

14 July 2011

TPAG Chair
c/- Electricity Authority
Level 7 ASB Tower
2 Hunter Street
WELLINGTON

By email to submissions@ea.govt.nz

Dear Sirs

CARTER HOLT HARVEY PULP & PAPER SUBMISSION ON TRANSMISSION PRICING DISCUSSION PAPER

Carter Holt Harvey Pulp & Paper Ltd (CHH) appreciates the opportunity to provide a submission on the Transmission Pricing Advisory Group's "Transmission Pricing Discussion Paper".

Introduction

CHH owns and operates a number of pulp and paper mills at Kinleith, Kawerau and Penrose (Auckland). These mills produce bleached and unbleached softwood kraft pulp and a range of linerboards and paperboards used in packaging. CHH uses over 1000GWh per annum of electricity, of which some 360GWh per annum is internally generated.

Electricity is a key input into the processing of wood and the price paid for electricity impacts significantly on the company's operating costs and hence ability to compete in the international market.

CHH is an export earning business for the New Zealand economy and it is essential to the viability of our operations that electricity supply is obtained at a fair and reasonable price.

CHH is a member of the Major Electricity Users Group (MEUG) and supports the points made in the MEUG submission.

CHH wishes to make the following additional points for the Authority's consideration.

Key Points

1. We understand that Transmission Pricing methodology with respect to the HVDC link has been controversial for some time and have focussed our comments on this aspect only of the discussion paper.

2. We are not at all satisfied that there is a sufficient clearly identified opportunity for an efficiency gain to warrant analysis of alternative options for the allocation of HVDC.
3. We are even less convinced that even if there were any efficiency gains to be had, that any net benefits would flow to the long term benefit of the consumer.
4. We base these conclusions on a number of factors.
 - a. The work carried out by NZIER on behalf of MEUG provides a credible view that any efficiency gains suggested by the TPAG modelling work are based on questionable assumptions and analysis.
 - b. The wide range of efficiency gains (\$11m to \$96M NPV) suggested in the TPAG majority report indicates significant variability in the model output which in itself throws considerable doubt on the potential values suggested.
 - c. We read the comment on Page 5 of the discussion paper para 35 with dismay. "...it will provide efficiency gains with the least likelihood of dis-benefits to consumers". We believe that this provides a clear indication that the TPAG considers that efficiency benefits, if any are more likely to flow to the supply side of the electricity market than the consumer.
 - d. We understand that the impact of the option under consideration will result following commissioning of Pole 3 in an increased cost for the consumer that will amount to approximately \$23/Kw peak pa which in CHH's case will result in increased annual charges of approximately \$1.7M pa.
 - e. We fail to understand how this additional cost to CHH can be possibly be offset by even the most optimistic estimate of efficiency gains and the assumption that all the efficiency gains will flow to the consumer.

Conclusions

We do not therefore consider that that the majority recommendation in this discussion paper passes in any convincing fashion the test which we understand the Electricity Authority must apply - " will this recommendation result in a long term benefit to consumers?"

We thank you for the opportunity to submit on this important issue.

Yours sincerely



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