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Submissions
Electricity Authority
By email to: tpm@ea.govt.nz

PROPOSED TRANSMISSION PRICING METHODOLOGY
SUPPLEMENTARY CONSULTATION PAPER- FEBRUARY 2020
WINSTONE PULP INTERNATIONAL LIMITED'S SUBMISSION

This is Winstone Pulp International Limited's (WPI) submission on the Electricity Authority's paper "Transmission pricing methodology: 2019 Issues paper – Supplementary consultation, dated 11th February 2020".

We support the Major Electricity Users Group's (MEUG) separate submission on this supplementary consultation paper. In addition, we have the following comments:

Benefit based and residual charges for a directly connected load customer
Our understanding of the effect of the revised proposal on a directly connected load customer with a year to year relatively steady load profile would be as follows:

- The customer's benefit-based percentage (%) share of the costs for each post-2019 transmission asset would be predetermined and fixed; and would not change unless the customer permanently ceased to operate the plant that previously consumed the bulk of its energy needs at one of its sites (such that any residual energy use at the site is negligible compared to the prior energy use) and did not intending to replace it, in which case it would be reset to a commensurate level at a time 10 years after the associated transmission asset came into service.
- The customer's residual percentage (%) share would be predetermined based on their gross AMD averaged over the 4-year 2014-2018 period, and it would be adjusted annually from April 2025 with a 7-year lag based on changes in gross energy (kWh/y) used reference to the same 2014-2018 period. This adjustment mechanism would continue to apply even if the customer's energy use was substantially reduced. In this step reduction scenario, the customer's

residual % share would not reduce for 7 years after the step reduction in load and it would then take a further 3 years to reduce to a commensurate level.

- Both charges would cease within a relatively short period if the customer disconnected from the grid.

Impacts on directly connected load customers
Based on the above understanding, the impact of the revised proposal for directly connected load customers appear to be that:

- They would have minimal incentive to manage future AMD (effect of residual charge);
- They would be disadvantaged compared to other load customers within distribution networks because their AMD would not be aggregated with other diverse loads and because their TPM charges would likely be slower to adjust to changes in load (effect of residual charge);
- Their TPM charges would not well reflect the benefit they were receiving at the time of the charge; (effect of both charges); and
- In the event of a major load reduction at their site, they would face a contingent liability for a large portion of the pre-shutdown charges over the following 7 years (primarily the effect of the residual charge).

There is also an incentive on directly connected load customers to consider ending connection to the grid and becoming embedded in a local network. Likewise, a prospective large grid connected customers would be disincentivised to connect to the grid because of these risks, even though it may be more economically efficient.

Our understanding is that the Authority's TPM proposal has been significantly influenced by your CBA that suggests investment by load customers in energy efficiency and load smoothing solutions would be economically inefficient. We think this concern is grossly over weighted compared to other considerations and would likely create other significant problems.

These issues are discussed in the following parts of our submission.

Need for a peak demand pricing signal
We understand that the Authority is still considering the need for a peak demand signal, however we think that issue needs to be considered as part of the design of the residual charge for load customers.

Under the current TPM, interconnection charges send a strong and timely pricing signal. This timely pricing signal is being removed because, as we understand it, the Authority wants to disincentivise inefficient investment, such as in energy efficiency and on-site batteries, and because this would transfer costs to other grid users. This disincentive is counter to Government climate change policy objectives and ignores the likelihood that these policies will tend to increase demand through electrification of transport and process heat.

A residual charge that adjusts annually to reflect current AMD would very likely allow a separate peak demand charge to be avoided and therefore result in a simpler overall TPM design.

Problems of prefixing AMD and using a single trading period

We think that the use of AMD based on a single trading period at the GXP is unfair to directly connected load customers (and potentially large embedded users) because their peak demand would not be reduced by the load diversity that is available to end users within distribution networks. During some abnormal operating events our peak site demand can spike, by up to 3MW. On average over the 2014-2018 period, if the AMD was to be taken as the average of the 10 highest trading periods for directly connect load, our residual charge would reduce by 5%.

This has been a contentious issue with many parties making submissions. The Authority has advised the market the CBA and peak charging are to be the subject of consultation and a workshop later this month. It therefore seems premature in this supplementary consultation to presume the case for historic AMD applied at the GXP has been proven.

To address our concern about the inconsistent treatment of directly connected load customers compared to consumers within distribution networks, it would be fairer to either:

- Allocate the initial residual charge based on AMD at the ICP level; or
- Base the effective AMD for directly affected load customers on an average of more than one trading period, where the number of trading periods used (N) is set to provide a similar outcome for directly connected load customers compared to load imbedded in distribution networks.

Problem with charges lagging actual grid use

We do not accept that the charges paid by load customers should lag by many years the actual services they use. This will result in load customers: paying more or paying less than is fair at the time of use, relative to other grid users; and being disincentivised to manage AMD.

We note that historically most networks had AMDs that coincided with RCPD periods, and hence they had a strong incentive to reduce their AMD. On the other hand, large users did not have this incentive. Consequently, it would be distortionary and unfair to large users if the residual charge was to be based on historic AMD without any future opportunity to remedy this distortion because future adjustments are proposed to be based on energy use.

We think the benefit-based charge allocations should be re-estimated and reset on a more regular basis, say 3-yearly, to more closely reflect what would be expected in a competitive market situation. Individual load customers will have very limited influence on when new grid investments are made, and so this is not comparable to a long-term "lease like" arrangement where a customer would need to commit to a long-term contract to support the investment.

Nor do we accept that the proposal for a 7-year lag in adjusting the allocation of the residual charge allocation is justified, and we anticipate adverse consequences if the lag is retained.

New Zealand is entering an era of increasing energy efficiency leading to some loads gradually decreasing while electrification is expected to lead to increasing loads to supply new transport and process heat loads. The Authority's proposal will lead to some customers being charged for benefits they are no longer receiving, while others free ride. If this is not changed, we think the TPM proposal would not be durable because it is likely to stifle innovation and result in inequity between customers.

Thank you for the opportunity to make this submission.

Yours sincerely

Glenn Whiting

Chief Financial Officer