From: Micky Cave [mailto:Micky.Cave@transpower.co.nz]
Sent: Friday, 20 March 2015 4:02 p.m.
To: Brian Bull
Cc: Jeremy Cain
Subject: Response to RCPD transistion query

Hi Brian

Responses to the questions below. We would be happy to discuss further or elaborate.

Regards
Micky

From: Brian Bull
Sent: Tuesday, 17 March 2015 12:46 p.m.
To: Jeremy Cain
Cc: Alistair Dixon; Brian Bull
Subject: RCPD N=100 - transitional arrangement?

Hello Jeremy

Another query please, something that probably is already in your package,

Noting that the TPM Guidelines say that 'transitional arrangements should be proposed where revision of the methodology leads to large increases or decreases in current charges',

We assume the purpose of the transition period is to limit scope for price shocks due to a revision of the methodology. The first observation we make is that it is not clear that changing the RCPD 'N' parameter qualifies as a *revision of the methodology* per se (or whether it is simply a change to a variable input to the RCPD formula). We contrast this with, for example, the new HVDC charge which we consider would clearly qualify as a *revision of the methodology*.

Transpower has not proposed a transitional arrangement with regard to the change to N=100 in UNI and USI for RCPD. Is that because, in Transpower's view, the change would not lead to large increases or decreases in current charges?

Yes, in part, although it is not possible to determine, ex ante, what the price effect will be for individual customers. What we were able to determine is that there were not large changes in the allocation between RCPD regions (i.e. less than inflation). While we undertook and published a static analysis of price effects as part of our second consultation we acknowledged that this did not (and could not) anticipate any behavioural changes.

Although we received plenty of feedback on this analysis (mainly in support of publishing this information) there was little comment on the need for a transition when changing RCPD N, there was general support for the change from load customers though generators tended to support a transition (we understand due to the impact that changing RCPD N would affect their ACOT payments):

Genesis Energy, Pacific Aluminium, Orion, and Unison ("Partly") all expressed the view a phase-in period was not needed e.g.:

> We support the proposed changes being introduced quickly (as per the suggested time frame).

This is because: … As demonstrated by the Authority's 2014 Winter Grid Emergencies market performance review, the current RCPD regime creates confusion for demand-side participants inolved in multiple regions ... There are little or no costs to generators in introducing the diluted HAMI charge (or preferred MWh charge) as quickly as possible. This will enable the realisation of consumer benefits sooner rather than later.[1]

Yes, to the extent that none of the changes come close to causing rate-shock.[2]

Agree that it is fine for the change in N = 12 to 100. Providing that there remains adequate lead-in time between the final decision being announced (1 June) and the implementation date of 1 September 2015. This will ensure communication can occur with customers regarding load management to reduce peaks.[3]

Contact Energy, Meridian, Mighty River Power (for changes to RCPD), and TrustPower were of the view phase-in should be applied e.g.:

We would support consideration being given to a transitional arrangement for the phase in changes to RCPD. While the changes proposed will not materially shift the quantum of current charges they will impact on operational costs particularly for embedded and notionally embedded generators who have made investment in good faith based on current arrangements. ... We note previous submitters have raised the possibility of transitioning to N=100 over a five year period. We would support such an approach.[4]

… the impact on investor confidence does need to be accounted for. We believe the important question to ask is, *"Are the efficiency savings of any proposed changes to the signals sufficient to warrant the harm caused by the removal of the signals on future investment incentives?*[5]

If so, have you prepared evidence to support that view? The main evidence is the response of submitters on this subject. We did consider the likely price impact on consumers and concluded that:

- most consumers were either unlikely to experience much if any direct impact (residential and SME consumers)
- some commercial consumers on incentive tariffs might experience a change in price depending on their current peak avoidance behaviour and the specific tariff they are on (though these consumers have some flexibility to adjust their behaviour e.g. to increase or decrease their response)
- consumers directly exposed to RCPD signals (direct connects and those on pass through tariffs) that commented on this change in submissions or verbally indicated that the change would not have significant implications (i.e. they are able to adjust peak avoidance activities for 100% peaks without significant cost or inconvenience.

In other words, we believe there are reasonable ground for concluding that the change in N will not result in large uncontrollable increases or decreases in charges.

In relation to ACOT, we note that a prudent investor should have recognised that the level of N is subject to change and could reasonably be expected to change from N = 12 to a large N in response to investment in the grid and changes in demand growth over the past half-decade.

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[1] Genesis Energy, Support for proportional changes to fix problems with current transmission cost allocation, 22 December 2014, response to Question 28.

[2] Orion, Submission on 2014/15 TPM Operational Review: Second Consultation Paper, 19 December 2014, response to Question 28.

[3] Unison, Unison submission – 2014/15 TPM Operational Review: Second Consultation Paper, 19 December 2014, response to Question 28.

[4] Mighty River Power, Transpower Transmission Pricing Methodology Operational Review: Second Consultation, 19 December 2014, response to Question 15.

[5] Trustpower, TRUSTPOWER SUBMISSION: TRANSPOWER TPM OPERATIONAL REVIEW SECOND PAPER, 19 December, response to Question 28, paragraph 28.3.

(We understand that the RCPD *rate* would not change substantially, but wonder if there would be substantial increases in RCPD *quantity* for some parties that are well able to respond to N=12, but would be less well able to respond to N=100...?)

Thanks and regards
BB

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