

4 March 2014

Submission
Electricity Authority
PO Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Sirs

Re: Consultation Paper – Use of LCE to offset transmission charges

Thank you for the opportunity to provide feedback on the consultation paper on the use of the residual LCE to offset transmission charges.

The Authority has concluded that its 'preferred approach is option 2, which is to apply LCE originating from particular connection assets against connection charges for those connection assets and crediting the remaining LCE against the remainder of the MAR in bulk'. Nova favours this option out of the alternatives presented.

However, given the LCE connection payments have averaged around \$6m p.a. over the past five years, we question whether the cost of allocating it across all of the appropriate assets provides a significant benefit over crediting the LCE in bulk.

One question the Authority has not addressed is the impact that a volatile LCE credit will have on the volatility of the residual transmission charges. This volatility can have a significant impact when determining retail pricing. This volatility could be avoided by simply crediting LCE against aggregate wholesale electricity purchases at the Clearing Manager. In effect the LCE could be applied against the cost of ancillary services rather than transmission. This would not impact on locational pricing, and a high LCE would offset the high prices that create the high surplus LCE to some extent.

Nova therefore requests that the Authority reconsider the decision to credit the residual LCE against transmission charges. Please feel free to contact me if you wish to discuss our views further.

Yours sincerely



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