

Submissions
Electricity Authority
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via e-mail: submissions@ea.govt.nz

Transmission Pricing Methodology Review: Issues and proposal (Second issues paper)

The Otago Chamber of Commerce is pleased to have the opportunity to provide a submission to the Electricity Authority on its consultation paper entitled 'Transmission Pricing Methodology Review: issues and proposal Paper dated 17 May 2016 (the Paper).

On behalf of the 1000 Otago businesses that are our members, we represent a broad cross-section of business demographics with regard to size, location and industry. Furthermore, these businesses are representative of the region's wealth generators as well as being owned, managed, and staffed by the region's core residents. Our members employ almost 50% of the 50,393 FTE's employed in Dunedin and our estimate is that our members contribute significantly more than half of Dunedin city's \$4.84 billion GDP. As such, the Chamber's members are large stakeholders in the economic, social and environmental future of the Otago Region.

1. We support the submission made on behalf of the Southland Region submitted by Venture Southland. We also highlight the following points.
2. The cost of the national grid is set by the Commerce Commission for Transpower to collect and this cost must be met by consumers; therefore, it is imperative that the way those costs are allocated results in an economically efficient outcome. It is in the best interests of New Zealand for investment in the grid to reflect the actual needs of the consumers of the region being served by that investment. If those benefiting from investment must bear the cost of it, more efficient investment decisions will be made.
3. We submit that the Authority has properly defined its statutory obligation, under Section 15 of the Electricity Industry Act and defined the problem with the current TPM.
4. We believe that the Authority has run a robust consultation process and listened to the concerns of stakeholders and adjusted its approach where warranted as a result of feedback.
5. We agree that there has been a material change in circumstances in three ways: firstly, the significant investment in the grid since 2004, secondly the advances in technology that enable easier collection of data and thirdly significant changes in the regulatory regime. We submit that these changes have resulted in the current pricing methodology not meeting the statutory obligation of the Authority and therefore trigger the need to review the TPM.
6. The current system of allocation does not meet the statutory obligation as it is not cost reflective and it does not drive efficient investment decisions. The current pricing methodology is neither robust nor durable as the cost of network improvement is not born by

those who benefit from such investment and therefore is a disincentive for efficient investment in the grid.

7. We support the principles that underpin the proposed Area of Benefit (AoB) charge as outlined in the Paper. It is an approach which will drive efficient outcomes, because they are service based and cost reflective. As the Authority rightly identifies: "Efficient pricing requires that charges for services are paid by the parties that receive the benefit of those services, and that the charges reflect the full cost of providing the services."¹
8. However, we would submit that AoB should be increased as the Residual as outlined in the paper at \$500 million is too large. This is particularly true as the suggested method of allocation is in a "tax-like" manner, meaning costs are spread across all users. We would therefore encourage the Authority to explore options to include more assets in the AoB.
9. We support the concept of an expanded Prudent Discount Policy. It is important to have a mechanism to recognise that even with more efficient cost allocation under an AoB and with the Residual reducing over time, that some customers could still face inefficient pricing. However, we recognise there are difficulties in developing a practically implementable method of applying such a discount and we would encourage the Authority to continue working with Transpower to achieve this.
10. We would urge the Authority to not delay its work in reviewing the TPM. Reform has been underway for a number of years and for customers in Otago and Southland currently facing inefficient transmission costs, further delay means paying more money for benefits these regions do not benefit from.
11. More than **\$1.3 billion** of transmission investment has been commissioned in the upper North Island since 2004. But only **39%** of that upgrade is being paid for by the upper North Island. Transmission costs in the lower North Island and South Island have increased by **61%** on average to pay for the upgrades.
12. It is not an economically efficient outcome for New Zealand to have regions so close to abundant hydro generation and with a desire, in some areas, to increase industry and population to have that regional advantage undone by transmission pricing.
13. A pricing model that encourages energy intensive industry to be located close to electricity generation promotes better outcomes for New Zealand.
14. The Chamber welcomes any opportunity that this consultation allows for future contribution.

Yours sincerely



Dougal McGowan

Chief Executive

¹ Electricity Authority, TPM: Issues and Proposal paper, 17 May 2016, par 5.9, page 29