



24 August 2011

Mr Anthony Merritt
Manager
Electricity and Gas (Regulation Branch)
Commerce Commission
PO Box 2351
Wellington 6140

Dear Anthony

Submission on 2010-2015 Default Price – Quality Path for Electricity Distribution Businesses – Draft Decisions Paper

Introduction

OtagoNet is the electricity network which services the wider Otago region excluding Dunedin and Central Otago.

It is owned by a joint venture comprising companies owned by Electricity Invercargill, Marlborough Lines and The Power Company, all of whom purchased OtagoNet as an investment in a competitive sales process.

OtagoNet has the lowest customer density in New Zealand with only three customers per kilometre.

Condition of Assets

When the Otago network assets were purchased in June 2002 they were in a poor state of repair after having been neglected by the previous owners. It was clearly apparent many parts of the reticulation failed to meet regulatory safety standards and shortly after acquisition there were instances where poles fell over of their own accord in still wind conditions.

For the first three years of ownership consistent with the provisions of the Sale and Purchase Agreement, network charges were frozen. During this period the joint venture partners sacrificed returns in an endeavour to make the network safe and try and maintain supply to all customers.

Subsequently OtagoNet has increased prices and undertaken substantial capital and maintenance investment within the network. By way of example, capital expenditure has increased from \$2.5m to approximately \$7.5m per year and maintenance expenditure has also been markedly increased. Feedback from customers across the network indicates that they are very supportive of OtagoNet's objective of increasing reliability and that price increases are a lower level of concern than reliability of supply.

OtagoNet's latest Asset Management Plan identifies considerable maintenance and capital expenditure which is still required to maintain, let alone improve, the current levels of reliability of supply. Such expenditure can only be undertaken if the joint venture owners of OtagoNet have the confidence that it is able to generate an adequate return on investment for the joint venture parties.

The joint venture owners of OtagoNet have particular concern in this regard and request that the Commission give consideration to the points raised in relation to rate of return in the attached report from E-Dec Ltd. In addition OtagoNet endorses the views expressed in the Electricity Networks Association and PricewaterhouseCoopers submissions.

In the determination of an allowable price path the aforementioned submissions raise a number of issues which we believe need to be addressed if the price control regime of the Commission is to meet the Government's objectives, the needs of the Otago consumers in relation to reliability of supply and the requirements of the joint venture owners to obtain a commercial return such that further investment is encouraged.

Yours sincerely



Martin Walton
Chief Executive