greater WELLINGTON
THE REGIONAL COUNCIL

SUBMISSION TO THE COMMERCE COMMISSION

Regulation of Electricity Lines Businesses
Draft Assessment and Inquiry Guidelines

4 September 2003 File: B/06/07/03

Purpose

1. This submission is made by the Greater Wellington Regional Council (the Council) because:

   (i) It is concerned for the social and economic well being of the Wellington Region.

   (ii) It is a major electricity user paying approximately $1M a year for network service charges for its water supply operations.

Background

2. The Council is concerned about the pricing levels for some network services in the Wellington Region but at present it does not know if these are fair. Likewise it is currently not possible to compare the reliability of some of the network systems in the Wellington Region with those elsewhere. This situation has arisen because of the various mergers and takeovers in the electricity industry resulting in some network companies owning separate networks that are not interconnected except through Transpower's national grid.

   Network companies within the Wellington Region are:

Company	Location in the Wellington Region	Type of ownership
Electra	Kapiti Coast	Trust owned
Powerco	Wairarapa	listed on the NZ Stock Exchange
Vector (still trading as UnitedNetworks)	Wellington metropolitan	Auckland Consumer trust owned

   Most of the comments in this submission refer to the Powerco and Vector networks.

3. The Commerce Commission (the Commission) mentions the importance of section 57E of the Commerce Act in several parts of its draft guidelines (published 7 August 2003).

Section 57E states:

Purpose –

The purpose of this subpart is to promote the efficient operation of markets directly related to electricity distribution and transmission services through targeted control for the long-term benefit of consumers by ensuring that suppliers:

(a) are limited in their ability to extract excessive profits; and

(b) face strong incentives to improve efficiency and provide services at a quality that reflects consumer demands: and

(c) share the benefits of effciency gains with consumers, including through lower prices.

A consumer is defined in the Commerce Act (Electricity Lines Thresholds) Notice 2003 as "means any person who is supplied, or who applies to be supplied, with electricity". A number of electricity industry related exclusions are included in the following part of the definition.

4. The Council is concerned that the Commission's guidelines may not achieve the objective of sharing the consumer benefits nationwide. This is because the main thrust of the guidelines appears to relate to the activities of a network company as a whole.

Pricing

5. Both Powerco and Vector own several non-contiguous networks. This allows for different prices in different geographic locations. The Council accepts that there are a number of inputs that form the basis of a pricing product and that those inputs vary. The issue is not whether the prices are different but whether the prices are fair and meet the objectives of section 57E for all consumers. Under the proposed guidelines, it would be possible for the revenue from one area to be above the guidelines and revenue from another area to be below and still arrive at a total network company revenue that is within the Commission's guidelines.

With Powerco, a significant body of shareholding is held in Taranaki and with Vector, the Consumer Trust's beneficiaries are in Auckland.

Even if there is no attempt to overprice the Wellington and Wairarapa areas to the benefit of persons not in these areas, the Council is very concerned about the lack of transparency. Transparency is the best way, in the Council's opinion, of ensuring compliance with section 57E of the Commerce Act and thereby ensure a fair distribution to all consumers of the efficiency gains.

6. The Council's pricing concerns can be overcome if the regulations apply to each network company or in cases where a company owns two or more non-contiguous networks, then to individual networks.

7. The Council accepts that there would be some increased costs where individual networks are accounted for, as opposed to whole company accounting. However, given that there are already different pricing mechanisms, these costs would be minor compared to the substantial benefits arising from transparency and a fair distribution to consumers of the efficiency benefits.

8. In paragraph 144 of the Commission's Process and Analytical Framework (dated 7 August 2003), there is reference to two broad approaches to determining efficient prices. Namely benchmarking and construction of prices using theoretical models. The Council has some reservations about the benchmarking method apart from residential consumers and other small users.

   This is because of the complexity of pricing that often involves a mix of fixed monthly, volume variable and peak demand pricing components. The prices paid by industrial user (A) compared with industrial user (B) can only be calculated by knowing user (A)'s and user (B)'s consumption profiles. Even if they are known, they may not be representatives of the industries. In the case of the Council's larger water supply sites, there are elements of specific asset based pricing, this precludes any meaningful price comparison with other sites.

   Reliability Criteria

   It is unfortunate that the Commission has used SAIDI and SAIFI in section 180 of its guidelines without defining these terms even though they are accepted international measures for the electricity industry. The public must have confidence in not only the process but how the results are communicated. It is requested that considerable effort is put into communicating with the general public. A start would be to not use SAID1 or SAIFI but refer to the average number of minutes a consumer is without power a year and the average number of times the power goes off each year.

9. It is accepted that electricity network reliability in major cities is always likely to be higher than in rural areas and small towns. Treating a network company as a whole for network performance reporting could mask a deterioration in service levels in some areas, when non-contiguous networks are aggregated by the same company for reporting purposes.

   Metropolitan Wellington has a substantial electricity network as about 10 percent of the country's population are resident in it. The Wairarapa, in geographic terms, is a substantial land area. For these reasons, the Council believes that reliability reporting should apply to both areas, rather than being included in the total Vector and Powerco areas.

   Treating the Wellington and Wairarapa areas separately would allow the reliability trends to be reported over time. These communities can then have a direct input into programmes that may change the reliability performance.

10, In section 183 of the Commission's guidelines, there is reference to operating expenditure. The Council suggests this is widened to include capital expenditure, with particular reference to budgets and the asset management plans.

11. Conclusion

In order for the Commission to comply with Part 4A of section 57E of the Act and ensure efficiency gains are shared with all consumers, the Council believes that the Commission must change its Assessment and Inquiry Guidelines so that each electricity network is considered separately where a network company owns more than one network. This may also require revisiting the lines business definition in the Commerce Act (Electricity Lines Thresholds) Notice 2003.

Reliability reporting is as equally as important for reporting purposes and this should also be on a discrete network basis.