



Transmission Pricing Review – 2019 Issues Paper

1. Introduction

We are deeply concerned about the Electricity Authority's (the **Authority's**) current proposals to alter the Transmission Pricing Methodology (**TPM**) and the long-term implications this may have for regional New Zealand.

While the initial impacts on Northland under the latest proposals are lessened from prior proposals, they still reflect a significant increase in electricity charges from 2022 (the Authority has estimated that the transmission component of customers' bills may increase by 15.5% (Northpower) to 31.6% (Top Energy) in 2022). These changes are only from the initial reallocation of historic assets, and do not include the future costs from the application of the benefits based charges for new assets (which are not caught by the price cap). Nor does it include the costs of distribution network costs, which would almost certainly result from the proposal (and which the Authority has said it has not considered). The future cost implications for Northland, especially as we are located some distance from major generation sources and rely on the wider National Grid for supply, concerns us deeply.

We strongly caution the Authority against radically changing the way that transmission costs are allocated across NZ, given the fundamental role the National Grid has to all communities across NZ (akin to the State Highway network). We urge the Authority to take a cautious approach to reform, because of the implications to NZ Inc if they "get it wrong". We believe the current proposal will be detrimental to investment in Northland and will undermine future economic growth in the region. This runs counter to Government's regional development efforts.

The current government also has a focus on wellbeing / child poverty outlined in the May 2019 'wellbeing' budget. Making the best choices for current and future generations requires looking beyond economic growth on its own and considering social, environmental and economic implications together. The Wellbeing Budget does this in three ways:

1. Breaking down agency silos and working across government to assess, develop and implement policies that improve wellbeing
2. Focusing on outcomes that meet the needs of present generations at the same time as thinking about the long-term impacts for future generations
3. Tracking our progress with broader measures of success, including the health of our finances, natural resources, people and communities.

Northland is one of the most deprived communities in New Zealand. That's fact.

When people can't pay their electricity bills (among other necessary, daily living expenses) they receive penalty payments – money that is better spent on health and wellbeing. Energy poverty is very real for tens of thousands of Northlanders and already has a significant impact on Northland households.

Our people take measures to save power (entire families sleeping in one room on the floor for warmth for example), so they live in even colder, damper unhealthier homes and that continues the cycle of poverty and ill-health. Therefore, our young are hamstrung in their start to life.

People can't afford to go to the doctor so they end up in our hospital EDs, cramming up an already, under-funded, over-populated and under-resourced healthcare service. People commonly can't afford medicine and when they are treated in hospital they are sent back to those cold, campy and unhealthy homes.

Since 2007 there have been over 10,000 at need Northland homes retro-fitted with insulation to make them warmer and drier and healthier yet there are still well over 6000 homes that we know of without insulation and those are just the homes that we know about. We suspect there are thousands more uninsulated homes out there in Te Tai Tokerau that we are unaware of.

Constant illness leads to increasingly significant health issues (mental and physical) and that leads to absenteeism at early childhood centres, schools, tertiary institutes and workplaces. That creates more cost to families and our community and places more financial pressure on our whanau.

We already have the worst suicide rate in Northland. Additional societal pressures that a regime like that suggested by the Authority could worsen that statistic – we don't think those behind the proposal would want to live with that legacy.

The proposed TPM must be thrown out with immediacy and a sensible and democratic resolution be reached with far greater and far fairer electricity sector and community involvement and consultation be developed for the good of all New Zealanders.

2. Key Concerns

The Authority's consultation paper is extensive, dense and highly technical. It is not easy for our organisations to distil the key aspects and provide a meaningfully critique. Therefore, our comments are limited to high level principles and concerns.

- **Immediate and longer term pricing impacts on Northland**

Northland has an alarmingly high proportion of our citizens already living in energy poverty, and with disproportionately poor economic and social outcomes. Thousands of our people live in damp, cold, unhealthy, uninsulated homes. It is widely recognised that energy poverty and rheumatic fever (a third world disease) is a reality for many Northlanders. Any additional financial burden on our community, including increases in energy bills, will only serve to exacerbate these issues.

