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nova energy

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Nova Energy Limited
PO Box 3141, Wellington 6140

0800 668 236
7.30am to 7pm – Monday to Friday

info@novaenergy.co.nz
www.novaenergy.co.nz

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

By email: TPM@ea.govt.nz

RE: Cross submission – Proposed Transmission Pricing Methodology

Nova Energy (Nova) is making this cross-submission on its own behalf as well as on behalf of its related company, Todd Generation Taranaki Limited, owner of the McKee Power Plant and Junction Road Power Plant, and as a part owner of the Whareroa co-generation plant.

As stated in Nova's submission, the issues most directly impacting Nova are the way in which the residual charge is allocated to gross load, and the methodology being used to determine allocation of the benefit-based charge (BBC) – simple method. Nova notes that other parties have also raised these points.

Complexity

Nova concurs with the views expressed by Refining NZ, Mercury Energy and Contact Energy that the TPM has become very complex. Mercury states the issue very well: 'Currently, even large stakeholders like Mercury struggle to fully understand the working as of the proposed charges relating to existing transmission and generation assets, let alone estimating likely charges that may attach to future build. This adds risk to new generation and load developments, making it more difficult to attract capital investment needed to finance projects.' This complexity has become progressively more apparent as the unintended impact of different charges and arrangements become clear, e.g. the special provision required for batteries.

Given the complexity of determining likely transmission charges on new generation investments, it is important that Transpower can inform connected parties of expected charges prior to final investment decisions being made.

Equity

Nova supports the concerns of parties[1] that expect to be charged based on anytime maximum demand at different GXPs, irrespective of the fact that there is a single underlying load and the location of the GXP offtake is a function of the grid configuration only.

Transitional cap of little benefit

As highlighted by Nova in its submission, other parties[2] have also recognised that the transitional price cap provides minimal protection against a price shock in 2023. This result is likely another consequence of the complexity of the TPM and should be addressed.

[1] New Zealand Steel, Oji Fibre Solutions, MEUG, Network Waitaki
[2] New Zealand Steel, Oji Fibre Solutions, Electricity Networks Association

Co-generation disadvantaged

In respect of the allocation of the residual charge, Nova has focussed on the inequity and financial impact of grossing up for "load" directly supplied by a co-generation plant to its industrial customer. Nova notes that New Zealand Steel[3] and Oji Fibre Solutions[4] have similar concerns, albeit with technical differences with their co-generation plants. Given the economic impact on each of these major industries, it is incumbent on the Authority to review its position on co-generation plants and not impose a charge on load that by design does not place demand on the grid if the co-generation plant is not running.

Prudent discount

Nova did not cover in detail in its submission the weaknesses in the Prudent Discount methodologies but notes and supports Refining NZ's and New Zealand Steel's[5] concerns that the costs and potential delays in securing such a discount could be substantial in the existing framework. Rio Tinto in its submission also questions whether the draft Prudent discount elements of the TPM is consistent with the economic concepts[6] that the TPM is intended to achieve. In particular[7] 'The application of a "high bar" for successful applications for a stand-alone prudent discount is inconsistent with economic theory…'

Rio Tinto also makes an important point[8] that 'the differences in service level between what is or has been provided and the service level required by the customer could be substantial.' A party seeking the prudent discount should not have to be able to duplicate a service from the grid that it does not require.

BBC simple method

Generators[9] are consistent in their view that charges under the BBC simple method should be split 25:75 to generation and load respectively, as favoured by the Authority. Meridian's submission is succinct on this point, and Nova agrees: 'that since consumers ultimately pay for all transaction costs, it is more efficient and direct to assign costs to load customers. This is because the demand-side of the electricity market is more inelastic then the supply-side.'

Transpower's discussion on this topic[10] provides no more logic on how it reached a 50:50 allocation methodology than its Reasons Paper. The fact that 'Transpower considered a number of different approaches' indicates that it was merely seeking a neutral and consistent method of allocation, rather than applying economic principles in its allocation methodology.

Vector's position that a generator's fixed costs cannot be recovered through electricity prices unless there is market power[11] simply does not hold up. In the real world generators need to recover their long run costs, inclusive of cost of capital (i.e. the LCOE), and in a growing market with a need for new generation build, electricity prices can be expected to approach the LCOE, i.e. inclusive of transmission costs incurred.

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[3] Para 12
[4] Para 19
[5] New Zealand Steel Para's 32 & 33
[6] Rio Tinto submission paragraphs 10 - 17.
[7] Para 12
[8] Rio Tinto submission para 42
[9] Meridian, Contact, Trustpower, Mercury
[10] Transpower submission section 7.
[11] Vector submission para's 10 & 11

It is for this same reason that the Residual Charge needs to be applied solely to load.

Conclusion

The TPM is complex, and given the wide disparity between different connected parties, that is not particularly surprising. More detail is still required, however, to prevent creating costs for generation that in the long run can be expected to lead to higher electricity prices for consumers.

Yours sincerely

Paul Baker
Commercial & Regulatory Manager
P +64 4 901 7338 E pbaker@novaenergy.co.nz