



**Submission to the Ministry of Economic Development –
Electricity Group**

in regard to

*Review of Section 62 of the Electricity Act 1992
'Continuance of Supply' – 2013 Review*

Submission Date:	25 September 2007
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Introduction

1. Scanpower Limited appreciates this opportunity to make a written submission to the Ministry of Economic Development in regard to the review of Section 62 of the Electricity Act 1992, relating specifically to the issue of continuance of supply and the existing 2013 milestone date.
 2. This submission has several sections which include:
 - Brief background information on Scanpower Limited.
 - General comments providing an overview of Scanpower's position.
 - Answers to specific questions raised in the Ministry's discussion paper released in August 2007.
 3. The appropriate point of contact for all enquiries relating to this submission is Lee Bettles, Chief Executive of Scanpower Limited. Contact details are provided on the cover sheet to this document.
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Scanpower Limited Background Information

4. Scanpower Limited is an electricity distribution business, owning and operating the electricity networks in the Southern Hawkes Bay / Northern Tararua regions. This includes the towns of Dannevirke, Woodville and Norsewood, in addition to numerous rural / remote communities including Ormondville, Kumeroa, Weber, Motea and Wimbledon. The approximate geographic area covered by the networks is 2,000 km² and the business operates 875 km of power lines.
 5. Outside of the main towns of Dannevirke and Woodville, customer connection density is relatively low with the majority of installations involved in the farming sector. As the network does not extend to coastal areas, there are very few (if any) holiday home type premises connected.
 6. Scanpower Limited is wholly owned by the Scanpower Customer Trust, a body of five trustees elected by the local community on a three yearly basis. Key functions of the Trust are to contribute to and approve the annual Statement of Corporate Intent, appointment of Directors, and to act in a customer advocacy role with regard to matters such as pricing and quality of supply.
 7. This information is provided in part for general background, and also because Scanpower's physical network characteristics and ownership structure are considered relevant to the position put forward by the company in this submission.
 8. More detailed company information is available via www.scanpower.co.nz
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General Comments and Overview

9. Scanpower broadly supports “*option B*” as proposed by the Ministry of Economic Development, this being the continuance of the obligation to supply using lines or alternatives with no expiry date.
10. The main reasons for supporting this option are as follows:
- As a locally owned Trust, Scanpower believes that all customers in the region are entitled to an effective and reliable supply of electricity from both an ethical and economic perspective.
 - Given the company’s existing portfolio of distribution infrastructure assets and local knowledge, Scanpower believes it is best placed to provide this service.
 - Scanpower is of the view that the urban townships within the network are vitally dependant upon the rural / farming sector. The company believes that a cessation of the obligation to supply would have an adverse impact on rural areas, which would correspondingly be to the detriment of the entire region.
 - Given ongoing developments in distributed and microgeneration technologies, Scanpower sees the flexibility to use alternatives to line based solutions as desirable. The company considers local power systems, of the type described in the Parliamentary Commissioner for the Environment’s report “Think Smart, Get Small” issued in 2006, as having great potential merit for alleviating a number of issues facing the industry.
11. For many years Scanpower has maintained equality of pricing across the entire network and as such there has been no price discrimination based on geographic location in the past. This is a policy that Scanpower intends to retain for the immediate future, with the company currently choosing to regard the network as a single, rather than granular, asset.
12. Scanpower acknowledges that inherent in this pricing policy is a prima facie cross subsidy from urban to rural consumers. However, the company also believes that this is offset (to some degree) by the aforementioned economic benefits provided by the rural sector to the greater good of the community at large, and the fact that urban customers generally receive a higher quality of supply.
13. Furthermore, in practice the possibility of removing urban to rural pricing cross subsidies is unlikely, firstly due to the enormous complexity involved in establishing (and administering) accurate “user pays” / asset base pricing (because of the phenomenon of shared assets) and secondly, because in the event that such pricing were possible, Scanpower believes the magnitude of increase in rural line charges would be socially and politically unacceptable.
14. In regard to the possible future scenario where customers, or small communities, are supplied by alternative methods, Scanpower acknowledges that under these circumstances
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it may be possible to calculate more accurate customer charges, and for reasons of flexibility would prefer that such an option remain open.

15. In summary therefore, Scanpower considers that a continuance of the obligation to supply is ethically, economically, socially and politically appropriate given that electricity is an essential service and a basic necessity of modern life. The company would however welcome the freedom to use alternative methods to a lines based approach in meeting this obligation, with appropriate pricing.
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Response to Specific Questions Raised

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, access to electricity supply for pre-1993 connections should be maintained with no expiry date.

In terms of issues, there are undoubtedly areas of the network that are uneconomic to supply when viewed on a segmental basis. This is apparent from the RERC subsidy data which places Scanpower eighth in terms of the proportion of lines built (~26%) using subsidies.

In recent times, Scanpower has continued to maintain supply to all such areas, whilst under a five year period of regulatory price control via the Commerce Commission's threshold regime. This regime is planned to be reset for the period 2009 – 2014. Scanpower is concerned at the potential for inconsistencies in regulatory approach between the various bodies currently involved in the industry. For example, should the obligation to supply remain indefinitely, it would be of concern to Scanpower if a different regulatory body at the same time imposed further price regulation threatening the company's ability to do so on a consistent basis.

- b) What expectations should there be from consumers around price, quality, reliability and capacity for continuance of supply?*

On the basis that Scanpower has expressed its support for 'option B', consumers in our area should expect that in most cases services will continue on a basis consistent with the practices of the past. In certain cases however, single installations or groups of installations can expect the possibility of being supplied by alternative methods.

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

Scanpower considers there is scope for the use of alternative methods (although Scanpower doubts the feasibility of the specific example of replacing 3-phase power with single phase

due to rural load sizes in our region) as a method of supplying customers. This would most likely take the form of distributed or microgeneration equipment.

The possibility of non-standard supply contracts, providing for alternative pricing structures and / or reliability standards is a highly feasible option.

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

For the reasons outlined above, Scanpower believes that a subsidy from urban to rural customers is almost inevitable, but also appropriate under the current legislation.

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?

Given that the costs associated with alternative supply methods are currently unknown (and dependent upon specific customer circumstances), and given the views expressed earlier in this submission, Scanpower believes that lines companies should have the option of cross-subsidising alternative supply customers from lines connected customers

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

Scanpower's terms and conditions are silent on this matter.

Other Questions

Scanpower's response to the remaining questions presented in the discussion paper is "Not Applicable" given that these options are not supported.