

- **Submission to the Commerce Commission**
 - **Submission on the Commerce Commission's Gazetted intention to make a declaration of control under Part 4A of the Commerce Act (1986) in respect of electricity transmission services supplied by Transpower New Zealand Limited.**
 - **Submitter: WAITAKI POWER TRUST**
 - **Contact details: C/- Mrs Faye Ormandy, Secretary, Waitaki Power Trust, 5 ORD, Oamaru. Email address: ormandy@paradise.net.nz**
 - **Submission made in electronic form to electricity@comcom.govt.nz**
 - **Date: 27 February 2006**
 - **Waitaki Power Trust supports the proposition that pricing, revenues and services supplied by Transpower New Zealand are controlled by the Commerce Commission for the time being.**
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REASONS

1. Fairness and Equity

- 1.1 Part 4A of the Commerce Act effective from 8 August 2001 required the Commerce Commission to set and implement thresholds relating to pricing, revenue and services provided by all electricity network utilities nation wide.
- 1.2 While we understand Transpower's predicament, given that the national transmission network requires significant capital upgrade, we do not support the work being funded by the Company blatantly breaching the price path threshold under which it is required to operate through implementation of government legislation.
- 1.3 The targeted control regime specifically addressed in Part 4A of the Commerce Act (2001) includes among other things provisions which, when implemented, limit the ability of monopolistic electricity transmission and distribution companies to set prices at a level that would generate excessive profit.
- 1.4 The concept of fair-play requires that the targeted control regime applies to all electricity lines network companies.
- 1.5 Transpower New Zealand Limited (Transpower) must meet statutory requirements in the same way as distribution lines network companies endeavour to do.
- 1.6 Given that Transpower has breached the price path threshold in each of three assessment periods to date, then in terms of fairness, Waitaki Power Trust contends it to be both timely and necessary that the Commerce Commission takes the steps necessary to control Transpower charges and associated revenue stream.

2. Economic and Inter-generational Equity

- 2.1 Electricity distribution network companies have experienced significant difficulties endeavouring to fund large capital projects and upgrades for example, from a mix of revenue generated from fixed line charges and borrowing, under the price path threshold of CPI-X.
- 2.2 A majority of distribution lines network companies in New Zealand face the so-called wall of wire predicament whereby parts of the distribution network are well past the use-by date, requiring significant replacement work. Upgrades and new capital work also need to be done because of factors such as change of land use, more highly populated developments and urban sprawl.
- 2.3 The issue of how to fund replacements, upgrade existing infrastructure and new capital work is not unique to transmission and distribution lines network companies.
- 2.4 Local authorities face the same issue and resolve it by adopting the concept of inter-generational equity.
- 2.5 Under the inter-generational equity scenario up-grade work and new projects are funded by long term borrowing so that costs are spread over both existing and future generations of ratepayers.
- 2.6 Waitaki Power Trust does not support the excessive price increases Transpower has introduced over the last two years with the aim of increasing its revenue stream to help fund work required to upgrade the national grid.
- 2.7 We contend the current pricing and revenue generating strategy Transpower has adopted to be unacceptable on economic and inter-generational equity grounds.
- 2.8 We recommend that other methods of funding the work required are sought.

3. Social Equity

- 3.1 Significant recent increases in Transpower charges have impacted on all categories of electricity consumers, including industrial, commercial and domestic users, in particular.
- 3.2 Increases in Transpower charges have greatest impact on domestic users who cannot claim any form of tax concession, resulting from electricity use.
- 3.3 The low fixed line charge option has gone some way toward helping low electricity users on low fixed incomes.
- 3.4 But this option is not able to be taken up by families on either low incomes or low fixed incomes and whose electricity consumption is more than 8,000 kw per year.
- 3.5 Transpower's recent increases in lines charges violates the principle of social equity which is fundamental in a democratic society by having a greater impact on some domestic users than others.

3.6 For this reason too Waitaki Power Trust does not support the pricing strategy adopted by Transpower.

4. Working within Statutory Requirements

4.1 It is noteworthy that whereas the twenty eight local distribution lines network companies in New Zealand are bound by regulation to charge low electricity users (less than 8,000 kw per year) a low fixed line charge, Transpower is not covered by this requirement.

4.2 Hence, the low fixed line charge does not impact on their revenue stream.

4.3 But it does reduce the revenue stream of distribution lines network companies.

4.4 Never the less they are further bound, as Transpower is, under Part 4 of the Commerce Act (2001) to provide services of a quality that reflects consumer demands.

4.5 In a situation of justifiable need to help fund necessary work, the Commerce Act makes provision for lines network companies to apply to the Commerce Commission for an exemption to increase line charges beyond the relevant CPI-X threshold set for their company.

4.6 The Commerce Commission Report, 31 January 2006, gives no indication that Transpower has sought this option and endeavoured to work within the terms of the Commerce Act.

4.7 Waitaki Power Trust feels strongly that it is not appropriate for any businesses to knowingly breach legislation.

4.8 The better option is to be a good corporate citizen by either working within legislation or endeavouring to have the legislation amended.

SUMMARY

- Waitaki Power Trust supports the proposal that the Commerce Commission controls, for the time being, pricing, revenue and services provided by Transpower New Zealand Limited.

Reasons

Transpower's recent pricing strategy has:

- Consistently breached over a three year period the price path threshold set by the Commerce Commission with the objective of limiting lines network companies ability to generate excessive profits.
- Violated the fair and equal implementation of the targeted control regime for lines network companies under Part 4A of the Commerce Act (2001).

- Failed to embody economic and inter-generational equity by excessively over charging existing consumers to pay for work which would benefit future generations of consumers.
- Does not account for social equity because Transpowers increased line charges have greater impact on certain sub groups of electricity users than others.
- Transpowers recent actions do not appear to meet the "law abiding" criterion of a "good corporate" citizen.

Dr Helen Brookes
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