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Electricity Group
Energy and Communications Branch
Ministry of Economic Development
PO Box 1473
WELLINGTON

By email to: electricity@med.govt.nz

Dear Sir/Madam

Draft Government Policy Statement on Electricity Governance – March 2008

You have invited feedback on the draft Government Policy Statement (GPS).

Marlborough Lines is a member of the Electricity Networks Association, and fully supports their submission in this regard. We make this further individual submission to expand on our concerns with respect to one aspect of the draft.

Section 118 of the draft states:

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

Whilst Marlborough Lines does not have any problems with this provision with respect to consumers in the more densely populated rural areas, we do not believe such a requirement is appropriate for supply to remote rural areas, generally supplied via grossly uneconomic distribution lines.

We are aware the government is carrying out a review of section 62 of the Electricity Act 1992, the 'Continuance of Supply' section. The Ministry released a discussion paper, review of section 62 of the Electricity Act 1992 in August 2007, and invited submissions on that discussion paper.

Marlborough Lines provided a submission in this regard, which included some detail of the scale of 'uneconomic' lines in our network. That submission showed that close to 50% of the company's 11kV distribution network is used to provide supply to 10.6% of total ICPs, who in total consumer 4.8% of the total energy volume transported over the network. This section of the network has a replacement cost in excess of \$75m (March 2007 terms), and it is anticipated that a significant portion of it will reach the end of its useful life during the next decade or two.

Marlborough Lines has obtained ministerial exemption from compliance of the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 in respect of various remote areas of its network. The above statistics relate to areas for which that exemption applies. However, there are a number of other lines in less remote rural areas where the revenue at current line charges could not justify the significant expenditure that will be required at some point in the future when the assets reach the end of their useful lives.

The Ministry's discussion paper on the review of section 62 identified six possible options for the post 2013 requirements. Most of these options provided for some alternative to line supply to be considered.

We are not aware of any alternative supply technology which has a cost (capital and operating) anywhere near as "cheap" as current delivered energy costs. It would, in our view, be nonsensical to expect consumers supplied by uneconomic lines to consider alternatives to line supply whilst at the same time have the cost of that line supply held at an artificially low level, cross subsidised by consumers from more densely populated areas, as a consequence of the rural/urban line charge provision in the GPS.

We urge the Government to, at the very least, delay finalisation of this clause in particular until some policy decisions have been made with respect to the future of section 62. We also suggest that, once again at the very least, the provision be drafted in such a way as to allow the Electricity Commission some flexibility or leeway in applying the provision so as to allow that, for lines which are patently uneconomic, there is no requirement to maintain relativity between charges for those lines with charges for other (urban and more densely populated rural) areas.

Thank you for the opportunity to comment on the policy statement. We would be happy to answer to any queries you have in respect to this feedback.

Yours faithfully



David Waters
For Marlborough Lines