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24<sup>th</sup> February 2012

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## **Decision-making and economic framework for transmission pricing methodology review**

Thank you for the opportunity to provide comments on *Decision-making and economic framework for transmission pricing methodology review*, published by the Electricity Authority on January 26<sup>th</sup> 2012.

We are pleased that the Electricity Authority has abandoned the questionable approach led by the TPAG, and instead is seeking to establish a framework so that this work is conducted in a rational manner.

We expect that the ongoing debate will revolve around charging for the HVDC. With this in mind we wish to point out that in our view the investment approved by the Commission in 2008 was not a replacement nor an upgrade of the HVDC link. Rather it is maintenance of an existing asset – which as with any maintenance requires replacing some of the components. The fact that some of the components are expensive is beside the point.

We have read and support the submission made by MEUG which includes the report from NZIER. We refer the Authority to the NZIER report for answers to the set questions. We will however answer question 14 and 15 separately.

Question 14: In our view the pulp and paper industry is facing difficult times and any increase in any costs, including electricity transmission costs, may result in reduced capacity of the sector. It is time that the Authority considered shifting electricity transportation costs onto suppliers. We have never understood why the electricity industry is the only industry that we know of that charges consumers for transport.

Question 15: As TPAG showed, the incentive free option ticks all the right boxes. The Authority is correct in its assessment that fairness is not a box that needs to be ticked.

Though the Authority has not set a question on the relevance of Generalised Equilibrium models we wish to comment that we think this type of modelling is too coarse and the quality of inputs unlikely to be good enough to draw any meaningful conclusions with respect to transmission pricing.

We also wish to comment on paragraph 4.6.26 by noting that this is another instance whereby investment decisions in the electricity sector are assigned greater significance than investment in the productive sector. We trust that this misguided view belonged to individual members of TPAG, and is not condoned by the Electricity Authority.

Yours sincerely,

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