3 March 2020

Submissions
Electricity Authority
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By email: tpm@ea.govt.nz

Transmission pricing methodology: 2019 Issues paper – Supplementary consultation

Contact supports the ongoing review of the proposed TPM and appreciates the opportunity to provide views on the following issues:

Question 1 & 2: Recovery profile for future benefit-based investments.

Contact supports the revised proposal that annual benefit based charges for post 2019 grid investment be set according to the depreciated historical cost (DHC) and align with Transpower's individual price quality path. We believe this would increase efficiency and ensure a consistent method is applied to both pre-2019 and post-2019 investments.

However we also highlight the need to re-consider the inefficiency of using the residual charge as a balancing mechanism to address an over-recovery from the benefit-based charge arising from the way the WACC has been defined. We anticipate that the definition of WACC as applied to post-2019 benefits-based charges will likely result in an over recovery of benefit-based charges and the residual charge being used as a balancing mechanism. This is because the WACC is defined in nominal terms and there is no provision to treat asset revaluations as income.

To avoid this inefficiency we propose a solution aligned with what the Commerce Commission does – apply a nominal WACC but treat asset revaluations as income. Alternatively, you could index the benefit-based charge for inflation and apply a real WACC (with revaluations not treated as income); or not index the benefit-based charge for inflation and apply a nominal WACC.

Question 3: Adjusting benefit based charges when a plant closes.

We prefer the EA option that liability for associated benefit-based charges would cease five years following the commissioning of the relevant grid investments, instead of continuing indefinitely. As outlined in our earlier submissions we believe that a generator with multiple generation assets, who makes a decision to shut down/close a generation asset should not see any ongoing transmission charges applied following the closure of the asset.

Given the arbitrary boundary lines, our clear preference is for the benefit based charge to apply to future investments only and the residual charge used to recover the costs of historical investment costs and the HVDC. If historical investments are to be included in benefit-based charges then we consider that all historical investments should be included. We believe that arbitrary boundary lines on what is included will likely lead to future negotiation and dispute.

Question 4 & 5: Regular updates of the residual charge allocation.

We do not support the EA's proposal to base the residual charge on a combination of gross anytime maximum demand (AMD) and a four-year rolling average gross annual energy usage lagged by seven years. We consider this is likely to create inconsistencies across the industry, with existing demand sources effectively cross-subsidising new demand sources.

We reiterate our position in our initial submission that the residual charge should be calculated on a modified Regional Coincident Peak Demand (RCPD) basis whereby the charge is applied to a greater number of peak trading periods on a gross load rather than a net-load basis. This would better reflect an individual users' contribution to grid congestion than AMD or average load. Regardless of the approach agreed upon the guidelines should provide regular updates to the residual charge allocation.

Question 6: Prudent discount for charges above standalone cost.

We support the proposal for a customer to be eligible to apply for a prudent discount that would reduce transmission charges to the efficient standalone cost of supplying it with the transmission services it receives. As noted any new TPM would need to include a transparent method for determining how to calculate an 'efficient standalone cost of supply'.

We encourage the EA to continue to engage with industry stakeholders to ensure the proposed solutions are practical and workable.

Lastly, we believe an incremental approach to implementation specifically focused on prioritising the prudent discount will help to expedite and bring forward the benefits of the TPM proposals. We think the EA should look to progress this amendment to the prudent discount policy as a matter of urgency.

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

Yours sincerely

James Flannery

GM Strategy Development