SUBMISSION

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FEDERATED FARMERS OF NEW ZEALAND

To: Electricity Authority

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Submission on: Transmission Pricing Review consultation paper

From: Federated Farmers of New Zealand

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SUBMISSION TO THE ELECTRICITY AUTHORITY ON TRANSMISSION PRICING REVIEW CONSULTATION PAPER

1. INTRODUCTION

1.1 Federated Farmers of New Zealand appreciates the opportunity to provide this submission to the Electricity Authority on the Transmission Pricing Review consultation paper. Our primary interest in the proposed transmission pricing methodology centres around the practical impact of the proposal on farm businesses and rural households.

1.2 The policy development process leading to the current proposal has been less than ideal. That this is the third proposal for transmission pricing in as many years has done little to provide certainty to farm businesses. This is especially pertinent when this consultation occurs at a time where there has been a great deal of uncertainty in future electricity pricing from the Electricity Price Review and review of distribution pricing principles. That this has occurred during a period where farming has faced increasing uncertainty across a number of fronts (like freshwater and climate change), has done little to contribute to the effective investment in and use of electricity as a farm input.

1.3 The Federation has previously submitted in favour of the Electricity Price Review option of introducing a Government Policy Statement on transmission pricing. We consider such a statement would forecast expectations of subsequent work on transmission pricing methodologies and would have assisted in avoiding a policy development process that has at-times proven particularly divisive and not entirely easily-understood as to the merits of the proposed changes and their impacts.

2. GENERAL COMMENTS

2.1 Electricity is a significant and vital input into the farm business with networked electricity supply one of a few sources of energy available to rural households. To put it into perspective, average farm use of electricity would be in the order of 3-4 times that of a standard residence, with irrigated farm use of electricity being significantly higher, if seasonally so.

2.2 As with earlier proposals on transmission pricing, the current proposal puts forward a reasonable case for change from the current methodology. Further, the objectives of the proposal to attempt to influence investment decisions through a benefit-based system are laudable, and allocation of the cost burden across consumers in different parts of the country seems fairer than in previous proposals.

TPM should be an enduring framework

2.3 Establishing an enduring framework for future TPM periods that will be able to account for expected shifts in demand and supply from electrification and the uptake of new and emerging technologies should minimise the likelihood of another contentious TPM process.

Peak demand charging good to see go

2.4 The progressive move away from peak demand charging is appreciated. The current method for peak demand charging has seen significant price

increases in recent years for those of our farmer members in the Upper North Island that are also irrigators. That the only means of minimising one's exposure to these price increases was to reduce or avoid using electricity during peak periods was problematic for the peak periods falling at times when water is needed most on crops and pastures during the summer months of the year. It has helped that distribution companies worked with consumers to address irrigator use of electricity during peak periods of electricity consumption.

Benefit-based charging the way to go

2.5 Likewise, the adoption of benefit-based charging makes sense in a theoretical basis as those consumers that benefit most from an investment ought to be the ones that contribute most to covering the cost of the investment. That this would be approached in a nodal pricing sense is reasonable, given nodes are how the transmission network connects to distribution networks that supply homes and businesses. That said, it does appear that benefit-based charging pales against the much higher reliance on residual charging. While this makes sense against historical investments in the transmission network that have not been cost-recovered, this does raise questions as to the extent to which benefit-based pricing is expected to actually deliver benefits to consumers over time.

Practical impacts suggest little change for rural consumers

2.6 The practical impact on our members, however, remains largely the same: higher costs to address problems we didn't cause, lack of recognition for the essential service farms provide as hosts of transmission infrastructure, little to no improvement to the quality of supply our members will experience as consumers.

2.7 There is no avoiding that transmission costs to electricity consumers will increase from 2024. It is appreciated that the costs for consumers in many areas will be less under the current proposal than would have occurred under earlier proposals, that allocation of costs to specific prior investments in the transmission network will be limited to a smaller range of projects, and that issues arising from earlier cost allocation decisions (for example, with the HVDC link) will be addressed in the current proposal.

2.8 Electrification and increasing uptake of new and emerging technologies are rightly posited as likely to have an ongoing impact on future investments in the transmission network. That said, the opportunities for farm businesses and rural households to take up electrification or adopt new and emerging technologies like electric vehicles will remain somewhat limited for many years to come. Self-generation of electricity on farms is hampered by low cost-benefit of generation for sheep and beef farms, and prohibitive capital costs of electricity storage for dairy and irrigated farms. While costs will likely come down over time for both, it remains unlikely that rural consumer use of electricity will substantially contribute to the need for greater investment in the transmission network.

2.9 Many farms and rural households host the transmission network on their properties. This was initially pursued on an agenda of bringing electricity to various parts of the country on the basis of goodwill and necessity. This continues to occur on a basis where the role, importance and needs of the rural consumer as host and enabler of the electricity sector goes largely unrecognised and underaddressed in public policy processes.

2.10 While there are no obvious mechanisms by which such recognition could be easily-factored into transmission pricing, the burden as host of electricity infrastructure is one that continues to be felt by farm business and rural households.

2.11 Quality of supply from the transmission network has not been a particularly high priority for rural consumers, with supply proving relatively reliable in rural areas. Where issues with quality of supply have occurred, this has generally been due to issues with the distribution network, rather than the transmission network. Exceptions would be those instances where natural disaster or adverse weather events have been the cause of unplanned outages.

2.12 As such, it could be argued that the quality of supply or reliability of supply is unlikely to improve for rural consumers in a manner that matches the rate at which the transmission component of their monthly power bills is likely to increase over time as a result of implementing the current transmission pricing methodology proposal.

3. ABOUT FEDERATED FARMERS

3.1 Federated Farmers of New Zealand is a member-based organisation representing farming and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand farmers.

3.2 The Federation 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.