

## **Transmission pricing methodology: 2019 Issues Paper**

To whom it may concern,

I fully support reform of the transmission pricing methodology and believe that reform is necessary and increasingly urgent. It is a fundamental principle of any transaction that consumers pay for services and assets they benefit from and not pay for those they do not.

It is no secret that consumers in the South and lower North Island have, for the most part, been overcharged over the past decade while Aucklanders in particular have been undercharged. This is because of the large investments in the upper North Island grid since 2008.

In the case of the Tiwai Point aluminium smelter, it has faced nearly \$200 million in increased transmission costs since 2008. Much of this is to provide revenue to Transpower for assets in the north of the North Island. Overpayments will never be recouped by the smelter, and make it less commercially sustainable. I have seen what effect the collapse of such a large regional employer has upon its employees and the wider community at large.

I agree with the introduction of a benefits based charge to recover the cost of new grid investments but believe it should be applied to future charges for major investments constructed in recent years.

I believe the benefits based charge should be applied as widely as possible to all existing assets as, until it is, some consumers will continue to pay large amounts for transmission assets from which they receive no benefit.

I/we acknowledge that for consumers who are enjoying subsidised rates for the assets they benefit from the increase in costs will be unwelcome, however they continue to be unwelcome for the consumers paying them now with no additional transmission benefit associated with the charge.

For example, the Tiwai Point aluminium smelter has used largely the same grid infrastructure since its operation began in 1971 but has faced huge increases in transmission costs since the implementation of the current TPM.

In 2014 Transpower's book value for the transmission lines connecting Manapouri power station with the Tiwai Point smelter was \$72 million – this means that transmission charges have been recovering almost the entire book value of the main piece of infrastructure the smelter uses year on year.

The residual charge is too large as it is smeared across all users and does not deliver relief for the consumers who have been over charged for a decade and who under this proposal will continue to be overcharged for many years after its earliest possible implementation of 2024.

The introduction of a price cap to soften price increases to consumers who have not been paying for the assets they benefit from and in some instances avoiding interconnection charges altogether will need to be made up by other customers. This is a harsh blow to consumers who have faced large and unchecked increases over the past decade.

In the case of the Tiwai Point aluminium smelter, which would contribute over \$1 million per annum to pay for the cap to other customers' prices, but did not enjoy the comfort of a price cap to soften the annual increases since 2008 of between three and \$30 million dollars it has faced per annum. As a trade exposed commodities business, the Tiwai Point smelter cannot pass those costs on to its

customers and has no option but to absorb them. This makes achieving commercial sustainability very difficult.

I have been over paying for transmission assets for over a decade – this reform does not deliver the full relief we deserve from these over payments and with expected implementation not until 2024 and with the large amount of assets still deemed to fit within the residual charge we will continue to pay for grid assets we don't benefit from for many years to come.

Thank you