



3 March 2020

Submissions
Electricity Authority
PO Box 10041
WELLINGTON 6143

By email: tpm@ea.govt.nz

Transmission Pricing Methodology: 2019 Issues paper

Counties Power welcomes the opportunity to provide feedback on the consultation paper 'Transmission Pricing Methodology: 2019 Issues paper' dated 11 February 2020 (the Paper).

Counties Power's submission regards the proposed changes to the prudent discount, which allows a discount to be applied if a customer's transmission charges exceed the standalone cost of the transmission services it receives. Counties Power appreciates the underlying economic theory that an economically efficient price is between the margin cost of supply and the standalone cost of supply. However, the issue lies in the definition of the standalone cost of supply because all customers connected to Transpower benefit from being connected to the large electricity market and transmission network.

If a large industrial customer could be supplied on a standalone basis then there would be additional costs that customer would incur. For example, if the customer were solely connected to a hydroelectric power station, then the customer would need to have mitigations in place if the station required planned or unplanned maintenance or if there was a lack of water flow into the station's dam. Currently, Counties Power believes that all customers benefit from being able to be supplied from the wider transmission network and not being solely dependent on a single generator. Consequently, a condition of the discount policy should be that the customer can demonstrate that they do not rely on the wider transmission network.

In addition, Counties Power believes that certain large industrial customers benefit from reduced electricity pricing because of their ability to reduce demand when national hydro lake levels are low. This electricity saving is only achievable through being connected to the larger transmission network. The value of these savings could be material and would need to be considered in terms of the discount the customer received.

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The Electricity Authority (EA) may have taken the concept of standalone pricing from its pricing guidelines to electricity distribution businesses (EDBs). However, there is a fundamental difference because local distribution networks can have standalone dedicated assets for large industrial customers because the customer still benefits, and pays, for the connection to the transmission network.

In summary, Counties Power is concerned that the discount proposal is fundamentally flawed, and the consequence would be increased transmission charges to all New Zealanders with the benefits flowing to overseas shareholders. To avoid this risk, there would need to be a very high bar on the transmission customer to demonstrate that they are truly supplied only from a set of defined transmission assets.

Yours sincerely

A handwritten signature in blue ink that reads "Andrew Toop". The signature is written in a cursive, flowing style.

Andrew Toop
General Manager Commercial