

# SUBMISSION

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To: Electricity Authority

Electricity Authority  
P O Box 10041  
Wellington 6143

Email: [TPM@ea.govt.nz](mailto:TPM@ea.govt.nz)

Submission on: Consultation Paper – Proposed Transmission Pricing Methodology

From: Federated Farmers of New Zealand (Auckland Province) Incorporated

Date: 2 December 2021

Contact: Richard Gardner  
Senior Policy Advisor

# **SUBMISSION TO ELECTRICITY AUTHORITY**

**ON:**

## **PROPOSED NEW TRANSMISSION PRICING METHODOLOGY**

### **1 INTRODUCTION**

- 1.1 Federated Farmers of New Zealand (Auckland Province) Incorporated (“Auckland Federated Farmers”) thanks the Electricity Authority (“the Authority”) for the opportunity to provide submissions on its proposal for a new Transmission Pricing Methodology (“the Methodology”), as described in the Proposed Transmission Pricing Methodology Consultation paper dated 8 October 2021, and in associated documentation (“the Consultation Documentation”).
- 1.2 In regard to this submission, Auckland Federated Farmers has engaged in some limited consultation with a proportion of its members with interests in the Federated Farmers’ Auckland province.
- 1.3 Auckland Federated Farmers looks forward to such further consultation with the Authority about the Methodology as may be appropriate.
- 1.4 Accordingly, Auckland Federated Farmers would appreciate the opportunity to discuss this submission in greater detail. Auckland Federated Farmers seeks the opportunity to participate in any relevant discussions, workshops or hearings that might be held.

### **2. SUMMARY OF RECOMMENDATIONS**

- 2.1 Auckland Federated Farmers recommends:

That the new Transmission Pricing Methodology be modified so as to give greater regard to the “postage stamp” approach that is taken in the current methodology.

### **3. GENERAL COMMENTS**

- 3.1 The broad purpose of this submission is to acknowledge the Authority’s consultation on the proposed new Transmission Pricing Methodology, and to state the continued concerns that Auckland Federated Farmers has about the general direction that is being taken by the Authority as regards its proposed new Transmission Pricing Methodology (TPM). Auckland Federated Farmers has expressed its concerns previously in earlier rounds of consultation on the TPM and, in this instance, that concern continues to be expressed by way of this response to the Authority’s invitation for submissions on the actual proposals for a new Transmission Pricing Methodology.
- 3.2 As Auckland Federated Farmers understands it, the Authority is proposing that there be a new approach to transmission pricing, an approach which the Authority considers will deliver significant benefits to consumers in the long-term, while supporting the transition to a low-emissions economy by ensuring the best use of existing and future infrastructure. It seems that the Authority considers that consumers should pay for the transmission assets that they benefit from, and not pay for those they do not. It is understood that, at the heart of the proposed new TPM, there lies a benefit-based approach to the allocation of transmission costs which, if implemented, will come to

mean that transmission customers who benefit from specific grid investments will be those that pay for those investments.

3.3 Auckland Federated Farmers understands that what the Authority is now proposing is that the existing connection charges be left largely unchanged, but that there be two new charges to replace the existing regional coincident peak demand charge and the high voltage direct current charge, with the new charges being:

- A benefit-based charge to recover the remaining costs of seven recent major investments, and the costs of grid investments made from July 2019; and
- A neutral residual charge which will recover some unallocated costs and, as a transitional measure, the remaining costs of all other historical transmission investments currently in place.

It is understood that the Authority considers that the proposed new charges regime will re-balance charges, including between regions, with some paying more, others less. Nevertheless, it is understood that the Authority wishes to minimise price shocks on individual household and business consumers, so it is proposing that the new TPM includes a 3.5% cap on the amount total electricity bills may increase for household consumers and larger industrial customers as a direct result of the change.

