 Bowen Street
PO Box 1473
WELLINGTON

Dear Sir/Madam

Submission on the Continuance of Supply (2103 Review) Discussion Paper

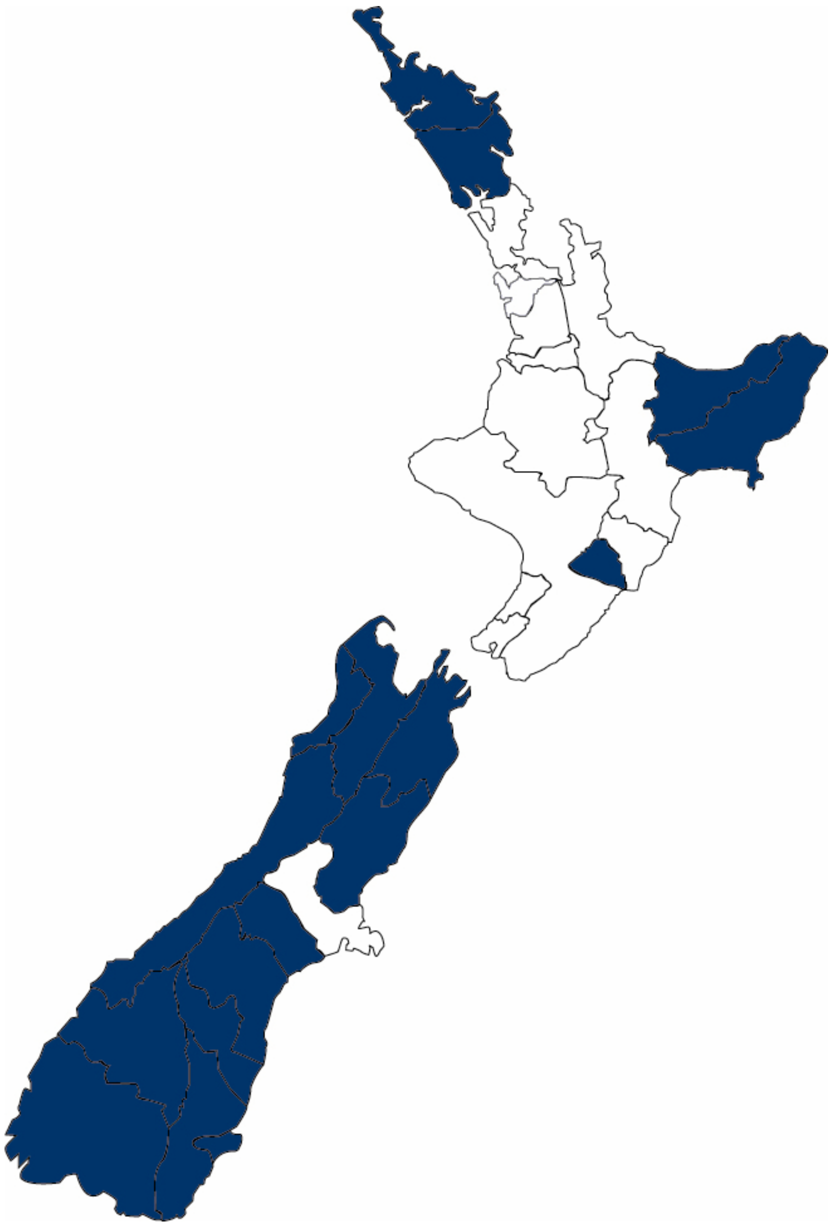
In August 2007 the Ministry of Economic Development ("the MED") published the Discussion Paper, *"Review of Section 62 of the Electricity Act 1992 'Continuance of Supply' (2013 Review)"* ("the Paper") and issued an invitation for submissions on this Paper.

This letter forms our submission which has been prepared by PricewaterhouseCoopers on behalf of the following 18 large Electricity Lines Businesses ("ELBs"):

- Alpine Energy Limited
- Aurora Energy Limited
- Buller Electricity Limited
- Eastland Network Limited
- Electricity Ashburton Limited
- Electricity Invercargill Limited
- Horizon Energy Distribution Limited
- MainPower New Zealand Limited
- Marlborough Lines Limited
- Nelson Electricity Limited
- Network Tasman Limited

- Network Waitaki Limited
- Northpower Limited
- OtagoNet Joint Venture
- Scanpower Limited
- The Power Company Limited
- Top Energy Limited
- Westpower Limited.

