

SUBMISSION

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To: Electricity Authority

Submissions
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Submission on: Transmission Pricing Review: 2019 Issues Paper

From: Federated Farmers of New Zealand (Auckland Province) Incorporated
Federated Farmers of New Zealand (Northland Province) 2009 Incorporated

Date: 1 October 2019

Contact: Richard Gardner
Senior Policy Advisor

SUBMISSION TO ELECTRICITY AUTHORITY

ON:

TRANSMISSION PRICING REVIEW: 2019 ISSUES PAPER

1 INTRODUCTION

- 1.1 Federated Farmers of New Zealand (Auckland Province) Incorporated and Federated Farmers of New Zealand (Northland Province) 2009 Incorporated (together, “Northern Federated Farmers”) thank the Electricity Authority (“the Authority”) for the opportunity to provide submissions on its revised proposals for a new Transmission Pricing Methodology, as described in the Authority’s Proposed Transmission Pricing Review: 2019 Issues Paper (“the Issues Paper”).
- 1.2 In regard to this submission, Northern Federated Farmers has engaged in some limited consultation with a proportion of its members with interests in the Federated Farmers’ provinces involved.
- 1.3 Northern Federated Farmers looks forward to such further consultation with the Authority about the Issues Paper as may be appropriate.
- 1.4 Accordingly, Northern Federated Farmers would appreciate the opportunity to discuss this submission in greater detail. Northern Federated Farmers seeks the opportunity to participate in any relevant discussions, workshops or hearings that might be held.

2. SUMMARY OF RECOMMENDATIONS

- 2.1 Northern Federated Farmers recommends:

That any revised proposals for a new Transmission Pricing Methodology as proposed or implied in the Issues Paper not be proceeded with;

That the Electricity Authority take particular account of the submissions made, in part, on behalf of Northern Federated Farmers by the TPM Group and, in part, on behalf of Northland Federated Farmers by Northpower and others on behalf of the Northland community.

3. GENERAL COMMENTS

- 3.1 The broad purpose of this submission is to state the continued opposition of Northern Federated Farmers to the Authority’s proposals to develop a new Transmission Pricing Methodology (TPM). In this instance, that opposition is expressed by way of a response on the Authority’s invitation for submissions on its paper, the Transmission Pricing Review 2019 Issues Paper.
- 3.2 As Northern Federated Farmers understands it, the Authority is now proposing a new approach to transmission pricing, which it considers would deliver significant benefits to consumers in the long-term, and support the transition to a low-emissions economy at the least cost to consumers. It seems that the Authority considers that consumers should pay for the transmission assets they benefit from, and not pay for those they do not, and that that is not how the current charges work. The Authority is now proposing

a benefit-based approach to allocating transmission costs, which would mean that transmission customers who benefit from specific grid investments would pay for them. Northern Federated Farmers understands that the Authority is now proposing that there be two new charges to replace the existing regional coincident peak demand charge and the high voltage direct current charge, with the new charges being:

- A benefit-based charge to recover the costs of new grid investments and the depreciated costs of seven major existing investments based on their benefits to transmission customers; and
- A residual charge to recover any remaining transmission costs in a way which does not distort incentives to invest or use the grid.

It is understood that the Authority considers that the proposed new charges regime would be hard to avoid and would minimise inefficient grid use and inefficient investments, including by sending better signals to consumers about the economic cost of using the grid, without distorting grid use or investment in grid-connected generation and transmission alternatives.

- 3.3 Northern Federated Farmers continues to consider that, while reform of the TPM is appropriate, the proposals for reform of the TPM as are proposed and can be implied from the Issues Paper continue to be seriously flawed, and that the need for the current round of consultation serves only to demonstrate some of those flaws. The Issues Paper continues to entirely overlook that the electricity transmission network is vital national infrastructure, much as the roading, postal and telecommunications networks are vital national infrastructure. The electricity transmission network has been considered to be vital national infrastructure for a very long time, ever since it was decided that the country would have a national electricity transmission network. This all means that the price of transmitting electricity across the national electricity transmission network should continue to be equalised across the network to the greatest extent possible, much as the cost of the national roading network and the postal service are equalised across the nation as a whole.
- 3.4 As regards the proposed benefit-based approach to allocating transmission costs, it is particularly noted that farms in the Northland and Auckland areas are not using any more electricity now than they were many years ago. Claims that have been made to the effect that farmers in the north of Auckland and in Northland are amongst the major beneficiaries of the North Auckland and Northland (NAaN) grid upgrade and the North Island Grid Upgrade (NIGUP) cannot be accurate. The upgrades were necessitated primarily by the large increase in urban electricity needs within metropolitan Auckland and, in the case of NAaN, particularly on the North Shore of metropolitan Auckland. The claimed improvements in reliability that have also been made have not generally been seen in rural areas, as any event that might be likely to have disrupted the previous electricity transmission network would normally be expected to disrupt the operation of rural distribution lines as well.
- 3.5 Northern Federated Farmers continues to acknowledge that the current approach to electricity transmission pricing can be improved upon. However, Northern Federated Farmers does not consider that the approach that is now apparently favoured by the Electricity Authority is the optimal approach as regards farmer electricity consumers in Northland and Auckland. This is particularly so in that the approach does not address the problems that the Electricity Authority has identified with the present system in a way that is equitable to farmers in Northland and Auckland, especially those in Auckland to the north of the Auckland metropolis.

- 3.6 Northern Federated Farmers has joined with others with concerns about the Issues Paper, and commissioned an independent review of it. The “Lantau Report” finds that the Authority’s efforts to address problems in the existing methodology regarding cost avoidance behaviours and regarding the beneficiaries of transmission investments go too far. The Lantau Report is also particularly critical of the cost-benefit analysis that supports the Authority’s proposals, finding it to be “strikingly flawed”. The Report finds that retroactive reallocation of the costs associated with existing transmission investments is generally bad practice, and finds that a benefits-based transmission cost recovery methodology is not needed. The Report finds that, if the Authority does proceed with a benefits-based methodology, it should be limited to specific situations where there is unambiguous localisation of benefits. Further, the Lantau Report finds that a benefits-based cost recovery methodology should not be implemented without support by a Government Policy Statement, which would give essential guidance on the issues involved. Northern Federated Farmers understands that a copy of the Lantau Report will be provided to the Authority along with the TPM Group submission.
- 3.7 Thus, Northern Federated Farmers continues to oppose the proposed changes to the Transmission Pricing Methodology proposed by the Electricity Authority. Accordingly, it is recommended:

That any revised proposals for a new Transmission Pricing Methodology as proposed or implied in the Issues Paper not be proceeded with;

That the Electricity Authority take particular account of the submissions made, in part, on behalf of Northern Federated Farmers by the TPM Group and, in part, on behalf of Northland Federated Farmers by Northpower and others on behalf of the Northland community.

4. ABOUT FEDERATED FARMERS and NORTHERN FEDERATED FARMERS

- 4.1 Federated Farmers of New Zealand is a primary sector organisation that represents farming and other rural businesses. Federated Farmers of New Zealand (Auckland Province) Incorporated and Federated Farmers of New Zealand (Northland Province) 2009 Incorporated each operate as an independent “branch” of Federated Farmers of New Zealand. At all levels, Federated Farmers has a long and proud history of representing the needs and interests of New Zealand farmers.
- 4.2 Federated Farmers of New Zealand 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.

1 October 2019

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