

1 October 2019



Submissions
Electricity Authority
PO Box 10041
WELLINGTON 6143

via e-mail: submissions@ea.govt.nz

Consultation Paper -Transmission Pricing Methodology: 2019 Issues Paper

EIS Group and EIS Holdings (collectively known as EIS) is pleased to provide a submission to the Electricity Authority on its transmission pricing methodology reform.

EIS is a NZ based multi-disciplined automation, engineering, and electrical company. EIS is head quartered in Invercargill with offices in Balclutha, Christchurch and Westland. EIS has 81 FTE's and service major industries throughout NZ.

1. We support reform of the transmission pricing methodology (TPM) and agree that reform is necessary and increasingly urgent.
2. Electricity consumers (both commercial and domestic) should pay for the transmission assets they benefit from and not pay for those they do not.
3. Electricity consumers in the lower North Island and the South Island have for the most part been over charged over the past decade while Auckland-based customers in particular have been undercharged. This is because of the large investments in the upper North Island grid since 2008.
4. In the case of the Tiwai Point aluminium smelter, it has faced nearly \$200 million in increased transmission costs (overpayments 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.
5. 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.
6. We believe the benefits based charge should be applied as widely as possible to all existing assets as until it is, some electricity consumers will continue to pay large amounts for transmission assets they don't benefit from.
7. We acknowledge that for end users 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 end users 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.

8. 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.
9. The residual charge is too large as it is smeared across all users and does not deliver relief for the electricity 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.
10. The introduction of a price cap to soften price increases to electricity consumers who have been 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 those end users, especially commercial operations, who have faced large and unchecked increases over the past decade.
11. 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.
12. Tiwai Point have been over paying for transmission assets for over a decade – this reform does not deliver the full relief they 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, Tiwai Point will continue to pay for grid assets they don't benefit from for many years to come.

Should any further information be required, please do not hesitate to contact me directly.

Yours faithfully

A handwritten signature in blue ink, appearing to be 'Dean Addie', written in a cursive style.

Dean Addie

Chief Executive Officer