The following map highlights the supply areas represented by the submission group.



This group of ELBs together comprises 444,816 connections (or 23% of the total electricity lines sector), and 57,687 system kilometres (37% of the total electricity lines sector). The ownership structures represented include consumer and community trusts, a listed company, local body and co-operative ownership, as well as those managed by management companies. Group members include networks with predominantly urban systems, others that are sparsely populated and a number with significant urban areas combined with rural and remote rural characteristics.

The following table summarises the key characteristics of the group.

Lines Business	System Assets at ODV $000	System Length km	ICPs number	Network Supply Area km^2	Density ICPs/km
Alpine Energy	88,582	3,816	29,163	10,596	7.6
Aurora Energy	207,286	5,252	76,400	19,851	14.5
Buller Electricity	20,277	587	4,211	4,654	7.2
Eastland Network	92,501	3,667	24,864	11,858	6.8
Electricity Ashburton	116,190	2,802	15,795	6,664	5.6
Electricity Invercargill	44,494	681	16,889	33	24.8
Horizon Energy Distribution	73,501	2,404	23,887	8,389	9.9
MainPower New Zealand	127,559	4,420	30,671	12,000	6.9
Marlborough Lines	107,869	3,213	22,932	11,272	7.1
Nelson Electricity	20,290	244	8,915	24	36.5
Network Tasman	115,966	3,265	34,400	10,800	10.5
Network Waitaki	49,703	1,994	12,006	7,741	6.0
Northpower	141,682	5,586	50,753	5,737	9.1
OtagoNet Joint Venture	89,423	4,344	14,497	12,349	3.3
Scanpower	21,680	865	6,694	2,103	7.7
The Power Company	209,109	8,540	32,243	28,740	3.8
Top Energy	100,702	3,987	28,486	6,830	7.1
Westpower	76,808	2,021	12,010	18,017	5.9
Group Average	94,646	3,205	24,712	9,870	10.0
Group Total	1,703,622	57,687	444,816	177,658	
Industry Total	6,151,915	154,211	1,904,630	266,034	
% of Industry Total	27.7%	37.4%	23.4%	66.8%	

Source: New Zealand Gazettes, Electricity Lines Business Information Disclosures, 2006

The body of this submission contains our discussion and submission on the key issues that need to be considered. A summary of these is presented at the end of the document. Appendix A contains our answers to the specific questions posed in the Paper.

Background

1. Section 62 ‘Continuance of Supply’ of the Electricity Act 1992 (“the Act”) requires all ELBs to maintain supply to all connections established at 1 April 1993. This section expires on 31 March 2013. It is anticipated that should the existing Section 62 remain, consumers connected to lines which are not commercially viable (ie: “uneconomic”) will face uncertainty about access to affordable electricity from 2013. The Paper represents the first step in the MED’s review of Section 62 to determine whether it should be amended. The principal concern is the uncertainty for consumers, post 2013, about their electricity supplies. Accordingly the MED’s

stated objective is that affected consumers should continue to have access to electricity after 2013 and that it is delivered efficiently, fairly, reliably and in an environmentally sustainable manner.

2. Many of the “uneconomic” lines were originally constructed by ELBs with funds sourced from the Rural Electrical Reticulation Council (“RERC”), established under the Electricity Act 1945. These funds were mainly made available to farmers in remote areas during the post war growth era. The RERC fund was created from a levy applied to all Electrical Supply Authorities (“ESAs”). It was disbanded in 1997. Thus, electricity supply was provided to areas where reticulation could not be justified solely on an economic basis, through the RERC levy, which was spread across all consumers.

3. In addition, at the time of industry corporatisation in 1992, government policy responded to concerns about the potential for excessive price increases by requiring energy companies to maintain supply to all connections in existence at 1 April 1993 and to cap the rate of any line charge increase to 15% per annum. Subsequent government policies have continued to restrict rural line charges with the effect of locking in urban/rural cross subsidies, for example:

> *“The Government expects distribution companies to keep any changes to rural line charges in line with urban line charges. The Electricity Commission should monitor development in rural charges.”* [1]

4. Thus typically the costs of rural electricity supply continue to be met in part by urban consumers. This cross subsidy has the potential to become more significant as the assets which were initially built from RERC subsidies reach the end of their useful lives and require replacing. Accordingly, should Section 62 remain unchanged, it is possible that from 2013 electricity supplies may not be maintained in rural areas, where the costs of supply significantly exceed the revenues associated with those assets.

