

11 August 2015

## **Submission to Electricity Authority: Transmission Pricing Methodology**

The Auckland Energy Consumer Trust (AECT) does not support any of the Electricity Authority (EA) proposals in its Transmission Pricing Review: Transmission Pricing Methodology: options paper dated 16 June 2015.

A key responsibility of the EA is to develop initiatives that benefit consumers in the long-term. However, its proposals do not benefit consumers and are particularly detrimental to consumers in Auckland, Northland and the West Coast.

The three transmission pricing options put forward by the EA will all result in Auckland households and businesses paying a significant increase in Transpower's electricity transmission costs.

One option proposed will increase transmission costs on the Auckland network by 59%, an average increase of \$192 a year for each Auckland customer. Under all of the proposed changes Auckland consumers will be most impacted in terms of dollar increase in total contribution to transmission charges. The amount that may be shifted to Auckland customers from other parts of the country is substantial at more than \$100m per year.

By contrast, the proposals could result in electricity generators paying \$23m less in transmission charges each year, but this is unlikely to translate into reduced electricity prices being delivered to consumers. Major industrial consumers gain the most from the proposal – they will see a direct reduction in their transmission costs of \$74m per year. The AECT does not support any 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.

The AECT expressed opposition to earlier proposals from the EA to change transmission pricing methodology in an AECT media release issued on 1 March 2013. The media release quoted AECT Chairman William Cairns as saying the EA proposal was radical, complex and untested and created a very real risk that consumers will be worse off and the beneficiaries of the changes will be electricity generators. Having reviewed the revised options from the EA, the AECT still holds this view and is concerned about the folly of implementing an untested approach on Kiwis.

It is disappointing that when putting forward proposals as radical and major as those outlined in the EA consultation document, expert opinions supporting the concepts were not provided. In the absence of this, Vector commissioned internationally recognised experts, Professors Marcelo Schoeters and Pablo Spiller from Compass Lexecon to analyse the EA proposals.

The AECT fully supports Vector's submission and is particularly concerned about the following aspects of the EA proposals:

- The EA has not proven that there is any real problem with the current transmission pricing methodology. The AECT is not opposed to changing the existing methodology if that would deliver a material improvement to consumers, but we do not believe the EA's proposals will do that.

- The EA suggests back-dating its proposals so consumers in the upper North Island bear the cost of recent investments in the region. It is this proposal that gives rise to the greatest increase in cost to Auckland consumers. As set out in Vector's submission, the fairest way of recovering costs of past investments is by spreading them evenly across all users of the national grid.
- The EA proposes calculating transmission charges for generators differently to consumers, which will mean consumers carry a higher share of transmission costs. This is an unfair wealth transfer from consumers to generators, particularly as an equal sharing of costs could lead to a reduction in retail prices of between 2%-3%, as set out in Compass Lexecon's paper.
- If the EA is to recover the costs of future investments from only the beneficiaries of those investments, it must ensure that those beneficiaries are properly identified. If they are not, costs could be unfairly imposed on a small number of consumers when a larger group is benefitting. The AECT is not convinced that the EA has determined a robust method of properly identifying beneficiaries.
- The end result of these issues is a proposal from the EA that is dynamically inefficient and will not promote investment decisions that will benefit consumers in the long-term.

Given the significant issues with the proposals outlined above, the AECT suggests the EA does not proceed with its current proposals and instead focus on developing a transmission pricing methodology that will deliver real benefits to consumers.

Compass Lexecon's paper sets out an alternative transmission pricing methodology which spreads transmission costs fairly across all beneficiaries of the national grid – including generators as well as consumers. This alternative has the potential to deliver savings to consumers of between 2%-3% on current retail prices. For Auckland consumers, this could translate into an average annual saving of nearly \$100 per consumer. The AECT believes this is a fairer and more robust alternative, which should be investigated further.

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