

SUBMISSION

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To: Electricity Authority

Submissions
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Submission on: Transmission Pricing Methodology: Second Issues Paper - Supplementary
Consultation: Cross-submissions on submissions on part of the paper

From: Federated Farmers of New Zealand (Auckland Province) Incorporated
Federated Farmers of New Zealand (Northland Province) 2009 Incorporated

Date: 24 March 2017

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SUBMISSION TO ELECTRICITY AUTHORITY

ON:

TRANSMISSION PRICING METHODOLOGY SECOND ISSUES PAPER SUPPLEMENTARY CONSULTATION: CROSS-SUBMISSIONS

1 INTRODUCTION

- 1.1 Federated Farmers of New Zealand (Auckland Province) Incorporated and Federated Farmers of New Zealand (Northland Province) 2009 Incorporated (together, “Northern Federated Farmers”) thank the Electricity Authority (“the Authority”) for the opportunity to provide cross-submissions on submissions on aspects of its revised proposals for a new Transmission Pricing Methodology, as described in the Authority’s Proposed Transmission Pricing Methodology: Second Issues Paper - Supplementary Consultation paper at 3.37 – 3.67 in Cl 6 & 26 of the proposed TPM guidelines (“the Proposal”).
- 1.2 In regard to this submission, Northern Federated Farmers has engaged in some limited consultation with a proportion of its members with interests in the Federated Farmers’ provinces involved.
- 1.3 Northern Federated Farmers looks forward to such further consultation with the Authority about the Proposal as may be appropriate.
- 1.4 Accordingly, Northern Federated Farmers would appreciate the opportunity to discuss this submission in greater detail. Northern Federated Farmers seeks the opportunity to participate in any relevant discussions, workshops or hearings that might be held.

2. SUMMARY OF RECOMMENDATIONS

- 2.1 Federated Farmers recommends:

That the revised proposals for a new Transmission Pricing Methodology not be proceeded

That it be left to Transpower to determine the appropriate valuation method for determining the total and annual amount to be recovered under the proposed area-of-benefit charge for an investment.

3. GENERAL COMMENTS

- 3.1 The broad purpose of this submission is to state the continued opposition of Northern Federated Farmers to the Authority’s proposal to develop a new Transmission Pricing Methodology. In this instance, that opposition is expressed by way of a response on the Authority’s invitation for cross-submissions on submissions received on part of its paper, Proposed Transmission Pricing Methodology Second Issues Paper – Supplementary Consultation. It is understood that cross-submissions are sought on the valuation method for determining the total and annual amount to be recovered under the proposed area-of-benefit charge for an investment.

- 3.2 As Northern Federated Farmers understands it, overall, the Electricity Authority expects its proposals to provide stronger incentives for transmission customers to make better investment and operational decisions about using the transmission grid, which will lead to better grid investment decisions, which in turn is expected to minimise transmission costs and the price of electricity to consumers.
- 3.3 Northern Federated Farmers continues to consider that the Proposal is seriously flawed, and that the need for the current round of consultation serves only to demonstrate some of those flaws. The Proposal entirely overlooks that the electricity transmission network is vital national infrastructure, much as the roading, postal and telecommunications networks are vital national infrastructure. The electricity transmission network has been considered to be vital national infrastructure for a very long time, ever since it was decided that the country would have a national electricity transmission network. The price of transmitting electricity across the national electricity transmission network should continue to be equalised across the network to the greatest extent possible, much as the cost of the national roading network and the postal service are equalised across the nation as a whole.
- 3.4 As regards the area-of-benefit charge and the valuation method for determining the total and annual amount to be recovered in relation to that, it is particularly noted that farms in the Northland and Auckland areas are not using any more electricity now than they were many years ago. Claims to the effect that farmers in the north of Auckland and in Northland are amongst the major beneficiaries of the North Auckland and Northland (NAaN) grid upgrade and the North Island Grid Upgrade (NIGUP) cannot be accurate. The upgrades were necessitated primarily by the large increase in urban electricity needs within metropolitan Auckland and, in the case of NAaN, particularly on the North Shore of metropolitan Auckland. The claimed improvement in reliability has not generally been seen in rural areas, as any event that might be likely to have disrupted the previous electricity transmission network would normally be expected to disrupt the operation of rural distribution lines as well.
- 3.5 In the current round of consultation, the Authority is proposing that Transpower set area-of-benefit charge using an “indexed historical cost” method. While this method would appear to have some attractions over the alternative that is put forward, the “depreciated historical cost” method, such as: better spreading the revenues generated by an asset over the lifetime of a particular asset; and better spreading the cost of operating the national grid as a whole: overall Federated Farmers considers that Transpower should not be prescribed a particular method, but should be left consider the alternatives, in the light of high-level guidelines provided by the Authority, and then to decide for itself the appropriate alternative that is to be used to form part of a revised Transmission Pricing Methodology.
- 3.6 Northern Federated Farmers is concerned about the lack of time provided in this round of consultation, and the lack of information provided by the Authority to assist potential submitters prepared their submissions. Northern Federated Farmers considers that the Authority is in danger of transgressing the consultation principles set out in the law, as espoused in cases such as *Wellington International Airport Ltd v Air New Zealand*.¹
- 3.6 Northern Federated Farmers continues to acknowledge that the current approach to electricity transmission pricing could be improved upon. However, Northern Federated Farmers does not consider that the approach apparently favoured by the Electricity Authority is the optimal approach as regards farmers in Northland and Auckland.

¹ [1993] 1 NZLR 671 (CA), at pages 674-676, 683-684.

Particularly in that it does not address the problems that the Electricity Authority has identified with the present system in a way that is equitable to farmers in Northland and Auckland, especially those in Auckland to the north of the Auckland metropolis.

- 3.7 Accordingly, Northern Federated Farmers continues to oppose the proposed changes to the Transmission Pricing Methodology proposed by the Electricity Authority, and recommends that the Proposal not be proceeded with. As far as the current round of consultation is concerned, it should be Transpower that determines the appropriate valuation method for determining the total and annual amount to be recovered under the proposed area-of-benefit charge for an investment.

4. ABOUT FEDERATED FARMERS

4.1 Federated Farmers of New Zealand is a primary sector organisation that represents farming and other rural businesses. Federated Farmers of New Zealand (Auckland Province) Incorporated and Federated Farmers of New Zealand (Northland Province) 2009 Incorporated each operate as an independent “branch” of Federated Farmers of New Zealand. At all levels, Federated Farmers has a long and proud history of representing the needs and interests of New Zealand farmers.

4.2 Federated Farmers of New Zealand aims to add value to its members’ farming business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:

- Our members may operate their business in a fair and flexible commercial environment;
- Our members' families and their staff have access to services essential to the needs of the rural community; and
- Our members adopt responsible management and environmental practices.

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