5. This risk has been mitigated in some regions however by development in the areas where the RERC subsidy initially applied. Farming and coastal developments have improved the economic viability of some assets since they were initially constructed by increasing the revenues generated from those assets. As the capital cost of new connections to existing assets are typically funded by some form of capital contribution, the ongoing viability of the line improves as each new customer connects.

[1] Government Policy Statement on Electricity Governance, GPS 99, October 2006

Who is affected?

6. It is evident from the ELBs which support this submission that the customers most likely to be affected by the 2013 continuation of supply uncertainty fall into the following main categories:

   - Farmers and farm or forestry workers located in remote regions and/or areas with difficult terrain;
   - Small remote communities, characterised by low income households with basic amenities providing only subsistence living; and
   - Holiday home owners, “lifestylers” or tourist facilities located in remote areas, many of whom are not permanent residents.

7. Any legislation or policy developments which may emerge from this review will need to consider the requirements of each group. In addition, the capacity of each group to contribute towards the cost of continued electricity supply is likely to vary considerably. For this reason we support an approach which provides for a range of solutions. We also believe that the solutions must incorporate sufficient flexibility to accommodate changes in consumer demands and supply options as they emerge over time. This principle is discussed later in our submission.

8. We also note that currently ELBs manage their networks (within the constraints imposed by legislative requirements and government policy) in a manner which meets the needs of the communities they serve. This is reflected in prices, profits, asset management, quality of service and distributions or contributions from owners to customers and/or the community. For the majority of ELBs the local community (ie: residents within the local electorate or customers electing their trustee or co-operative representatives) have the ability to influence how the networks are managed. It is this community responsibility which provides local infrastructure in a manner which balances individual needs with those of the wider community. We support solutions which recognise this wider community responsibility for local infrastructure.

9. We also note that in practice, some remote rural lines tend to have little or no capacity growth and therefore they are typically maintained in perpetuity with continuous piecemeal replacement of components (poles, conductor, cross-arms, transformers etc) based on deterioration or failure. This has the effect of spreading the cost of renewal over time and over generations of consumers. It is therefore unlikely that, for those networks where this is the case, there will come one point in time when significant remote rural renewal investment is required on a network. Alternatively for some lines on some networks, line upgrades are required to meet technical (Code of Practice) requirements or increases in demand. For these lines, capacity requirements determine the timing and cost of renewal, not age.

Price/Quality Trade-off

10. Currently the structure of line charges (which has arisen partly in response to government policy requirements) means that average prices (either fixed or variable) are calculated for each tariff group and applied to all consumers within that group. For the majority of ELBs, tariff groups are defined on the basis of end use (for example domestic, commercial users etc) or connected capacity (for example 0 - 15kVA connection, 15 - 50kVA connection etc). A few ELBs differentiate by location, by either geographic region (for example by predecessor network boundaries) or density regions (for example urban and rural); however such tariff structures are atypical. It is therefore extremely rare for remote rural consumers to incur line charges which differ from other consumers with similar load or end use characteristics, located on the same network.

11. It is however most likely that remote rural consumers experience a quality of service which differs from other consumers with similar load or end use characteristics. The location of remote rural reticulation means that it is situated at the extremities of the network. These are difficult to access, in some instances are more prone to extreme weather and slips, and tend to be more difficult from a vegetation management perspective. In addition, remote rural networks tend to be of a radial design with little opportunity for interconnection to provide alternative sources of supply in the event of an outage. Accordingly, remote rural networks tend to have a higher incidence of loss of supply. This combined with restoration times which are greater than those in standard rural and urban locations means that remote rural customers experience greater periods without supply than urban and rural customers.

12. The combination of average pricing and differential quality of supply therefore results in an inherent price quality trade-off for remote rural consumers. That is, although typically urban consumers pay the same line charges as remote rural consumers with the same load characteristics, thereby cross subsidising to come extent the higher costs of supply for the remote network, urban consumers receive a higher quality of service to their remote rural counterparts. The extent of the cross subsidy differs across networks depending on how tariff groups are defined, and the relative proportions of urban, rural and remote rural network and associated connections. Many ELBs indicate that the impact of the cross subsidy on urban and rural consumers is insignificant due to the small proportion of consumers supplied by remote rural assets.

