Dear Review Panelists

I am responding as an interested 'stakeholder' to both the progress and open correspondence available regarding the Electricity Price Review.

I note that many of the stakeholder submissions to date are from industry players.

Perhaps the perspective of an independent yet interested consumer might be lacking, thus my correspondence.

Congratulations on attempting to stamp some degree of overall fairness on the NZ electricity markets. Since the 1998 Bradford 'Reforms', the distribution side of the industry has been subject to enormous regulatory attempts to rein in the excesses of 'natural monopoly' business models. The massive increases in Lines Charges immediately after those reforms had not been foreseen by the reform architects, and the Commerce Commission was belatedly summoned to regulate the industry.

The current model in place sees the Commission approving Lines Charges at 4 - 5 yearly intervals, with the next reset due again in 2020. Meanwhile Lines companies are working feverishly to present their cases to the Commission for approval to increase their charges as much as they can. The Commission then scrutinises those submissions before making deliberations, which then become open to appeals and this process can end up in Court. It is a very wasteful exercise in terms of effort spent by both the arbiter and the industry players, yet one which never happens with 12 of the Lines Network companies in NZ.

These 12 Networks are consumer-owned trusts and work superbly well in the interests of their electricity consumers. Such networks are closely aligned to the operations that we once saw, pre-Reform days when small municipal power authorities (Power Boards) operated throughout the country. These Boards were governed by locally elected directors and were managed by often modestly paid executives, yet their resulting operations were both progressive and reliable.

I live in Central Otago. Our local Power Board was compelled under the reforms to split, and sold its Lines Network to Aurora/Delta, a subsidiary of the Dunedin City Council. Since then, the reliability of the network has become one of the worst in NZ, and has been on notice from the Commerce Commission. It was operating on a 'run-to-fail' policy, where rotten poles were replaced only once they had blown over, or switch gear had failed. The state of the network became so unsafe that in 2016, one of its senior network engineers 'blew the whistle'. He lost his job over it, but the desired effect resulted. Aurora has since embarked on a $1 billion asset renewal program. Yet the dilapidated state of the network is so bad that Aurora has had to recently apply for a 4 month extension to the Commission for submitting its Asset Management Plan; they are struggling to document just how bad their network is, and how much of it they can afford to replace.

Of course, it will be consumers who foot the bill for this work, and I dread the 2020 reset date. What is doubly galling is that Aurora/Delta had been investing heavily in failed property developments in Central Otago and Canterbury, losing tens of millions (Jacks Point, Luggate, Yaldhurst) and also providing generous 'subvention payments' to help fund the new Dunedin Stadium – revenues that should have been spent on network maintenance. In all, it is an illustration of all the worst outcomes that could have ever been expected after the Industry Reforms.

Meanwhile across the Waitaki River in North Otago, Network Waitaki is a consumer-owned Trust. It works beautifully, the Commerce Commission can forget about it as its reliability stats are amongst the best in the country, its network charges are enviably low and it is focused solely on working in the best interests of its consumer-owners. Every year, it distributes a 'dividend-rebate' to its consumers, the result of any profit beyond budgeted earnings. Its consumer-owners certainly would not have stood for the incompetence and sub-par performance that have long been accepted operational practice in Aurora/Delta's network patch.

I note in the Open Letter to Stakeholders from Miriam Deans that there is "a *strong focus on how the sector can be improved for the future, rather than merely looking at what has not been working as well as it should".*

This is most encouraging. Can I suggest that after two decades with regard to NZ's Lines Networks, we have had long enough to witness industry best (and worst) practice models, and the winners are surely consumer-owned Trusts. There are 12 of these networks in NZ and all are exempt from the Commission's 'pricing-quality' regulations because of their ownership status.

I also note the comment from the Commerce Commission submission on Terms of Reference of the EP Review.

" . . . <u>on the structure and governance of the distribution sector</u>, . . . it does seem relevant in the context of a Review about the level of electricity prices and service quality."

Best wishes on your deliberations on what has unfortunately become an extremely complex and fragmented essential industry. I am hopeful that you can make some substantial recommendations that can bring the necessary and overdue improvements, particularly with regard to NZ's electricity distribution networks.

I enclose a link to an article I wrote two years ago for the Otago Daily Times which is still relevant as a background to the affordability issues facing consumers of the wider Otago region's electricity distribution network under Aurora/Delta.

