KING COUNTRY ELECTRIC POWER TRUST

SHAREHOLDER FOR THE CONSUMERS IN THE LINES CO LTD & KING COUNTRY ENERGY LTD

28 September 2007

Electricity Group
Energy and Communications Branch
Ministry of Economic Development
33 Bowen Street
PO Box 1473
WELLINGTON

Dear Sir/Madam

SUBMISSION FROM KING COUNTRY ELECTRIC POWER TRUST

The above trust holds a 10% interest in The Lines Company Ltd (TLC) on behalf of some 9,200 beneficiaries in the southern King Country, Turangi and Ohakune districts.

All of these beneficiaries are connected to the TLC network and apart from the settlements of Taumarunui, Turangi and Ohakune, the balance are rural dwellers.

Continuity of a reliable and affordable electricity supply is paramount for these consumers to enjoy a healthy, productive lifestyle and to be able to benefit from technological advancement.

Topography of the King Country is such that the maintenance of the network is costly and investment in the renewal of lines provides an uneconomic commercial return.

The farming or related activities in the rural sector are the main drivers of the local economy and as such should be supported by government policy, with this in mind, our Trustees on behalf of the 9,200 beneficiaries endorse the submission developed by the local government authorities and the network company.

Copy of submission is attached.

Yours sincerely

Tessa Stewart
Secretary

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Submission to Ministry of Economic Development on the Review of Section 62 of the Electricity Act 1992 'Continuance of Supply'.

TO:	Electricity Group Energy and Communications Branch Ministry of Economic Development 33 Bowen Street PO box 1473 Wellington New Zealand.
SUBMISSION FROM:	Ruapehu District Council Otorohanga District Council Waitomo District Council The Lines Company

1. The Ministry of Economic Development has released a discussion paper on Section 62 of the Electricity Act 1992 'Continuance of Supply' (2013 Review). The paper presented six options for discussion. We thank the Ministry of Economic Development for the opportunity to submit on this discussion paper.

2. The area supplied by The Lines Company (TLC) includes the districts of Ruapehu, Otorohanga and Waitomo. This area is largely rural and there may be a significant proportion of residents that are potentially affected by Section 62 of the Electricity Act 1992. Consequently this review is of considerable importance to this area.

3. The Lines Company organised a meeting (on 17 September) with representatives from the three councils who cover the majority of the TLC network. The objective of this meeting was to inform the councils of the implications so that the councils could submit on behalf of ratepayers and other stakeholders.

The following discussion forms the basis of the joint submission from the Ruapehu, Otorohanga and Waitomo District Councils and The Lines Company.

Discussion

The stakeholders are mindful that The Lines Company has the greatest distance of line constructed through RERC funding and analysis shows that renewal of this without continued funding will be unacceptable to our predominantly rural communities. The Lines Company has no major metropolitan area within its network where cross subsidy could lessen impact upon both urban and rural communities.

The Government policy statement of October 2006 expects distribution companies to keep changes to rural charges in line with urban charges. If it is left to the communities of Otorohanga, Ruapehu and Waitomo to fund this major replacement of lines this will throw a considerable burden upon the region.

Based on TLC estimates, about $15 million per year (nationally) is needed to keep the 17,000 km of Rural Electrical Reticulation Council (RERC) funded lines going (approximately $8.00 per customer per year across New Zealand). TLC has the greatest distance of RERC funded lines nationally (1600km). The current cost of renewing these (as part of TLC 15 year renewal programme averages $1.5 million (Cost of $70.00 per TLC customer) of capital expenditure. This is unsustainable without future price adjustments. The region as a whole has a low decile rating and a cost increase of this magnitude for TLC domestic customers is considered to be an unacceptable burden to place upon already deprived communities.

The rural sector is facing increasing pressures and needs to be able to function to its full potential. Uncertainty about the future of the power supply is an unnecessary burden on a sector that has unique issues, like distance from essential support systems (doctors, schools etc) and isolation, to contend with daily.

Energy is fundamental to the quality of our lives. It is a key ingredient in all sectors of modern economies and modern life, including modern farm life and tourism in rural areas, and is an important factor that drives the country's economic engine.

Farmers and others living in rural areas are also part of, and are still considered the backbone of the economic wellbeing of the country. Two thirds of our foreign exchange comes from primary sector industries. And contrary to popular perception, the contribution of agriculture to New Zealand's economy has been rising. Over the last fifteen years agriculture, forestry, and related industries have increased their productivity at more than double the rate of the rest of the economy. The performance of our primary industries has been a major contributor to our economy's success over the last six years. As such there is a large element of national benefit to supplying energy to rural areas of New Zealand.

The government funds the roading network for its importance to the national economy. We see the electricity network in the same light – it is too critical for the economy for the government to allow the network to be downgraded in rural areas.

Farming is a complex and focused business, and maintaining alternative supplies or running generators will be inconvenient and expensive.

Many of the small distribution energy sources that the government wishes to develop as part of its national energy policy are in remote areas and lines to remote areas will be needed to export this energy. If this is to be conducted at marginal cost then it is in the country's interest to continue to fund these lines on a national basis.

Although alternative supply options exist, currently these are not as economic as existing reticulated electricity for a similar standard of service. A consistent approach to funding and service provision could be established by the Electricity Commission, assuming that the responsibility of subsiding uneconomic lines with levies is extended for this purpose.

The boundaries between economic and uneconomic are often blurred and therefore a national approach is considered to be more appropriate considering the constant evolution in farm use. The boundaries of the network companies are artificial for the purpose of establishing catchments for funding remote lines, for example Otorohanga dairy farms.

Submission Points

We submit that, as there is a portion of national benefit from farming, there should be a national levy for the continuance of supply post 2013, similar to that of the RERC, and similar to the government funding of the roading network.

The rural sector is still the backbone of the economic wellbeing of the country, and as such, deserves the same level of service as other sectors of the community. As primary industries are a major contributor to the economy's success, farmers and others in rural areas will need a reliable energy source.