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19th October 2018

The Secretariat for the Electricity Price Review
Minister of Business, Innovation and Employment
By email to: energymarkets@mbie.govt.nz

To the Secretariat

**ELECTRICITY PRICE REVIEW - FIRST REPORT FROM THE PANEL FOR DISCUSSION
WINSTONE PULP INTERNATIONAL LIMITED'S SUBMISSION**

Please find attached Winstone Pulp International Limited's (WPI) submission on the Electricity Price Review Panel's first report for discussion, dated 30th August 2018.

WPI operate a pulp and saw mills at Karioi, near Ohakune, that produces 200,000 tonnes per annum high grade pulp for export and we use approximately 240,000MWh/y electricity. To stay internationally competitive, WPI must aggressively manage our operating costs. Energy and particularly electricity is a major component of WPI's input costs.

Our submission focuses on the issues of highest importance to WPI. However, we also support the Major Electricity Users Group's (MEUG) separate submission on the Panel's report.

Thank you for the opportunity to make this submission.

Yours sincerely

Paul Saunders
General Manager Operations

FINAL DRAFT



ELECTRICITY PRICE REVIEW

Winstone Pulp International Submission

SUBMISSION FORM

How to have your say

We are seeking submissions from the public and industry on our first report into the state of the electricity sector. The report contains a series of questions, which are listed in this form in the order in which they appear. You are free to answer some or all of them.

Where possible, please include evidence (such as facts, figures or relevant examples) to support your views. Please be sure to focus on the question asked and keep each answer short. There are also boxes for you to summarise your key points on Parts three, four and five of the report – we will use these when publishing a summary of responses. There are also boxes to briefly set out potential solutions to issues and concerns raised in the report, and one box at the end for you to include additional information not covered by the other questions.

We would prefer if you completed this form electronically. (The answer boxes will expand as you write.) You can print the form and write your responses. (In that case, expand the boxes before printing. If you still run out of room, continue your responses on an attached piece of paper, but be sure to label it so we know which question it relates to.)

We may contact you if we need to clarify any aspect of your submission.

Email your submission to energymarkets@mbie.govt.nz or post it to:

Electricity Price Review

Secretariat, Ministry of Business, Innovation and Employment

15 Stout Street

PO Box 1473

Wellington 6140

Contact details

| | |
|--|--|
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| Organisation | Winstone Pulp International |
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Use of information

We will use your feedback to help us prepare a report to the Government. This second report will recommend improvements to the structure and conduct of the sector, including to the regulatory framework.

We will publish all submissions in PDF form on the website of the Ministry of Business, Innovation and Employment (MBIE), except any material you identify as confidential or that we consider may be defamatory. By making a submission, we consider you have agreed to publication of your submission unless you clearly specify otherwise.

Release of information

Please indicate on the front of your submission whether it contains confidential information and mark the text accordingly. If your submission includes confidential information, please send us a separate public version of the submission.

Please be aware that all information in submissions is subject to the Official Information Act 1982. If we receive an official information request to release confidential parts of a submission, we will contact the submitter when responding to the request.

Private information

The Privacy Act 1993 establishes certain principles regarding the collection, use and disclosure of information about individuals by various agencies, including MBIE. Any personal information in your submission will be used solely to help develop policy advice for this review. Please clearly indicate in your submission whether you want your name to be excluded from any summary of submissions we may publish.

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Summary of questions

Part three: Consumers and prices

Consumer interests

1. *What are your views on the assessment of consumers' priorities?*
2. *What are your views on whether consumers have an effective voice in the electricity sector?*
3. *What are your views on whether consumers trust the electricity sector to look after their interests?*

Prices

4. *What are your views on the assessment of the make-up of recent price changes?*
5. *What are your views on the assessment of how electricity prices compare internationally?*

6. *What are your views on the outlook for electricity prices?*

We are concerned that future electricity prices are likely to be higher than they need to be because of RMA process delays on new power projects and the increasing limitations on thermal fuel supply for power peaking, and in dry years.

We are concerned that planning for the transition to a low-carbon economy is not giving enough consideration, among other things, to the potential impact on electricity security, costs and affordability.

Affordability

7. *What are your views on the assessment of the size of the affordability problem?*

8. *What are your views of the assessment of the causes of the affordability problem?*

9. *What are your views of the assessment of the outlook for the affordability problem?*

The affordability of all living costs, including household energy, should be considered and addressed by Government through its wider policy programmes.

