1 October 2019

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

Transmission Pricing Methodology Reform – 2019

To Whom It May Concern

As the Member of Parliament for Invercargill, I am pleased to provide a submission to the Electricity Authority on its supplementary consultation on the 'Transmission Pricing Methodology: 2019 Issues Paper'. I have previously submitted to the Authority and attach those documents for reference as part of this consultative process.

I support changes to the transmission pricing methodology (TPM) and agree that reform is necessary and increasingly urgent. I believe consumers should pay for the transmission assets they benefit from and not pay for those they do not.

New Zealand Aluminium Smelters (NZAS) has faced nearly $200 million in increased transmission costs since 2008. Much of this is to provide revenue to Transpower for assets in the top of the North Island and to provide a price cap to other customer's prices. Because of the smelter's inability to pass on these costs to consumers, its operations are now less commercially sustainable.

As previously outlined in earlier submissions, NZAS provides significant benefit to the Southland community, economy and wider through the creation of employment, scholarship opportunities and contributes to New Zealand's GDP.

NZAS has been overpaying for transmission assets for over a decade. That is why I believe this reform does not deliver the full relief NZAS deserve. With expected implementation not until 2024 and with the large amount of assets still deemed to fit within the residual charge, NZAS will continue to pay for grid assets Southlanders' don't benefit from for many years to come.

I thank the Electricity Authority for the opportunity to submit on the 'Transmission Pricing Methodology: 2019 Issues Paper'.

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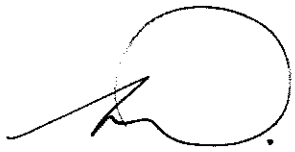
Should any further information be required, please do not hesitate to contact me on 03 218 6813 or by emailing sarah.dowiemp@parliament.govt.nz.

Yours sincerely



Sarah Dowie
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23 February 2017

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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

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26 July 2016

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Transmission Pricing Methodology - Second Issues Paper

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 the consultation paper entitled 'Transmission Pricing Methodology Review: Issues and Proposal Paper Second Issues Paper' dated 17 May 2016 (the Paper).

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. Southland has proactively embraced a considered and well thought-out approach to energy related matters and in 2003 it became the first region in New Zealand to establish a Regional Energy Strategy. The current operative strategy was established following an extensive consultation and submission process. The strategy identifies some of the inequities in the current TPM and calls for a change in the current system. A reliable and robust grid and, fairly priced grid charges are fundamental to maintaining a competitive economy. This is critical in southern New Zealand where, in the absence of a natural gas option, there is a greater reliance on electricity as a fundamental energy source.

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2. Currently transmission costs are spread across all electricity users, with an effective bias against the South Island. The North Island and South Island grid value is split 80% and 20% respectively; the grid charges, however, are split 66% (North Island) and 34% (South Island). South Island generators also currently pay the whole cost of the HVDC cable carrying electricity between the North and South Islands. This arrangement is an inequitable impost on South Island generators and has been a disincentive for future investment in the development of new generation assets in the South Island. These additional costs also adversely impact on economic development investment and the competitiveness of industry in the south. Otago/Southland businesses and consumers are overcharged by $64 million per annum under the terms of the current operative TPM.

3. The cost of the national grid is set by the Commerce Commission for Transpower to collect and this cost must be met by consumers. Therefore it is imperative that the way those costs are allocated results in an economically efficient outcome. It is in the best interests of New Zealand for investment in the grid to reflect the actual needs of the consumers of the region being served by that investment. If those benefiting from investment must bear the cost of it more efficient investment decisions will be made.

4. I submit that the Electricity Authority has properly defined its statutory obligation, under Section 15 of the Electricity Industry Act and accurately defined the problem with the current TPM.

5. I agree that there has been a material change in circumstances in three ways; the significant investment in the grid since 2004, the advances in technology that enable easier collection of data and finally, there have been significant changes in the regulatory regime. I submit that these changes have resulted in the current pricing methodology not meeting the statutory obligation of the Electricity Authority and therefore trigger the need to review the TPM.

