31 October 2019

TPM Team
Electricity Authority
P O Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Jean-Pierre

**Re: Cross submission on the 2019 TPM proposals**

This is a joint cross-submission from: Ecotricity, Electric Kiwi, energyclubnz, Flick Electric, Pulse and Vocus. We are proudly independent entrant retailers who are responsible for delivering New Zealanders choice, innovation and keeping prices down. Collectively we represent 8.64% of the electricity retail market, or 96.54% of the electricity retail market supplied by independent retailers.[1]

We note that Electric Kiwi, Flick Electric and Vocus submitted in response to the 2019 TPM Issues Paper and, collectively, we support their submissions. This submission highlights consistent views that are also held by other parties that submitted on the TPM proposals.

**The Authority's focus should be on urgent outstanding competition issues**

We strongly submit work on the TPM must be put on hold. The TPM proposals should not be progressed while other, more urgent, projects which could help better promote competition, are stalled or taking far longer than they should. If the Electricity Authority (Authority) continues to prioritise the TPM review over other projects it will substantially delay and impede implementation of the Government's electricity reform package. The Government has placed significant trust in the Authority to deliver the bulk of the reform package in a timely manner.

It is obvious from submissions that a significant amount of further work is required before the Authority can finalise the TPM Guidelines. For example, reworking and finalising the calculation of a benefit-based charge for historic transmission assets (given submissions[2] highlight numerous issues including how the Authority has arbitrarily changed a negative net private benefit from the HVDC to a zero value). Further, the Authority will have to take into account significant feedback[3] on the CBA

[1] Unlike ERANZ, we are not shy about disclosing the proportion of the electricity retail market we collectively supply. ERANZ ceased doing this after we highlighted that their claims were inaccurate and overstated their market share.

[2] Submitters on this topic include: Counties Power, EMA Northern , Entrust, Federated Farmers (Northland and Auckland), Horizon Networks, Northpower, Norske Skog Tasman Ltd, Oji Fibre Solutions, Rio Tinto, Top Energy, Trustpower, Unison and Centralines Vector

[3] Submitters on this topic include: Genesis Energy, Counties Power, EMA Northern , Entrust, Federated Farmers (Northland and Auckland), Horizon Networks, Northpower, Norske Skog Tasman Ltd, Oji Fibre Solutions, Top Energy, Transpower, Trustpower, Vector.

resulting in a rework in order to assure the Board and stakeholders that there is a net positive benefit from the TPM proposal.

Also relevant is Trustpower's submission[4] which includes the following conclusions from Dave Smith at Creative Energy Consulting "*that he thinks the proposals are likely to have adverse impacts on competition as the instability and opaqueness of the proposed TPM will favour large established players and mean that*

> *"…small new entrants are the lifeblood of a competitive market due to their ability to disrupt the incumbents. Under the proposed TPM, they could be substantially disadvantaged, possibly to the extent that they do not enter the market at all"*[2]

The Creative Energy Consulting submission is consistent with the concerns raised by Tilt Renewables and Tauhara North No 2 Trust about the impact of the Authority's proposals for renewable generation and smaller operators. We note that uncertainty about the level of benefit-based transmission charges over the lifetime of a generation investment will be heightened for suppliers that do not have a large, diversified, existing portfolio of generation assets. This is likely to further entrench the existing oligopolistic nature of the wholesale electricity market.

**The prioritisation of the TPM review was already holding up other projects**

Work on the TPM has already delayed completion of other important analysis and projects, for example a review of the unprecedented performance of the wholesale market in 2019 and completing the review of issues identified during spring 2018. Putting it another way, at the same time the Authority is proposing consumers pay an additional $50m for the HVDC, the issue that consumers are paying $500 million per annum in loyalty taxes remains unresolved. These are examples of how the Authority's priorities are misaligned with consumer interests and the Authority is ignoring initiatives that are required to ensure regulatory and market arrangements promote competition for the long term benefit of consumers.

We called for the work on the TPM to be put on hold in our earlier submissions. This view is even more relevant now that we have seen the Government's decisions on the Electricity Price Review (EPR) Panel's final recommendations. In our view, the Authority's priorities **must** now change to reflect the Minister's expectations.

In addition, while the wholesale market was under stress (due to outages and the exit of market makers) while the EPR Panel undertook its analysis, since then wholesale market outcomes have not returned to historic norms. This makes implementation of the Government's decisions even more urgent.

