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Submissions
Electricity Authority
PO Box 10041
WELLINGTON

Transmission pricing methodology 2019 – supplementary consultation

Dear Authority

We write in response to the Electricity Authority invitation to submit on the proposals that are contained in this consultation paper. The ENA represents the views of all distribution lines companies in New Zealand.

The members views on the substantial elements of the (2019) TPM3 proposal that were contained in our 2019 submission and cross submission are relevant and should be read in conjunction with this letter.

The ENA offers the following feedback on the supplementary consultation proposals.

We note the misalignment of the initially proposed IHC with Transpower's overall DHC method for revenue setting under Transpower's IPP but the feedback we provided on this issue as part of our 2019 submission remains relevant. In principle we support using an IHC approach for new investments which avoids front loading cost recovery for new assets, and therefore is more consistent with the role of the investment. However, we note that because Transpower's allowable revenue is determined using a DHC approach, there will be timing differences which will flow through to the residual charge and on to consumers. Perhaps the better approach could be for the Commission to change Transpower to an IHC approach for revenue setting.

Regarding the proposal to limit a party's liability for benefits changes to 10 years if a plant closes, we suggest that the benefits charging regime needs to be dynamic and be able to accommodate all changes to the future environment. Any mechanism that limits liability for benefits charges should be applicable and neutral to all parties paying a benefits charge. This is not limited to when plant closes, but also when one opens, and when generation units open/close (if they are paying the charge).

We also note the proposal to change the basis for allocating the residual charge from a gross AMD to a hybrid scheme that transitions to allocating based on gross GWh. For distributors, a MWh allocation would logically flow through to a volumetric distribution price (c/kWh). The Authority has noted in the past that consumption-based pricing creates incentives for consumers to make decisions that lead to significant economic costs for society. The upshot is that this type of pricing would create an incentive for customers to invest in options to reduce their energy consumption to avoid the allocation. On the continuum of gross AMD (n periods =1) to annual gross GWh (n=8760), we prefer a point close to AMD (n is between 100 and 1000).

We understand the Authority's logic of the standalone cost cap on TPM charges in the proposal but we do not support the proposed amendment to the prudent discount policy. Allowing prudent discount applications based on a purely hypothetical measure of standalone cost adds unnecessary complexity and could lead to perverse outcomes (by creating 'virtual' scenarios that are not genuinely workable, the proposal favours parties with resources to make such applications and this could lead to unforeseen wealth transfers).

Thank you for the opportunity to comment.

Kind regards

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