

19 November 2013

Submissions
Electricity Authority
PO Box 10041
Wellington

By email to submissions@ea.govt.nz

SUBMISSION ON THE TRANSMISSION PRICING METHODOLOGY: SUNK COSTS WORKING PAPER

1. This submission is made by Pacific Aluminium on behalf of Rio Tinto Alcan (New Zealand) Limited and New Zealand Aluminium Smelters Limited (NZAS). It is made in response to the Authority's paper on the Transmission Pricing Methodology: Sunk Costs (the paper) of 8 October 2013. Nothing in this submission is confidential.
2. Pacific Aluminium supports the views expressed by the Authority in the paper. In particular we agree that economic theory does not support the view that prices should not reflect sunk costs, or that fixed costs should not be recovered by variable charges when setting infra-marginal prices¹.
3. The Authority's paper is a very useful discussion on the consideration that should be given to sunk costs and that these are just more broadly a subset of fixed costs. There are many examples of industries with a high proportion of fixed costs that charge for their services on a variable cost basis, with no assertion that this is somehow inefficient.
4. We agree with the Authority's concluding comment that, with reference to

¹ Paragraph 1.13 of the paper.

the Authority's objective, if changing the methodology by which transmission prices are determined promotes overall efficiency in the electricity industry, the Authority may change the methodology irrespective of the existence of sunk costs².

5. If the Authority wishes to discuss the issue further, then please contact me in the first instance.



Ray Deacon
Manager Regulatory and Government Affairs

² Paragraph 9.8 of the paper