13. Some ELBs also make service failure payments to consumers whose supply is not restored within a defined period. Remote consumers near the end of long HV feeders are more likely to receive these payments due to the longer time to find faults and then repair the fault on such feeders. Such payments increase cross subsidies.

Willingness to Supply

14. The ELBs which support this submission have indicated a general willingness to continue to supply all connected customers post 2013. This submission therefore supports solutions which allow ELBs to work with all consumers, unless they wish to disconnect, to find appropriate means to achieve this. It is important however that ELBs are not forced into non-commercial solutions or outcomes which are inconsistent with other legislation. We are disappointed that the Paper does not adequately address this issue.

15. In this respect, Appendix 2 of the Paper contains the terms of reference for the MED's 2013 review. These terms of reference include the following:

> *6. Assessing how the range of options will be affected by:*
> - *Regulation of the electricity lines businesses under Part 4A of the Commerce Act and*
> - *The Electricity Commission's model distribution pricing methodologies.*

16. We also note the current Government Policy Statement on Electricity Governance (October 2006) includes a number of policies which directly impact on distributors, such as:
    - low fixed charge tariff options,
    - arrangements for low income domestic consumers,
    - relativities between rural and urban line charges,
    - model approaches to distribution pricing,
    - arrangements for connecting distributed generation to distribution networks, and
    - model Use of System Agreements between retailers and distributors.

17. In addition, under Part 4A of the Commerce Act, the Commerce Commission scrutinises the pricing methodologies of ELBs and its two most recent control investigations have included strong incentives for ELBs to reduce cross subsidies between tariff groups[2].

18. In spite of the terms of reference however, there is little assessment of the impact of these factors in the options presented in the Paper. We submit that this is a serious omission that needs to be rectified before the review progresses. It is unacceptable for ELBs to have to manage their way through potentially conflicting legislation, when one of those pieces of legislation caps line charges and the other limits how these line charges may be recovered from different consumer groups. We therefore urge the MED to complete its review consistent

[2] Vector Limited, Intention to Declare Control, 9 August 2006 and Unison Networks Limited, Reasons for Not Declaring Control, May 2007

with the original terms of reference by taking into consideration the potential for conflicting requirements on ELBs arising from the range of legislation and policies that must be complied with. It is not appropriate that the 2013 review occurs in isolation from other legislation.

19. In addition we note that there is potential for future legislation to be implemented which limits behaviours of ELBs in respect of total revenue, the manner in which revenue is recovered from consumers, quality of supply requirements and the ability for ELBs to invest in their networks. The Commerce Commission’s threshold reset in 2009 under Part 4A of the Commerce Act is one process that could introduce new requirements on ELBs which will need to be factored into any recommendations for continuation of supply requirements post 2013. We therefore suggest that the review of Section 62 must include consideration of developments under Part 4A of the Commerce Act and any decisions made under current or future Government Policy Statements.

20. The ELBs’ willingness to continue to supply post 2013 therefore is predicated on the assumption that ELBs are able to operate as commercial businesses (as required under the Energy Companies Act 1992) and achieve a reasonable return on efficient investments consistent with providing a quality of supply consistent with consumer demands. There is a real risk that short sighted regulatory decisions will prevent ELBs from maintaining their remote infrastructure due to financial duress leading to reductions in quality of supply to high cost areas. Thus the continuation of supply debate must be undertaken with full consideration of the broader regulatory environment.

21. The regulatory ODV valuation methodology is one illustration of this potential conflict. Currently ELBs must write down the value of their remote lines where the cost of supply exceeds the cost of the least cost alternative. Where the assets are partly depreciated, as most of them currently are, and while the cost of the alternatives remain high, this requirement has an immaterial impact on regulatory values. These circumstances may change however, and should ELBs be required to continue to supply remote rural consumers, there is potential for this write down to escalate. Accordingly there needs to be consistency in the legislation which recognises obligations to supply on ELBs AND allows them to include the required assets in their regulatory asset base.

Alternative Sources of Supply

22. The Paper addresses the possible adoption of alternative supply options as one way of achieving affordable energy supply in remote areas. There are already a number of instances where users have elected to develop their own sources of energy, with either no connection to their local network or with a connection but part of the energy required provided by alternative

means. Based on information available to the group of ELBs which support this submission, we understand that currently these alternative supply options incur a higher total cost of supply than the equivalent costs for customers already connected to a network. In addition, alternative supply solutions tend to provide a lower quality of service, either by way of availability or reliability.

