

Submission to:

2013 Review
Electricity Group
Energy and Communications Branch
Ministry of Economic Development
33 Bowen Street
Wellington

Submission from:

Top Energy Limited
Station Road
Kaikohe

Date: 28 September 2007

Electricity Act 1992, (the Act) Section 62 (the Section)

Continuance of Supply beyond 2013

Background

Top Energy Limited (Top Energy) is the lines company which distributes power in the Far North. Our distribution system covers an area similar to that managed by the Far North District Council. The Company is owned by the Top Energy Consumer Trust, which holds the shares on behalf of the power consumers of the area.

The district has a population of approx. 55,000 people, of whom 44% are identified as Maori¹. The average income in the district is \$19,200¹, compared to the national average of \$24,400¹.

Top Energy has 3,987 kms of distribution line and 28,500 customers. It is difficult to separate out data to exclude the impact of industrial and large consumers from the available published data but we believe that our average consumption per domestic consumer is about 6,500kW. This can be compared to the "low fixed charge regime" threshold which uses a figure of 8,000 kW. The average number of customers per km of line is 7.1.

Top Energy is one of the companies named in the Discussion Paper as being the recipient of some of the highest levels of RERC (Rural Electricity Reticulation Council) contributions, up until the time that that scheme was terminated in 1997. It is suggested that over 35% of Top Energy's distribution system was originally funded by RERC funding.

¹ Statistics Department 2006 Census

Legislative History

When the new energy companies were formed in 1992 (Energy Companies Act 1992) they were required to operate with the principal objective of operating as a successful business. Clearly, given the earlier RERC funded construction of uneconomic supplies, this created a conflict.

As a trust owned company we are required to agree a Statement of Corporate Intent with our shareholder. That Statement includes undertakings relating to the equitable treatment of all power consumers connected to our network. It also sets out financial performance levels which are expected to be achieved.

Since the passing of the Electricity Industry Reform Act, and the implementation of the industry price and quality threshold regime, administered by the Commerce Commission, all lines businesses have had pressure applied to reduce their cost structures while improving service levels. When up to 35% of your lines assets could be classified as uneconomic, it is hardly surprising that profit returns are unacceptably low and service levels are difficult to maintain.

The government has also introduced controls prohibiting the introduction of different tariffs based on urban and rural mixes.

The introduction of the Section into the Act can only ever be seen as being based on political considerations. None of the reasons stated in the review economically justify the inclusion of the provision.

Capital Contributions

It should be noted that Top Energy continues to construct supply lines and connect new consumers, where the cost of the new connection means that it is uneconomic. The Company operates a capital contribution scheme where the new consumer funds the uneconomic portion of the equipment. These capital contributions are refundable, in total or in part, when additional consumers connect to the new equipment. This regime looks to be similar to the previous RERC scheme, except that it is funded by the consumer. There is no attempt to address what the situation will be when the equipment required for these new connections will have to be replaced. It should be noted however, that there is no undertaking given to maintain supply for any period or at any time. It must be presumed therefore, that when the equipment requires to be replaced at some point in the future, there may be a requirement for the consumer to again fund part of that cost, or lose supply.

Alternatives

Over the last 15 years Top Energy has investigated some alternative energy supplies to remote consumers. In every case this has been unsuccessful. Although not explicit in the Discussion Paper, there seems to be an assumption associated with the decision to introduce the Section, that alternative energy supplies are viable for those consumers who would be disconnected if the Section was allowed to run its course. In almost all cases, the alternatives are very capital intensive.

As can be seen from the brief statistics shown in the Background section, the Far North is a district where a significant proportion of the population would be totally incapable of accessing the capital funds required to source alternative energy supplies. The only realistic result which can be anticipated is that many of these people will be disconnected from the power supply and will then have to live without proper heating, lighting and provision of water and sanitation.

Responses to Questions 5.1 and 5.2

- a) There has been no economic justification for the inclusion in the Act of the original provision. There can equally be no justification for its continued inclusion. Termination of the present provision will raise many social issues. These, however, are issues for government to address and fund, not individual power consumers or even individual lines companies. Alternative energy sources will, in many cases have to be provided, or the alternative deterioration of health, education and welfare issues accepted.
- b) Consumers will always desire the best quality of service for the minimum price.
- c) It may be that there are parts of New Zealand where supply lines have been over built in the past. This is certainly not the case in the Far North. Top Energy has 18% of our system built as SWER. When these lines were built they were built as cheaply as they possibly could be, with the result that many of these now require replacement.

