



1161 SH2 Wairoa Road, Private Bag 6203
Phone 64 6 831 0100

Fax Numbers:
Administration 64 6 836 6443
Forests 64 6 835 9288
Lumber 64 6 831 0104
Pulp 64 6 831 0102
Engineering/Purchasing 64 6 831 0101

Submissions
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
Wellington

submissions@ea.govt.nz

Decision Making and economic framework for transmission pricing methodology review

Dear Sirs,

This submission is from Pan Pac Forest Products Ltd (Pan Pac).

In general Pan Pac does not support the market approach for paying for the grid, instead promotes the exacerbators approach for new investment and the HVDC whilst continuing the current methodology for the current grid assets.

Pan Pac supports markets where it is appropriate. That is highly competitive markets where no market power can arise and normally featuring many suppliers and customers with, well connected transport services. Pan Pac cannot support such a market concept for monopoly services such as Transpower as it believes it does not and cannot work. Pan Pac experience is monopolies by definition have market power that in near all jurisdictions around the world require regulatory intervention to curtail the monopoly power. Pan Pac currently has problems with providers with market power, whose costs only rise and never fall as is typical in a competitive market.

Pan Pac supports the concept that normal commercial practise is for remote suppliers having to pay the transport cost to get to market. Certainly Pan Pac effectively does when exporting its products to Asia, and cannot see that electricity is any different. Pan Pac supports and advocates that the HVDC payment should continue to be paid by the South Island generators.

Pan Pac supports and accepts that the EA is striving for the best long term benefit for consumers as per there objective.

Pan Pac is ready to assist the EA in meeting this objective.

Pan Pac's submission is to assist the EA to improve the TPM.

Pan Pac asks that this is done expeditiously as far to much time and effort has already been spent on this objective already with very little action. In this respect the EA should stop considering market solutions and implement exacerbators pays and the current grid system cost recovery methodology continue

Best regards,
Fred Staples
Pulp GM

Questions and answers

No.	Question	Response
Q1	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>Yes - agree in principle</p> <p>However the concept of doing this by market methods is utopian and unlikely to ever be successful.</p> <p>It is to be noted that none of the retail lines companies have got anywhere near such a solution. Transpower's situation is essentially the same as a monopoly provider providing an essential service to New Zealand. There appears to be no evidence in the world where such a circumstance can be controlled efficiently by a market methodology. The current administered approach is by far the best solution for New Zealand.</p> <p>Basically, the operation of Transpower is very much the same as a normal private or public company in its efforts to have minimum operating costs and to meet its grid capacity and reliability objectives and investment. It differs in that the approval of capital investment and customer pricing are via a regulatory body, the Commerce Commission. The same as the other Electricity lines companies in New Zealand who have Commerce Commission oversight.</p> <p>Section 3.3.2 (a) refers to improving and increasing electricity competition</p> <p>My interpretation, of this point is not clear through the consultation paper.</p> <p>My understanding is that the grid is a key enabler of competition in the electricity industry primarily for energy prices. It does this by enabling electricity to be delivered from the most competitive supplier throughout the grid in the most efficient manner overall. If the grid capacity cannot facilitate this then less competitive electricity is dispatched at a cost and loss to the country. This happens currently, at times, This is a failure of efficiency. The sizing of the grid capacity is therefore a crucial and most important requirement and should be a primary concern when considering TPM.</p> <p>The grid must have sufficient capacity to serve peaks.</p>
Q2	Do you agree with the above application of the three limbs of the statutory objective to transmission pricing? If not, why not, and are there other examples of how transmission pricing can influence competition, reliability and efficiency?	<p>Yes</p> <p>Subject to the points raised in Q1</p>
Q3	Do you agree that a market-based TPM would tend to promote efficiency in grid use and in investment in the grid, generation, demand management and the electricity industry? If so, what are your reasons? If you disagree, what are your grounds for disagreeing?	<p>No</p> <p>As per the grounds outlined in the answer to Q1</p> <p>Market mechanisms are not appropriate in controlling the efficiency of a monopoly. In nearly all jurisdictions monopolies require administrative control to ensure efficient pricing.</p> <p>Transpower offers a service to the New Zealand public and business communities to enable the New Zealand economy. Its function is to allow the best use of New Zealand's resources with respect to electricity generation and use. It is to provide the transport system to enable the optimum use of New Zealand's generation of electricity. The measure of success would be for New Zealand to have sufficient electricity at internationally competitive prices to allow the benefits of a competitive advantage to flow to New Zealand's citizens</p>
Q4	Do you agree that a market-based TPM is likely to be more durable and stable than approaches involving administered charges? If so, what are your reasons? If you disagree, what are your grounds for disagreeing?	<p>No</p> <p>It is an unrealistic utopian dream that does not work efficiently anywhere.</p> <p>How New Zealand thinks it can be the first to solve this intractable issue is unbelievable.</p>