23. In addition, it is noted that it is more common for new consumers to elect to pay capital contributions towards high cost connections than it is for new consumers to investigate alternative sources. As noted in the Paper however, this may change in the future as alternative technologies become more competitive. Accordingly this submission supports an outcome which encourages users to investigate alternative options however we do not believe that ELBs should be mandated in any way to investigate and provide alternative solutions at the consumer's request. ELBs should be permitted to consider and possibly promote alternative options for supply but there should be no explicit requirement in legislation or policy for them to do so.

Preferred Option

24. The Paper presents six alternative options for consideration and poses a number of questions in relation to each of these. Our responses to these questions are contained in Appendix 1 of this submission. Our preference is similar, but not the same as, the second option proposed in the Paper.

25. We support continued obligations on ELBs to maintain supply to those existing connected customers who wish to continue to receive reticulated electricity supply, subject to the following conditions:
    - should the consumer wish to change to an alternative supply option, the ELB must assist with the transition, but is under no obligation to provide the alternative supply option (although they could do so if they choose to);
    - in order to maintain supply, ELBs must have fair and reasonable access to lines located on private property; and
    - an ELB is able to recover the costs of supply from all consumers in a manner which is consistent with its published pricing methodologies which must be compliant with any relevant legislation in force at the time.

26. The first condition would enable those ELBs with an interest in developing alternative supply options to do so, but would not prohibit other potential suppliers from entering the market. As it is likely however that as energy prices rise, the economics of alternative solutions will improve,

in the future ELBs should not be bound by an evergreen mandatory supply requirement in every remote supply situation. The ensuing legislation should allow for such flexibility.

27. The second condition is necessary to ensure ELBs have the access to the lines for maintenance and renewal purposes. This is an issue which has escalated since 1993 and consumers must respect the need for ELBs to access assets in order for supply to be maintained.

28. The third condition provides transparency for all consumers about the costs of their reticulation and because pricing methodologies are scrutinised by the regulator as well as complying with relevant government policies the overall objective of efficient, fair, reliable and environmentally sustainable electricity supplies can be met. In developing their pricing methodologies, each ELB must be able to incorporate its own objectives and solutions to balancing the needs of individuals and the community. This may take the form of including for example a requirement for capital contributions to be made from consumers where large investments are required on uneconomic lines, or differentiating its prices, dividend payments or obligations for quality of supply between customer groups. This process is also strengthened by the price/quality consultation with consumers which ELBs are required to undertake at least once every two years under the quality threshold of the Commerce Commission's targeted control regime for ELBs.

29. The existing GPS requirement for rural line charges to remain pegged to urban line charges is potentially unsustainable and contrary to our submission for ELBs to be permitted to develop solutions which reflect the interests of the communities they serve. As noted above, circumstances change, new load develops, alternative options are expected to become viable, and demand for quality of supply also changes. This policy requirement has simply locked in a historical position for each ELB. There is no evidence to suggest that this is efficient or fair or will be so in the future. We therefore submit that this policy requirement is a barrier to meeting the objectives of the 2013 review.

30. There are a few networks however where it is difficult for ELBs to maintain a level of cross subsidy which is acceptable to the local community. For these communities electricity prices are simply too expensive for some consumers. In the context of the 2013 review there appears to be a role for central government in assisting to maintain minimum living standards in remote rural areas for those households which are unable to meet their cost of living. This already occurs through the welfare system by supporting low income households. We believe that this is a better option than an industry wide levy because it relies on systems and processes which are already in place, and avoids implementing a new system which is likely to be

administratively complex with the potential to contradict the solutions already implemented and supported by local communities.

31. For completeness we have included our comments on the other alternatives in Appendix A. Specifically under Options 5.3 and 5.4 ELBs are required to provide information on their intentions and provide notification to consumers if they intend a change in, or removal of, supply to consumers. We suggest that should either of these options be considered, a two year notification period is sufficient and the options should provide for negotiated outcomes between ELBs and remote consumers as these may be in the best economic interests of both the ELB and the consumer.

Further Consultation

32. Appendix 2 of the Paper outlines a consultation timetable which involves recommendations to the Minister by the end of October 2007 and a proposal to cabinet by the end of November 2007. This is an unacceptably tight timetable for an issue which requires resolution at some stage within the next five or six years. We therefore submit that, following receipt of submissions, the MED issues a further consultation document, summarising the views of the submitters and addressing the issues raised in submissions (including potential conflicts between the GPS, the Commerce Act, the Energy Companies Act and the Electricity Act).

