SOUTH PORT NEW ZEALAND LIMITED

17 February 2017

Submissions
Electricity Authority
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VIA E-MAIL: submissions@ea.govt.nz

Transmission Pricing Methodology: Second Issues Paper, Supplementary Consultation

South Port New Zealand Ltd (South Port) is pleased to provide a submission to the Electricity Authority on its supplementary consultation on the Transmission Pricing Methodology: Second Issues Paper, Supplementary Consultation.

South Port is the southern most commercial port in New Zealand, located at Bluff and operating on a year round, 24 hour basis. It is situated in the rich productive province of Southland which is responsible for generating a sizeable proportion of New Zealand's total exports by value. The region's major cargo producing sites are situated within 30 to 80 kms of the Port.

The Port of Bluff has been operating since 1877, while the Company was formed in 1988 having taken over the assets and liabilities of the former Southland Harbour Board.

South Port was listed on the NZ Stock Exchange (NZX) in 1994 and has Environment Southland, the region's local government environmental agency, as its 66% majority shareholder.

Some facts about South Port:

- Owns and manages assets which have a book value of $53 million
- Directly employs more than 100 full time equivalent staff
- Is the only Southland-based company listed on NZX – market capitalisation as at 17 Feb 2017 equated to approx. $150 million
- Handles in excess of 3.0 million tonnes of cargo in a normal trading year
- Offers full container, break bulk and bulk cargo capability and services the following main cargoes:
    - ~ import – alumina, petroleum products, fertiliser, acid, stock food and cement
    - ~ export – aluminium, timber, logs, dairy, meat by-products, fish and woodchips

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- Has split its land-based operating resource into four main divisions – dairy warehousing, containers, cool & cold storage and general cargo

- Undertakes its primary port operation on a 40 ha. man-made Island Harbour situated at Bluff

- Operates a separate dedicated fuel berth at Bluff Town Wharf plus provides the Tiwai Wharf facility to NZAS under a long term licence

- Services vessels carrying approximately 1.0 million tonnes of cargo destined for movement across the Tiwai Wharf each year, of which $^{2}/_{3}$ is raw material imports while $^{1}/_{3}$ is finished aluminium product

- Has approximately 7 ha. of on-port land available for further port development or industry establishment

We support the submission made on behalf of the Southland Region submitted by Venture Southland. We also highlight the following points:

1. We believe in the principle of user pays, if you are the customer that benefits from a service then you should pay for it. This is not what is happening with how the cost of New Zealand's national grid is now being met.

2. More than **$1.3 billion** of transmission investment has been commissioned in the upper North Island since 2004. But only **39%** of that investment is being paid for by the upper North Island. The remaining 61% of these upper North Island upgrades is being paid for by increased transmission costs in the lower North Island and South Island.[1]

3. We support the Electricity Authority's process of reforming how the costs of the national grid are charged to customers. We believe the Authority has run a sensible and inclusive consultation process, listening to the concerns of stakeholders and adjusting its proposals as a result.

4. We support the proposed Area of Benefit (AoB) outlined in the Authority's recent papers. This should see costs mostly fall to customers who benefit from the transmission services they receive. As far as possible the cost of the grid should be met under the proposed AoB, if a customer is able to benefit from a transmission asset or infrastructure then that benefit and the cost of it should be allocated to that customer.

5. Transpower's unallocated overheads and expenses should also be allocated as much as possible to those customers who benefit from those costs.

6. In short any charges that relate to the provision of a service to a particular customer or group of customers should be identified and charged to that group of customers.

[1] Second Issues Paper, paragraph 6.49(a)

7. Remaining charges allocated via “the Residual” and allocated to customers should be minimised as much as possible. The costs that make up the total Residual should be clearly itemised for all customers to understand. Therefore it would be clear if it included costs that in fact benefit one customer or a group of customers over others and should be allocated via the AoB. If this is not done we once again could see a situation where one group of customers are in effect subsidising the service another group of customers receive.

8. If, despite reform of the transmission pricing methodology, it is obvious a customer is still being charged significantly more than the actual cost of delivering the transmission service they receive, then we support the concept of a Prudent Discount Policy.

9. It is important that the Authority does not delay its work in reviewing the TPM. Customers in regions like Southland and Otago are currently facing transmission costs that are much higher than the services they receive. Any more delays mean we as Southern customers will be continuing to pay for investments that customers in other regions benefit from. We will never be paid back for that over payment – but we would like to stop paying for other regions transmission grid infrastructure as soon as possible.

10. This situation is made even more unfair by the fact that Southland and Otago are geographically close to abundant hydro generation. This is something that should represent a global competitive edge as the world moves to a lower carbon future. To have that regional advantage undermined by transmission pricing does not deliver good economic outcomes for the whole country.

11. We would like to see a fairer method of allocating the cost of New Zealand’s national grid in place as soon as possible.

In addition, Southland is currently promoting the growth of its population via a regional economic development programme dubbed SoRDS (http://www.sords.co.nz/). One pillar of this programme is to encourage the growth of existing industry and the establishment of new businesses in the region. The lack of an equitable transmission pricing model for southern New Zealand makes this task all the more challenging.

It is South Port’s view that realigning the TPM, as outlined in the Paper, will not only create a more equitable and economically efficient framework, but it will also directly assist a wide range of export orientated businesses in Southern New Zealand and therefore deliver greater longer term value for the nation.

Should any further information be required, please contact me on (027) 256 0407.

Yours faithfully

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Chief Executive