

Transmission Pricing Submission

Submission Written by Spence McClintock, Chief Executive Office for the Ngati Tuwharetoa (Bay of Plenty) Group of Companies.

Due 5pm 1<sup>st</sup> of October 2019

On behalf of Ngati Tuwharetoa Electricity Limited, owners of the 21 MW TOPP1 Geothermal Power Plant connected to the Kawerau GXP as part of the Norske Skog Connection and on behalf of Ngati Tuwharetoa Geothermal Assets Limited, a geothermal energy company with further development opportunity in Kawerau.

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**Q1. Have the problems with the current TPM been correctly identified? In what ways does the current TPM work well?**

We agree with the benefit identified by the EA that the Transmission network being utilised when not constrained will add significant value for consumers.

We accept the argument that the current RCPD method of charging for Transmission is likely to see those with access to financial resources investing in technology to lower their transmission charges (e.g Batteries and Solar which still require the back up of grid connection) and thus increasing the remaining charges for the remaining connected customers.

The current TPM does by and large ensure that the large Direct Connected customers limit their use of grid assets during peak times. If this is just load shifting and not load shedding then it does achieve the objective of optimising the systems use and not encouraging unnecessary grid investment.

**Q2. What are your overall views on the Authority's proposal for changes to the TPM guidelines?**

In general we are supportive of the general concept of a **Benefits based charge** and a **Residual charge**. The key issue for Ngati Tuwharetoa Electricity Limited is who pays these charges.

As an independent Generator we currently pay a share of Transmission Costs as they relate to the "Connection Assets" where we connect (as part of Norske Skogs' direct connection at Kawerau) to the grid. Norske Skog are the connected Party so we contribute a share of connection costs based on our contribution to the scale of their connection. We are happy with the concept of "Connection Charges" as they relate to dedicated infrastructure and our assumption is these charges will continue unchanged. We do not currently incur any "Interconnection" or system use charges.

The "Point of Sale" for our electricity is the 11kV to 110 kV Transformer at Kawerau. We are paid for electricity that we deliver to this point. We are a wholesale generator, we only have one customer and the price we receive is based on the projected future price of electricity adjusted for the location factors to determine a Kawerau Price. We purchased our Power Plant 3 years ago on this basis and paid a price consistent with this and consistent with the fact that we would bear no Transmission related charges outside the "Connection Charges" related to our connection to the grid at that point.

It is our assessment that the proposed TPM will add an additional \$250k cost per annum to our business as we are being asked to pay for a share of the “Benefit based charge”. It is not evident to us as a wholesale market generator that the wholesale electricity market price will increase over time as a result of this change to allow us to recover this additional cost.

At a macro level we think of the current electricity market design as having the following components:

- Generators
- Transpower Core Grid
- Lines Companies
- Retail Companies
- Directly Connected Customers

The electricity “Consumer” be they connected via a Lines Company or in the case of some large Industrials be Directly Connected to the Core Grid pay for the Lines and Core Grid “System use”. Currently North Island Generators do not. The proposed TPM appears therefore to be a likely additional cost on our business that we have no way of recovering.

Ngati Tuwharetoa as a wholesale electricity generator is considering developing another Geothermal Power Plant at Kawerau. As a Kawerau based iwi business and as a geothermal generator we feel we do not have choices as to where we invest, our fuel and business is in Kawerau. Transmission costs that will potentially be allocated to our potential development detract from its business case and make it less likely to come to fruition. This appears inconsistent with the Countries renewable electricity and wider climate change objectives. To apply benefit based Transmission charges to North Island Renewable Generators (both existing and new) appears counter intuitive to the fact that we need to encourage more renewable generation and the projected largest growth in demand is the North Island. The same argument is raised by the EA in relation to the recommendation to remove the HVDC charges from South Island Generators

*“and is inconsistent with tackling the broader challenge of materially increasing New Zealand’s renewable generation portfolio to support the transition to a low carbon economy”.*

The key Point Ngati Tuwharetoa wish to make is the potentially suppressive effect applying the benefits based charge to proposed new renewable projects especially geothermal which is only available in a few finite locations. For Ngati Tuwharetoa Bay of Plenty our Rohe is defined within the Bay of Plenty, it is the home of the people. It is within this Rohe that the Tribe wish to invest and Geothermal is the renewable generation technology that we have competence in. We are planning to bring another base load Renewable Electricity project to the market. Our ability to do so depends on the overall economics, the EA’s current proposed TPM model would see a substantial new cost added to a Kawerau based geothermal generator for the life of the project. If the new geothermal project at Kawerau is deemed uneconomic then the generation alternatives may well be to extend the life of current thermal plant contrary to our climate change desires and commitments. Geothermal is a base load renewable, many of the renewable alternatives are not base load or consistently reliable.

If the Authority wish to leave the proposed TPM as indicated then a Price Cap should also apply to the Generator based charges proposed, e.g some form of maximum staged increase in costs as has been proposed for Direct Connect Customers. To put in context a new \$250k charge on Ngati Tuwharetoa Electricity's business equates at approx half the value of current distributions we are able to make to our owners. These distributions are put towards education, sporting and Pakeke grants to improve the future outcomes for the people of Ngati Tuwharetoa Bay of Plenty.

**Q3. Does the CBA provide a reasonable estimate of the costs and benefits of the proposal? If not, what changes to the methodology and / or assumptions would improve the estimate?**

We have no reason to disagree with the CBA at the macro level.

**Q4. Do you have any comments on the matters covered in chapter 4? (cost Benefit Analysis)**

No.

**Q5. How long should Transpower have to complete its development of the TPM and why?**

Approx 12 months to complete its development and finalisation (sufficient time to design in consultation with customers and stakeholders but short enough to have to get on with it) and then give customers and stakeholders a full 12 month notice before it takes effect so customers and stakeholders can provide for or adapt to the new TPM. e.g 1<sup>st</sup> April 2020 commence design and confirm, 1<sup>st</sup> April 2021 year notice, 1<sup>st</sup> April 2022 new TPM applied. The timeline proposed by Transpower is too long, too long for the sector to have uncertainty.

**Q6. What checkpoints (if any) should the Authority set in the TPM development process?**

For Transpower to come back to the Authority with a final design at least 3 months prior to proposed design confirmation.

**Q7. How should Transpower best engage with its stakeholders during its development of the TPM and how regularly should that engagement occur?**

Through their regular stakeholder management channels as they do now.

**Q8. In addition to the specific questions above, do you have any further comments on the matters covered in chapter 6?**

No.