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Submissions
Electricity Authority
PO Box 10041
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via email: submissions@ea.govt.nz

Transmission Pricing Methodology - Second Issues Paper, supplementary consultation

To whom it may concern

As the Member of Parliament for Invercargill I am pleased to have the opportunity to provide a submission to the Electricity Authority on its supplementary consultation on the Transmission Pricing Methodology: Second issues paper, supplementary consultation.

I have previously submitted twice to the Authority throughout this process. I attach those two submissions dated 10 August 2015 and 26 July 2016 for reference and wish them to form part of this supplementary consultative process.

Southland is a geographically diverse region, encompassing 12% of New Zealand's landmass, with 2.4% of the population. Southland industry produces around 14% of New Zealand's total export receipts. The region's productive capacity rests on land based production and value added processing.

70% of Southland's GDP is focused on export production and the region is subject to global commodity price fluctuations and negative effects of increasing international transport costs. On the back of its export driven economy Southland is developing a more diversified value-added production capability which requires greater levels of embedded energy. The implementation of a fair and equitable Transmission Pricing Methodology (TPM) is a critical factor in ensuring Southland's high value producers can grow production and remain competitive within a fast changing global economy.

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

1. Currently the transmission costs of New Zealand's national grid are not fairly allocated throughout the country. 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

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Island upgrades is being paid for by increased transmission costs in the lower North Island and South Island.¹

2. I therefore support the Electricity Authority's process of reforming how the costs of the national grid are charged to customers. I believe the Authority has run a good and inclusive consultative process, listening to the concerns of stakeholders and adjusting its proposals as a result.
3. I 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 and/or group of customers. Transpower's unallocated overheads and expenses should also be allocated as much as possible to the customer and/or group of customers who benefit from those costs.
4. 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.
5. 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.
6. 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 I support the concept of a Prudent Discount Policy.
7. 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 Southern customers will be continuing to pay for investments that customers in other regions benefit from. While Southern customers will never recoup the "overpayment", implementation of a more appropriate transmission pricing model will cease the "subsidisation" of Northern customers by Southerners.
8. 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

¹ Second Issues Paper, paragraph 6.49(a)

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 or encourage further regional development.

9. I would like to see a fairer method of allocating the cost of New Zealand's national grid in place as soon as possible.
10. Southland may sit at the southernmost tip of the transmission grid, but it is also very close to the most significant sources of electricity generation. It is not justifiable that Southland pays for the cost of transmitting electricity to the most northern regions of the country. As an illustration of this inequity, New Zealand Aluminium Smelter (NZAS) has been hit with large increases to its transmission charges. These increases have largely benefitted North Island consumers which, is unsustainable. NZAS pays over \$64 million a year in transmission costs alone. This is one of the highest prices paid for transmission by any smelter in the world making it difficult for NZAS to be internationally competitive. It makes economic sense that Southland's businesses are no longer unfairly targeted. NZAS is one of Southland's largest employers; the backbone of our region. We need NZAS to remain viable, not be disadvantaged by inefficient transmission prices. New Zealand relies on its export yields.
11. Southland as a region is a leading export province and contributes around 14% all of New Zealand exports. If the AoB charge was implemented Southland would become more attractive to a wide range of industries. It is time to make transmission costs fairer across the board. A pricing model that encourages energy intensive industry to be located close to electricity generation promotes better outcomes for New Zealand.
12. Southland is one of the coldest regions in New Zealand and over 15% of Southland's population is over the age of 65. Southland also has some of the oldest housing stock in New Zealand which requires additional heating over a longer period of time compared to the rest of New Zealand. The estimated saving of \$64 per year would be a considerable benefit to all Southlanders.
13. It is not an economically efficient outcome for New Zealand to have regions so close to abundant hydro generation and with a desire in some areas to increase industry and population, to have that regional advantage undermined by transmission pricing.
14. I commend the Electricity Authority on its process. It has conducted a sound and robust consultative process and listened to the concerns of stakeholders. At times it has adjusted its approach where warranted as a result of that feedback. There have been extensive opportunities to consult directly with the Electricity Authority since 2009.

I thank the Electricity Authority for the opportunity to submit on the Transmission Pricing Methodology Second Issues Paper.

Should any further information be required, please do not hesitate to contact me on 03 218 6813 or by emailing sarah.dowiemp@parliament.govt.nz.

Yours sincerely

A handwritten signature in black ink, consisting of a large, rounded 'S' shape with a loop at the bottom left and a horizontal stroke extending to the right.

Sarah Dowie
Member of Parliament for Invercargill

SMD : BW