



## **SUBMISSION BY THE AUCKLAND REGIONAL CHAMBER OF COMMERCE TO THE ELECTRICITY AUTHORITY ON TRANSMISSION PRICING METHODOLOGY: SECOND ISSUES PAPER: SUPPLEMENTARY CONSULTATION FEBRUARY 2017**

### **INTRODUCTION**

1. The Auckland Regional Chamber of Commerce and Industry appreciates the opportunity to make a submission to the Electricity Authority on transmission pricing methodology: second issues paper.
2. The Auckland Regional Chamber has a corporate membership of more than 6000, including many businesses in the upper North Island that expect their views to be forcefully represented in this Submission.
3. **Address for Service:**
  - Ms Shelley Nicholson, EA to Auckland Chamber of Commerce, chief executive, Michael Barnett; Email: [snicholson@chamber.co.nz](mailto:snicholson@chamber.co.nz); Ph: (09) 302 9916.

### **SUBMISSION**

4. The Chamber notes that the transmission pricing changes that the Electricity Authority wants to introduce are aimed at getting a better alignment between those who benefit from upgrades to the grid and those who pay for them.
5. In particular, Transpower has spent billions in recent years on the grid, mainly to serve Auckland's growing population.
6. How the costs of those improvements are currently apportioned, however, depends on a complex set of rules known as the Transmission Pricing Mechanism (TPM) for which the Electricity Authority is responsible, and which it has been seeking to reform in a process that is now into its eighth year.
7. In summary, the costs of improving the transmission network are currently apportioned across all users of the network; whereas the Electricity Authority is seeking to introduce a new transmission charging system based on an 'Area-of-Benefit' system; that is, charging only those parties directly benefiting from being connected to Transpower's upgraded grid.
8. Under the Electricity Authority proposed price methodology, Auckland, Northland and some parts of the Bay of Plenty (as well as the South Island's West Coast) will pay more, and the rest of the country will pay less.

9. The Auckland Chamber of Commerce agrees in principle with the aims of Electricity Authority to find a way for the costs of the national grid to be allocated fairly and efficiently as possible – those who directly benefit from upgrades should pay for them.
10. However, we have strong concerns about the process and approach that has been applied by the Electricity Authority in setting about achieving the changes it is seeking to the way the costs of the national grid are allocated, including the following:

**The lack of transparency over the true benefits and costs of the reform:**

11. Almost eight years after the Electricity Authority began its reform process there continues to be no sign of consensus within the industry, including whether:
  - Transpower (who will be required to implement the reforms) believes it can do so in a way that ensures electricity is delivered at the lowest cost to the economy;
  - The Electricity Authority's claims on historic costs and pricing are justification for setting the new wholesale pricing regime.
12. Another point of concern is that the Electricity Authority seems to be mandating a revised pricing structure when its real role is to set guidelines and leave the actual structure and implementation to Transpower.

**The proposed increased costs to business outweigh claimed benefits of the reform**

13. The proposed price methodology changes will bring about a significant cost increase for most businesses in the Upper North Island – particularly those in Auckland, northern Waikato, Northland and parts of the Bay of Plenty.
14. Indications are that the price system change will add \$1,500 to \$7,500 to the electricity bills of small businesses in the so-called Upper North Island 'area-of-benefit'. Larger businesses as well as other users of significant electricity (schools, hospitals etc) will face much higher price increases, estimated to range from \$600,000 to more than \$10 million per year for larger manufacturing and exporting businesses.
15. It is perverse and unjust that the price increases flagged for Northland alone would take more money out of the regional economy than Government currently allocates to regional development and job growth in the region.
16. Given that Auckland accounts for around 36% of New Zealand's GDP and the upper North Island more than 50%, even if it can be argued that this area of New Zealand has been the area of greatest benefit of Transpower upgrades of the grid, imposing increased costs of this scale will do irreparable damage to business and investor confidence.
17. Significant downstream price increases to critical sectors such as housing, transport, tourism and other service-based businesses are inevitable. These 'costs' need to be clearly taken into account in deciding on whether the reform has real merit.
18. In summary, there is little evidence in the Electricity Authority's proposal indicating that it will bring any measurable benefit to the thousands of greater Auckland businesses who are most affected by their use of electricity and the transmission charges they pay.

**There is a lack of evidence indicating a robust problem definition process and scrutiny of alternatives.**

19. There is little evidence indicating that the Electricity Authority has thoroughly evaluated alternatives to its 'Area-of-Benefit' thesis. Industry insiders also concur with the Chamber view that ideas and inputs into its modelling for the Cost Benefit Analysis are opaque.
20. For example, an alternative option can be argued based on 'scale' and 'volume' of electricity transmitted. Auckland's large scale of electricity usage supports 36% of New Zealand's GDP, creating a case that line charges should be lower than the rest of New Zealand. Likewise, if Auckland's electricity was produced close to the market (eliminating the need for transmission over long distances), transmissions costs for the rest of New Zealand would arguably need to increase substantially.
21. In short, serious questions arise as to whether the Electricity Authority has adequately defined the problem it is trying to solve. As noted above, there is widespread scepticism that the 'Area-of-Benefit' pricing proposal is practical, workable or even the right approach to bring about the desired outcome.
22. There is also widespread opposition to the idea of retrospectively including assets that have already been paid for in the 'Area-of-Benefit' calculations.
23. The savings nationally also appear minimal. The Electricity Authority estimates savings over a 30 year term of \$175 million to \$210 million. When the annual cost of running Transpower is \$900 million a year that's close to marginal benefit territory.

**RECOMMENDATION AND NEXT STEPS**

24. Reflecting the concerns outlined above....
  - *The lack of evidence indicating a robust problem definition process and scrutiny of alternatives;*
  - *The lack of transparency over the true benefits and costs of the reform;*
  - *The significant increased costs to business against the lack of evidence of real benefits of the reform:*

..... **The Auckland Chamber of Commerce STRONGLY RECOMMENDS:**

  - ***The Electricity Authority withdraws its proposal to adopt an "Area-of-Benefit" pricing methodology.***
25. **The evidence is clear:** The significant number of issues raised over the eight years of discussion of the Electricity Authority proposal - the complexity of the proposal, the likely significant costs to business, and the lack of consensus of its merits – lead to an inevitable conclusion. Some new thinking and a new approach to addressing the way the costs of the national grid are allocated 'fairly and transparently' needs to be identified.
26. The Auckland Chamber therefore suggests that any further consideration of Transmission Pricing Methodologies should have a terms of reference, including:
  - *A fully engaged industry working group throughout the process;*
  - *An agreed problem definition that is widely accepted by industry stakeholders;*

- *A full and transparent analysis of the alternatives to the current pricing methodology that is made available to industry stakeholders;*
- *Industry input into the timing and implementation of any agreed new alternative.*

## **CONCLUDING COMMENT**

27. Our recommendation and suggested next step to the Electricity Authority on transmission pricing methodology (second issues paper) are put forward in the positive spirit of continuous improvement to greater Auckland's business environment. We look forward to their uptake by the Authority and are receptive to your further discussion with the Auckland Chamber if this would assist resolve this important matter to mutual benefit

Michael Barnett

Chief Executive  
**0275 631 150**