The Otago Southland Employers' Association,
16 McBride Street,
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Submissions
Electricity Authority
PO Box 10041
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via email: submissions@ea.govt.nz

Consultation Paper – Transmission pricing methodology: 2019 issues paper:

The Otago Southland Employers' Association (OSEA) is pleased to have the opportunity to provide a submission to the Electricity Authority on its consultation paper.

OSEA represents the interests of more than 1,100 organisations across the greater Otago and Southland region from Oamaru to Invercargill, Dunedin, Queenstown and Wanaka. OSEA is one of the four regional organisations comprising New Zealand's business advocacy group, BusinessNZ.

It is widely recognised that the current Transmission Pricing Methodology (TPM) is not working. We support the on-going work of the Electricity Authority (the Authority) in developing the new TPM. However we are now extremely concerned that the TPM is being progressively diluted, to the detriment of New Zealand as a whole and industry in the lower North Island and South Island in particular, with refinements that entrench, rather than eliminate the existing subsidy.

We wish to highlight the following points:

1. We remain firmly of the view that the status quo is not a fair system of allocating costs, with some parts of New Zealand enjoying the benefits of an upgraded transmission grid at the expense of other parts. For example, most of the South Island and the central and lower North Island are paying for gird upgrades in the upper North Island and Auckland, facilitating their access to more reliable energy and lower overall electricity prices underpinned by South Island hydro generation;

2. We believe in the principle of user pays. If you are the customer that benefits from a service then you should pay for it – this should not be controversial. But his is not what is happening now with the cost of New Zealand's national grid - more than $1.3 billion of transmission investment has been

commissioned in the upper North Island since 2004. But only 39% of that investment is being paid for by the upper North Island. The remaining 61% of these upper North Island upgrades is being paid for by increased transmission costs in the lower North Island and South Island;

3. We recognise that change of the TPM will create winners and losers. But the fact that there are winners and losers is not the appropriate benchmark against which to assess the work of the Authority. If this were the case, it would never make any change. We strongly support the focus of the Authority on assuring itself that dynamic efficiency improvements will be achieved that deliver a national (not regional) net public benefit;

4. We 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. The basic principle behind the reform is good – costs should mostly fall to customers who benefit from the transmission services they receive. If a customer is able to benefit from a transmission asset or infrastructure then that benefit and the cost of it should be allocated to that customer;

5. Remaining charges allocated via “the residual” and allocated to customers should be minimised as much as possible. The costs that make up the total residual should be clearly itemised for all customers to understand where this is practicable to do;

6. We do not agree with the price cap proposal. 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 proposal moves the outcome of the Authority’s work away from, and not closer to, attainment of its own principles of cost reflectivity and service based pricing, risks weakening the cost-benefit, and is essentially a new subsidy by the South to the North;

7. It is important that the Authority does not delay its work in reviewing the TPM. Customers in regions like Otago and Southland are currently facing transmission costs that are much higher than the services received. Any delay means Southern transmission customers will continue to pay for investments that customers in other regions benefit from. They will never be paid back for the over payment – but would like to stop paying for other regions transmission grid infrastructure as soon as possible; and

8. This situation is made even more unfair by the fact that Otago and Southland are geographically close to abundant hydro generation. This is something that should represent a global competitive edge as the world moves to a lower carbon future.

Summary

We urge the Authority not to be swayed by unsubstantiated posturing based on misleading propositions of harm and instead stay the course. But we also urge the Authority to ensure that its proposals remain consistent with the principles of being cost reflective and service based. It is not always clear that the refinements – such as the price cap – are consistent with these principles and should the guidelines continue to be further diluted, no large energy intensive industries from within New Zealand or international companies considering investing in New Zealand will be attracted to build energy intensive industry close to our renewable hydro generation. To have this regional natural endowment and competitive advantage undermined by transmission pricing would not deliver good economic outcomes for the whole of New Zealand.

We also urge the Authority to move with haste. Every year that reform is delayed major industrial users and consumers in regions that have not needed major grid investment are paying tens of millions of dollars towards infrastructure they do not use. This is unsustainable.

Finally, we wish to signal our desire to work constructively, via our members, with the Authority to reach an outcome that appropriately recognises the obvious – that the current TPM is broken and that a better outcome that will deliver a positive benefit for all of New Zealand is now within grasp.

Yours sincerely,

Virginia Nicholls
Chief Executive Officer