



FletcherBuilding

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Mr Bill Naik
Investigator
Commerce Commission
P. O. Box 2351
Wellington

Dear Mr Naik

Fletcher Building Limited (FBL) believes the commission should decline authorisation of the application before it proposed by the Electricity Governance Board Limited (EGBL).

FBL is a large user of electricity consuming some 450GWH of electricity across over 300 sites.

FBL has significant reservations over introduction of the set of arrangements in their current form as it believes other arrangements would deliver a greater net public benefit.

FBL believes the intent of the Government Policy Statement which initiated the design of the EGBL was to rationalise and integrate rules within the industry to enhance efficiency. Underlying this was an understanding that the electricity industry is one which is naturally highly integrated because electricity cannot easily be stored and because common quality and security of supply are vital. The EGBL proposal does not achieve this. Specifically ;

1. Voting by chapter fails to properly take into account the integrated nature of the electricity system.

The proposal gives only very limited decision making powers to the independent elected board and passes main decision making powers to members where voting is different for each chapter of the rules.

Voting by chapter fails to recognise that changes in one area of the rules has the potential to effect parties upstream or downstream who may not have had any voting rights.

2. The proposed governance structure has inadequate incentives to change rules in certain circumstances.

There are no incentives for voting members to pass rules changes which would :

- Increase competition within the industry.
- Confer a net public benefit which due to existing competition within the industry is likely to be passed on to end users rather than shared by the voting participants themselves.

This arises because members of each chapter of the rule book are restricted to only those parties who are directly contractually effected (i.e. to Generators, Transpower, Network Companies and Retailers).

FBL notes that the Government expressed in its review of the past winter its concerns about the extent of competition in parts of the electricity Industry and went further to warn the industry that it would act if electricity retailers did not compete effectively.

3. Conflicts of interest by end user representatives.

Industrial companies like FBL who are not directly connected to the grid would be represented by their retailer who is also likely to be an integrated generator/retailer and therefore subject to a conflict of interest i.e. motivated to act in their own interests rather than that of the end users.

FBL finds it hard to believe the EGBL view that if the Commission declines authorisation of the current proposal a regulatory Electricity Governance Board is the most likely outcome because:

- As a result of the Government Policy Statement and the Winter Review a number of changes in the industry outside the EGBL are occurring. The Government have set clear expectations and timetables for change in the industry through its post winter review announcements and is unlikely to act until after the end of this timetable which extends to the end of October 2002.
- This is an election year and unless electricity becomes a political issue the Government is unlikely to place a high priority on taking action such as establishment of a regulatory Electricity Governance Board.

A decision by the commission to decline authorisation of the EGBL proposal would lead to reassessments by both the EGBL and the Government. The EGBL would be motivated to move quickly to address the commissions concerns if it could while the Government is likely to be more cautious, deciding to enact a regulatory Electricity Governance Board only if it felt EGBL was unable to address the commissions concerns itself and that full regulation was required.

FBL believes that if the commission declines authorisation of the proposed arrangements there are a number of possible outcomes, one of which is submission of a new proposal addressing any concerns of the commission prior to any possible Government decision to put in place a regulatory Electricity Governance Board.

FBL believes that an alternative Industry EGB with a more integrated process for voting, broader consumer voting rights and reduced conflicts of interests of representatives would generate greater net benefit than the current proposal.

Yours Sincerely

Alan Beeston
Group Supply Manager
Fletcher Building Limited