



Submission on the Price-Quality Path for Electricity Distribution Businesses.

The Lines Company is a party to the submissions from ENA and PwC.

1. The Lines Company has the oldest network in NZ. In addition it has some of the most remote lines in NZ. In order to comply with the continuation of the section 62 obligation it will have to undertake a large line renewal programme over the next ten years. This is shown in our asset management plan, and is confirmed by the analysis on the forward capex requirements of electricity distribution businesses undertaken for the Commission. We therefore are interested in how the Commission will comply with its section 54 V requirement to take account of the continuance of supply obligations imposed by section 62 of the Electricity Act.
2. In addition, because of the local terrain and rainfall, we have a significant and growing number of distributed generators connected to our network.

Distributed Generation.

3. The Distributed Generation Regulations require that the default amount paid by generators is the actual marginal cost caused by that generator. An annual calculation is required, and because of this recovery is likely to lag cost i.e. they may be in different years.
4. It is not clear how these charges are to be treated for price path purposes.
5. The discussion paper notes in paragraph 32 that generators are not defined as customers for the purposes of the regulatory regime.
6. If the yearly variations in charges to distributed generators are capped by the price threshold, this will mean distributors will not be able to pass on the full cost in any year where that cost is high. This would appear to be contrary to the intent of the default regime, and presumably not be in the best interests of load customers who may be required to pick up the residual cost.

7. Recommendation:

- a. Prices to generators should be exempt from price path control (rationale that default regime set by distributed generation regulations and therefore another layer of price control not necessary - while generators can contract out of the default regime under the distributed generation regulations they presumably will only do so if offered better terms), or**
- b. Marginal costs treated as pass through costs, and therefore any variation is passed through.**

Recognition of section 62 obligation.

- 8. The discussion paper notes on page 36 that views of the Commission for addressing this issue are discussed in the *Input Methodologies Discussion Paper*. We are probably blind, but we have been unable to find that discussion.
- 9. There are a small number of electricity distribution businesses affected by the extension of the obligation to supply. The Lines Company, having the oldest network in NZ and some of the most remote customers is one of them.
- 10. Where existing lines are old and need to be renewed then:
 - a. The existing Regulated Asset Base (RAB) is likely to be low.
 - b. With the value of the renewal being greater than the depreciation on the existing RAB then the RAB will increase.
 - c. As the increase is due to a shift in the average asset age with no associated growth in sales volume then to earn WACC prices will have to increase at a rate above CPI.
 - d. If a single x is used then the P_o adjustments will be significant.

This is modelled in the attachment.

- 11. Uneconomic lines are often servicing uneconomic areas. In our region our urban customers are amongst the lowest socio-economic groups and our rural customers, whilst in higher groupings are not above average. These customers need predictability of price movement and can not afford 5 yearly increases significantly above CPI.
- 12. The proposal in paragraph 274 of the discussion paper to move those with low rates of return only up to the bottom of the band will only encourage delays in renewal investment as those electricity businesses affected by large renewal programmes delay the programmes to bring ROI closer to a

commercial level. This would appear is contrary to the section 54 V obligation on the Commission.

13. Discussion on the tax consequences of embarking on a significant asset renewal programme will be submitted in response to the input methodologies discussion paper.
14. We recommend that a Y factor adjustment be incorporated for those networks with recognised significant asset renewal programmes to meet their Section 62 obligations.

Q19 – Excluded Services.

15. We submit that there needs to be consistency between the revenues and costs the Commission will use to ascertain ROI and the revenues being regulated. Currently it is possible to have the prices for services such as disconnections controlled where they are a monopoly service, but the associated revenues and costs and assets are not part of the ROI calculation.
16. This would mean that the RAB reflects the services regulated, and therefore is not necessarily consistent between electricity distribution businesses. This point will be covered in a further submission on the input methodologies, but we submit that consistency is important.
17. **We submit that all controlled services should have their costs, revenues and assets included in the base ROI and that 2008 and 2009 ROI calculations be adjusted accordingly.**

Applicability of most recent ROI.

18. Paragraph 250 of the discussion paper states that prices are stable but costs will vary as a result of the change in economic circumstances.
19. This is not so if capital contributions are included as revenue in assessing return. Our 2008 information disclosure contained capital contributions and vested assets of \$1.5 million. This “revenue” has disappeared as a result of the economic slowdown, lowering to \$500k in 2009 (which is still above its traditional level and is the result of first quarter 2008/09 activity) and likely to be zero in 2010. In the absence of any cost or asset value increase our 2010 line revenue will have to increase by 7% to maintain the 2008 ROI level.

20. This will be further developed in our submission on the input methodologies where we will be suggesting that pricing would be more consistent if capital contributions were deducted from the RAB rather than treated as income.

21. **We recommend that if capital contributions and vested assets are to be treated as income for calculation of the ROI, that the Commission adjusts the levels in the 2008 and 2009 disclosure for current reality.**

A handwritten signature in black ink, appearing to read "John Anderson", with a long horizontal flourish extending to the right.

John Anderson
Chief Executive