



**Discussion paper on Review of  
Section 62 of the Electricity Act  
1992 ‘Continuance of Supply’**

**Submission on behalf of  
Telecom New Zealand**

**October 2007**

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**SUBMISSION ON REVIEW OF SECTION 62 OF THE  
ELECTRICITY ACT 1992 'CONTINUANCE OF SUPPLY'**

**SUMMARY**

Telecommunication services are dependent on the supply of electricity. Neither Telecom nor any other telecommunications provider would be able to supply remote users with telecommunications services if electricity were unavailable. This is especially true as the telecommunications industry moves toward all IP service delivery. Removing the obligation to supply would increase the risk that remote consumers would not be able to obtain telecommunications services.

The MED's discussion paper is unclear about the definition of uneconomic customer and as a result fails to quantify either the risk of consumers not being supplied or the cost to the power industry of the obligation to maintain connection.

This issue must be coordinated with the current Emergency Services Review.

Telecom New Zealand is a major supplier of Telecommunication Services throughout New Zealand. It has hundreds of sites in remote locations and is a life line organisation for Civil Defence. Telecom is concerned that as alternative technologies are not yet capable of providing the same level of security of supply as are lines that any degradation of the lines service will adversely affect our ability to provide services. It is worth noting here that many urban customers also benefit from remote telecommunications sites as sites servicing urban areas are often on distant sparsely populated hilltops.

**1. *What does uneconomic supply mean and who does it affect ?***

It is imperative that a firm definition of uneconomic supply is established in order to quantify the risk of supply being removed from some customers, and the cost of any cross subsidy both to the power companies involved and to consumers.

There is no one clear definition of uneconomic supply in the discussion paper. Without knowing that it is impossible to know how many users will be affected and what level of costs and cross subsidies are involved. The document gives two possible definitions which are :

- i. When the revenue generated from the consumers connected to the line is insufficient to meet the costs of maintaining the line, including asset renewal. In a business sense, this means the asset (the line) generates a negative return and network assets used elsewhere must generate a higher return to cover the full cost of supply across the line company's network.
- ii. When it would be a lower cost to supply the same area by an alternative means (i.e. not by long distribution lines). This concept of 'uneconomic'

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is used by the Commerce Commission in its direction to lines companies on how to value their network assets.

The document goes on to discuss the lines companies' requirements under ODV (Optimised Deprival Valuation) as it relates to uneconomic lines. It makes note of the fact that to date it appears that no company considers more than 1% of their lines fall into that category as none have made any Economic Valuation adjustments for it.

This gives the impression that the issue of uneconomic supply is only an issue for a very small proportion of customers i.e. less than 1%. However the discussion paper contains definitions of uneconomic which it considers to be the main ones (this implies that there would be others). If the first definition is applied then this would cover a much wider range of customers. The possible extent of this is shown in the discussion paper's graph of the proportion of lines built in each network area with RERC subsidy. In some cases the portion of lines established using the subsidy is up around 40%.

### **3. Identification and quantification of cross subsidies**

Once the method of establishing the definition of uneconomic supply is decided then the next step must be to identify which customers (could be in broad geographic areas) are being subsidised by whom and how much is involved both for the person being subsidised and for those doing the subsidising. Without that information we don't believe that it is possible to have a meaningful discussion of section 62.

It is vital that these first two points are addressed before any final decisions on section 62 are made. That must happen within a very short period e.g. 12 months.

### **4. Conflict between removal of section 62 and the Civil Defence Emergency Act 2002**

The Civil Defence Emergency Act 2002 states "The economic viability of communities and of the nation as a whole depends upon the continued operation of lifeline utilities". If lines are removed from rural areas then there is a serious risk that a whole range of services will also disappear which are vital to Civil Defence. Primary amongst those are telecommunications facilities which are often in very remote areas. While many areas will totally lose facilities there will be another group which is less remote which will suffer a serious downgrading of facilities where they are maintained but without the security of supply which comes with lines.

At present technology has not advanced to the stage that other options will provide the same level of security at similar prices. This is particularly relevant in cases where the load requires considerable capacity. In the case of some very remote sites e.g. some telecommunications, radio sites, rail signals, safety measures at level crossing such as lights, bells and arms, pumping or water treatment sites, there is no alternative supply which would provide the same level of reliability as exists at present with the provision of lines. At present some already have backup generally via diesel generators but some sites are inaccessible for months at a time and in that situation

fuel could not be brought in. Also providing N-1 security by means of another generator is not good practice, as a generator backing up another generator is not as reliable as a generator backing up lines.

## **5. The Government's Emergency Call Services Review**

There is a clear dependency between the issue being addressed in this discussion paper and the Emergency Call Services Review. That review is addressing, *inter alia*, the availability of emergency call capability and appropriate standards to apply to that capability. The availability and reliability of power is a key factor in the availability and reliability of emergency calling.

## **6. Deciding between options**

In our view there are a number of clear principles that should be applied in assessing the options :

- (1) Clarity — if there are to be requirements or expectations about reliability standards or product quality, these need to be clearly specified.
  - Currently this does not appear to be the case. The obligation to supply appears to apply only to the connection of the line, and not to any particular product requirements.
- (2) Technological neutrality — any obligation should not cement in place a specific technology. A provider should be free to deliver the obligations using whatever technology it chooses.
- (3) Competitive neutrality — any obligation should not favour any provider over any other or make it harder for new entry.
- (4) Minimise uncertainty — it is well established that increasing uncertainty reduces investment.

Application of these principles would appear to eliminate a number of the paper's options.

In addition, the options included appear incomplete. For instance other possible options are;

- Removing the constraint on lines companies' ability to increase prices. Note however that if the constraint on lines companies' ability to increase prices was removed then funding for affected consumers (including commercial entities) should also be included.
- A no change option with direct Government assistance for lines companies.
- Retention of the status quo with direct Government assistance for affected consumers (including commercial entities).