Regards

Nick Loughnan

9(2)(a) [redacted]

[redacted]

[redacted] August 2018

Wednesday, 2 November 2016

History shows power to the people lost

1. Opinion

One of four poles on the writer's farm that were red-tagged last week after former Delta worker Richard Healey raised maintenance concerns. They are part of a line on which another rotten pole blew over three weeks ago, causing a nine-hour outage. Photo by Nick Loughnan.
Delta's woes will be shared with Central Otago, writes Nick Loughnan.

What Central Otago once owned with its electricity assets, and was forced to give up, is still fresh in the minds of many of its residents as the operations of Dunedin City Council-owned Delta come under the spotlight yet again after a very courageous and selfless call on public safety by one of its senior employees. A little history will explain how.

New Zealand pre-1998 had a very different electricity network ownership model. All regions had their own municipal power authorities, with locally elected directors who gave willingly of their time to benefit their consumers' interests through provision and maintenance of electrical generation and distribution assets.

Central Otago's original power board had a long history of innovative and pioneering supply of electricity.

The Otago Central Electric Power Board from the 1920s went on to build five hydro-electric power stations in association with gold-mining, dredging and irrigation companies, providing the only source of electrical energy to the region until connection to the national grid in 1957. A further six hydro dams were built before 1998.

The construction of these many generation assets, and the extensive distribution network of power lines was funded by a considerably smaller and sparsely scattered population than today, and all was overseen by a small group of highly skilled and modestly paid administrators, alongside their largely voluntary board directors.

It is fair to say there was widespread and justifiable resentment in Central Otago over the Bradford electricity reforms of 1998.

The proudly profitable and community focused power board was gutted, retaining only its generation assets, while the Dunedin City Council bought the Central Otago lines assets as part of Aurora/Delta.

New lines charges soon appeared on power accounts at ever-increasing rates until government intervention saw the Commerce Commission step in to take a much-needed and overdue regulatory role.

However, the new regulations came too late for many seasonal consumers.

The irony of this is still clear to see on dozens of orchards alongside the Clutha River, where orchardists within a stone's throw of the Clyde and Roxburgh Dams burn diesel to power their frost-fighting and irrigation pumps.

For them, imported fossil fuels are cheaper than the substantial costs of being connected to Aurora's lines network.

Since the reforms of 1998, the energy component of the average Central Otago household's monthly power bill has increased by about 50%, while lines network charges have increased by more than 1000%. ***footnote**

In that time, some new and necessary distribution assets have been built to keep pace with the demands of Central's growing population, but that is all.

The existing network has been poorly maintained to the point of neglect, and its reliability has deteriorated sharply, with the Commerce Commission putting Aurora on notice for its poor asset management.

Rotten, wind-blown power poles, along with lack of maintenance, are too often causing lengthy power outages. Of the 29 lines companies in New Zealand, Aurora's reliability factor is among the worst.

Contrast the condition of the Aurora lines network with the state of the company which manages it. Delta now pays its CEO more than the Prime Minister gets.

Not only has his salary doubled since he started in 2009, but the number of staff earning more than $100,000 per annum has grown from 25 to 88.

Their combined annual salaries have grown from $3.3 million to more than $12 million, while the dividend stream to the DCC shrinks. Perhaps this isn't quite the sort of growth the DCC was looking for in its once star-performing company.

Dunedin will now be wondering whether it can afford to keep Aurora/Delta. The cash cow has been making too much of a mess for its owner, it hasn't been fed properly and someone seems to be getting away with most of the cream. It must now be very tempting to sell it, wash hands quickly and retire some sizeable city debt.

A good option for ratepayers? The experience of Wellington City Council with its lines network would suggest otherwise.

In the current climate of diminishing global investment returns, New Zealand's lines companies are standout investment opportunities when properly run, and there is keen international interest.

As monopolies, they provide a guaranteed and lucrative income stream.

Since the Wellington City Council sold its network in 1996 to Canada's TransAlta for $210million, that network has been bought and sold another three times, and the current owner is CKI Holdings, a Hong Kong based and Cayman Island registered multinational conglomerate.

And, of course, the profits flow offshore through a tax haven, while that network's reliability is as bad as Aurora's, and its lines charges have been among the highest in the country.

It is most regrettable the control and ownership of Otago's strategic and essential electricity assets appear to be heading the same way. We are all the poorer for it.

-Nick Loughnan is a Central Otago farmer with a long-term interest in the electricity industry.

***footnote**

“Electricity distribution services make up approximately 26% of a consumer’s average monthly power bill. “

Commerce Commission media release 14 June 2018

The writer's monthly power bills are made up of 52% of Aurora/Delta distribution charges. - exactly double the average.