COUNTIESPOWER

24 June 2014

Submissions
Electricity Authority
Level 7, ASB Bank Tower
2 Hunter Street
Wellington

Dear Sir/Madam

Submission on Transmission Pricing Methodology: Connection Charges

1. Introduction

Counties Power appreciates the opportunity to make a submission on the Electricity Authority's (Authority's) working paper "Transmission Pricing Methodology: Connection Charges" (Connection Charges paper).

Counties Power operates the electricity distribution network in south rural Auckland and north Waikato. Counties Power operates over 3,000 km of lines, including an extensive 110kV sub-transmission network. Counties Power is owned by the Counties Power Consumer Trust, on behalf of the 38,000 customers it serves.

Counties Power's geographical location means that all the Transpower transmission lines supplying Auckland pass through Counties Power's territory. From these transmission lines Counties Power connects to the grid at the Bombay 110kV substation and the 220kV Glenbrook substation.

2. Inefficient classification as interconnection assets

2.1 Connecting in a loop

The Authority considers that there is a risk that parties are incentivised to seek reclassification of connection assets within network loops that may not be efficient. We note that the consultation paper, while outlining the mechanics of the connecting loop, provides no empirical evidence that the process has been used for inefficient investments. Furthermore, there is a lack of consideration of the checks and balances currently in place to stop such inefficient investments occurring.

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Counties Power believes robust rule, checks and balances are already in place to manage any risk. This has been our experience in a network loop example of connection funding currently being sought by Transpower that will impact Counties Power and its consumers. This example is Transpower's project *'PD30 – Otahuhu – Wiri Transmission Capacity'* for an n-1 constraint to the Wiri substation on the Vector network. Transpower's preferred option, *PD30*, proposes a new 220kV connection at the Bombay substation (Counties Power's largest point of supply). If Counties Power was charged the connection cost for this investment then effectively Counties Power's consumers would be paying for a transmission upgrade that would benefit Vector consumers.

In this process Counties Power would like the Authority to note the following:

(a) Transpower controls the design of the network and any investment decisions. This has been evident with *PD30* where Transpower has examined five different investment options and undertaken detailed analysis before making a recommendation. Counties Power has no control over the process and has been advised by Transpower rather than Transpower undertaking a formal consultation process;

(b) Parties seeking new connection investments, which are not sought by Transpower, would have to fund the arrangements through a New Investment Charge and not a connection charge. We note that the consultation paper does not mention New Investment Charges, however, given that these charges are treated separately from the connection charge by the Commerce Commission it is hard to see how such investment could then be classified as an interconnection charge; and

(c) Transpower has its investments funded from the interconnection charge reviewed by the Commerce Commission as part of Price-Quality Path capital inputs. This review appears to provide the basis for a check to avoid inefficient investments being sought. Counties Power notes that for the project *'PD30 – Otahuhu – Wiri Transmission Capacity'* the Commerce Commission draft decision on the RCP2 funding was to decline this capital investment after receiving advice from their consultants.

Consequently, Counties Power requests the Authority details the process under the current state whereby a connection customer could circumvent the above processes to obtain an inefficient investment for a connection in a loop. From Counties Power's experience it appears that regional loops are formed by Transpower seeking to optimise investments in the transmission network.

In our example above Counties Power oppose Transpower's proposed PD30 investment if the connection charges are not classified as interconnection assets because otherwise Counties Power's consumers will be paying for benefits received by Vector consumers. From a national perspective Counties Power's opposition, if successful, could be an inefficient outcome. Consequently, in these instances Transpower should have the authority to classify assets within a loop as interconnection if there are economic justifications to allocate costs in this manner.

2.2 Staged commissioning

The Authority is concerned that parties may seek inefficient investment decisions. However, in the example provided it is Transpower seeking the exemption and not Vector who is the beneficiary. It is unclear in the consultation paper how 'parties seek to inefficiently reclassify connection charges as interconnection assets' when the process is controlled by Transpower, which has no vested interest in the classification of the assets.

From the example provided it is clear that there are sufficient checks in place to manage inefficiency risks through:

- The existing rules within the Electricity Industry Participation Code that govern Tanspower's classification of connection assets; and
- The Authority's ability to decline a Transpower decision if there is ambiguity in the application of the rules.

3. Depreciated replacement cost

The Authority's consultation paper on the benefits of a Depreciated Replacement Cost (DRC) charging regime appears to be largely academic because Counties Power's believes that companies seeking new grid connection investments need to do so through a New Investment Charge. The New Investment Charge is a DRC based charge that sends all the economic signals the Authority is seeking in changing the connection charge.

Where a connection charge would be applicable for a new Transpower substation or a substation upgrade (or similar dedicated transmission line) then this would nearly always be through a Transpower initiated project. In these instances, as in Counties Power's earlier example, it is likely that Transpower has initiated the investment. We believe that if this were to occur in the private sector then the end consumer would not expect to pay a DRC charge arrangement because the service has not been requested by the consumer.

4. Allocation of operating costs

Counties Power considers that the proposal for actual operating expenses to be charged will only be efficient if the change occurs in conjunction with DRC based connection charges. If this did not occur a connection customer could be paying higher maintenance costs for an older asset without the lower corresponding connection charges.

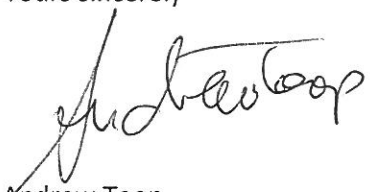
We noted a few errors in the analogy provided of a motorist using their car. Firstly, unlike the driver of a car, there is often more than one customer using the same connection asset (which is the case for both of Counties Power's substation connections). Consequently, one party may have to pay higher maintenance costs caused by another party. The other issue is who controls the usage resulting in any long-term higher maintenance of the substation. Is it the System Operator injecting power into the distribution network or the distributor who is taking the power? Given these difficulties in attributing actions to the connection maintenance costs Counties Power believes that the efficiency gains that the Authority will

not occur. Consequently, the Counties Power would prefer the existing, and simpler, charging arrangement of pooling of the operating costs.

5. Conclusion

The existing charging arrangements already send the correct economic signals for new connections through the New Investment Charge. Where this charge is not used Counties Power believes that this is because it is a Transpower initiated investment. In this instance, the existing connection charges, and Transpower's oversight of national benefits and local concerns, appears to be an effective model. Furthermore, the Authority's example in the stage investment shows that there are already sufficient rules, checks and balances in place to manage inefficiency risk. Consequently, no requirement exists to change the existing connection charging arrangements.

Yours sincerely



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