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Cross submission on IM review

ETNZ - The Energy Trusts Association - represents the Trust owners of electricity distribution businesses throughout New Zealand, the largest of which is Entrust and smallest of which is the Buller Electric Power Trust. The majority of the Trustees of these energy trusts are elected by electricity consumers and their communities, who are the beneficiaries of the Trusts.

As the organisation representing consumer and community owners of EDBs, ETNZ has both an asset owner and a consumer perspective in providing this cross submission.

ACAM

We support the contention by ENA, Powerco and others that ACAM should be retained. From a trustee perspective, effective oversight of the financial performance of EDBs and of major EDB investment decisions relies heavily on consistency in financial reporting and the underlying accounting principles. Unless there is some significant regulatory failure occurring it would be unnecessarily disruptive and potentially confusing to make fundamental changes to familiar accounting approaches.

Also, we consider that retaining incentives to, for example, seek efficiency gains by sharing pole space (or, for that matter, shared involvement with a host of other EDB services) with other parties or suppliers of other services would produce optimal outcomes for the economy, and would be consistent with the purpose of Part 4. (i.e. 52A – proving "incentives to innovate and invest").

On this point we do not see that 52A(c) stipulation that EDBs "share with consumers the benefits of efficiency gains of the regulated goods or services" as a constraint: new arrangements involving activities such as placing fibre on EDBs' poles do not impact on the efficiency of supplying electricity through the regulated assets involved, any more than the shared use of cable, fibre, gas pipeline and water reticulation space in the road reserve does.

We disagree with ERANZ' view that the Commission should not be open to providing compensation for the costs of moving away from ACAM, or to allowing some EDBs to continue to use ACAM. As trustees, we recognise that smaller companies would face additional costs not only in moving to ABAA but also in explaining resultant changes to their owners, who – in the case of trust-owned companies – may in turn have to explain the changes to consumers. Retaining ACAM could prove to be significantly more costs-effective.

We note that Genesis Energy recognise the case for compensation and support this approach, rather than allowing smaller EDBs to continue to use ACAM. Genesis, like some other submitters, do not consider the value that consistent application of accounting methods has to trustees tasked with overseeing company behaviour.

OVABAA

While supporting the retention of ACAM, we note the Commission's comments on the provision of an optional variation accounting-based approach. If the Commission does abandon ACAM then we oppose Contact Energy and MEUG's proposal that OVABAA be removed.

Having access to a legitimate range of accounting options where unregulated activities are involved is consistent with supporting a level playing field for such activities.

EDBs are required to comply with the complexities of Part 4 in their regulated activities, and imposition of requirements that spill over from Part 4 to their unregulated activities would be a form of regulatory creep with no clear justification. MEUG's argument that retention of OVABAA might result in "cross-subsidy forays into non-regulated businesses" is at best a weak one. Investments in new technologies etc. will be made on the basis of market opportunities, not on the basis of arcane tweaks to regulated accounting provisions that will be subject to future revision if the Commission considers that necessary.

We note that ERANZ recognises the merits of retaining OVABAA, and the reality that, if ACAM goes, it is needed to ensure that investment is not unduly deterred.

<u>Research and trialling new technologies</u>

We oppose ERANZ' contention that guidelines should be provided to regulate research into new technologies, in case such research results in benefits to unregulated activities.

As noted last year by Hon Bill English, community and consumer-owned EDBs are becoming increasingly exposed to the threat of asset stranding as unconventional technologies emerge. It would be a perverse regulatory outcome to restrict EDBs' ability to adopt or respond to emerging technologies simply because the appropriate approach may involve investment in contestable activities that fall outside the ambit of Part 4.

Section 52T(3) addresses this issue very clearly: "Any methodologies referred to in subsection (1)(a)(iii) must not unduly deter investment by a supplier of regulated goods or services in the provision of other goods or services." [the subsection referred to specifically identifies the allocation of common costs]

Also, the emergence of competitive pressures from new technologies makes it increasingly difficult for regulated EDBs to make long-term investment decisions in conventional equipment. As well as facilitating research into responses, it would seem appropriate for the regulatory regime to evolve to recognise this drift away from the orthodox 'monopoly control' approach it was established for.

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Chair
ETNZ