

14 July 2011

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TPAG Chair  
% Electricity Authority  
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via e-mail: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

Dear Graham

## **Transmission Pricing Discussion Paper**

BusinessNZ is pleased to have the opportunity to provide a further submission to the Electricity Authority on the Transmission Pricing Advisory Group's (the 'TPAG') discussion paper entitled 'Transmission Pricing Discussion Paper' dated 7 June 2011.<sup>1</sup>

BusinessNZ has not responded to the specific consultation questions, leaving these to be addressed by those of its members who have a particular interest in these matters. However, BusinessNZ wishes to comment on two high-level and inter-related matters that it believes should be taken into account by both the TPAG and the Electricity Authority, as further consideration is given to the matters being addressed, these being:

1. the impact of an on-going failure to resolve the HVDC pricing issue: BusinessNZ is increasingly concerned about the extent to which this issue cannot be resolved in a way that is durable and long-lasting. While this issue has proven to be problematic for some considerable time, it has more recently occupied first the Electricity Commission and

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<sup>1</sup> Background information on BusinessNZ is attached in Appendix One. Please note that via the deep connections provided by its regional partners, it is inappropriate to categorise BusinessNZ (as has been done on page 3 of the discussion paper) as solely a representative of large users. In addition, via the BusinessNZ Major Companies Group, BusinessNZ represents businesses across the entire electricity value chain, not just large users (a full list of the members of the Major Companies Group can be found via the following link <http://www.businessnz.org.nz/majorcompaniesgroup>).

now the Electricity Authority since 2003. Unfortunately, despite this, the issue now appears to be no closer to resolution, and despite the considerable and skilled efforts of Dr Graham Scott, no clear circuit-breaker has emerged. Positions appear to remain entrenched. At a time when the Government wishes to achieve a set of broader economic objectives, especially around the pursuit of the mixed ownership model which will have direct implications for three of New Zealand's generator/retailers, BusinessNZ is disturbed by the potential impact of this on-going regulatory instability on the achievement of these objectives; and

2. businesses want to have confidence in the electricity market: the broader business community's confidence in the operation of the electricity market is at a nadir. This is not helped by the apparent inability of market participants to resolve matters such as this. Consumers – both large and small – wish to be assured that price increases are efficient and deliver improved market outcomes. This aspect is particularly important to the consideration of the HVDC cost recovery. In this case, consumers are to face a certain increase in transmission costs with an uncertain (distant) reduction in wholesale electricity prices which is only expected to offset the transmission charges. Given the Electricity Authority's statutory objective is to promote the long-term benefit of consumers, if consumers widely/universally object to the proposal this would suggest either:
  - a. it is not, in fact, to their long-term benefit (in which case it should not be introduced); or
  - b. consumers are mistaken about what is in their best interests (in which case the Electricity Authority needs to make sure it makes sure it clearly spells out what the benefits consumers will receive are, and why this makes the proposal worthwhile).

Finally, policy-makers, almost as a matter of course, tend to be poor at reviewing the effectiveness of their policy decisions after they have been implemented. In light of the high degree of assumption-dependency and potential financial impact associated with this issue, BusinessNZ considers that if the decision is to proceed with the majority option, it is beholden on the TPAG to suggest to the Electricity Authority ways in which it could monitor progress against the assumptions on which the decision is based.

## **Summary**

A decision to switch to postage stamp transmission pricing is likely to come under significant stakeholder and political pressure, regardless of its merits. The Electricity Authority needs to be extremely careful about avoiding politicisation of its decision-making processes, whereby market participants may be distracted from their core functions and lobbying the regulator is perceived as a profitable option. Core to this will be whether the Electricity

Authority can convince a hypothetical disinterested, but fair-minded observer, reviewing the outcome in good faith, that the changes are efficient.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Carnegie'.

John A Carnegie  
Manager, Energy, Environment and Infrastructure  
BusinessNZ

## **APPENDIX ONE: ABOUT BUSINESSNZ**

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Central Employers Chamber of Commerce, Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), BusinessNZ is New Zealand's largest business advocacy body. Together with its 70 strong Major Companies Group, and the 70-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, BusinessNZ contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

BusinessNZ's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.