East Tamaki - a great place to do business

getba

Greater East Tamaki
Business Association Inc.

25 July 2016

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Email: submissions@ea.govt.nz

SUBMISSION TO ELECTRICITY AUTHORITY CONSULTATION PAPER – TRANSMISSIONS PRICING METHODOLOGY: SECOND ISSUES PAPER

The Greater East Tamaki Business Association Inc. ('Association') welcomes the opportunity to make this submission to the Electricity Authority's Consultation Paper – Transmission Pricing Methodology: Second Issues Paper.

Our association represents 2,000 businesses employing 30,000 people in New Zealand's largest industrial precinct (CBRE 2012). East Tamaki is predominantly a manufacturing and distribution hub generating 3 billion to the New Zealand economy, $19 million in rates annually and has a growth rate higher than the regional average.

Background

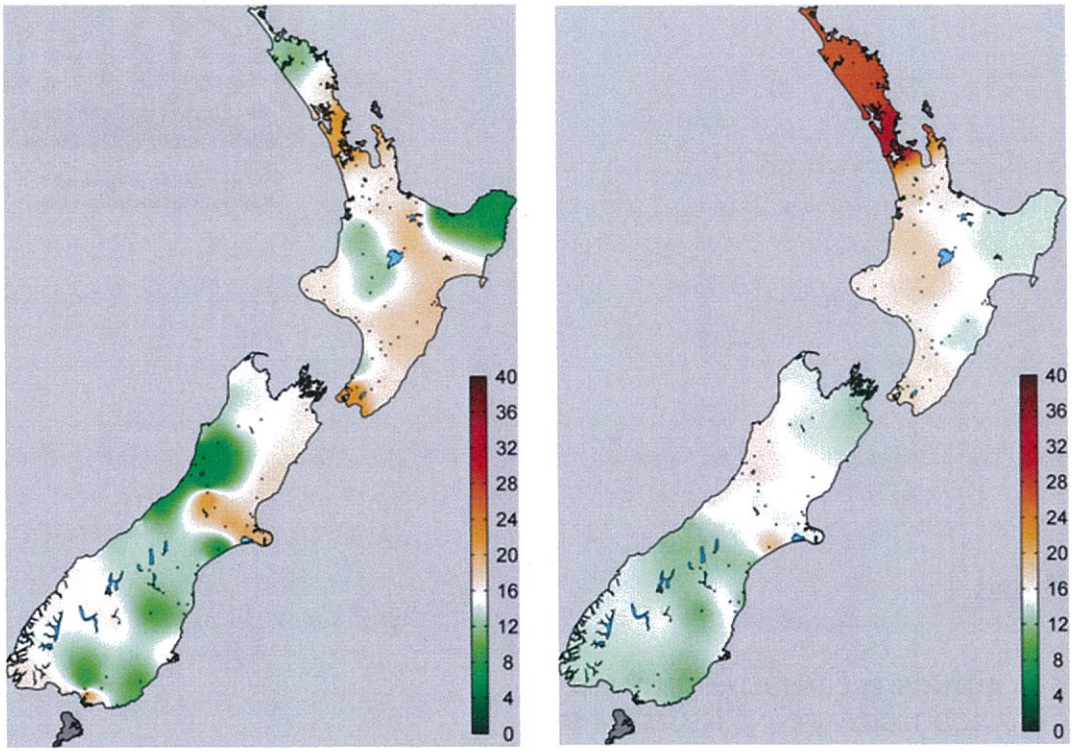
The Electricity Authority is currently consulting on its *Transmission Pricing Methodology: Second Issues Paper* about how transmission charges for using the National Grid are shared among transmission customers. Currently Transpower's annual revenue from these charges is around $900M and will increase to $1B in the 2020s.

In the Paper, the Electricity Authority says it is proposing to alter the way these transmission charges are currently shared among customers so that charges better reflect the transmission services delivered and the costs involved.

