

30 August 2023

Submissions
Electricity Authority

By email to distribution.pricing@ea.govt.nz

Channel Infrastructure - Cross Submission on Targeted Reform of Distribution Pricing

Thank-you for the opportunity to provide feedback on submissions related to the Authority's consultation paper "Targeted Reform of Distribution Pricing – issues paper" dated 5th July 2023.

Channel Infrastructure NZ Ltd (Channel), is New Zealand's largest fuel infrastructure business based at Marsden Point in Northland. On 1 April 2022, the business transitioned from refinery to terminal operations and now operates as an infrastructure business. Although Channel's electricity load has reduced from 38MW as a refinery to ~4MW as an import terminal, the business is still a significant electricity user. Electricity and utility costs represent 29% of total costs.

The decommissioning of the refinery plant is now complete and Channel is actively pursuing growth opportunities. One of these opportunities involves the Fortescue Future Industries scoping study for synthetic Sustainable Aviation Fuel (e-SAF) at Marsden Point, supporting New Zealand's wider decarbonisation efforts. The pre-feasibility study will investigate a 300MW, c.60 million litres per-year e-SAF production facility at Marsden Point.

Channel has the following general comments on the submissions received and published by the Authority as part of its current round of consultation.

Lack of consistency with Distribution Pricing Methodology across different EDBs

Channel is supplied distribution services from more than one EDB, and future growth opportunities may also entail new connections.

We note and support a common thread in a number of submissions that there should be more consistency across EDBs on pricing methodologies and consultation and engagement with larger customers about changes which may impact them.

Referencing MUEG's submission:



“Inconsistency in how EDBs operate across regions, including how they consult and share information on distribution pricing and the connection processes for new connections or expansion/reduction in capacity requirements.”

Meridian’s submission:

“In Meridian’s opinion, another key driver for consideration of distribution pricing reform is the inefficiency that results from 29 different distribution pricing methodologies in a country the size of New Zealand.”

Target revenue allocation - certainty of ongoing distribution charges is important

Channel supports the view that allocating more costs to commercial and industrial customers may have unintended consequences. In addition, decarbonisation efforts could be hampered if a lack of certainty of distribution costs impacts decarbonisation investment decisions. Channel is actively looking to participate in New Zealand’s decarbonisation efforts with potential future business opportunities at Marsden Point.

Contact Energy Submission:

“We also challenge the assumption that it may be more efficient to allocate more costs to C&I customers because it would not affect their behaviour. There are two reasons for this:

- Electricity is a material input cost for many businesses and can impact the viability of the business, potentially resulting in businesses shutting down. Allocating too much cost to businesses could result in less economic activity, reducing economy wide efficiency.
- We disagree with the conclusion at para 6.16(e) that allocation decisions will not affect decarbonisation decisions. If too much cost is allocated to C&I businesses this will materially deter decarbonisation projects by increasing their costs...”

“The changes proposed by the Authority are likely to create significant changes in cost for each consumer group. To mitigate the risk of bill shock, we would like to see the changes modelled and then a transition plan put in place if/when the changes do result in significant cost transfer between groups. This transition timeline could also be included in the EA’s practice note.”

MUEG Submission:

“We agree with the Authority’s statement that *“some very large businesses may have the option of connecting to the transmission network instead of the distribution network. Overly high allocation of shared costs to such businesses could prompt inefficient connection behaviour”*. In principle, parties should connect to the network where it makes economic sense, and it meets the capacity requirements of the business or site. It would be disappointing if an unbalanced allocation of costs would hamper the move to greater electrification.”

Final Comment

Our final comment is to support New Zealand’s wider decarbonisation efforts, it is important that consistent and clear pricing methodologies are implemented consistently across all EDBs (including new connections) and that costs are apportioned on a cost reflective and efficient basis.



Yours sincerely

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