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22 May 2002

Mr Bill Naik
Commerce Commission
P O Box 2351
WELLINGTON

Dear Mr Naik

Re: Draft Determination on application by Electricity Governance Board Ltd (EGBL)

Introduction

UnitedNetworks welcomes the opportunity to comment on the Draft Determination by the Commerce Commission on the application by the EGBL for authorisation of the new Rulebook. We would like the opportunity to speak to our submission at the conference.

UnitedNetworks is New Zealand's largest electricity lines company serving about 30% of all consumers in New Zealand. We own and operate three distinct networks comprising 24,500 km of lines.

We have limited our submission to the one core concern raised by the Commission that concerns the actions of electricity lines businesses.

Commission's preliminary views – transmission investment

In its draft determination, the Commission concludes that the proposed industry arrangement will result in significant under-investment in transmission services. The Commission appears to reach this conclusion on the basis of the following assumptions:

- Electricity lines businesses would likely hold the majority of voting rights in future investment decisions (because lines businesses have historically paid for most of Transpower's costs).
- Electricity lines businesses have only weak incentives to approve investments to relieve transmission constraints (but would likely support investments to maintain security and quality of supply).
- A Crown EGB established under the Electricity Act would force investments that result in a net public benefit.

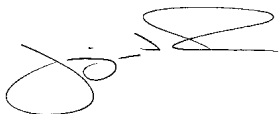
UnitedNetworks comments

UnitedNetworks submits that none of the above assumptions withstand scrutiny:

- The part F rules do not pre-determine the parties (e.g. generators, lines companies, or end users) that might gain from a transmission investment, but allows coalitions to be formed sufficient to support the investment. This is a significant break from current practice, whereby Transpower elects to contract primarily with distribution lines businesses.
- UnitedNetworks approaches any proposal for new transmission investment from a sound commercial perspective. We will support Transmission investments if the gains from the investment outweigh the costs and our customers are willing to pay for those gains. UnitedNetworks faces no incentive to oppose an investment proposal valued by our customers.
- We are not aware of any authoritative source that would support the Commission's contention that investments at the direction of an agent of a Minister, the Crown EGB, would over time result in net public benefits. We believe international experience, and the history of the New Zealand electricity sector, demonstrates that central planners are not good at making investment decisions on behalf of customers.
- If the industry led arrangements do prove to be inadequate the Minister would be able at that time to establish a Crown EGB in response to an actual rather than perceived problem.

UnitedNetworks concurs with the views of the applicant that the industry arrangements are likely to open up aspects of the transmission services market to competition from alternative providers and providers of substitutes for transmission services. By contrast, a Crown EGB with the power to force transmission investment could substantially raise the commercial risk to UnitedNetworks which as the largest lines company, could well bear the largest share of any forced investment. The actions of the Crown EGB would also crowd out private sector initiatives.

Yours sincerely



Jennie Vickers
Legal & Regulatory Manager