

Transmission Pricing Review

Questions and answers workshop

7 February 2013

Welcome

- Purpose of forum:
 - Opportunity to clarify issues on the TPM proposal
- Time: 10.30am - 2.00pm
- Lunch: 12.00 Noon
- Independent facilitator

Questions

- Authority has received 62 questions
- Questions split into 3 categories
 - Clarifying aspects of the proposal
 - Requesting more information
 - Other considerations
- Only questions clarifying aspects of the proposal will be covered today
- Responses to all questions will be available from Authority's website

Format of the workshop

- Proceed through questions one by one
- Take questions from the floor
- Facilitator will direct questions to the Authority and take questions from the floor
- Opportunity for parties to provide background to their question/s

Submissions

- Submissions due 1 March 2013 at 5pm
- Cross submissions due 28 March at 5pm

Question 1.

We question the rationale for focus on dynamic efficiency (see top of page F10), unless it applies equally to end-use investment. What then does the TPM do to incentivise investment in end-use technologies that reduce peak loads: smart metering as a modern ripple control mechanism, together with smart appliances, and peak reducing technologies especially natural gas and wood heating?

DEUN

Question 2.

Does the CBA aggregate benefits to domestic consumers with those to Industry Participant consumers? We are concerned that the latter can arrange their affairs to reduce impacts on their SPD prices; does this necessarily increase the final residual component that will accrue, on the Consumer side, to domestic and other small consumers? This is an important stakeholder impact: can the analysis team quantify the likely effect?

DEUN

Question 3.

- a) What actually is the Authority's proposal with regard to levying SPD charges on embedded generators?
- b) Will co-generation (as at Kinleith, for example) be treated any differently to embedded generation?
- c) If the Authority's proposal is to charge embedded generators on the basis of gross output (i.e. sales to the wholesale market), could the Authority please rerun vSPD and republish its modelled SPD charges with that change in effect?

TrustPower

Question 3 continued

- d) With regard to the residual RCPI charge, will embedded generation be charged on the basis of net injection to the transmission network (i.e. any generation in excess of the load on the distribution network), or on gross output?
- e) Further, could load be charged on a gross basis and embedded generators be paid negative RCPD charges for generation during RCPD periods? In a distributor opt-out situation (or even without opt-out), this would presumably be much cleaner and more efficient than each embedded generator having to contract with retailers on the network for avoided cost of transmission rebates?

Question 4.

Is the EA aware that the proposed changes have a significant adverse impact on the economics of distributed generators?

The Proprietors of Taharoa C Block

Question 5.

Is it the Authority's intention to provide a locational signal for generation investment as part of the proposed TPM, whether directly or indirectly? In the problem definition, export driven transmission investments are described that may be deferred/changed through improved scrutiny by potential beneficiaries. Would a deferral in an export driven investment then imply a deferral in generation development and thus an implicit locational signal on generation investment?

Mighty River Power

Question 6.

What analysis has been undertaken on the proposal to apportion LCE contributions to specific transmission assets?

Genesis

Question 7.

Why does the dynamic efficiency benefit start accruing from 2015 if there are likely to be no major generation or transmission investment decisions impacted for a number of years?

TrustPower

Question 8.

If Parties' A and B receive equal benefit from an SPD asset, but Party A receives the majority of the benefit during system peaks (where total consumer and producer benefits exceed the average cost cap), which party should pay the higher transmission charges? Party A or Party B?

Vector

Question 9.

The proposal includes a “residual” interconnection charge to be collected from injection and off-take.

- a) What is the Authority’s objective for the design of this charge; is it to minimise the economic costs of collection (i.e. to view it as a tax and aim to minimise the sum of collection costs and distortions), or is to influence the behaviour of the payer in some way (e.g. to manage transmission peaks)?
- b) Is there a rationale for the proposal to split this residual charge 50/50?

ENA

Question 10.

- a) How does the Authority reconcile the aggregate ex ante investment approval approach, for transmission assets with a value of less than \$20m, with its more granular approach of allocating the costs of assets over \$2m via beneficiaries-pay charges?
- b) Has the Authority taken into account in its dynamic efficiency assessment the limited opportunity beneficiaries will have to participate in the investment approval process for Transpower's base capex?
How?
- c) Has the Authority considered restricting the scope of the SPD charge to those assets which actually go through an individual approval process?

TrustPower

Question 11.

What behaviour is the Authority seeking to incentivise from the market via price signals in transmission pricing?

Genesis

Question 12.

Under the proposal, does the Authority envisage all TPM charges being levied on a monthly basis?
(e.g. Connection Charges, SPD charge, Residual Charges, etc)

Genesis

Question 13.

Has the EA carried out a risk assessment of its proposal?

Contact Energy

Question 14.

- a) Given the high degree of uncertainty in the cost-benefit analysis and determining pass-through so consumers benefit, has the EA considered more moderate small scale trial and error options?
- b) To what extent does the EA propose to consider these options prior to issuing guidelines?

Contact Energy

Question 15.

Has the EA considered relationships between the TPM proposal and other work streams: settlement and prudential security, consideration of the UTS provisions and conduct provisions?

Contact Energy

Question 16.

If more consumers lose than gain, but the winners are large so that the aggregate is positive, would the EA still regard this as an overall gain? Does the Authority accept this is Parliament's intention when in its own interpretation of its statutory objective notes that "if wealth transfers seriously undermine confidence in the pricing process or in the electricity industry more generally then that can inhibit efficient entry and investment decisions and these dynamic efficiency effects should be taken into account when evaluating proposals"?

Contact Energy

Question 17.

To what extent has the Authority allowed for these [amending the Benchmark Agreement and Connection Code] processes in its timeline to implement the proposed new TPM in time for it to be used to set prices for the 2015/16 pricing year?

ENA

Question 18.

Why was April 2015 chosen as the date for commencement of the TPM and is this date still achievable? Given the majority of the CBA benefits are dynamic efficiency benefits which by definition are not likely to occur in the short run, what are the implications for delay from deferring commencement to undertake further consultation?

Mighty River Power

Question 19.

While the EA has indicated that under its statutory objective it would not likely consider wealth transfer impacts that may arise for single owner, inflexible geothermal plant – what consideration was given to whether the proposed TPM would give rise to issues under the Treaty of Waitangi?

Mighty River Power

Question 20.

Why didn't (or doesn't) the Authority develop two or three serious proposals and assess them on a comparative basis in order for it and the sector to be able to engage in a more substantive discussion on their comparative pros and cons?

ENA

Question 21.

What discussions has the Authority had on the current approach to commissioning grid assets with the Commerce Commission and Transpower?

Genesis Energy

Question 22.

How open is the EA to modifying/simplifying their proposal based on feedback they receive? If so what process would the EA propose to put in place to consider changes to the proposal, for example would this require another round of consultation?

Meridian Energy

Question 23.

- a) Will a distributor's right to opt out of the transmission charging process be conditional on each of the relevant retailers establishing a contract with Transpower, even if that contract is the default benchmark?
- b) Is the Authority proposing to continue with the same contract structure or take a different approach? Will the contracts be public?
- c) Given the concern it had with the levels of prudential security requested by distributors, does the Authority intend to regulate the level of prudential security Transpower can seek from retailer counterparties?

TrustPower

Question 23. continued

- d) How will Transpower calculate the level of prudential it seeks from retailers? What will be the total cost of that prudential to the industry?
- e) Will the Authority be updating the agreements to reflect this possibility?
- f) What information will be available to retailers to enable them to verify that their portion of charges has been correctly calculated?

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