

SUBMISSION

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Submission on: More Efficient Distribution Prices consultation paper

From: Federated Farmers of New Zealand

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SUBMISSION TO THE ELECTRICITY AUTHORITY ON MORE EFFICIENT DISTRIBUTION PRICES CONSULTATION PAPER

1. INTRODUCTION

- 1.1 Federated Farmers appreciates the opportunity to provide this submission to the Electricity Authority on the More Efficient Distribution Prices consultation paper.
- 1.2 Electricity is a significant and vital input into the farm business with networked electricity supply one of a few sources of energy available to rural households.
- 1.3 This consultation comes at a time of great uncertainty in electricity pricing for rural consumers.
- 1.4 Transmission pricing has seen a number of proposals in recent years, with each seeking significant shifts in liability among the regions, and final proposals yet to be revealed.
- 1.5 The Electricity Price Review delivered a first report that seemed to point the finger at distribution pricing for increasing the overall cost of electricity in recent years, and the review panel's work continues.
- 1.6 This consultation on distribution pricing seeks to rebalance the allocation of liability among consumers in light of increasing uptake of new technologies, like solar generation, among generally urban consumers. Further, this consultation is occurring as part of a broader effort by electricity distribution companies to develop proposals on more efficient distribution pricing.
- 1.7 Federated Farmers generally supports good public policy principles that bring rigour to the efficiency of spending and improving market conditions.
- 1.8 However, the Federation does not consider the electricity market to be much of a market with its unusual mix of geographical monopolies and complex consumer needs and situations.
- 1.9 More particularly, Federated Farmers is concerned that there is a strong risk of electricity becoming unaffordable to rural consumers in particular areas as distribution pricing moves to more cost-reflective pricing.

2. ROLE OF RURAL CONSUMERS IN ELECTRICITY SECTOR

- 2.1 Farms and rural households play a multi-purpose role in the electricity sector.
- 2.2 At its most simple, farms and rural households are consumers of electricity in much the same way as other businesses and residences. Farms generally have residential plans for the household and commercial plans for the farm business. Farm consumption of electricity is also generally on a scale between that of a residential consumer and a commercial consumer, depending on the farm type.
- 2.3 Farms rely on a reliable supply of electricity to undertake many of the functions required to support the farm business:

- For dairy farms, this means reliable supply during milking and consistent supply throughout the day for milk vats to maintain a safe temperature for milk awaiting collection.
 - For irrigated farms, this means reliable supply to maintain pivot and other irrigation systems during dry periods that risk pasture and crop health and production.
 - For sheep and beef farms this means reliable supply for animal water supply and during shearing.
- 2.4 This situation is further complicated by many farms also hosting the infrastructure necessary for electricity to be both transmitted and distributed across the country. This was initially pursued on an agenda of bringing electricity to various parts of the country on the basis of goodwill and necessity.
- 2.5 Farms also host, or have given way to, electricity generation projects over the years. Wind farms generally reside on farms. Hydro canals run through farms with dams taking over once productive farmland.
- 2.6 All this occurs on a basis where the role, importance and needs of the rural consumer as host and enabler of the electricity sector goes largely unrecognised and underaddressed in public policy processes.

3. NEEDS OF RURAL CONSUMERS

- 3.1 The priorities of rural electricity consumers can best be understood as:
- Electricity should be affordable. Electricity is a vital and costly source of energy to operate the modern farm and household.
 - Electricity supply should be certain. Quality of supply is an issue in many rural areas, with unplanned outages and delayed restoration of supply not uncommon.
 - Property rights must be respected. Farmers host a lot of the infrastructure that transmits and distributes electricity across the country. Hosting such infrastructure creates challenges additional to those already faced as farm businesses, like animal welfare requirements, farm biosecurity and other aspects of farm management.
- 3.2 Of particular relevance to this consultation is the rural priority of affordability of electricity supply and more especially the importance of achieving value for money.
- 3.3 Farm businesses and rural households in many parts of the country are not unfamiliar with having to accept uncertainty electricity supply.
- 3.4 Outage statistics informing the regulatory performance of electricity distribution companies focuses on averaged statistics of the frequency and duration of outages.

- 3.5 On a per customer basis, the statistics tell a story of electricity generally being pretty good and adequate for customer needs. The Federation regularly hears from its members that their electricity supply is often-times uncertain, prone to outage in storms or high winds, and comes with a long wait for restoration of supply.
- 3.6 Much of this will be a consequence of so much of rural electricity supply being distributed along extensive line networks where few customers are served on a per km basis than could be said for more densely-populated areas. The same could be said for the often challenging terrain and associated climate conditions that come with distributing electricity into such parts of the country.
- 3.7 The challenges of ensuring rural electricity supply continued after privatisation of the electricity sector in the 1990s were understood and recognised with continuance of supply obligations in the Electricity Act 1992, later removal of the sunset clause that would have repealed the obligation in 2013, and subsequent transfer of the obligation to maintain supply along uneconomic lines lingering in the Electricity Industry Act 2010.
- 3.8 Our submission covers these points to provide context to the issues currently under consideration in the consultation.
- 3.9 Good public policy is laudable. Good public policy founded on sound principles even moreso. It would help, though, if work on public policy principles took a more considered view of the broader context of what is proposed to avoid unintended consequences.
- 3.10 There is no disputing that the costs of delivering rural electricity supply is more expensive than for more densely-populated areas. This has been recognised in legislation for over 20 years now.
- 3.11 The need to ensure continuance of electricity supply along often uneconomic lines will likely continue for some time as improvements in technology to support electricity self-reliance focus on the more obvious lucrative household and commercial segments of the electricity market.
- 3.12 Until or unless rural electricity supply can more cost-effectively move to self-sufficiency in electricity supply, affordability in the distribution of electricity and networked electricity supply more broadly remains paramount to most farm businesses.

Recommendation: Federated Farmers of New Zealand recommends that principles for efficient distribution prices have greater regard for the situation of rural consumers as both enabler and consumer of the electricity system.

4. ABOUT FEDERATED FARMERS

- 4.1 Federated Farmers of New Zealand is a member-based organisation representing farming and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand farmers.

4.2 The Federation aims to add value to its members' farming business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:

- Our members may operate their business in a fair and flexible commercial environment;
- Our members' families and their staff have access to services essential to the needs of the rural community; and
- Our members adopt responsible management and environmental practices.