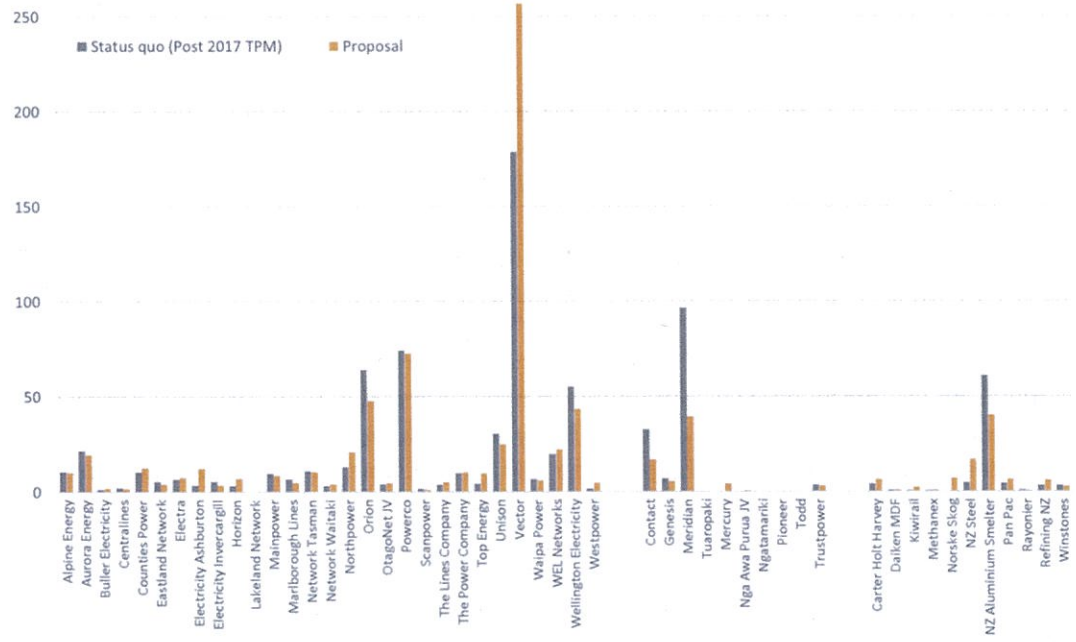
In particular, the Electricity Authority is proposing new 'area of benefit' charges (or regional charging) and a 'residual charge'. This is a major philosophical change. Until now, all consumers have paid for the National Grid, over many years. Prices have been averaged across the whole country, all consumers and several generations. It has been a NZ Inc approach. The proposed change to who pays the $900M will have economic ramifications well beyond electricity pricing.

The Authority's Paper shows that the changes will result in a multi-million dollar increase in electricity transmission prices for Auckland. Overall, Auckland consumers will likely pay an additional $78 million each year in transmission grid charges. It is expected that the Electricity Authority proposal would result in medium sized businesses facing a $1,500 to $5,000 increase each year, with large electricity users (including hospitals) paying up to $22,000 extra every year. Even small cafes and retail businesses will pay more for their electricity each year as a result of these changes. By contrast, large electricity generators such as Meridian and Contact and the owners of Tiwai Smelter will benefit financially by $94 million a year from the proposal, largely at the cost of Auckland and upper North Island consumers.

This is illustrated in the maps and graph below from the Electricity Authority Paper.



Heatmaps showing indicative charges for distributors under status quo (left) and proposal (right) in fully variabilised terms ($/MWh) (Figure 4, Electricity Authority Paper)



Indicative charges by customer in $m per year under status quo and proposal (Figure 5, Electricity Authority Paper)

Submissions

Security of supply must be the priority

Our Association is very concerned with the potential for unintended consequences, particularly around security of supply.

Auckland businesses well remember the five-week long 1998 Auckland power crisis that resulted from the failure of 40-year-old cables that were past their replacement date. The Central Business District became almost deserted and some business estimated that the outage cost them at least $60,000 per week. Then, after promises that this kind of infrastructure failure wouldn't happen again, on June 12, 2006, a corroded shackle at Transpower's Otahuhu substation broke in high winds, sending an earth wire onto live cables and wiping out power to around 700,000 people at various times over the entire day, disrupting rail and traffic services, radio transmission, phone services and causing partial hospital closures.

It appears to our Association that the Electricity Authority is promoting through these proposals more competition in the electricity industry in priority to reliable supply. Instead, for our members (the majority of whom are small and medium sized businesses), reliability of supply is a far greater priority.

Our belief is that it is better for the electricity industry to have incentives to build and maintain transmission infrastructure too early rather than too late. Our members do not want to see a move by the industry to a regime of "just in time electricity infrastructure investment", all in the name of efficiency when a potential outcome of this approach is infrastructure failure, resulting in power outages, massive business disruption and acute costs to businesses.

