

On behalf of the Southland Manufacturers Trust

24 February 2017

Submissions
Electricity Authority
PO Box 10041
WELLINGTON 6143

Via e-mail: submissions@ea.govt.nz

Transmission Pricing Methodology: Second issues paper, supplementary consultation

The Southland Manufacturers Trust is pleased to provide a submission to the Electricity Authority (The Authority) on its supplementary consultation on the Transmission Pricing Methodology: Second issues paper, supplementary consultation.

The Southland Manufactures Trust is charged with promoting innovation, best practice and growth of the Manufacturing sector in Southland.

We support the on-going work of the Authority in developing a new Transmission Pricing Model (TPM). However we are increasingly concerned by the delays and progressive dilution of the proposed changes, to the detriment of users in Southland. We are concerned that those with a vested interest in in the status quo, being a sustained and unconscionable subsidy of costs by Southern industry in favour of mainly Auckland interests, are instigating delaying tactics, at the expense of the New Zealand economy.

1. We support the submissions of Venture Southland, Southland Chamber of Commerce and the Otago Southland Employers Association.
2. We firmly believe the current system is fundamentally unfair and leads to poor investment decisions.
3. 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.
4. 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

¹ Second Issues Paper, paragraph 6.49(a)

5. 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 good and inclusive consultation process, listening to the concerns of stakeholders and adjusting its proposals as a result.
6. 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.
7. Transpower's unallocated overheads and expenses should also be allocated as much as possible to those customers who benefit from those costs.
8. 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.
9. 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.
10. 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.
11. 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 we 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.
12. 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 of New Zealand.
13. We would like to see a fairer method of allocating the cost of New Zealand's national grid in place as soon as possible.

We see the current distribution of Transmission costs as flawed it fails to provide pricing signals for future generation and industrial production investment that would lead to effective use of resources. We believe the current model has created distortions in the distribution of demand that have resulted in dilution of what should be a competitive advantage for New Zealand, competitively priced electricity from renewable sources, particularly from our Hydro Generators. We request the Authority takes a forward looking perspective on insuring a pricing model which will provide the most effective signals for future decision makers about where they build both capacity and demand within new Zealand in the interests of all New Zealanders. If possible, this should focus on renewable sources of generation.

Kind Regards

A handwritten signature in blue ink, appearing to read 'A Leys', with a stylized flourish at the end.

Andrew Leys
Chair – Southland Manufacturers Trust.