

24th February 2012

Submissions
Electricity Authority
Level 7 ASB Tower
2 Hunter Street
WELLINGTON

www.chh.com

By email to submissions@ea.govt.nz

Dear Sirs

CARTER HOLT HARVEY PULP & PAPER SUBMISSION ON DECISION-MAKING AND ECONOMIC FRAMEWORK FOR TRANSMISSION PRICING METHODOLOGY REVIEW CONSULTATION PAPER

Carter Holt Harvey Pulp & Paper Ltd (CHH) appreciates the opportunity to provide a submission on the Electricity Authority's consultation paper.

Introduction

CHH owns and operates a number of pulp and paper mills at Kinleith, Kawerau and Penrose (Auckland). These mills produce bleached and unbleached softwood kraft pulp and a range of linerboards and paperboards used in packaging. CHH uses over 1000GWh per annum of electricity, of which some 360GWh per annum is internally generated.

Electricity is a key input into the processing of wood and the price paid for electricity impacts significantly on the company's operating costs and hence ability to compete in the international market.

CHH is an export earning business for the New Zealand economy and it is essential to the viability of our operations that electricity supply is obtained at a fair and reasonable price.

CHH is a member of the Major Electricity Users Group (MEUG) and supports the MEUG submission.

CHH has provided additional comment on some of the questions as below and wishes in particular to make one recommendation for the Authority's consideration.

Recommendation:

If the Authority elects to proceed with a market-based approach to TPM, it seems to us that there will inevitably be long complex consultations and debates that will be

necessary to determine if a workable market-based TPM can be devised, and then proceeding with its development if it is determined to be workable.

We are very concerned that this debate will not be balanced in that the ability to apply resources both financial and technical by the supply and consumer sectors of the electricity market is significantly different.

We recommend that if the Authority elects to proceed with further investigation and consultation on market based approaches, then it reviews with consumer groups such as MEUG, Consumer NZ, Federated Farmers, Domestic Electricity Users Network and Greypower ways in which it can assist with provision of sufficient resources to allow the consumer sector to contribute fully to the issues.

We thank you for the opportunity to submit on this important issue.

Yours sincerely

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Questions and answers

	Question	Response
Q1	<p>Do you agree with the Authority's interpretation of its statutory objective with respect to transmission pricing? If you agree, please explain why. If you do not agree, please explain how you consider the statutory objective should be interpreted with respect to transmission pricing and the reasons for your interpretation.</p>	<p>Yes – We agree in principle that efficient use of the grid and efficient investment in the electricity should lead to long term benefit to consumers which is of course the overall objective of the Authority.</p> <p>However, in our view this presupposes that there is a workably competitive market in which efficiency gains in the final analysis accrue to the customer, and we are not convinced that this assumption can be made as a general rule.</p> <p>Once the question of whether any particular efficiency improvement is likely has been settled, then a further question, "Is this likely to result in a long term benefit to consumers" should also be asked for each issue.</p>
Q5	<p>Do you agree the Authority's first preference should be to adopt market-based approaches to TPM charges wherever it is confident such charges will be efficient and their implementation will be practicable and that any Code changes needed to do so comply with the Authority's Code amendment principles? If so, what are your reasons? If you disagree, what are your grounds for disagreeing?</p>	<p>Yes. But see recommendation in the covering letter.</p>
Q6	<p>In light of TPAG's views, do you consider there would be any merit in the Authority devoting further effort to developing market-based TPM charges for interconnection and/or HVDC link assets? If so, what are your reasons</p>	<p>Yes . But see recommendation in the covering letter.</p>

and how do you think this would be best progressed? If not, what are your reasons?

Q14 Do you agree that prime facie the increase in transmission costs in the next few years may provide incentives for some direct connect customers to disconnect from the grid? Please provide any evidence and an explanation in support of your answer.

Yes. At our Kinleith mill in particular, over the past few years we have investigated a number of alternatives for reducing our net electricity import as well as reducing or eliminating our reliance on the electricity grid. We have some significant potential advantages in that we are relatively close to a number of generators, we have pipeline access to moderate amounts of gas in excess of our present requirements and we have significant potential to improve the efficiency of conversion of our wood fibre to steam and electricity. While to date we have not proceeded with any of these alternatives, the overall trends in both energy and transmission costs will eventually make some of these alternatives economically viable. Practical alternatives available are;

- Direct line to local generator
- Wind farm less than 10Km from Kinleith mill with connection to mill distribution system
- Gas turbine/HRSG at Kinleith
- Changes to mill configuration that could go as far as allowing the mill to be a net electricity exporter.