Summary of feedback on Part three

10. *Please summarise your key points on Part three.*

1. Future electricity prices are likely to be higher than they need to be because of RMA process delays on new power projects and the increasing limitations on thermal fuel supply for power peaking, and in dry years.
2. Electricity security, costs and affordability needs to be carefully considered in the transition to a low-carbon economy.
3. The affordability of all living costs, including household energy, should be considered and addressed by Government through its wider policy programmes

Solutions to issues and concerns raised in Part three

11. *Please briefly describe any potential solutions to the issues and concerns raised in Part three.*

Part four: Industry Generation

12. *What are your views on the assessment of generation sector performance?*

We agree with the report's conclusion that there are problems with some generators having short-term market power; and with the depth and liquidity of the hedge contract market. These issues directly impact on our ability to manage our electricity costs and the associated risks. While these problems are known to the Electricity Authority, they may need additional regulatory powers to increase the rate of progress in these areas.

13. *What are your views of the assessment of barriers to competition in the generation sector?*

14. *What are your views on whether current arrangements will ensure sufficient new generation to meet demand?*

We are concerned that market drivers needed to encourage investment in new generation may not occur soon enough for the time frames needed to build new generation. Changes to allow faster planning and consenting of new generation would assist.

Retailing

15. *What are your views on the assessment of retail sector performance?*

16. *What are your views on the assessment of barriers to competition in retailing?*

Vertical integration

17. *What are your views on the assessment of vertical integration and the contract market?*

See our answer question 12

18. *What are your views on the assessment of generators' and retailers' profits?*

Transmission

19. *What are your views on the process, timing and fairness aspects of the transmission pricing methodology?*

The current TPM is overdue for updating so that, in the future, it sends cost reflective price signals.

In this context, we consider it is appropriate and fair that the cost of new transmission assets is proportionately met by those who benefit from the asset's operation.

Distribution

20. *What are your views on the assessment of distributors' profits?*

We do not agree that the regulated WACC used in Transpower's and Distributor's input methodologies (IM), currently set at the 67th percentile, is warranted. We note that regulated monopolies pass through many of their business risks to consumers while having the opportunity to benefit from their monopoly position in unregulated areas of their business.

We consider it would be appropriate and fairer if the mid-point WACC was used for setting prices under their IMs.

21. *What are your views on the assessment of barriers to greater efficiency for distributors?*

22. *What are your views on the assessment of the allocation of distribution costs?*

We do not agree with the report's conclusion that "fairness may dictate readjusting some distributor's shared network costs from households to other consumers".

The evidence that is presented in the report does not point to a sector-wide bias and we think the modeling approach used in the analysis needs critical review. More specific analysis for each EDB would be needed to reach a robust conclusion.

23. *What are your views on the assessment of challenges facing electricity distribution?*

Summary of feedback on Part four

24. *Please summarise your key points on Part four.*

1. We agree with the report's conclusion that there are problems with some generators having short-term market power; and with the depth and liquidity of the hedge contract market.
2. We do not agree that the regulated WACC used in Transpower's and Distributor's input methodologies (IM), currently set at the 67th percentile, is warranted. We consider it would be appropriate and fairer if the mid-point WACC was used for setting prices under their IMs.
3. We do not agree with the report's conclusion that "fairness may dictate readjusting some distributor's shared network costs from households to other consumers".

Solutions to issues and concerns raised in Part four

25. Please briefly describe any potential solutions to the issues and concerns raised in Part four.

Part five: Technology and regulation

Technology

26. *What are your views on the assessment of the impact of technology on consumers and the electricity industry?*

27. *What are your views on the assessment of the impact of technology on pricing mechanisms and the fairness of prices?*

28. *What are your views on how emerging technology will affect security of supply, resilience and prices?*

Regulation

29. *What are your views on the assessment of the place of environmental sustainability and fairness in the regulatory system?*

We do not consider environmental sustainability and mitigating energy hardship as being appropriate additions to the objectives for electricity regulators.

30. *What are your views on the assessment of low fixed charge tariff regulations?*

31. *What are your views on the assessment of gaps or overlaps between the regulators?*

We support the current regulatory regime and note that any gaps or overlaps that may exist appear minor.

32. *What are your views on the assessment of whether the regulatory framework and regulators' workplans enable new technologies and business models to emerge?*

33. *What are your views on the assessment of other matters for the regulatory framework?*

Summary of feedback on Part five

34. *Please summarise your key points on Part five.*

1. We support the current regulatory framework
2. We do not consider environmental sustainability and mitigating energy hardship as being appropriate additions to the objectives for electricity regulators.

Solutions to issues and concerns raised in Part five

35. *Please briefly describe any potential solutions to the issues and concerns raised in Part five.*

Additional information

36. *Please briefly provide any additional information or comment you would like to include in your submission.*