23 December 2021

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

By E- Mail to TPM@ea.govt.nz

Re: Cross Submission on "Proposed Transmission Pricing Methodology: Consultation Paper"

Counties Energy Limited (CEL) cross submission is in support of the submission made by Mercury and comments on submissions lodged by Matarua Valley Milk and Contact Energy.

CEL believes that these organisations' submissions had a common underlying message that investments in critical areas of large-scale industrial decarbonisation and generation were at risk because of uncertainty around transmission charges. Of these submissions, this was clearly articulated in Mercury's submission as follows:

> "We do not agree that the proposed TPM delivers durability and reduced uncertainty for investors, at least in the short to medium term. Even as a large market participant, we are finding it difficult to calculate or forecast transmission costs under the proposed TPM. We consider it will be at least as difficult for smaller players and load customers to accurately estimate their transmission charges, leaving all participants having to deal with significant risk and uncertainty which may chill investment in renewable generation and new electricity loads at a time when more is needed for the country to achieve its decarbonisation objectives. Mercury is concerned that efficiencies ascribed to "reduced uncertainty for investors" will more likely than not be negative in the short to medium term."

Mercury is the largest electricity retailer, one of the largest generators and one of the most experienced companies in the industry, yet they are stating that they will have difficulty forecasting transmission costs. This is a clear message that there is a critical flaw in the Proposed TPM Electricity Industry Participation Code (Proposed TPM Code). CEL believes that this has occurred because of a combination of the TPM calculation complexity and Transpower developing the Proposed TPM Code in its commercial favour so that all the pricing forecast risk is placed on Transpower's customers.

CEL believes that this uncertainty is also reflected in the submissions from Matarua Valley Milk and Contact Energy in relation to large scale decarbonisation investments. Calculating overall transmission charges that would be attributed to a new industrial customer, or major industrial power upgrade, will be very difficult for an EDB to determine with any accuracy. This is because the transmission pricing (where capacity is 10MW or greater) requires a complicated recalculation of benefit-based charges. Added to this is the lagged residual charges, where CEL disagrees with the submissions that the residual charge can be passed through on a lagged basis because the residual charge is meant to applied as a fixed charge to avoid inefficient incentives. If the logic of passing through only a lagged transmission charge was applied to smaller new customers (a newly constructed home or business), this would result in them paying no transmission charge for the first four years.

CEL believes that under the TPM Code Transpower should be required to provide transmission pricing certainty for major investments and that without this certainty there will be a negative impact on major generation and decarbonisation investments. Transpower is best able to manage this risk through both having the internal pricing expertise as well as having a residual charge that corrects for any under or over forecast pricing errors. Without this amendment to the TPM Code there is the risk that the Authority will be required to overall the TPM guidelines again in the near future.

CEL would be happy to discuss any aspect of this submission.

Yours sincerely

Andrew Toop
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