



SUBMISSION

By

The Employers and Manufacturers Association (Northern)

To the

ELECTRICITY AUTHORITY

On The

Transmission Pricing Methodology Consultation Paper 1

18th February 2013

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1. ABOUT EMA (N)

The Employers & Manufacturers Association (Northern) or EMA (N), based in Auckland is pleased to have a chance to comment on this resource consent application.

WHO WE ARE

EMA (N) is made up of some 7500 member companies employing 350,000 people covering the New Zealand region from Taupo north. Most of these are based in Auckland. About 1800 members are manufacturers ranging from large to small-to-medium enterprises (SME).

Within our membership there are a significant number of companies and organisations involved in the manufacture, importation, supply, distribution and retailing of most product types, and the provision of services in a wide range of service sectors including governmental, education, health, contractual, tourism, IT, banking, insurance and business advisors.

EMA (N)'s mission statement is:

"We will build a prosperous future for New Zealand by being the champion of business in our region through influence, education, leadership and capacity building."

We are a foundation member and shareholder in Business New Zealand.

We are active in submitting on any proposed legislation and regulation affecting the Auckland region and our members.

2. OUR SUBMISSION

Proposal Bad- EMA believes that this proposal will be bad for NZ Inc. particularly manufacturers who are significant energy users. Rather than making the boat go faster this set of proposals is likely to hinder and retard our economic progress.

*Benefits not there-*The \$173.2 million in net benefits said to be associated with the proposal is predicated on a belief that the proposal will promote dynamic efficiency. The opposite is quite likely to be the case. The failure to factor in the negative incentives from continual reallocation of sunk costs renders the basic premise of the proposal questionable.

Increased Price Volatility- EMA is very concerned about the increased price volatility that this proposal could bring if implemented. For instance, transmission charges will fluctuate every half hour depending on hydrology. Hence there will be no certainty of transmission pricing going forward, and therefore businesses cannot accurately budget ahead for their energy costs. (NB under the present system retail tariffs are generally fixed for a year in advance). In addition there is presently no financial instrument that can hedge these risks.

Encourages price over recovery- It is also likely that to cope with this uncertainty electricity retailers will charge a risk premium and over recover so that they do not lose money due to price volatility. Higher electricity prices will of course translate into higher prices for products and services.

Discourages new Transmission Investment- The new cost allocation regime will also lead to an environment where new transmission capex will not be discouraged because of the immediate transmission cost pass through implications.

Against the E.A's statutory obligations- We note that the EA's statutory objective is "to act in the long term interests of the NZ consumer". It is difficult to see how more expensive, more price volatile, and less secure power achieves this goal

Sets an unhelpful precedent- In addition the proposed backward allocation of sunk capital costs will set a precedent that others (e.g. Chorus) may seek to follow.

Hamstrings NZ's Productive Sector- The North Half of the North Island (i.e. the engine of the NZ economy) will be particularly hard hit because it will be allocated a greater share of transmission costs, as the EA deem that the upper NI is getting more benefit than the rest of NZ from the recent upgrades to the grid.

Will strip value out of sale of SOE Assets- We also understand that the introduction of this pricing methodology will strip an estimated \$600 M of value from the Power companies in the event that the asset sale programme goes ahead.

EA communications on the proposal inadequate, unclear and confusing- EMA has been quite shocked at the confused and unhelpful explanations of the proposal provided by the EA on its website. Even the experts cannot understand the fundamentals of what is being proposed. The papers go into very little detail regarding outcomes and possible effects.

No need for a change at this time- There is really nothing much wrong with the existing transmission pricing system, and no real need for urgency to change it. If a change is contemplated then the timeline for it could be longer to allow better consultation and more careful consideration of unintended consequences. The present proposal has a strong flavor of "change for change's sake". In addition this is an unproven and completely novel type of pricing arrangement that has not been tried anywhere else in the world. Unless there is some cogent reason, the NZ economy should not be used as a vehicle for this type of experimentation.

3. OUR RECOMMENDATION

EMA opposes this proposal to change the transmission pricing system on the grounds of multiple perverse outcomes and lack of a sound case for change. The EMA recommends that the EA “return to the drawing board” and attempt to come up with a change proposal that does not damage our productive sector.