

29 February 2008

Chairperson

Commerce Committee

Parliament House

WELLINGTON

Dear Chairperson

SUBMISSION ON ELECTRICITY INDUSTRY REFORM AMENDMENT BILL

Christchurch International Airport Limited (CIAL) appreciates the opportunity to make submissions on the Electricity Industry Reform Amendment Bill (Bill).

Background

CIAL owns the electricity lines within Christchurch International Airport and more than 2.5GWh is conveyed over those lines per year. Accordingly we fit the definition of an electricity lines business under section 4 of the Electricity Industry Reform Act (Act).

CIAL also purchases electricity for its own use and to on-sell to some of the airport's tenants. Because the Act requires ownership separation of lines and supply businesses, and because we cannot divest of the ownership in our lines, we must ensure that in on-selling electricity to some of our tenants we do not fit the definition of an electricity supply business under section 5 of the Act.

We do this by actively managing our supply to those tenants to ensure that it does not exceed 2.5 GWh per year as required by the Act. However, our tenants, ourselves and the independent electricity retailers who supply to tenants at the airport are incurring substantial costs in maintaining the status quo:

- a) We have had to notify a number of existing tenants that they can no longer receive supply from CIAL in order that its sales of electricity does not exceed 2.5 GWh per year and must seek supply from an independent electricity retailer. In many instances, the tenants have found that the price paid to this independent retailer was very similar or higher to the price paid to CIAL.
- b) When agreeing leases with future tenants, it may be that we require them to take supply from an independent electricity retailer in order that CIAL's sales of electricity do not exceed 2.5 GWh per year. They will face additional set-up costs as a result.
- c) Because CIAL has been required to divest itself of some tenants, we believe that we have not been able to attract as competitive an energy purchase price from our suppliers due to the reduced volume. Furthermore, some suppliers have indicated their reluctance to supply CIAL due to the complexity of supplying its electricity and that of tenants supplied by independent electricity retailers.
- d) Independent electricity retailers have told us that it is inconvenient to supply individual tenants within the airport due to the set up costs (such as installing meters) and administrative costs in servicing small clients within a larger building infrastructure.
- e) CIAL has undertaken the divestment of a number of tenants to independent electricity retailers and in doing so has incurred significant electricity industry compliance costs. This is not CIAL's core business. We submit that these costs are unnecessary.

Commentary

The Act was enacted to prevent the integrated power companies existing at that time from restricting access by competing retailers to their lines networks. It was not aimed at companies that own small electricity lines and retail businesses as a part of, or incidental to, the infrastructure necessary for their main business.

In summary, the current situation is financially not good for CIAL, or our tenants and is not preferred by the electricity retailers. Furthermore, the Act does not deliver the benefits in respect of CIAL, that were intended to arise from the ownership split.

We consider that the requirement to separate ownership of lines and supply businesses is unfair when it requires very small lines/supply businesses such as CIAL to incur such large administrative costs as a result. Particularly, where, as in our case, enabling independent retailers to supply CIAL's tenants has not necessarily decreased electricity prices, but may have actually increased the electricity costs and inconvenience for some parties.

If CIAL was exempt from the Act, there would not be any opportunity for it to exploit its retail business to cover the costs of its lines business. None of CIAL's tenants are bound to take supply from CIAL. If CIAL's retail prices were not comparable to those of independent electricity retailers, CIAL's tenants would move to take supply from an independent retailer.

The solution

We consider that the Bill should exempt airports from the ownership separation requirements in the Act and the most effective way to do this would be to amend the definition of "electricity lines business" and "electricity supply business" in sections 4 and 5.

Alternatively we believe that the current threshold of 2.5 GWh per annum should be increased to in the order of 15 GWh p.a. in order that non-power company businesses, such as CIAL and others are exempt.

We would like to be heard on this submission.

Please contact me if you wish to discuss any issues.

Yours sincerely



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