

Pan Pac Forest Industries Limited,
Private bag 6203,
Napier,
24 February 2006

Transpower Post-Breach Inquiry
Network Performance Group
Networks Branch
Commerce Commission
By email to electricity@comcom.govt.nz

Submission on Intention to Control Transpower

Pan Pac Forest Industries Limited (Pan Pac) has an interest in transmission because our transmission costs are approximately \$4.3 million per annum. The recently announced transmission price rises effective 1 April 2006 came as a surprise. Although we were generally aware that Transpower were proposing a significant grid investment programme, we had anticipated:

- transmission charges would comply with the CPI-1% threshold; and
- That only approved investments would form part of any new pricing structure.

We were never briefed by Transpower in advance of it announcing transmission price increases effective 1 April 2006.

At our insistence they briefed us in February. The explanation and justification both in their explanatory letter and the February 2006 meeting was completely unconvincing for the need for any increase.

They report that they are following the rulebook and have no scope to negotiate with us. They also refused to delay any increase until after the Commerce Commission enquiry result is known.

Pan Pac has no problem with the charges based on equipment specifically used by Pan Pac. These are discussed and changes negotiated and mutually agreed, as is the case in most supplier customer relationships. However for increases for common equipment this is not the case.

Pan Pac welcomes the Commerce Commission Investigation.

Some areas of particular concern are;

- Increase in the asset beta, which we can not see justifiable change
- Depreciation methodology. Pan Pac cannot accept the increase as the reasons given being that this increase is due to revaluations of current assets and for assets not yet commissioned. Pan Pac supports historic accounting methodology.

Pan Pac regards inflation adjustments as a cause for price increases unacceptable. Pan Pac has been able to hold its cost of pulp manufacture flat for 20 years. From this experience Pan Pac expects that all of its providers should at least achieve the same.

Pan Pac is also concerned with past pricing methodologies. Setting MD charging on the 12 highest peaks in the last 12 months is an impediment for companies to improve self-sufficiency by applying energy saving advances. For example Pan Pac has installed a bio-fuelled turbine, manufacturing about 10% of Pan Pac's electricity. However due to the MD pricing methodology, it will take 12 months before we obtain any benefit for the reduction in MD that the turbine brings about.

Pan Pac relies on the regulators to ensure efficient and least cost solutions (covering transmission options and transmission alternatives) are approved because end users' ultimately pay. The Commission's discussion paper on the Intention to Control Transpower is therefore welcome as it has assisted focus attention on whether current transmission price levels, the 1 April 2006 increases and forecast future price increases signalled by Transpower are justified. The report also brings to our attention the need for regulators to be vigilant and for the regulatory regime itself to adapt as experience is gained.

Pan Pac forest Industries Ltd. support the more detailed submission being made by MEUG on the Commission discussion paper. In particular we agree that on the evidence in the Commission report Transpower has breached its thresholds and control is desirable in advance of Transpower's response to the Commission.

We also support a review of the regulatory framework as applied to Transpower in due course.

Yours sincerely

Fred Staples,

General Manager Pulp,

Pan Pac forest Products Ltd