- Q5 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?
- No.
I do not have any confidence in such working.
Even the discussion paper states that this would still require regulatory oversight. That is no better than the current situation.
As previously stated, I do not believe such solutions are possible.
The consultaion paper admits failure before starting by suggesting the need for secondary markets and other financial products to resolve the issues that will arise.
- Q6 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 and how do you think this would be best progressed? If not, what are your reasons?
- No, certainly not.
The EA should move to implementing the next stage.
Years have already been wasted on the pipe-dream of a market.
It is time to get on with applying feasible solutions, and stop the paralysis by analysis.
- Q7 Do you agree the Authority's second, third and fourth ranked preferences should be to adopt the administrative approaches to TPM charges of exacerbaters pay, beneficiaries pay and other charging options wherever it is confident such charges will be efficient, implementation will be practicable, and that any Code amendments needed comply with the Authority's Code amendment principles? If so, what are your reasons? If you disagree, what are your grounds for disagreeing?
- Yes.
My evaluation is that finding the exacerbaters should be relatively easy.
To have to go to the other solutions is very unlikely for new investments.
For example, the exacerbaters for the HVDC are obviously the South Island generators. They should continue to pay for the HVDC. The HVDC is a relatively simple case in that its primary function is to deliver South Island electricity to distant markets.
In all normal commercial practice the transport cost for a remote supplier to compete in a market is paid by the producer.
For example Pan Pac supplies goods to China. The price of such goods is determined by supply and demand in that market. Pan Pac has no ability to change this price. That it costs more to ship the product from New Zealand is not a relevent issue to the customer. They will buy the best deal, and Pan Pac must meet the market. The cost of transport is paid for by Pan Pac. It is an important cost that Pan Pac must control as it has the motivation to minimise it.
The South Island generators continously try to minimise this cost by trying to shift the cost onto their customers. Such behaviour, although understandable, needs to be stopped once and for all.
Another obvious capital cost exacerbator is the growth of demand in Auckland, resulting in the need for the upgrade of the grid to that area. The exacerbaters are the Auckland consumers and they should pay for the upgrade in capacity. To spread this cost over other consumers is, in effect, a subsidy and provides cheaper electricity for Auckland than is fair. It reduces the feasibility for more generaton capacity to be built in Auckland. It also raises the cost to other parts of New Zealand where the growth is not happening.
It would be difficult to determine the historic exacerbators for the grid as it currently exists. The best thing would be to continue the current arrangements for the exisiting grid. However on the principle suppliers normally pay the transpor cost these cahrges should be paid by the generators.
It should be noted that as electricity use expands then the exisiting grid utilization improves and in real terms its specific cost per unit used should be falling.
- Q8 Do you agree these actions can exacerbate investment? Are there other actions and, if so, what are
- No
The actions will improve the quality of investment by making the exacerbator (causer of the Investment) payand result in benefits for New

	they?	Zealand. Such a move would also overcome some of the issues wind farms are causing on the system.
Q9	Do you agree that exacerbators should be identified by determining which party or parties have the ability to act differently, thereby avoiding the need to augment the network? Is there an alternative approach? If so, please provide details.	Yes
Q10	Do you agree with the assessment of the price that should apply to exacerbators? Do you agree with the assessment of how exacerbators pay should apply in practice? Do you agree with the proposed approach for identifying the preferred option or options for applying exacerbators pay? Please provide explanations in support of your answers.	Basically agree in general The costs incurred should be relatively easy to discover, Transpower will know them. The only complicating issue is in future build for investment efficiency. The overcapacity costs will need further consideration of how to deal with them. The determined cost due to the exacerbator should be known in advance and advised to the exacerbator before their investment so they proceed with this knowledge. The LRIC basis appears possibly the best in that existing usage would still be at the current rate as advocated previously. More study needed. The price to be paid by the exacerbator should be the incremental cost caused by the exacerbator
Q11	Do you agree these considerations should be taken into account under an exacerbators pay approach? Please provide an explanation in support of your view.	In principle all of these issues should be taken into account. I cannot see the difficulty in passing on these costs to a group of many small customers, probably through their retailer who is, in effect, the grid connected party and is responsible for the cost.
Q12	Do you agree that these ways can be used to identify beneficiaries? Are there others? If so, please provide details.	Yes.
Q13	Do you agree with the assessment of the price that should apply to beneficiaries? Do you agree with the assessment of how beneficiaries pay should apply in practice? Please provide an explanation in support of your answer.	I suspect that it should be possible to find exacerbators in all cases, even though they may also be beneficiaries. As such, I do not think there will be a problem.