Lack of Transition

Businesses have essentially had the same transmission pricing costs for a very long time and some have made significant investments in response to them. On occasion, some businesses have spent hundreds of millions of dollars in building plant capable of running in peak demand periods to keep transmission costs down. There has been no recognition by the Electricity Authority of the longevity of these past price signals or the investments already made by some businesses on the basis of these signals.

It is far from best practice to change the 'goalposts' overnight and expect businesses to simply absorb these price changes. For some large users of electricity, there will be capital flight and/or a significant increase in the cost of capital resulting from these proposals.

Undergrounding

Our Association is also very disappointed by the statements made by the Electricity Authority concerning undergounding (see paragraphs 86 and 143):

> "The Authority is also mindful that ideas for costly transmission investments can arise quickly and unexpectedly. Recently consumers in parts of Auckland have been petitioning for the undergrounding of all urban transmission lines. This is despite undergrounding often being 7 to 10 times more expensive than overhead lines [as argued by Transpower]. With the current interconnection charge spreading this cost over New Zealand, there is little incentive for those advocating for the investment to factor in its cost. This is much less likely to occur under a service-based TPM, as the parties wanting the grid upgrade would have to pay for it ...
>
> The Authority considers that making undergrounding subject to beneficiaries pay is likely to make such investment much less likely to proceed. At a capital cost of 8%, the Authority calculates the cost savings from not proceeding with the project have a present value of $1.7 billion over 20 years. This is about $3,400 per Auckland household. As a result, the Authority's proposal creates strong incentives for Auckland consumers to oppose undergrounding. Even if the Authority's proposal reduced the chance of the undergrounding proceeding by 1%, that alone would save an expected $17 million—more than the cost of implementing the Authority's proposal, and so justify its introduction. Similarly, if implementation of the Authority's proposal stopped even a small percentage of this undergrounding from proceeding, that alone is expected to save more than the cost of implementing the Authority's proposal, and so justify its introduction."

This statement is an extraordinarily one-sided expression of the economic costs and benefits of undergrounding and one that does not sit well with an independent authority. Further, the statement does not reflect efficient operation of the electricity industry for the long-term benefit of consumers.

In our Association's view, the scarcity and value of land (especially industrial land) in Auckland, but also more broadly, the value of Auckland's urban environment generally, must be an important consideration in any decision regarding undergrounding. Our Association believes we are well past the time when Transpower should be better managing the adverse effects of the National Grid, rather than sterilising or reducing the productive viability of land held by consumers. Our Association estimates there are 9000 properties in Auckland impacted by the Transpower network, many of which are industrial properties. The economic cost of this land being underutilised because of lines and towers is very significant.

Other major infrastructure in Auckland, such as Vector's electricity transmission tunnel to the CBD and parts of the Waterview Motorway connection, have been undergrounded to avoid adverse effects on Auckland's urban environment. Equally, Transpower has plenty of opportunities to underground its transmission lines (such as in rail and road corridors) to avoid the negative effects of its lines on urban amenity and productive utilisation of scarce land, including residential land. Transpower simply chooses not to and thereby keeps its costs low, but imposes these costs on other land users. Our Association believes this is ultimately detrimental to the economy as a whole.

It appears the Electricity Authority has simply adopted Transpower's arguments without any consideration of the wider costs on the economy and the long-term benefit of consumers.

Overall Conclusions

Our Association does not support any of the Electricity Authority proposals detailed in the *Transmission Pricing Methodology: Second Issues Paper*, which would see a multi-million dollar increase in electricity transmission prices for Auckland.

Our Association does not support Auckland paying an additional $78 million each year in transmission grid charges, especially as that would result in medium sized businesses facing a $1,500 to $5,000 increase each year, with large electricity users (including hospitals) paying up to $22,000 extra every year.

Our Association does not believe it is fair for large profitable electricity generators such as Meridian and Contact and the owners of Tiwai Smelter to benefit financially by $94 million a year from the proposal, largely at the cost of Auckland and upper North Island consumers.

Our Association believes the transmission costs of the National Grid should be funded equally by all users, including the electricity generators.

Should the Authority have any questions or would like any further information, please let us know.

Yours sincerely,

Jane Tongatule
General Manager
Greater East Tamaki Business Association Inc. (GETBA)