6. The current system of allocation does not meet the statutory obligation as it is not cost reflective and it does not drive efficient investment decisions. The current pricing methodology is neither robust nor durable as the cost of network improvement is not born by those who benefit from such investment and therefore is a disincentive for efficient investment in the grid.

7. I support the principles that underpin the proposed Area of Benefit (AoB) charge as outlined in the Paper. It is an approach which will drive efficient outcomes, because they are service based and cost reflective. As the Electricity Authority rightly identifies, "efficient pricing requires that charges for services are paid by the parties that receive the benefit of those services, and that the charges reflect the full cost of providing the services."

8. However I submit that the AoB should be increased as the Residual as outlined in the paper at $500 million is too large. This is particularly true as the suggested method of allocation is in a "tax-like" manner meaning costs are spread across all users. I would therefore encourage the Electricity Authority to explore options to include more assets in the AoB.

9. I support the concept of an expanded Prudent Discount Policy. It is important to have a mechanism to recognise that even with more efficient cost allocation under an AoB and with the Residual

reducing over time that some customers could still face inefficient pricing. However, I recognise there are difficulties in developing an objective, practical and implementable method of applying such a discount and I would encourage the Electricity Authority to continue working with Transpower to achieve this.

10. I urge the Electricity Authority to not delay its work in reviewing the TPM. Reform has been underway for a number of years and for customers in Otago and Southland currently facing inefficient transmission costs further delay means paying more money for benefits these regions do not receive i.e. Otago and Southland are paying for the infrastructure from which it derives no benefit.

11. Since 2004, in excess of $1.3 billion has been invested in the upper North Island transmission assets, which has driven an increase of $220 million in Transpower's annual revenue requirements. But only 39% of the upgrade is being paid by the upper North Island with the balance (61%) being paid by the lower North Island and South Island consumers.

12. 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.

13. 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.

14. 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.

15. 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 undone by transmission pricing.

16. I commend the Electricity Authority on its process. It has conducted a sound and robust consultation process and listened to the concerns of stakeholders. At times it has adjusted its approach where warranted as a result of that feedback as 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

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10th August 2015

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Transmission Pricing Methodology Review - TPM Options Working Paper Submission

In support of: The Base Option and Application A implemented.

Southland is a geographically diverse region, encompassing 12% of New Zealand's landmass, with 2.4% of the population. Southland industry produces 15% of New Zealand's tradeable exports. The region's productive capacity rests on land based production and value added processing.

Seventy per cent 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 that Southland's high value producers can grow production and remain competitive within a fast changing global economy.

Otago/Southland businesses and consumers are overcharged by $64 million per annum under the terms of the current operative TPM and this situation needs to be addressed as an urgent priority.

1. Southland has proactively embraced a considered and well thought-out approach to energy related matters and, in 2003, it became the first region in New Zealand to establish a Regional Energy Strategy. The current operative strategy was established following an extensive consultation and submission process. The strategy identifies some of the inequities in the current Transmission Pricing Methodology and calls for a change in the current system. A reliable and robust grid and fairly priced grid charges are fundamental to maintaining a competitive economy. This is critical in Southern New Zealand where, in the absence of a natural gas option, there is a greater reliance on electricity as a fundamental energy source.

2. This submission supports the principles at the core of the review, specifically the opportunity to better promote the statutory objective of the Authority and its obligation of promoting competition in, reliable supply by, and efficient operation of, the electricity industry for the long term benefit of consumers.

3. The current Transmission Pricing Methodology does not meet this obligation, unfortunately resulting in an inequitable cost being placed on those not benefiting from grid investments.

4. Currently, transmission costs are spread across all electricity users, with an effective bias against the South Island. The North Island and South Island grid value is split 80% and 20% respectively; the grid charges, however, are split 66% (North Island) and 34% (South Island).

