

31 October 2019

Transmission Pricing Methodology Cross-submissions  
Electricity Authority  
PO Box 10041  
Wellington 6143

By email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

### **Transmission Pricing Methodology: 2019 issues paper: Cross-submission**

Contact believes that the proposed TPM continues to have merit, however submitters have raised a number of issues with the proposal and associated cost benefit analysis. We consider the best way to address these concerns is to identify key priority issues and implement the TPM on an incremental basis. Trying to resolve all of the issues at once and implement the complete proposal will take considerable time. An incremental approach will help to bring forward the benefits of the proposal and be consistent with how recent changes to the HVDC cost allocation were implemented.

Based on the likely benefits, we believe the top three priority issues to develop solutions for are:

#### **1. Charging customers for transmission services they do not benefit from:**

Contact supports the concept of a benefits-based charge, as this avoids inequity and parties do not continue to pay for assets they do not use or benefit from. However, we challenge many of the specifics of the Authority's proposal.<sup>1</sup> For some transmission customers, the current inequity poses a threat to their ongoing viability. To address concerns of this nature and support existing transmission customers, we propose an amendment to the previous prudent discount policy.

In 2016, the Authority included provisions that would allow direct consumers to apply for a prudent discount if their transmission charges were creating a material risk that would lead to closure<sup>2</sup>. Reintroducing this proposal can create efficient outcomes on the basis that it is better to receive reduced transmission payments from a large industrial customer, than for that customer to exit the market and leave all of the transmission charges to be spread across the remaining customers. Any prudent discount could be then reviewed once benefit-based charge has been finalised in the near future.

#### **2. HVDC charge on South Island generators**

Contact agrees with the Authority's comments on the HVDC charge and previously submitted that the HVDC has broader benefits than only for South Island generators and the recovery of costs should be on the same basis as AC assets.

---

<sup>1</sup> Refer our earlier submission

<sup>2</sup> Section 37 of the TPM guidelines for development of the Transmission Pricing Methodology, Electricity Authority, *Transmission pricing methodology: issues and proposals, Second issues paper*.

### **3. Regional Coincidence Peak Demand (RCPD)**

Contact agrees with the Authority's concerns that the existing RCPD sends an overly strong price signal that incentivises avoidance behaviour and is inefficient. However the proposed maximum demand approach suffers from similar issues. The issues with the RCPD approach could be addressed by applying it to a larger number of trading periods on a gross-load, rather than a net-load, basis. We consider that a peak-based charge continues to have merit.

To expedite an incremental approach and address submitters concerns, Contact suggests that separate expert industry working groups be established to ensure solutions are practical and workable.

Please do not hesitate to contact me if you have any queries.

Yours sincerely

A handwritten signature in black ink, appearing to read "JKilty", written over a large, light-colored scribble.

**James Kilty**  
**Chief Generation & Development Officer**