

1 October 2019

**Submissions
Electricity Authority
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CONSULTATION PAPER - TRANSMISSION PRICING REVIEW

As a large irrigator in the Waitaki District, connected to Network Waitaki, we welcome the opportunity to comment on the 2019 Transmission Pricing Methodology (TPM) issues paper.

We are fully supportive of the submission being made by Network Waitaki regarding the TPM issues paper.

The TPM issues paper is of great concern to us as the cost of electricity makes out a substantial portion of our operating cost. Under this TPM proposal, the move to a gross Anytime Maximum Demand (AMD) charge for determining pricing will push the transmission component for Network Waitaki up by 55%, resulting in a potential increase in our network charges of up to 75% (depending on number of ICPs and average load factor) if the whole increase is passed on to only farmers and irrigators, who mainly contribute to the summer peak demand. In addition to the increase in costs from Network Waitaki to irrigators, this compounds with increases in on-farm costs for our own demand during peak times. The exact pass-through charge to irrigators will depend on the decision by Network Waitaki on how the cost should be spread across consumers.

By applying the principles that the Electricity Authority promotes of cost reflective pricing, we would expect that specific consumer groups will be targeted according to their contribution to the summer peak demand. As the summer peak is largely influenced by the agricultural sector and irrigators, we would face a significant price shock if this proposal goes ahead.

From what we have noted in the issues paper, it would appear the move towards a gross AMD residual charge, a benefit-based charge and contribution to a price cap are the driving forces behind Network Waitaki becoming the Electricity Distributor worst affected by the proposal. In our view:

1. Regional economic development could be negatively impacted by a theoretical pricing system that claims to successfully optimise only the cost of transmission in New Zealand. The economic cost of impeding growth in a region where the cost will go up for the foreseeable future to pay for a so-called "benefit" will be significant and not aligned with the principle that the availability of electricity should be in support of economic development.
2. A transmission pricing approach that rewards better utilisation of assets through prices determined by peak load demand in winter (not indiscriminate use of anytime demand) that is the main driver for investment in the core grid, and benefits that are intuitively correct not based on judgement calls that might be compromising to some regions is essential to ensure general acceptance of the pricing regime. A regulated monopoly provider of a service such as Transpower should not be pricing its service in a way that no user would have reason to feel exploited by monopoly rent. The regulator has an important function to promote equity and fairness.

3. The move to a gross AMD residual charge is thus very concerning, given the benefit for Transpower if summer peaking consumers improve the utilisation of assets (in a generally winter peaking part of the grid) without the need to spend extra money to accommodate the consumer. Summer usage of the transmission network provides diversity in usage patterns and improves the overall load factor of the transmission network. This move to AMD alone will increase the cost by an unreasonable amount and cause serious economic harm.
4. Intuitively, the benefit-based charges are not convincing, with huge benefit payments expected by South Island consumers for investments on the North Island, as well as for the HVDC link that predominantly takes power to the North Island.
5. The suggestion that nodal prices provide "...a timely and efficient signal..." is not convincing in our view as we have limited visibility and will not be in a position to respond to nodal price signals except through the signals that our retailer provide through repackaged energy prices. We will thus not be in a position to respond in a timely fashion to prevent transmission investments that could have possibly be avoided were it communicated through a sensible peak demand type signal.

An additional hurdle for the use of nodal prices as a pricing signal for transmission services relates to the price inelasticity of demand of irrigation consumers. In order to minimise the cost of electricity, an irrigator would not start an irrigation cycle unless it is absolutely necessary. With irrigation as the substitute for something as unpredictable as rain, the irrigator thus delays the start of an irrigation cycle until the very last moment. Once the cycle starts, any delay to continue with the irrigation cycle opens up the very real risk of permanent loss of pasture or crop, and short-term pricing signals regarding constraints and peaks have to be ignored to ensure the irrigation cycle is completed before any losses occur. As an irrigator this part of the proposal will miss the target.