Summary

33. The body of this submission contains our response to the Paper. The major points of this submission are:
    - Currently ELBs manage their networks (within the constraints imposed by legislative requirements and government policy) in a manner which meets the needs of the communities they serve. It is this community responsibility which provides local infrastructure in a manner which balances individual needs with those of the wider community. We support solutions which recognise this wider community responsibility for local infrastructure.
    - The combination of average pricing and differential quality of supply results in an inherent price quality trade-off for remote rural consumers. The extent of the cross subsidy differs across networks depending on how tariff groups are defined, and the relative proportions of urban, rural and remote rural network and associated connections.
    - The ELBs which support this submission have indicated a general willingness to continue to supply all connected customers post 2013. This submission therefore

supports solutions which allow ELBs to work with all consumers, unless they wish to disconnect, to find appropriate means to achieve this.

- It is important however that ELBs are not forced into non-commercial solutions or outcomes which are inconsistent with other legislation. The ELBs' willingness to continue to supply post 2013 therefore is predicated on the assumption that ELBs are able to operate as commercial businesses and achieve a reasonable return on efficient investments consistent with providing a quality of supply consistent with consumer demands.
- We support continued obligations on ELBs to maintain supply to those existing connected customers who wish to continue to receive reticulated electricity supply, subject to the following conditions:
    - should the consumer wish to change to an alternative supply option, the ELB must assist with the transition, but is under no obligation to provide the alternative supply option (although they could do so if they choose to);
    - in order to maintain supply, ELBs must have fair and reasonable access to lines located on private property; and
    - an ELB is able to recover the costs of supply from all consumers in a manner which is consistent with its published pricing methodologies which must be compliant with any relevant legislation in force at the time.
- As it is likely that the economics of alternative solutions will improve, in the future ELBs should not be bound by an evergreen mandatory supply requirement in every remote supply situation. The ensuing legislation should allow for such flexibility.
- The existing GPS requirement for rural line charges to remain pegged to urban line charges is potentially unsustainable and contrary to our submission for ELBs to be permitted to develop solutions which reflect the interests of the communities they serve. There is no evidence to suggest that this is efficient or fair or will be so in the future. We therefore submit that this policy requirement is a barrier to meeting the objectives of the 2013 review.
- There appears to be a role for central government in assisting to maintain minimum living standards in remote rural areas. This approach is valid for assisting low income households in meeting the costs of their electricity supply and allows ELBs to maintain a level of cross subsidy which is acceptable to the local community.
- Further consultation is required before recommendations are made to the Minister.

If you have any queries in relation to this submission, please contact either of the signatories below.

Yours sincerely

Lynne Taylor
Director
Corporate Finance

Craig Rice
Partner
Corporate Finance

PRICEWATERHOUSECOOPERS

Appendix A - Questions for Submitters

5.1 and 5.2 Questions (Continuance of supply with no expiry date, using lines or alternatives)

a) Should access to electricity supply for pre-1993 connections be maintained with no expiry date? What issues could this raise?

Yes, for those consumers who wish to maintain their connection, subject to standard conditions of supply (including tariffs, quality of supply and contributions towards significant investments on dedicated assets). Within any network this will involve balancing the needs of the individual with the community as a whole. ELBs already manage this balance and should be permitted to do so in the future. Potential issues include conflicts with other legislation or policy which may impose requirements on ELBs which are contrary with their obligations to act as successful businesses, and to implement conditions of supply which best meet the needs of their own community.

b) What expectations should there be from consumers around price, quality, reliability and capacity for continuance of supply (either by lines or alternatives)?

Consumers should expect supply to be maintained, but also must anticipate that terms and conditions of supply will change over time and that there may be differences in the terms and conditions of supply for those with uneconomic services compared to those with economic services. There is a risk of the rural/urban cross subsidy becoming unsustainable if the GPS requirement for urban and rural line charges to be pegged remains.

c) What scope is there for remote rural consumers to be supplied using alternative supply methods or for example, the method outlined in paragraph 47?

