

DOMESTIC ENERGY USERS' NETWORK



Members

Age Concern NZ
Child Poverty Action Group
Grey Power Federation
Public Health Association
Rural Women NZ

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Summary

The most contentious transmission pricing issue is: who pays for the high voltage DC link from Benmore to Haywards? Today, South Island generators pay; the majority decision of the Advisory Group is that consumers should pay directly. The difference comes to some \$150 million per year that would be paid directly by consumers, instead of by generators.

DEUN believes the resulting estimated efficiency gain is too uncertain to justify a regime that effectively gives South Island generators the use of the link free of charge, by imposing an additional burden on all consumers, but especially those already struggling with the cost of the power they need. We therefore support the retention of HVDC charging status quo.

DEUN is particularly concerned about the unbalanced representation, with no domestic consumer representatives on the Transmission Pricing Methodology Advisory Group. "Long term benefit to consumers" needs to be defined by consumers themselves, not by a mechanistic economic analysis.

The consultation process, and the question of balanced representation

DEUN commends the Authority for its practice of holding briefing sessions for all stakeholders. This allows each stakeholder to hear argument from other perspectives – and gives the opportunity for genuine engagement on the issues.

Carl Hansen, the CEO of the Electricity Authority said at the transmission pricing briefing that that Advisory Groups now have a more significant decision-making role than they did under the previous Electricity Commission. Hence, he said, it is very important that they have "balanced membership".

The current membership is not balanced. The ten members of the Group include two major electricity users (Comalco and Fonterra) and five generators. Domestic consumers are not represented at all. Challenged on this membership, Hansen claimed that it does not matter

because all members are also domestic consumers, as is each member of the Authority's Board.

This claim is fatuous - it holds domestic consumers in contempt. None of the current members are there to represent domestic consumers, and their presence does not constitute domestic consumer representation. Nor does it address DEUN's particular concerns about older consumers, consumers on fixed incomes, disabled consumers, and other types of vulnerable consumers. These groups face difficulties and frustrations that we believe are completely outside the experience of the members of the Advisory Group and Board.

Domestic consumers must have their own representatives, as the interests of consumers are held to be of paramount concern. . "Long term benefit to consumers" needs to be defined by consumers themselves, not by a mechanistic economic analysis.

HVDC pricing (the DC line from Benmore to Haywards including the Cook Strait cable)

The issue of HVDC pricing clearly demonstrates how the lack of domestic consumer representation results in decisions which disadvantage this group, and in this case, all consumers. The accumulation of many such decisions is leading to completely unacceptable price rises.

At present South Island generators pay for transport of their generation through the HVDC link, as 80-90% of the flow on the link is from south to north. The majority view on the Advisory Group is that all consumers should pay equally for that transport – transmission of electricity should be like a "postage stamp", where all pay the same however short or long the transmission distance.

Postage stamp pricing would increase the cost of power to all consumers by about 0.35c/kWh, an immediate and certain price increase. As a result, South Island generators would save around \$150 million of their costs annually, at the expense of all consumers.

The majority view recommends this postage stamp pricing, but with a ten year transition period to reduce its immediate impact. The minority view was that the benefit is too small and uncertain to justify the very substantial wealth transfer from consumers to generators.

At the briefing, the chair of the Advisory Group, Graham Scott, said that there had to be a big efficiency benefit to justify transfers of wealth. That supports DEUN's agreement with the minority view that the status quo should remain, with South Island generators paying to transport their electricity on the HVDC link.

In net present value terms, the calculated benefit in economic efficiency is around \$38 million. This is a discounted cash flow calculation over a period of many years. The benefit arises from an earlier deployment of cheaper energy, mainly from very large-scale South Island wind farms and also from some hydro projects. But the analysis presented in the briefing shows that this benefit will not become apparent for more than ten years, because the very cheapest new energy resources – geothermal and high-quality wind – are in the North Island. These are

likely to be developed long before big South Island wind farms favoured by the majority decision become commercially attractive.

Impact on domestic consumers

The Advisory Group's minority view was very largely a consumer viewpoint, expressed by two major electricity users, and supported by one or two others. There appears to be little difference in impact of HVDC pricing between major users and small consumers.

To the wholesale price increase of 0.35c/kWh, a further retail margin would be added, taking the increase up to perhaps a half cent.

A half cent per kWh is anything but trivial for an increasing number of people who are struggling today to pay their power bills. One Grey Power Association, centred in Taumarunui, comments:

“Last year there was a case where a senior couple lost their lives here in Taumarunui whilst using a “Barbie” external heater to try to keep them warm instead of running up high power bills which they could not afford. It is fine for someone with an income such as yours, as a CEO [of The Lines Company], to make comments & assumptions like this especially when they live in a warmer district and can afford to pay the high costs for keeping warm!”

This impact is proposed to be mitigated by a prolonged “price holiday” - a 10-year transition period towards the full impact. This however is not the only “price holiday”, because New Zealand has already deferred half the impact of carbon pricing.

Other drivers of price increases are in the pipeline, especially scarcity pricing. Each of these will be “consulted on” in the same way as transmission pricing, The cumulative impact of a succession of industry decisions on electricity pricing must be recognised as an onerous burden on domestic consumers.

Issue: deeper or shallower connection

A second pricing issue is whether generators should pay for parts of the national grid that are used mainly by them, but also available for other users. The direct impact on domestic consumers appears minimal, but there may be issues for small-scale “distributed energy” providers, which may become increasingly important as large-scale electricity supply runs out, and environmental factors including climate change constrain the otherwise cheaper electricity options.

The economic analysis of this issue, described as “deeper or shallower connection”, gives results too inconclusive for DEUN to offer an opinion at this stage. We note however that the discussion paper recognises the importance of Commerce Commission decisions on how “transmission alternatives”, including ripple control and small-scale generation, will be compared to any proposed transmission investment.

DEUN considers that this, and indeed all consultations, should consider a wider spectrum of impacts and concerns than pure economic efficiency.