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12 March 2012

Electricity Authority - Submissions
Electricity Authority
PO Box 10041 Level 7,
ASB Bank Tower
Wellington 6143

To whom it may concern,

RE: Fonterra Cross Submission – Decision-making and economic framework for transmission pricing methodology

Thank you for the opportunity to make a cross submission on the Decision-making and economic framework for transmission consultation paper released 26 January 2012.

We generally agree with those submitters that support the development of a market based Decision-making and economic framework for transmission pricing methodology. If those prove unworkable or costly, then administered processes should be considered.

Our further comments on individual submissions are in the following table.

Please contact me should you need any clarification on any point made here.

Yours sincerely

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Comments on submissions;

Issue	Fonterra Comments	Excerpt from Submissions	Submitter
Exacerbator vs. Beneficiary pays	Fonterra supports those submitters that said the hierarchy of exacerbator pays over beneficiary pays is not correct. We submit the EA should review this position and present both as equal options.	*...the Authority's discussion of exacerbator-pays and beneficiary-pays are useful. However, we do not conclude that one is strictly superior to the other as both have strengths....* *2.1 Rethink the ranking of beneficiary pays. The Authority has expressed a preference for "exacerbators pays" over "beneficiary pays", but it is not clear that one should be preferred over the other. There is no strong economic rationale to do this....* *The recent Consultation Paper from the EA distinguishes between an "exacerbator-pays" and a "beneficiary-pays" approach and proposes a "hierarchy of preferences" in which "exacerbator-pays" is preferred to "beneficiary-pays." See EA Consultation Paper at D. In our experience, this distinction is not widely made in the economics literature. Furthermore, in at least some circumstances, it appears that the beneficiary-pays approach is equivalent to the exacerbator-pays approach...*	Rio tinto MEUG Meridian

Beneficiary pays – flow trace	Fonterra disagrees with Transpower's view that users are not a good proxy for beneficiaries of the grid. We do agree with those submitters (e.g. Meridian) who agree with the EA definition of a beneficiary as "a party for whom the private benefits of the investment proceeding exceed the costs, and would therefore be willing to pay for it if that were the only means by which the benefit could be acquired" Users as a proxy is one method that may reveal beneficiaries of interconnected assets. When compared to the status quo, preferred by Transpower, flow tracing identifies more accurately the cost of providing the interconnection assets for a given user and there by determination of the benefit (if any). Transpower cite vehicle licensing as an equivalent to postage stamping. We also observe the increasing use of toll roads as a means of recovering cost for roads, analogous to flow tracing. We submit that the use of flow tracing should be retained for consideration in any subsequent Decision-making and economic framework for transmission pricing methodology.	*Modelling users as a proxy for beneficiaries is not a particularly good way of identifying beneficiaries of the interconnected grid. In an economic sense, a user is only a beneficiary of a particular asset if they would suffer a disbenefit if the asset were not there.* *...for the interconnected grid, because the benefit to a grid user of a particular asset may be less than the modelled use of that asset, the best way of ensuring that the charge for using the grid does not exceed the value to the user is to apply a flat rate "postage stamp" charge, conceptually equivalent to the excise duty plus the vehicle licence fee that light vehicle users pay to access the national highway network.*	Transpower
Sunk cost allocation	Fonterra acknowledges that some submitters have said the TPM needs to reflect the allocation of sunk costs over future investment. If the EA adopts a market based approach as the preferred method we think that there is some risk that the sunk cost portion of TPM is caught in an ongoing debate of workable market based allocation	*The framework largely focuses on efficient decision-making for new investment in the transmission grid. Any review must also consider the allocation of the costs of the existing grid (i.e. the investment decisions of the past). Recent major investment decisions are now effectively committed and there will not be further significant expansion of interconnected grid capacity for the next fifteen years or longer. Consequently, the TPM will primarily be a mechanism*	Transpower

	methods. To avoid this, and bring greater certainty of an outcome to the decision making process, we submit that the EA has a clearly stated method for determining the end and drawing to a close, the analysis of each methodology.	*for allocating existing and committed costs.* *A large investment in Grid enhancements has already been confirmed, and hence the level of new investments which may benefit from rigorous pricing signals is low. This is, in the main, an issue relating to cost allocation of sunk assets. As a result, TrustPower questions what efficiency gain the various different regimes are actually likely to achieve. Efficiency gains with respect to transmission investment will only accrue if it is the decisions on that investment that are being influenced* *..given the costs of the HVDC upgrade are now sunk and it is unlikely to be a step change of investment needed for many years* *As noted in the discussion paper, most of the grid upgrade expenditure over the coming years has been allocated by the previous Electricity Commission. The TWG approach if implemented would not address the more significant issue of how the sunk costs associated with existing transmission infrastructure are allocated.*	Trustpower Power Co MRP
Asymmetry of resourcing for submissions.	There are considerably larger submissions from the generator's compared to either the lines companies (Transpower included) or the consumers. A page count of the submissions shows the generators submitted more than two times the consumers and lines companies combined. Meridian submitted more than four times the information, in terms of pages, than all the consumers combined. Even though a page	*We are very concerned that this debate will not be balanced in that the ability to apply resources both financial and technical by the supply and consumer sectors of the electricity market is significantly different.*	Carter Holt Harvey

	count is only a rough proxy for resources spent on developing submissions, such large differences in page counts are a very strong indicator that the generation companies are better resourced and /or more incentivised to provide resources in the transmission pricing area. We submit that the Electricity Authority needs to balance this industry bias to ensure that one participants view does not swamp arguments in one direction or unduly influence outcomes.		