LineTrust. South Canterbury

8 October 2019

Commerce Commission

**Default Price-Quality Paths for Electricity Distribution**

LineTrust South Canterbury is a 40% shareholder in Alpine Energy. The other 60% shareholdings are held by 3 district councils.

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

1. Effect on consumers
   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 retailers 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 she 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 on to consumers". However, it would appear that such a regulation is 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.

   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, 90% at least must be distributed to our consumers. The other shareholders 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 have employed.

2. 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 our 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 considered.

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3. It appears that the calculation methodologies penalise regions where there is a capital growth requirement for new infrastructure. This is certainly occurring in our 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 significant capital development which is unable to be adequately funded within the current model.

4. 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.

Yours faithfully

Antony Ford
Secretary

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