We welcome the opportunity to discuss with the Authority our views on work that should be prioritised. The initiatives we are focused on have the potential to promote a substantially more competitive and healthy electricity market, and deliver better long-term outcomes for consumers – a sharp contrast from the wealth transfers from consumers to generators resulting from the proposed TPM.

[4] Paragraph 1.1.33 https://www.ea.govt.nz/dmsdocument/25767-trustpower-limited-tpm-submission-2019

**Windfall gains from wealth transfers to generators from consumers that face higher transmission charges**

In our joint submission in response to the EPR Options Paper we stated, in relation to transmission pricing, "The Independent Retailers do not support wealth transfers from consumers to generators such as Meridian and Contact".

A $50m increase in charges due to a change in the allocation of the HVDC will be bad for consumers. We also highlight the potential negative impact on retail competition when Contact, Meridian and Trustpower receive a windfall gain of $50m which could be used to undercut competition.

The group support Vocus' recommendation that the Authority should take into account both efficiency and pricing impacts (wealth transfers). Failure to do so would result in a bias against initiatives to promote competition given that lower prices is one of the main benefits from greater competition, particularly in markets where the goods and services are largely homogeneous. This was clear from the MDAG saves and win-backs review which basically ignored the principle negative impact of saves and win-backs (over-charging sticky customers with "loyalty taxes"). This was despite the Authority's own figures indicating the cost to consumers was in excess of $370m per annum, and the indications from the Electricity Price Review that $500+m per annum was closer to an accurate estimate of the size of the "loyalty taxes".

Other submitters to highlight the substantial wealth transfers associated with the TPM proposal are Counties Power, EMA Northern, Entrust, Federated Farmers (Northland and Auckland), Horizon Networks, Northpower, Norske Skog Tasman Ltd, Oji Fibre Solutions, Top Energy, Trustpower and Vector.

**Any TPM proposal should be enhancing peak-usage signals**

Numerous submitters support retaining a peak-usage signal – we agree with this view. Submitters suggest reform of the current RCPD charges to make them more cost-reflective and better targeted. Submitters are also sceptical about the Authority's hypothesis that efficient behaviour and investment decision-making will arise from nodal prices alone. [5]

It is counter-intuitive that the increase in peak demand expected by the Authority as a result of removing RCPD could result in lower peak prices. The only reason the Authority can claim a drop in peak prices is because the Authority has added the interconnection charge to wholesale prices in their analysis.

An increase in peak demand would result in an increase in investment in firm peaking generation to meet demand and would drive up spot prices (as peaking generation is a higher cost), not reduce them. It would also require increased distribution network capacity which needs to be taken into account in the CBA. If the Authority is wrong on this point then the positive net benefit it has derived from its CBA would be negative.

[5] Submitters on these topics include: Buller, Contact Energy, Counties Power, The Distribution Group, EA Networks, Electra, ENA, Electricity Trusts of NZ, EPOC, Entrust, Electric Kiwi, Flick Electric, Golden Bay Cement, Powerco, Pan Pac, Solar City, Trustpower, Unison and Centralines, Vector, Waitaki Power Trust, Wellington Electricity

Some form of peak charge would make transmission pricing potentially more aligned with distribution pricing - a number of submitters believe the current TPM proposal is not aligned with the Authority's desired direction for distribution pricing.[6]

**Concluding remarks**

In conclusion, we do not support the Electricity Authority's TPM proposals, including the change from recovering the full cost of the HVDC from South Island generators. We agree with the submissions detailing why the proposed "benefit-based" transmission charges would not deliver the benefits the Authority is claiming.

It is evident from submissions and expert reports that significant further work by the Authority is required to land a robust, durable transmission pricing methodology that is consistent with the Authority's statutory objective. In our view, there is no urgency or mandate for major transmission pricing reform.[7] Progressing the TPM review, at this stage, would risk holding up the Government's reform package and jeopardising the Minister's promise that the reforms would deliver lower electricity prices within the next 12 months.

Instead the Authority must prioritise resources to initiatives that will make a real difference for electricity consumers by addressing issues in the wholesale market and levelling the playing field for small and independent retailers.

Yours sincerely,


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[6] Submitters on these topics include: Flick Electric, Vocus, Wellington Electricity, WEL Networks,

[7] Other submitters called for a fairer, simpler, less costly option for change, namely Counties Power, EMA Northern , Entrust, Federated Farmers (Northland and Auckland), Horizon Networks, Northpower, Norske Skog Tasman Ltd, Oji Fibre Solutions, Pan Pac, Taitokerau Education Trust, Tauhara North No. 2 Trust, Top Energy, Trustpower, Vector