Alternative supply methods are unlikely to get significant traction in the foreseeable future. Government has spent a lot of money, through organisations such as EECA, to encourage the adoption of alternative power supplies. These programmes are as applicable to lines businesses searching for cost effective alternatives as they are to individual consumers. The cost and the inconvenience to the end users means that few are interested in pursuing these options. Until the cost of the equipment reduces significantly this is unlikely to change. The most likely driver for cost reduction will come from the international market, rather than New Zealand.

- d) It appears that the proposal that cross subsidies between urban and remote rural could be removed stems from a belief that most remote rural (uneconomic) are supplying farmers or other businesses where power is simply one of their input costs. In the Far North, this is not the case. Many of those affected by such a proposal will be residential consumers, in some cases, households supported by government benefits. As stated previously, these consumers simply do not have the means to pay the much higher costs removal of cross subsidies would result in. Without alternative arrangements (ref response to question 5.6) cross subsidies are the only way that many of the power consumers at the ends of the supply system can continue to have safe and efficient energy available to them.
- e) For the same reasons detailed previously this would have to be the case. The introduction of the ability to allow lines businesses to determine how the energy requirements of consumers should be met is a sensible position. Our view is that the obligation to supply should be maintained indefinitely, but with a contribution to uneconomic supplies from all power consumers. In implementing this position there should be no restriction on how the lines company achieves this outcome. Minimisation of cost should always be part of any solution. [Ref Response to Question 5.6]
- f) There are no special provisions for customers connected after 1993.

Responses to Questions 5.3 and 5.4

None of these proposals are acceptable. As noted previously, the majority of those likely to be affected by the termination of the obligation under the Section will not be in a position to finance alternative energy arrangements. This being the case, a deferral of the final date will change nothing other than to pass the problem to someone else, in the future.

We are concerned that statements such as those set out in para. 67 reflect a belief by the Ministry (and therefore government) that there is some sort of informed debate occurring on this subject. It is our belief that organisations like Federated Farmers have an understanding of the issue and have presumably kept their members informed. It is only in the last couple of months that any request for information has been received from local council. As noted previously, a significant number of those who will be affected by the termination of the obligations under the Section are individual consumers, in many cases living on government benefits and with lower levels of education. This latter point also makes the suggestions in para 69 impractical and unworkable.

Responses to Question 5.5

Having concluded that it is unacceptable to terminate the obligation to maintain supply, any provision that defers the final determination is unnecessary and inappropriate. Those affected will simply have to live with the uncertainty for an extended period of time.

Response to Question 5.6

Socialisation of the cost of uneconomic electricity provision was embarked upon by government, under the RERC programme. The operating costs of maintaining the supply to those installations and the capital cost of replacing the equipment as it reaches the end of its economic life must therefore also be met by the community as a whole. There are three possible approaches to this solution.

- Allowing the introduction of geographically based tariffs, so that all consumers pay an amount which provides an economic return to the lines business. Practical implementation of this type of geographically based regime is fraught with equity difficulties. Assuming a practical regime could be developed it would then require some sort of transfer payment to the consumer, to allow them to pay these higher prices. The most likely mechanism for this would be through the social welfare system.
- Maintenance of single tariffs charged to consumers with an uneconomic “top up” paid to the lines business. This payment could be made by government via cash payments, tax concessions (making the revenue received for uneconomic supplies non taxable?), or other payment systems.
- Maintenance of single tariffs charged to consumers with an uneconomic “top up” paid to the lines business. This payment could be from an industry operated pool of funds, similar to the RERC programme.

In the second and third options, the method of continued supply should be at the option of the local lines company. If alternative supplies can be provided more cheaply than via the established distribution lines this option should be available to the lines business. This would then start developing the market for these alternative supplies.

Conclusion

The social disruption which would arise from allowing the Section to come to end (and the supply obligation to be terminated) is clearly untenable. This being the case the cost of continuing to supply uneconomic connections must fall on the whole community, either via government support or an industry levy.

Yours faithfully

R G de Bray
Chief Executive

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