3.4 Auckland Federated Farmers continues to consider that, while reform of the TPM is appropriate and the Authority's goals are laudable, the proposals it has put up by way of the new TPM give rise to serious concerns. It is considered that the Authority is continuing to entirely overlook that the electricity transmission network is vital national infrastructure, much as the roading, postal and telecommunications networks are vital national infrastructure. Also seemingly overlooked is that the need for electricity transmission is, in part at least, driven by the need to make electricity generation investments where the necessary resources are available, rather than where the consumption takes place. Further, the electricity transmission network has been considered to be vital national infrastructure for a very long time, ever since it was decided that the country would have a national electricity transmission network. This all means that the price of transmitting electricity across the national electricity transmission network should be equalised across the network to the greatest extent possible, much as the cost of the national roading network and the postal service are equalised across the nation as a whole, and equalised by way of the "postage stamp" approach.

3.5 As regards the proposal for a benefit-based approach to allocating transmission costs, it is particularly noted that farms in the Auckland area are not using any more electricity now than they have been in the past. Claims that have been made to the effect that farmers in the north of Auckland are amongst the major beneficiaries of the relatively recent North Auckland and Northland (NAaN) grid upgrade and the North Island Grid Upgrade (NIGUP), claims which it is considered cannot be accurate. These upgrades were necessitated primarily by the large increase in urban electricity needs within metropolitan Auckland and, in the case of NAaN, most particularly on the northern outskirts of metropolitan Auckland. The claimed improvements in reliability that have also been made have not generally been seen in rural areas, as any event that might be likely to have disrupted the previous electricity transmission network would normally be expected to disrupt the operation of rural distribution lines as well.

3.6 Nevertheless, Auckland Federated Farmers continues to acknowledge that the current approach to electricity transmission pricing can be improved upon. However, Auckland Federated Farmers does not consider that the approach that is intended to be adopted

is the optimal approach as regards farmer electricity consumers in Auckland. This is particularly so in that the approach does not address the problems that the Electricity Authority has identified with the present system in a way that is equitable to farmers in Auckland, especially those to the north of the Auckland metropolis.

- 3.7 In earlier rounds of consultation regarding reform of the TPM, Auckland Federated Farmers joined with others who held concerns about the Authority's proposals, and commissioned an independent review of the proposals. The resulting "Lantau Report" found that the Authority's efforts to address problems in the existing methodology regarding cost avoidance behaviours and regarding the beneficiaries of transmission investments went too far. The Lantau Report was also particularly critical of the cost-benefit analysis that supported what the Authority was proposing, finding it to be "strikingly flawed". The Report found that retroactive reallocation of the costs associated with existing transmission investments is generally bad practice, and that a benefits-based transmission cost recovery methodology was not needed. The Report also found that, if the Authority was to proceed with a benefits-based methodology, it should be limited to specific situations where there is unambiguous localisation of benefits. A copy of the Lantau Report was provided to the Authority along with the submission made by the TPM Group during the Authority's 2019 consultation round.
- 3.8 In summary, then, Auckland Federated Farmers has continuing concerns about the Authority's proposed new Transmission Pricing Methodology. Accordingly, it is recommended:

That the new Transmission Pricing Methodology be modified so as to give greater regard to the "postage stamp" approach that is taken in the current methodology.

#### **4. ABOUT FEDERATED FARMERS and AUCKLAND FEDERATED FARMERS**

- 4.1 Federated Farmers of New Zealand is a primary sector organisation that represents farming and other rural businesses. Federated Farmers of New Zealand (Auckland Province) Incorporated operates as an independent "branch" of Federated Farmers of New Zealand. At all levels, Federated Farmers has a long and proud history of representing the needs and interests of New Zealand farmers.
- 4.2 Federated Farmers of New Zealand aims to add value to its members' farming businesses. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:
- Our members may operate their business in a fair and flexible commercial environment;
  - Our members' families and their staff have access to services essential to the needs of the rural community; and
  - Our members adopt responsible management and environmental practices.

Richard Gardner  
Senior Policy Advisor, Federated Farmers of New Zealand

Address for service of submitter:

Richard Gardner  
Senior Policy Advisor  
Federated Farmers of New Zealand  
Private Bag 92-066  
Auckland

Telephone: (07) 838-2589 / 021 706-138  
Fax/email: (07) 838-2960 / rgardner@fedfarm.org.nz  
Contact person: Richard Gardner