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Submissions
Electricity Authority
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Via email: submissions@ea.govt.nz

Consultation Paper – Transmission Pricing Methodology: 2019 Issues Paper

South Port New Zealand Ltd (South Port) is pleased to have the opportunity to provide a submission to the Electricity Authority on its consultation paper entitled 'Transmission Pricing Review – Consultation Paper: 2019 Issues Paper' 23 July 2019.

South Port is the southern most commercial port in New Zealand, located at Bluff and operating on a year round, 24 hour basis. It is situated in the rich productive province of Southland which is responsible for generating a sizeable proportion of New Zealand's total exports by value. The region's major cargo producing sites are situated within 30 to 80 kms of the Port.

The Port of Bluff has been operating since 1877, while the Company was formed in 1988 having taken over the assets and liabilities of the former Southland Harbour Board.

South Port was listed on the NZ Stock Exchange (NZX) in 1994 and has Environment Southland, the region's local government environmental agency, as its 66% majority shareholder.

Some facts about South Port:

- Owns and manages assets which have a book value of \$57 million
- Directly employs more than 100 full time equivalent staff
- Is the only Southland based company listed on NZX – market capitalisation as at 01 October 2019 equated to \$202 million
- Handles in excess of 3.5 million tonnes of cargo in a normal trading year
- Offers full container, break-bulk and bulk cargo capability and services the following main cargoes:
 - ~ import – alumina, petroleum products, fertiliser, acid, stock food and cement
 - ~ export – aluminium, timber, logs, dairy, meat by-products, fish and woodchips
- Has split its land-based operating resource into four main divisions – dairy warehousing, containers, cool & cold storage and general cargo
- Undertakes its primary port operation on a 40 ha man-made Island Harbour situated at Bluff
- Operates a separate dedicated fuel berth at Bluff Town Wharf plus provides the Tiwai Wharf facility to NZAS under a long term licence

- Services vessels carrying approx. 1.0 million tonnes of cargo destined for movement across the Tiwai Wharf each year, of which 2/3 is raw material imports while 1/3 is finished aluminium product
- Has approximately 3 ha. of on-port land available for further port development or industry establishment
- Established the Intermodal Freight Centre (IFC) in Invercargill in July 2016

We support the submission made on behalf of the Southland Region submitted by the Chamber of Commerce. We also highlight the following points:

- We support reform of the transmission pricing methodology (TPM) and agree that reform is necessary and increasingly urgent.
- Consumers should pay for the transmission assets they benefit from and not pay for those they do not.
- Consumers in the lower North Island and the South Island have for the most part been over charged over the past decade while residents/businesses in Auckland, 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.
- We agree with the introduction of a benefits based charge to recover the cost of new grid investments but believe it should also be applied to future charges for major investments constructed in recent years.
- We believe the benefits based charge should be applied as widely as possible to all existing assets. Until it is, some consumers will continue to pay large amounts for transmission assets they don't benefit from.
- 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 spread 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 it is implemented which is estimated to be 2024 at the earliest.
- 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. It 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 per annum it has faced. As a trade exposed commodities business the Tiwai Point smelter can't pass those costs on to its customers and has no option but to absorb them. This makes achieving commercial sustainability very difficult.
- We 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.

South Port supports reform (which in our opinion is overdue) and it needs to be implemented without delay. Every year 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 don't use; this is unsustainable.

The Electricity Authority's best estimate is that we would not experience relief from high costs until 2024. The amount of relief does not reflect the large amount of money major industrial users and consumers have been overcharged.

Basic principle behind the reform is good – that those who benefit from grid investment should pay – 'beneficiary pays'. But when the Electricity Authority can't allocate the benefit – it consolidates the cost into a 'residual amount' which is again spread across all customers – in our opinion this amount is too high.

It is South Port's view that realigning the TPM will not only be more equitable and economically efficient, but it will also directly assist a wide range of export orientated businesses in Southern NZ and therefore deliver greater longer term value for the nation.

Should any further information be required, please do not hesitate to contact me on (027) 494 3322.

Yours faithfully



NIGEL GEAR
Chief Executive