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South Island generators also currently pay the whole cost of the HVDC cable carrying electricity between the North and South Islands. This arrangement is an inequitable impost on South Island generators and has been a disincentive for future investment in the development of new generation assets in the South Island. These additional costs also adversely impact on economic development investment and the competitiveness of industry in the South.

5. Since 2004, in excess of $1.3 billion has been invested in the upper North Island transmission assets, which has driven an increase of $220 million in Transpower's annual revenue requirements. Only 39% of the upgrade is being paid by the upper North Island with the balance (61%) being paid by the lower North Island and the South Island consumers.

6. The system of cost allocation creates an unreasonable expectation that South Island consumers will pay these costs as well as the costs of the Cook Straight HDVC cable.

7. The current system of allocation challenges the Authority's ability to deliver on its statutory obligation to be cost reflective. Additionally it does not drive efficient investment decisions. The current pricing methodology, in which the cost of network improvement is not born by those who benefit from it, is consequently neither robust nor durable. Thus it becomes a disincentive for efficient investment in the grid.

8. Based on the Decision-Making and Economic (DME) Framework I support:

    - **'Application A'**: as this mechanism supports the Authority's statutory objectives and it is:
        - technically robust, pragmatic, reflects sound modelling and is sustainable over time, and
        - promotes durability and provides a more efficient investment decision-making environment.
    - **The implementation of the 'Base Option'** and supports the proposed deeper connection-charge to ensure the full economic costs of connecting to grid are recovered from the connecting parties.

9. I would urge the Electricity Authority to implement the new charging mechanisms as swiftly as possible because Southland is already paying for infrastructure from which it receives no benefit and has been doing so for the past seven years. The cost of delaying these decisions is significantly disadvantageous to the South Island and this needs immediate rectification.

10. The proposed Base Option and 'Application A' most fairly reflects the deeper grid connection and efficient grid utilisation and rightly encourages the building of demand close to generation assets.

11. Therefore a change to 'Base Option' and 'Application A' should be implemented as soon as possible as the status quo or Application B will not result in sufficient change as these do not address the post 2004 upper North Island grid investment which Southland consumers are paying for.

12. Some of the implementation detail is best kept for Transpower's round of consultation – however, the implementation issues should not unravel the process or undermine the principles that those who use the infrastructure should pay for it.

- This situation is clearly illustrated by the fact that the upper North Island grid investment since 2004, which amounts to $1.3billion, is only being funded 39% by the local consumers. This is totally inequitable considering that this expansion services almost 53% of New Zealand's total population and accounts for 72% of the population growth.
- Auckland alone, with a population of 1.42 million and a population growth rate of 8.5% has the ability to fund current and ongoing expansion to meet future network needs.

It is therefore unacceptable that the lower North Island and the South Island pay 61% of the upper North Island network expansion costs and this situation needs to be immediately remedied.

13. The successful and timely implementation of an equitable TPM will result in those who receive the value of infrastructure paying for it. This will deliver the best outcome for NZ – not just the best use of the grid but by delivering a pricing regime that will affect the size of transmission investment in NZ and

    - Will not waste money building a grid we do not need (i.e. it will promote efficient future investment decision making), and
    - Will not over charge consumers, both residential and industrial, for infrastructure they do not use.
    - Decisions by businesses to close operations due to inefficient TPM price signals will be avoided.
    - Greater certainty will be provided for future industry investment surrounding transmission pricing and encourage development close to generation assets.

14. The implementation of an effective TPM will establish the basis of a fair and enduring pricing system that reflects the benefit received.

15. In summary, I applaud the work that has been undertaken by the Electricity Authority and seek to have The Base Option – Application A - immediately implemented as the basis for future transmission pricing. Southland stakeholders would appreciate the opportunity to participate in any consultation should the opportunity arise.

I thank the Electricity Authority for the opportunity to submit on the Transmission Methodology Review.

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.

Kind Regards,

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