

Friday, 24 February 2017

Submission to Electricity Authority re Transmission Pricing Methodology: Second Issues Paper – Supplementary Consultation

Entrust does not support the Electricity Authority (EA) proposals in its Transmission Pricing Methodology: Second Issues Paper – Supplementary Consultation paper, dated 13 December 2016, which would see a multi-million-dollar increase in electricity transmission prices for Auckland consumers and businesses.

Attached to this submission is an expert report by Covec titled “Expert Review of Expert Reviews of Transmission pricing Methodology Reform Proposals”. Additionally, Entrust supports the content of Vector’s submission in relation to this issue.

Before moving onto substantive concerns regarding the proposed approach, it is important to state that Entrust does not believe the EA has adequately detailed why the proposed TPM guidelines are better than the status quo, nor has the EA detailed how they will bring long term benefits to consumers in line with their mandate.

The role of the EA is to provide high level guidelines, which does not mean they should provide mandatory rules as to how the tariff structures should be set.

Frustratingly, the EA has not demonstrated that their proposed TPM approach could actually be implemented. It is important to note that Transpower’s experts have highlighted how challenging it would be to implement the EA proposal and that they do not believe the proposal would bring the benefits claimed by the EA.

Additionally, the EA cost benefit analysis is not fit for purpose and does not quantify the cost and benefits of the proposal. Confusingly, the cost benefit analysis quantifies the benefits of a different TPM to that which the EA is proposing. This is the same error the EA made with its original cost benefit analysis.

Significant negative financial impact on Aucklanders

Of particular concern to Entrust is that the EA is still intent on increasing the amount of transmission grid charges which would be borne by Aucklanders. An additional \$60 million per annum or a 33% increase may seem like a small amount to the EA, but Aucklanders feel strongly about such a large increase for our region as evidenced by the number of submissions that have been made to the Authority on the matter.

It is disappointing the proposed new 3.5% increase in the cap on electricity bills accounting for distribution, energy and retailing costs plus transmission grid charges attempts to hide the fact that customers will be paying more for transmission costs. This is not a transparent, upfront approach from a regulator and is disappointing.

Expert opinions ignored

Entrust is one of many industry organisations concerned that the EA has not taken on board the interested party submissions and expert advice it has received during the TPM process to date. We support the assessment and review of expert opinions submitted in the expert report prepared by Covec, titled ‘Expert Review of Expert Reviews of Transmission Pricing Methodology Reform Proposals’.

This report reviewed over 60 reports submitted by experts in response to the EA's various consultations on TPM. Covec's report found overwhelmingly the weight of expert opinion disagreed with the EA's proposal. Most experts expressed concern about the limited efficiency with applying the EA's proposal to already existing assets. The flagrant disregard the EA has given to expert opinions on its proposed changes to the TPM reinforces our concerns that the EA:

- Has not met its procedural obligations to listen and have experts' views considered, to place appropriate weight on the experts' submissions, and be open-minded;
- Has not complied with its obligations under the Act to evaluate alternatives, and develop a robust and positive CBA;
- Does not have reasonable evidence for its proposals: the experts disagree with them that the new TPM Guidelines will provide the benefits they think it will, and believe that the AoB charge will not work in practice;
- Has not supported its views with the views of its own experts and
- Has followed a process which has meant that the real issues have not surfaced until the final stages, and yet is claiming there has been extensive consultation.

Corporate welfare

Entrust reiterates its concerns regarding a significant welfare transfer from consumers to a few large corporate entities such as Meridian and Contact and the owners of Tiwai Smelter. Collectively, these three entities benefit financially by approximately \$90 million a year from the proposal – an amount that will be funded by New Zealand electricity consumers.

Entrust does not support a proposal that results in such an unfair redistribution of transmission costs from those least able to afford it to major corporate consumers and generators, particularly when the EA has shown no sound basis for doing so. While the Authority believes its changes will be more durable, such changes will simply transfer grievances to consumers, and, as such are unlikely to be durable.

Generators should pay their fair share of costs

We understand the EA proposal would see 91% of Transpower's costs loaded onto consumers and only 9% allocated to generators. This compares to the current split of 80:20 between consumers and generators. This is despite generators clearly also benefiting from the grid in allowing them to transport their goods to market. There are no reasonable grounds for tilting even further the bulk of transmission charges onto consumers.

Proposed approach is not durable

We strongly disagree with the EA claim that this latest transmission pricing proposal will be durable (and therefore represents a key benefit of change), particularly given the second TPM issues paper received 508 submissions, an unprecedented level of public comment for a regulatory consultation, the most of which were critical of the EA proposal.

The changes which significantly benefit generators have already attracted the attention of large numbers of electricity consumers who are strongly opposed to the changes. We cannot see how changes which result in such large welfare transfers against consumers, but in the interests of particular generators, could ever be considered durable.

Rather than resolve the issue of 'durability', this proposal has triggered a strong response from many people who do not believe the EA proposal is fair. We, along with many Aucklanders and other New Zealanders will continue to push back on this proposal.

Way forward

Entrust believes the current process of considering this proposal should be stopped now given the significant concerns from industry stakeholders and that instead an industry working group be re-established.

Any further consideration of Transmission Pricing Methodologies must include:

- 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
- A full and transparent CBA of each alternative, with industry stakeholder agreed modelling inputs, that is made available to stakeholders
- Industry input into the timing and implementation of any agreed new alternative

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Kind regards



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