While the Authority relies on the proposed cap as mitigating consumer impacts, Northland does not benefit from this (and in fact pays more as it subsidises the price cap for large

industrials) and the cap provides no meaningful protection from the price shocks that would result from applying a benefit based methodology.

Further, we understand the Authority's own modelling in the Consultation Paper shows a forecast increase in the wholesale electricity price as a result of greater peak demand (leading to higher prices for consumers), with net benefits from the proposal only being expected after more than 10 years (when more generation comes online to *hopefully* reduce the wholesale price). Forecasting an increase not only in transmission charges for Northland, but also increases in the wholesale electricity price is deeply concerning, and runs counter to the intent of the Government's recent Electricity Pricing Review.

- **Any change needs to be supported by a robust Cost Benefit Model, based on tangible (not speculative) benefits**

Any major change to cost allocation needs to be carefully considered and supported by a robust Cost Benefit Model, with assumptions that are sound, broadly supported by industry, and evidence based. This is essential to give the Authority confidence that the proposal would result in a more efficient, equitable and durable methodology.

While we have not commissioned work into the CBA, we urge the Authority to consider very carefully feedback from experts during the submission process on the veracity and appropriateness of the prepared CBA and to consider whether the CBA provides a solid foundation to usher in radical reform. We believe it does not.

- **A recipe for ongoing disputes**

Transmission assets are intergenerational. Allocating beneficiaries to assets that have 50 – 60 year lives and form part of an interconnected grid is fraught with difficulty and will inevitably lead to disputes, resulting in a less durable regime. Benefits will change over time, as customers come and go, and grid usage patterns change. The HVDC itself is a case in point, where the purported “beneficiaries” of this core infrastructure have changed over time.

There will also be issues around who pays for future benefits (e.g. capacity built for the future, because it is more efficient to build that capacity at the time the new asset is created). These are very much policy issues, that should be decided by Government, not by a regulator.

- **Consistency with energy efficiency goals & energy market development**

The proposal also appears to be at odds with many other crucial energy market policies, such as climate change objectives and energy efficiency goals. The proposal goes against this, by assuming an increase in energy consumption at peak periods (a key driver of cost).

Similarly, there is much uncertainty around the impact of new technologies - the need for more renewable generation in years to come, how much of that will be grid connected and how much will be located closer to the customer. These factors require a strong and stable grid not a radical and untested regime that will drive disputes over who “benefits” from long life assets and what those benefits are.

3. Relief Sought:

Based on our review, and the feedback from those in our community, we consider the Authority has not met the most fundamental principles of best regulatory practice:

- it would not be addressing a material and enduring problem – the Authority has not articulated adequately a problem with the status quo that could not be ‘fixed’ within the existing TPM guidelines or via more orthodox alternatives;
- the proposal clearly does not represent the smallest intervention possible – it would represent a substantial change to almost the totality of the TPM to implement a radical methodology, at the expense of more incremental, conventional options.

As the Electricity Authority, you must put idealistic economic modelling aside and consider with urgency the immense harm your proposed TPM methodology will do to Northlanders of all walks of life.

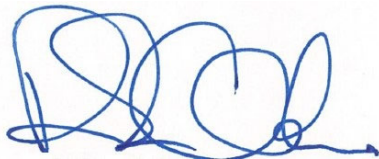
In a world of increasing uncertainty as to how energy markets will play out, the impact of new technologies and their uptake, it would seem sensible to take incremental steps towards reform – a point that was made strongly at the Northland TPM workshops in September. We consider a more incremental approach will result in more durable and pragmatic regime, and lessen the risk of NZ being locked up in ongoing disputes about “who benefits” from certain investments. We believe that this proposal will be a barrier to economic development and investment into the region.

The proposed TPM must be thrown out with immediacy and a sensible and democratic resolution be reached with far greater and far fairer electricity sector and community involvement and consultation be developed for the good of all New Zealanders. For us there is no other option and we will continue to oppose the TPM in its current form.

Signed by



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