23 December 2021

TPM team
Electricity Authority

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Re: Cross-submission - Proposed Transmission Pricing Methodology – consultation paper 8 October 2021.

1. Thank you for the opportunity to comment on the submissions lodged relating to the 8 October consultation paper

2. A number of submitters commented on the complexity of aspects of the proposed TPM and the degree of uncertainty in calculating what future charges will look like. This includes submitters[1] that can be considered large and sophisticated.

3. We point out that a number of factors impacting the energy industry have changed significantly since review of the TPM commenced in earnest now over a decade ago. Importantly commercial and social dynamics impacting business and residential consumers have also changed. Yet much of the base thinking regarding the TPM remains unchanged.

4. New Zealand now has a clear focus on reaching net zero carbon with electrification being an important part of achieving this goal. A number of submitters have pointed out areas where the proposed TPM will hamper progress.

5. In this cross-submission we take the opportunity to look at building blocks and fundamental approaches of particular concern, all of which impact the various detailed provisions and continue to be subject of debate through this consultation round.

6. NZ Steel has been involved in preparation of the MEUG cross submission and that should be read in conjunction with this cross submission.

[1] eg Mercury and Contact Energy.

FUNDAMENTAL ISSUE	COMMENT	SUPPORTING SUBMISSIONS
Transpower is kept whole as to Revenue.	While outside the mandate of the EA, this fact needs to be 'called out'. Transpower receives a 'guaranteed' return at the 67th percentile on RAB, including specific over-build. This contributes to (and can be analysed as a key reason for) the complexity and inequity of the proposed TPM. Transpower shareholders should take on some of the risk.	Contact Energy Vector para. 54 Counties Energy Refining NZ
The vast majority of consumers do not see Transmission Pricing signals reflected in their power bills	TPM signals do not reach most EDB consumers. There is dilution with EDB tariffs and no requirement for retail pricing to reflect the structure, nor to pass through increase or decreases in EDB pricing.	Vector para. 27 Contact Energy Mataura Valley Milk. North Power Top Energy Refining NZ The Lines Company
No direct peak/congestion pricing signal	Move to nodal pricing is untested and risky. When congestion pricing clicks in it is too late to avoid inefficient investment and loss of consumer confidence through inability to supply. Some submitters have suggested a 'watered down' RCPD. NZ Steel and MEUG have previously suggested an Area Approaching Congestion Charge (AACC)[2]	Hiringa, para 9-15. IEGA. Network Waitaki. North Power Top Energy OJ Fibre Solutions Orion Pioneer Energy Trustpower
A residual charge making up >50% of initial revenue to be recovered cannot validly be classed as 'residual'.	$450m pa that cannot be allocated by way of specific cost drivers undermines the credibility and therefore durability of the TPM.	Network Waitaki OJ Fibre Solutions Pioneer Energy
Residual charge allocated only to load	Costs of getting product to market should be borne by the seller not the buyer. Arguments that generators will pass the costs through the wholesale market questions the creditability of a competitive WEM.	Vector paras. 9-11. OJ Fibre Solutions ETNZ
AMD is inappropriate to allocate a large residual.	Electricity grids are designed for peak loads. Coincidental peak demand is a more appropriate allocator than AMD.	

[2] NZ Steel and MEUG submissions, October 2020, https://www.transpower.co.nz/industry/transmission-pricing-methodology-tpm/tpm-development-project-exploring-transitional

If AMD is to be the residual allocator, then it needs to be based on Net rather than Gross AMD.	Cogeneration should be differentiated from embedded generation NZ Steel cogeneration uses production off-gases and waste heat to produce on average 60% of site requirements. The electrons produced never reach the main grid. The EA arguments do not support using a gross allocator.	Horizon Networks, Nova Energy OJ Fibre Solutions Orion Pioneer Energy Trust Power
The residual allocator should be based at the consumer ICP not customer GXP.	If AMD is to be used it should be allocated at the consumer ICP. To allocate at the GXP overcharges direct connect load.	MEUG
Summed non-coincident AMDs for multiple GXPs at the same location is a nonsensical allocator.	If AMD is to be applied for multiple GXPs at the same location it needs to be applied on a coincidental load basis. The switching configuration at any point of time has no bearing on the grid investment and therefore base for allocation.	Buller electricity Contact Energy OJ Fibre solutions Network Waitaki MEUG
The proposed transition cap will be ineffective	Despite having one of the largest increases measured in both $ and %, the transition cap is unlikely to apply to NZ Steel. What is proposed is not fit for purpose.	ENL, cap value needs updating. North Power Top Energy OJ Fibre Solutions Orion
A PDP proposal with limited application	The PDP as proposed has a number of deficiencies.	Horizon Networks Network Waitaki Refining NZ Rio Tinto

Most of the submissions published raise issues and questions stemming from the fundamentals on which the TPM proposals have been built. The extent of issues identified from participants across the industry questions the durability of the proposal. While comments on the specifics vary, there is on the whole a plead for the Authority to step-back and rethink the approach.

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