February 28th 2020

Submission of the Transmission Pricing Group on: *Accelerating Renewable Energy and Energy Efficiency*

Introduction and purpose

The TPM Group comprises organisations from right across the electricity sector including large consumers, energy consumer trusts, stakeholder groups, electricity network companies, and electricity generators and retailers[1].

It was formed in 2016 because of the serious concerns of group members about the changes to the transmission pricing methodology (**TPM)** guidelines proposed by the Electricity Authority.

As a group, we welcome the opportunity to make a submission on the Ministry for Business Innovation and Employment's December 2019 Discussion Document *Accelerating Renewable Energy and Energy Efficiency* (**Consultation Paper**) on how the Government can accelerate the development of renewable energy and energy efficiency as New Zealand transitions to a low emissions economy.

The Minister of Energy and Resources in her foreword to the Consultation Paper notes that:

> *"This Government has ambitious renewable and climate change goals. Our energy system will be a key component of a future economy that is productive sustainable and inclusive*."

The energy transition required to achieve the Government's ambitious renewable and climate change goals will involve a significant programme of change for the energy sector which the Government is keen to ensure occurs while balancing the three dimensions of the energy trilemma: affordability and access, energy security, and environmental sustainability. We support the Government's objectives in this area.

The purpose of this submission is to draw your attention to the Electricity Authority's proposed reform of the TPM Guidelines, which if implemented in its current form, will, in our view, undermine this objective of the Government.

Comment on Section 10 Connecting to the grid

The Consultation Paper identifies the risk that the current "user pay" arrangements for <u>connection</u> assets may prevent the construction of assets which are sized to take into account future beneficiaries such as industrials who might electrify process heat and as a consequence require a grid connection for their electricity supply.

However, the Consultation Paper does not address either:

[1] The TPM group consists of Counties Power, EMA Northern, Entrust, Federated Farmers (Northland and Auckland), Horizon Networks, Northpower, Norske Skog Tasman Ltd, Oji Fibre Solutions, Top Energy, Trustpower and Vector

- the risk that a similar scenario may occur in relation to interconnection assets if the Electricity Authority's proposed benefits based (**BB**) charging for interconnection assets is introduced; and
- the risk that the Government's electrification objectives are negatively impacted by the removal of the current Regional Coincident Peak Demand (**RCPD**) charges.

Instead the paper appears to accept that the Electricity Authority's proposed reform to the TPM aligns with the Government's objectives for the energy transition.

For example, the Consultation Paper states:[2]

> *"Interconnection charges cover the (shared and common service) costs, which currently are shared between all demand customers connected to the system. This means there is little incentive for information sharing between parties, and for participation in the process, and scrutiny of Transpower's proposals to invest in interconnection assets.*
>
> *In its recent consultation, the EA proposed that the costs of interconnection are instead allocated based on how customers benefit from them. This will create an incentive for customers to participate in the approval process as they will pay a larger portion of the cost of a new investment they benefit from (instead of simply paying a small share of all costs).*

We understand the theoretical economic attractiveness of BB charging, but we think that the proposed new TPM Guidelines, absent of further guidance from the Government on key parameters and priorities, will most likely to lead to:

- increased disputes about the assumptions associated with identifying lifetime beneficiaries at a single point of time;
- inequitable distributional outcomes (particularly as the proposal involves the reallocation of the costs of existing assets); and
- increased prices (and potentially emissions) once the signals to avoid consumption at peak times are removed.

As a result, we do not agree that the proposed reform will result in enhanced benefits associated with new transmission investments being "right-sized" and so will not work to ensure that the lowest possible cost of transitioning to a more renewable energy supply will be achieved. This will put the ability to achieve the Government energy transition objectives at serious risk.

We draw your attention to Transpower's submission on the Electricity Authority's proposal which expresses serious reservations about the Electricity Authority's assessment of the problems with the current TPM . Transpower highlights several challenges with the proposed reforms, including:

> *"…likely to create sources of dispute and may incentivise parties to withhold information rather than share it. Where disputes over price outcomes hinder timely, efficient investment in transmission and generation, higher electricity prices… and elevated greenhouse gas emissions are likely consequences."*
>
> *"…would not ensure those who benefit pay for transmission investment in the longer term: Customers' BB charges would be based on the benefits that Transpower estimates they will*

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receive over the life of an investment… Actual benefits will diverge from estimated benefits over time – perhaps dramatically... It is hard to see how such a regime could be durable…"

"…appears to be unsympathetic towards retaining a peak pricing signal in the TPM. We submit that a peak price signal for transmission saves consumers money by deferring new transmission investment. Real-time nodal energy prices cannot do this job"

"…does not, in our analysis, accord with international precedent and appears to have been heavily influenced by the opinion of one international expert… By contrast, the contrary perspectives offered by several other equally well-qualified international experts preferring a more orthodox approach do not appear to have found favour in the Authority's evaluation."

"…[the proposed price cap] would not prevent price shocks or smooth the transition…".

We also draw your attention to the submission of Fonterra to the Electricity Authority which is also critical of the Authority's proposal due to the impact it will have on renewable electricity and climate change goals.

"Fonterra submits that the proposed Area of Benefit charge (AoB) will disincentivise the large-scale uptake of electricity to replace fossil fuels."

"Fonterra submits that a TPM that burdens electrical load used to displace high carbon fuels is a disincentive to achieving New Zealand's climate change commitments and is not a benefit to consumers. "

We also suggest you consider the advice we commissioned from Mike Thomas from The Lantau Group (TLG) on the expert reports filed by submitters. This advice suggests that:

"A benefits-based transmission cost recovery methodology is not needed… and will increase dispute costs in almost all cases where benefits are already clearly broadly based. If the Authority intends to proceed with any benefits-based methodology it should be limited to specific situations where there is unambiguous localisation of benefits";

And

"Any benefits-based cost recovery methodology should not be implemented without support by a Government Policy Statement to give essential guidance on inherently complex and especially contentious issues";

Equally problematically The Lantau Group report suggests that the fundamental premise for the reform, namely that its benefits will exceed costs, is not sound:

"*The CBA makes points that are clearly contentious or unexpected. It also reaches conclusions that materially differ from all prior work."*

"…the CBA does not answer its most essential question: why should one believe it. And judging from the expert reports, few do."

These factors suggest that there is strong prospect of ongoing challenge to this reform both before and after implementation. This is likely to be costly and detract from the real challenge at hand, namely decarbonisation.

However the Electricity Authority has been advancing this reform for so long that it will feel its credibility will be adversely affected if it does not complete it. Recent announcements, including its proposed further consultation on design details and updated CBA code and tables, do not suggest the Electricity Authority is changing course.

In the Group's view a circuit breaker is needed to ensure that we do not have a further decade of distraction from an important energy transition. This is why we have advocated the Government issue a Government Policy Statement to guide the Electricity Authority on the interpretation of its statutory objective in the context of transmission pricing.

We would welcome an opportunity to further discuss our concerns around how the Electricity Authority's proposed transmission pricing reforms put at risk the Government's objectives for the energy transition.

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