



Ref: 402.3

22 May 2002

Janet Whiteside  
Commerce Commission  
PO Box 2351  
WELLINGTON

---

WEL Networks Limited  
Corner London and Victoria Streets

---

PO Box 925  
Hamilton  
New Zealand

---

Telephone +64 7 838 1399  
Fax +64 7 858 1447

---

Email [connect@wel.co.nz](mailto:connect@wel.co.nz)  
[www.wel.co.nz](http://www.wel.co.nz)

---

Dear Janet

**RE: SUBMISSION ON THE COMMERCE COMMISSION'S DRAFT  
DETERMINATION ON THE ELECTRICITY GOVERNANCE BOARD  
LIMITED'S APPLICATION FOR AUTHORISATION**

We enclose our submission on the above matter. If you require any clarification or further information please contact me on 07 858 1399.

Yours faithfully

Mike Underhill  
**CHIEF EXECUTIVE**

enc.

## **SUBMISSION ON DRAFT DETERMINATION**

### **Pursuant to the Commerce Act 1986 in the Matter on Application for Authorisation of Restrictive Trade Practices by the Electricity Governance Board Limited**

#### **Public Benefits and Detriments**

WEL Networks Limited (“WEL”) notes in your draft determination that the range for the public detriments overlaps the range for public benefits such that there is not a clear case to say that an authorisation would give rise to net public benefits.

We believe that you have understated the NPV of the benefits of an industry EGB versus the Crown EGB. Our view is based on the following:

1. The past 12 years of virtually continuous government led reform has incurred huge costs. In our view reform was needed but the process, the complexities of reform, and the costs were a key reason for examining an “industry self-governance model”. We believe that a Crown EGB with its expected political and departmental involvement will perpetuate the current cumbersome processes.
2. We would be interested to observe the national costs of the more than 50 major reform initiatives over recent times. The costs would include government, industry, participant, and customer group costs. There have been significant governance and management costs for industry participants not just in the understanding and responding to reform initiatives but also in the transitioning to new structure and processes.
3. We believe that the costs of opportunities forgone while responding to this virtually constant period of reform and transition are enormous.
4. Unfortunately WEL does not have the modelling in place to evaluate these wider negative impacts.

#### **Public Detriments Arising from Voting Procedures**

We acknowledge and agree with the draft determination where it recognises public detriment from the likely voting responses on pro-competitive issues in the rules.

We believe that this matter must be resolved either:

- a. Prior to the issuing to a final determination; or
- b. The final determination requiring this to be satisfactorily addressed within a specified time period.

We believe that there are a number of mechanisms that can be put into place to address the issues associated with voting on pro-competitive matters.

We note that EGEC has asked its multi disciplinary working group on governance matters to address the relevant voting issues. We believe that group and EGEC can put forward a proposal that will satisfactorily address the Commerce Commission's concerns.

We would ask that the Commission provides a short but adequate time for this matter to be addressed.

### **Under Investment in the Transmission Grid**

We note the points in the draft determination about the risks of under investment in the transmission grid and that the proposed voting structure requires distributor's approvals for the investment to be made.

We believe that distributors will be motivated to support investment which enhances security of supply. In fact we believe that the pressure on distributors for enhances to security of supply is greater than the pressure on Transpower because of the closer relationship between distributors and the final users of energy.

By way of example, WEL has requested and will pay for significant local investments in the local transmission grid to improve security of supply in WEL's network. These initiatives include a new Point of Supply west of Hamilton, a significant upgrade in the transformer capacity at the Hamilton Point of Supply, and major reconfiguration of the Transpower 33kV bus system. This was based on WEL's assessment of the necessary security of supply requirements and was initiated by WEL rather than by Transpower. We believe that other distributors would respond in a similar manner to local security issues.

In terms of the second issue of transmission investment, i.e. investment to overcome transmission constraints, I believe the incentive on distributors to support such investment would again be high because of the closer proximity of distributors to final users and because most distributors are wholly or partially owned by community or customer trusts and as such generally operate in a way aligned with the needs of the consumers and the wider community.

### **Conclusion**

WEL recognises the validity of the issues to do with public benefits and detriments. It believes that the assessment of the benefits of the industry EGB versus the Crown EGB has not taken fully into account the likely significant additional costs worn by all industry participants under a Crown EGB.

WEL believes that the issues associated with voting dominance in terms of pro-competitive issues can be addressed by EGEC to the satisfaction of the Commerce Commission.

WEL believes there are sufficient incentives on distributors to encourage rational investment in the transmission grid to improve security of supply and reduce transmission constraints.