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Submissions  
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## Consultation Paper – Transmission Pricing Review – Cross Submission

This is a Cross Submission by Norske Skog Tasman Ltd (NST) in response to the Transmission Pricing Review (TPR) Submissions made by other parties and published by the Electricity Authority. (EA)

NST supports cross submissions made by The TPM Group, and by the Major Energy Users Group (MEUG), except where those cross-submissions may differ from any points made in this NST cross submission.

### Introduction

Submissions by several parties eg Transpower, TPM Group, Oji Fibre Solutions, NZ Steel, Refining NZ, Northpower and Trustpower contain similar views to those of Norske Skog's submission.

Many of the submissions indicate that there is a case for Transmission Pricing Review but that removing RCPD completely would not be in the best interest of consumers. Instead; alternative incremental change and refinement of TPM is recommended.

### TPR – Cost Benefit Analysis (CBA) is not credible

Transpower's submission states that "Axiom considers that correcting two of the more serious errors in the Authority's CBA would turn the estimated net benefit into a substantial net cost".

The TPM Group submission includes the Lantau Group report which states that "These benefits arise from a flawed comparison between two extreme scenarios."

Oji FS submission states "Our view is that the CBA justifying this claim (*significant benefits*) has numerous errors and incorrect assumptions...Our view is that the proposal is most definitely not in the best interests of consumers and indeed has far greater potential to add significant costs to consumers."

Northpower's submission states that "it is not based on robust economic foundations or a sound CBA...the analysis of costs and benefits contain errors that renders it totally unreliable... the proposal would give rise to a *net cost* rather than a net benefit."

Norske Skog notes that the CBA is reported by the experts as not robust, due to errors and omissions eg omitting the additional generation cost of supplying more peak demand energy.

Norske Skog believes that the Transmission Pricing Review proposal should not proceed as is, until the CBA shows a credible net benefit, which it presently does not.

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### **TPR – (RCPD) Regional Coincident Peak Demand is needed**

Transpower's submission states "A peak price signal is needed for an efficient TPM...A peak price signal for transmission saves consumers money by deferring new transmission investment. Real time nodal energy prices cannot do this job..."

The Lantau Group report states that "A much smaller change in RCPD charge structure would realise the bulk of the benefits..."

Oji FS submission states "RCPD charge is a crucial component of transmission pricing and should remain for all regions...Our view is that this charge should be amended... using net load".

NZ Steel submission "urges the Authority to reconsider RCPD as a preferred allocation method..."

Norske Skog agrees with these submissions and recommends that RCPD should be retained to continue to defer transmission investment.

### **Benefit Based Charge (BBC) proposal needs development**

The Lantau report states "the implementation of a beneficiary pays approach is the least fully developed and would benefit from significant enhancement and clarification.

Transpower submission states that "it (BBC) is more likely to create sources of dispute and may incentivise parties to withhold information rather than share it."

The Oji FS submission states that "assessment of benefits should be calculated ex-post, that is, after the period which the benefit is assessed."

NZ Steel submission states "A more principled approach would be for benefits based charges to only apply to future grid investments..."

Norske Skog agrees and suggests that the BBC proposal needs further development.

### **Price Cap proposed would cause price shocks**

Transpower's submission states that "the Authority's proposed price cap would not prevent price shocks or smooth the transition".

NZ Steel submission states that "...the proposal will have a significant financial impact on NZ Steel..." "The cap should take into account cogeneration arrangements...in recognition of the benefits that cogeneration provides."

Norske Skog supports NZ Steel's submission that cogen should be taken into account for the proposed Price Cap calculation.

Norske Skog would nevertheless incur a significant price shock even after the price cap was applied.

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### Alternative TPM proposals

Transpower's submission states that "Problems with the TPM could be addressed through incremental reform".

The Lantau Group report states "Therefore, it is recommended to alter the HVDC cost recovery framework to be less distortionary and more equitable through a simple \$/MWh charge applied to all North and South Island Generators".

Oji FS suggests that "benefit based charge should be determined based on the basis of actual benefits" Also, Oji FS suggests that "RCPD charge should remain for all regions, albeit with design modifications..."

NZ Steel acknowledges that RCPD requires refinement... urge the Authority to reconsider its proposal and to work further with participants to develop changes..."

Northpower's submission states that "changes could be introduced and benefits realised in a far less disruptive, less risky, more durable and pragmatic way, with sounder economic underpinnings... eg modifying the RCPD charge ... undertaking a pragmatic reallocation of the HVDC charge."

Trustpower's submission Item 1.1.58 proposes a staged approach; revising peak charges; adding a residual net load charge; incorporating HVDC charges into the residual with a 5 year transition and a broader transition path to avoid price shocks.

Norske Skog agrees with these submissions and believes that developing alternative incremental reform proposals would be more acceptable to more participants.

The reforms could be implemented in a staged approach which would avoid the TPM "shock".

Yours Sincerely

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