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25th March 2014

Dr John Rampton
General Manager Market Design
Electricity Authority

By email to submissions@ea.govt.nz

Dear John,

Transmission pricing methodology review: Beneficiaries-pay options Working paper

This is a submission by Carter Holt Harvey Pulp & Paper Ltd on the Electricity Authority (EA) Working paper "Transmission Pricing Methodology review : beneficiaries –pay options" published 21st January 2013.

1. **High level summary response**
    a. There have been some useful improvements to the initial TPM proposal (10th October 2012). However, there are still a number of areas where we consider that there is significant uncertainty that is sufficient to render a fully credible cost benefit analysis of any of the proposed beneficiary pay options very difficult. These areas in our view are –
        i. Lack of a clearly articulated problem or problems that require some resolution apart from an overall desire to have a more efficient transmission pricing methodology. In practical terms, two problems which perhaps need resolution might well be
            1. Some recent large capital expenditure projects on the transmission system with hindsight do not appear to have justified their expenditure. This situation should be prevented for the future by ensuring that future expenditure receives the appropriate scrutiny.
            2. The on-going annual HVDC link charges which accrue to the South Island generators have been (and presumably will continue to be) a source of on-going tension. A pragmatic solution needs to be found to this issue.
        ii. The break up of the various parts of the interconnection charge aspect proposed TPM into SPD and residual parts makes it difficult if not impossible to make a full assessment of the overall proposal and by

itself results in a lack of ability to fully analyse the various proposed options in a holistic sense.

b. Nevertheless, we do however still support the concept of beneficiary pays and so have made comments on some of the aspects of the options proposed in the working paper.

c. As a pulp & paper manufacturer with two of our plants containing both significant load and generation which is inextricably tied to the overall process, we also consider that the benefit we receive from connection to the transmission system is proportional to our net load. We elaborate on this issue later in our submission.

d. We consider that there is an inconsistency between the beneficiaries pays principle which should be paramount and charges that are based on gross benefits. This concerns us. We also elaborate on this issue later in our submission.

2. To achieve longevity in any TPM change, we believe that the onus and standard of proof that the proposed change is better than any other option including the status quo, should be set very high.

3. We support the MEUG submission and also refer in parts of our submission to separate advice to MEUG from NZIER which is part of the MEUG submission.

Key issues

4. **Embedded generation.**

a. Both of our Kraft pulpmills have cogeneration plants which at present supply a little under 50% of our mill electricity needs as well as process steam and they are fully integrated with the overall operation. These cogeneration plants are fully embedded in the pulpmills themselves. We therefore consider that our pulpmills present themselves to the transmission system as a net load.

b. It is clear to us that when generation is only in existence due to the nature of load it is adjacent to, that any benefits derived from the transmission are proportional to the net load if generation is less than the load, or the net injection if generation is greater than the load. We draw your attention to comments made in the early part of section 2.7 of the NZIER advice which we believe provides further support for our view.

c. We have attempted to better understand what is potentially inefficient about seeking to avoid charges as commented on by the Authority (p.51). We draw your attention to comments on this issue in the second part of section 2.7 NZIER advice. We consider that these comments demonstrate that demand response is not inefficient and should alleviate any concern about possible inefficient behaviour with respect to embedded generation and net charging.

d. In any case, the possibility of behaviour to avoid charges could not apply to generation tightly linked to load as in the case of industrial plants such as ours, as by its very nature load and generation are inseparable and will be located at one physical location and hence one connection point to the transmission system.

e. We agree with the comment in Section 7.96 of the working paper that any SPD charges should be applied at a substation level (as RCPD charges are calculated at present) as this is consistent with a situation in which generation and load are tightly linked.

CarterHoltHarvey
Pulp&Paper

5. **Gross or net benefits.**

As a consumer with load and generation tightly linked, we concur with the comment in the NZIER advice (Section 2.2.7)

" *the main advantage (of net benefits) are that net benefits are the benefits which matter to grid customers and which will affect decisions to support investment decisions of the grid owner*".

In our view this should be the overriding yardstick by which the net vs gross issue is considered as it addresses the very important future investment issue.
We draw attention to the comments on this issue in section 3.3.7 of the NZIER advice.

5. **Other comments**

a) The comments below are an indication of our present thoughts based on the essentially qualitative approach taken in the working paper.They are subject to reviewing any Cost Benefit analysis that takes account of residual charges.

b) Which option?

We consider that a combination of GIT and SPD takes account of both major reasons for investment in transmission i.e. to ensure supply and to ensure the most economic supply.

c) Allocation of any GIT charge.

We consider that any charge allocated should be on a peak MW basis rather than on an energy basis as it seem clear to us that any investment primarily to ensure supply is based on the peak load required rather than energy transmitted so allocation of charges should be on the same basis.

d) Use of demand response in SPD calculations

We are grateful that consideration of demand response is likely to be included in any future proposal and are supportive of further analysis to understand better what the demand response is and might be in the future. However, it is clear that demand response has and will continue to change over time. Therefore some method of taking demand side changes into account on an on-going basis needs to be devised to put the demand side of the SPD equation on a similar footing to the supply side which is automatically taken account of in the present SPD model.

e) Charges ex post or ex ante

We consider that applying charges ex ante may well be appropriate and appears to resolve to a large degree any issue with possible high volatility in

charges. We believe that the notion of ex ante charges is primarily to reduce charge volatility and the period that the charge remains fixed should be assessed on that that basis only. It seems to us that a smoothing period that might be established should include a robust CBA analysis.

We thank you for the opportunity to make a submission on an issue that is of great importance to us as a manufacturer, exporter and electricity generator using renewable resources.

We would be happy to discuss or clarify any aspects of this submission.

Yours sincerely

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