Waimate
District Council

7 October 2019

Commerce Commission PO Box 2351 WELLINGTON 6140

Dear Sir/Madam

DRAFT DECISION - DEFAULT PRICE QUALITY PATHS FOR ELECTRICITY DISTRIBUTION

Waimate District Council (WDC) is a 7.54% shareholder in Alpine Energy. The other 92.46% shareholdings are held by two district councils and the South Canterbury Lines Trust.

WDC have a number of concerns around the recent release of the new pricing mechanism for electricity distribution networks.

Effect on consumers:

1. Although the reduction in distribution costs should reduce the cost to consumers, this cost is on-charged by the retailer and is a component of the retailer's pricing. There is no regulation that ensures that the reduction of income that the distribution network receives will be passed onto the consumer by the retailer.

   Following the release of the Electricity Pricing Review, the government's response by the Minister of Energy Megan Wood states "many people struggle with the cost of power" and "we intend to review these changes in our second term to ensure savings are passed onto consumers". However, it would appear that such a regulation is highly unlikely to happen in this DPP3 cycle.

   For the DPP2 cycle the Commerce Commission granted Alpine Energy higher allowable revenues, which resulted in an increase in prices to ensure the company had adequate funds for capital spending requirements. Up until that time the retail companies were absorbing the benefit of the low distribution network costs, that is they still maintained a higher retail charge, and when the distribution charges increased the retail pricing did not reflect that increase. This example highlights the issues going forward with reducing the distribution charges and retailers not being required to pass on that reduction.

WAIMATE DISTRICT COUNCIL
125 Queen Street, Waimate 7924
PO Box 122, Waimate 7960, New Zealand

P. +64 3 689 0000
E. council@waimatedc.govt.nz
W. waimatedc.govt.nz

As a provider of other essential services (drinking water, stormwater, wastewater, roads and waste) WDC understands the need; and challenge in maintaining affordable services. However having different rules for 'non-trust owned' regulated EDBs and Trust owned 'information disclosure only' EDBs, and no authority over the retail providers, it is unclear to us how DPP3 will have any direct benefit to electricity users.

As a shareholder we are constantly holding the company to account to ensure security of supply and an efficient business operation. Of the dividends that the company generate for us, 100% is returned to the community/consumers. Of this, 16% is allocated towards community led economic development projects and 84% is used to mitigate General Rates increases.

2. The forecast reduction of earnings to Alpine Energy will translate into a 2% to 3% increase in General Rates for the Waimate District to replace the dividend income, we are not complaining about the loss of income or dividend, we merely want to draw the attention of the Commerce Commission to the real impact of DPP3.

   Timaru and Mackenzie District Councils also indirectly use the dividends to subsidise the rates that those consumers pay. We do not believe that the government's objectives will be met in reducing power costs to consumers by reducing the income of the distribution networks through the methodologies you propose.

3. It is concerning that each five year reset period is having such a big impact on the operation of the business with reduction in income due to the high impact of the WACC calculation. Given the lifecycle of Alpine's assets which are in excess of 50 years, the reset periodically of a fixed five year term rather than using a rolling average of a larger period to smooth these variations needs to be urgently considered.
4. It appears that the calculation methodologies penalise regions where there is a capital growth requirement for new infrastructure. This is certainly occurring in the Canterbury region where we have high capital input projections through not only ongoing growth, but also industries conversion of fossil fuel energy to electricity. This has the potential for a significant capital development which is unable to be adequately funded within the current model.
5. The Commerce Commission has significantly increased the penalties for directors where SAIFI and SAIDI performance is not met which is putting additional risk on directors. This is resulting in increasing capital spending to mitigate that risk. The ability to fund this is being restricted by the pricing mechanism formula.
6. We would be pleased if you would consider this, point 5, as a direct submission to your Consultation Paper *'Default price-quality paths for electricity distribution businesses from 1 April 2020 - Recording of successive interruptions for SAIFI, 7th October 2019.'*

Yours sincerely

Stuart Duncan CHIEF EXECUTIVE