Alliance Group Limited

51 Don Street
PO Box 845
Invercargill 9840
New Zealand

Tel: +64-3-214 2700
Fax: +64-3-214 2708

11 August 2015

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

BY EMAIL: submissions@ea.govt.nz

TRANSMISSION PRICING METHODOLOGY REVIEW: TPM OPTIONS WORKING PAPER

Alliance Group Limited is pleased to have the opportunity to provide a submission to the Electricity Authority on its consultation paper entitled 'Transmission Pricing Methodology Review: TPM Options Working Paper dated 16 June 2015.

Background

Alliance was established in 1948 and is based in Invercargill, New Zealand. Alliance is one of the world's largest processors and exporters of sheep meat, with nine processing plants strategically located throughout the South Island and lower North Island. Approximately 7 million lambs, 1 million sheep, 140,000 cattle and 80,000 deer are processed annually, with a significant proportion of this volume as Southland plants.

The company is a farmer owned co-operative with over 6000 farmer shareholders. More than 90% of the stock supplied to the company for processing comes from shareholders (over half based in Southland). Alliance produces 27% of New Zealand's sheep meat production, 6% of its beef production, and 15% of its venison production.

Within the Southland Region, Alliance currently operate three plants situated at Lorneville, Mataura and Makarewa. At these plants, Alliance employs over 3000 people throughout the year. It is currently the largest employer in Southland. Alliance currently holds a variety of consents in order to operate its plants in Southland.

Submissions

We support the submission made on behalf of the Southland Region submitted by Venture Southland. We also highlight the following points.

1. The cost of the national grid is beyond the control of businesses and residential consumers. Whatever price is set by the Commerce Commission for Transpower to collect must be met by consumers; therefore it is imperative that the allocation method of those costs results in an economically efficient outcome. It is in the best interests of New Zealand for investment in the grid to reflect the actual needs of the consumers of the region being served by that investment. This is because a pricing allocation of this nature will drive efficient investment decisions.

2. We submit that the Authority has properly defined its statutory obligation, under Section 15 of the Electricity Industry Act and defined the problem with the current TPM.

3. We believe that the Authority has run a robust consultation process and listened to the concerns of stakeholders.

4. We agree that there has been a material change in circumstances in three ways: firstly the significant investment in the grid since 2004, secondly the advances in technology that enable easier collection of data and thirdly significant changes in the regulatory regime. We submit that these changes have resulted in the current pricing methodology not meeting the statutory obligation of the Authority.

5. The current system of allocation does not meet the statutory obligation as it is not cost reflective and it does not drive efficient investment decisions. The current pricing methodology is neither robust nor durable as the cost of network improvement is not borne by those who benefit from such investment and therefore is a disincentive for efficient investment in the grid.

6. We submit that the base option is the preferred option as it delivers a market like approach where those who receive the benefit of infrastructure pay for it without the addition complexity of adding LRMC and SPD.

7. The most economic efficiency, in terms of driving the right future investment in transmission and generation, is achieved through the implementation of Application A and enables the Authority to meet its statutory obligation. This is because we believe Application B will not enable the Authority to meet its statutory obligation and further that it will result in a perverse consequence. Under Application B, regions would continue paying for infrastructure build to benefit consumers in other areas, particularly in Auckland and the far North. However should local transmission lines need an upgrade, under Application B, only local consumers would have to bear that cost. A double burden of cost would be borne; again potentially leading to a decrease in GDP and jobs in regions that needs to grow.

8. Otago/Southland businesses and consumers are being overcharged by $64 million per annum under the terms of the current operative TPM and we urge the Electricity Authority to exercise its statutory obligation to address this situation.

If you have any further enquiries, please contact the undersigned.

K P Smith
GROUP LEGAL COUNSEL
DDI: 0-3-214 2757
Email: kens@alliance.co.nz