6. The introduction of a cap of 3.5% on the increase in the total electricity bill of an average consumer to limit the impact of price increases arising from this proposal initially appears to be sensible. However, it is then surprising that Network Waitaki consumers will contribute \$100,000 annually towards a pool of funds to balance this up with other users (mainly industrial consumers, who will have an increase greater than 3.5%).

This is in effect a socialisation of charges to ensure some consumers don't end up with price shocks, which in our view defeats the intent of the pricing structure change (which was to make it cost reflective and not to socialise costs). The largest beneficiaries of this are New Zealand Rail, Norske Skog, NZ Steel and Pan Pacific, who otherwise would have been exposed as a group to an average 11% increase in their electricity bills. These industrial consumers were much better situated to exploit the weaknesses in the current TPM as discussed in the TPM issues paper, and that is clearly illustrated by the high increases in their transmission charges with some of the weaknesses eliminated.

To now expect up to a 75% increase (depending on allocation of transmission cost by Network Waitaki) for North Otago farmers to help reduce an 11% increase for industrial consumers just does not seem fair, especially if the high increase for the industrial consumers is partly a result of them previously gaming the system.

7. This proposal with such a significant increase comes as a shock, especially in view of the fact that it will not in any way solve the significant Transmission constraint in the region but will be an additional cost with no benefit whatsoever considering:

- In the last two decades the North Otago region has experienced economic growth and dairy and irrigation have grown substantially. Lower Waitaki Irrigation Company has signalled to its shareholders that the remaining 7000 ha of border dyke irrigation is to be converted to spray irrigation within the next 10 years. We are aware of and concerned about the 110kV interconnection Transmission line between Waitaki and Glenavy that has been capacity constrained during the summer period for several years, with another 7000 ha of spray about to be added to this. This has been a big concern and large new irrigation schemes cannot be connected without a Transpower special protection scheme. We are also aware that Network Waitaki had been obliged to load control during the summer months and has also implemented an emergency load shedding process that will be activated if Transpower declares a grid emergency on this line as it did in 2015. Network Waitaki has also upgraded its Waitaki Grid Exit Point and has built nearly 30 km of 66kV line that runs parallel to the existing Transpower 110kV interconnection line as this was more efficient than investing in the grid.

While we are relieved that these actions by Network Waitaki provides some form of reliability of supply that enables load to be removed from the Oamaru GXP to ensure that the interconnection transmission constraints are not exceeded, it cannot be viewed as a long-term solution.

- An increase of 55% in transmission charges will be a severe blow to economic development in the Waitaki District, especially considering that this 55% increase does not factor in the potential additional cost estimated to be in the millions of dollars per annum that will be required to address the current transmission interconnection constraint that will have to be paid for by Network Waitaki consumers.
8. Reliability and quality of supply are non-negotiable to enable primary production business owners to fully utilise the capital investments they have made, to facilitate not only the sustainability of their businesses but also of the contribution their businesses make to the local regional and national economy. Primary productive businesses including all types of agriculture, horticulture and viticulture which is typical and well recognised in a drought area such as the Waitaki district, relies on irrigation for sustainable maximum output.
 9. For Waitaki to grow into an attractive economic environment for people to work and live, the availability of electricity for growth at a competitive price is crucial. Electricity enables economic activity, and with climate change challenges in a country with clean electricity, this is the energy source of choice for economic growth.
 10. We believe this proposal results in unfair treatment of a few Electricity Distributors and their customers especially in view of Central Government's drive to grow all regions in New Zealand.

We would welcome the opportunity to further discuss our concerns and invite the Authority to North Otago to discuss the reality on the ground and the challenges and opportunities that consumers and businesses in this region face.

For any questions or clarifications please do not hesitate to contact us.

Yours Sincerely
 Richard Plunket
 Chairman of the Lower Waitaki Irrigation Company