Although alternative supply options exist, currently these are not as economic as existing reticulated electricity for a similar standard of service. The costs of replacing 3 phase power with single phase do not result in material cost savings (as suggested in the Paper) as only a minimal component of cost is associated with the conductor and for many remote supplies single phase supply is not acceptable. It is expected that the costs of alternative sources will become more competitive and adoption of these could reduce the overall cost of supply over the long term.

d) To what extent should there be a subsidy from other network users to those in remote, rural areas?

This is partly a community judgement, which already exists in current tariff structures. It is also a judgement which is endorsed in government policy statements. The extent of the cross subsidy and the benefits arising to the wider community by providing remote rural infrastructure vary considerably between ELBs. Generally the impact of the cross subsidy on urban and rural consumers is immaterial. For many ELBs the provision of remote rural infrastructure supports the farming sector which in turn supports the wider community through its demands for local goods and services.

There are instances however, where many of the households located in remote rural areas are characterised by relatively low standards of living supported in part by central government welfare payments. The financial contributions to the local community from these households tend to be relatively low and thus the level of cross subsidy required to maintain the infrastructure relatively high. There appears to be a role for central government in maintaining minimum living standards in remote rural areas, and through the welfare system, supporting low income households in meeting the costs of their supply, in order for ELBs to maintain a level of cross subsidy which is acceptable to the local community.

e) If the continuance of supply is by lines or alternatives, should lines companies be able to cross-subsidise alternative supply customers from lines connected customers?

There should be no requirement for ELBs to supply by alternative means, unless they choose to do so. It is expected that ELBs will choose alternative supply options for commercial reasons, and therefore there should be no incentive to cross subsidise alternative supplies to a greater extent than existing cross subsidies, or supply on a basis that is different to the existing standard terms and conditions (for a similar quality of supply).

f) What terms and conditions for continuance of supply do consumers that were connected after 1993 have in their contracts?

As far as we are aware there are no specific provisions in standard terms and conditions for continuance of supply.

5.3 and 5.4 Questions (Expiry of obligation but with additional requirements on lines companies)

a) If an advance notice period is used, what length of time should it be?

We do not support the advance notice option, but if it is adopted two years notice is sufficient. These options require ELBs to provide information on intentions and notification if they intend a change in, or removal of, supply to consumers. We also suggest that should either of these options be considered they should provide for negotiated outcomes between the ELB and remote consumers as these may be in the best economic interests of both the ELB and the consumer.

b) What other requirements should be placed on lines companies if continuance of supply expires?

n/a

c) What role would you expect the retailer to take as the continuance of supply expires and a change in supply is signalled?

n/a

d) At what point after a lines company has assisted a transition should its responsibility cease?

If a customer elects to implement an alternative supply option, and if this is provided by a party other than the ELB, then the ELB should assist in transitioning to the new arrangement, and from the point in time that the new supply is commissioned their obligations should cease, unless some form of connection is retained.

If the ELB maintains responsibility for the alternative supply, then this should be subject to standard commercial terms and conditions, which may differ from standard terms and conditions for reticulated supply, but should be negotiated with the customer.

5.5 Questions (Continuance of supply for a limited time beyond 2013)

a) Should the transition period be extended?

This option is not supported as it simply delays the decision that is before us at this time. We can see no benefit in delaying the decision, given our submission is based on the principle of supporting flexibility for parties involved in the decision making. Such flexibility will provide the appropriate framework for adapting to solutions which may appear in the future which are not apparent at this time, or indeed before 2013.

b) If so, how long should it be extended for and what should happen at the end of the period?

n/a

5.6 Questions (Continuance of supply, using lines or alternatives, with no expiry date subsidised by all electricity users)

a) What issues are there with creating and employing a different subsidy mechanism in order to socialise the costs across all electricity users?

As noted above there are a number of different scenarios across the country which complicate reaching a one size fits all solution. There are many communities which rely on and in turn support their local farming community. For these communities many of the uneconomic connections are for farmers. The community benefits from continued supply to these farmers, thus local cross subsidies are currently accepted by the community for the overall benefit of the community.

Currently most ELBs have developed solutions which meet the needs of their community, which typically involve some form of cross subsidy. For many this appears to be sustainable, however for a few it may not be. Accordingly there appears to be a role for central government in maintaining minimum living standards in remote rural areas, and through the welfare system, supporting low income households in meeting the costs of their supply. This will enable ELBs to maintain a level of cross subsidy which is acceptable to the local community and avoids the need for an industry wide subsidy, which in our view could become administratively complex and contradict the solutions already implemented and supported by local communities.