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Submissions

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RE: Consultation Paper-Transmission pricing methodology

King Country Energy (KCE) acknowledges that the Electricity Authority (EA) has prepared the latest proposal following consideration of the previous round of consultations on the Transpower Pricing Methodology (TPM). KCE appreciates that there is an opportunity for cross submissions to provide additional feedback on such a complex issue.

KCE is a member of the Independent Electricity Generators Association (IEGA) and supports its submission. That submission contains a number of technical details and KCE's submission will focus on high level issues.

This submission is structured by listing relevant topics within the proposal and providing comment.

Problem Definition

The two main problems highlighted by the EA in the proposal that relate to the current TPM are

1) The allocation of the HVDC costs
2) The RCPD system encourages peak management even though there is spare capacity in the grid

HVDC costs

KCE agrees that the cost allocation of the HVDC needs to be revisited.

Benefit based charging with some form of use based allocation based on annual performance would be appropriate. This would eliminate the seasonality risk in the case of a fixed allocation in a sample size and will allow for changes to the beneficiaries no matter what size entered or left the market.

RCPD price signals

KCE believes that the current RCPD price signalling is consistent with current government policy particularly around the recommendations of the Interim Climate Change Committee (ICCC). The RCPD peak management signals are more than grid cost allocation and represent a fundamental purpose of the overall operation of the electricity system.

Completely removing this signal creates a void in other aspects of electricity system and runs the risk of significant unintended consequences.

KCE proposes that the concerns raised by the Authority around the strength of the current RCPD signal could largely be addressed by changing the number of zones used for RCPD calculation and number of periods in each zone. Transpower already has the ability to make this amendment under the existing TPM Guidelines which provide it with the flexibility to change its price signalling as required.

Reliance on Nodal Pricing as the Silver Bullet

The proposal would rely on nodal pricing as the tool to manage transmission grid constraints and signal the need for investment in both transmission and transmission-alternatives. KCE considers that there is uncertainty as to whether nodal prices will ever be able to completely fulfil this role – put simply it is not the “silver bullet” assumed by the Authority. In fact, there are serious risks associated with removing the RCPD and relying on nodal prices.

Some key flaws with reliance on nodal pricing include:

Differing perceptions on price thresholds

Participants will have different views on what the price signals are. At the extreme; embedded generation and load see high prices as positive and negative values respectively. However even within load participants there will be differing views about what constitutes a high price, or effectively risk.

The proposal is seeking participants to be more engaged in decision making process of grid investment and these differing views of risk will only slow down the decision making process.

Just too late investment

Nodal pricing in itself is a short term signal and reflects a number of influencing factors, and even considering the 3 year window of the ASX it will be difficult to unravel whether price signals represent a requirement for grid investment or fuel supply fluctuations.

Given the timeframes required for construction, by the time the market realises grid investment is required there will be a significant window where security of supply could be at risk.

The role of load control and demand-side response

The Authority's proposal relies heavily on an increased level of demand response. KCE however is uncertain that this will evolve over the timeframes assumed by the Authority, noting it is reliant on a number of assumptions around battery uptake.

Likewise the Authority downplays the risks of distributors reducing the amount of load control in their networks in response to the complete removal of the RCPD signal.

CBA Model Assumptions

Condition of the input data

KCE is concerned that the age of the data used in the inputs to the model could affect outcomes. It notes that the Mangahao Power Station financial impacts are not allocated to KCE, as the current owner of the scheme. For the purpose of its own modelling KCE assumes modelled charges for Mangahao will actually be allocated to KCE.

All benefits gained are in future years

The forecast benefits rely on assumptions of long run marginal costs of generation. The estimated $58/MWh for the new wind entering the market is a significant understatement. It does not consider the cost of firming the volatility of wind. KCE believes that the subsequent benefits have been overstated.

Benefit allocation methodology

KCE is concerned that by trying to address one issue the EA are creating another. Regardless of the methodology and time scales considered there will always be an opportunity to manage behaviour to reduce long term charges.

Implementation timeframe

KCE also notes that the benefits of the Authority's reforms do not begin to be positive until 2032, suggesting that more time can be taken for the implementation of any reforms.

Regardless of the overall methodology that is chosen it is needs to be introduced incrementally, particularly if the changes are radical, so that they can be monitored for intended and unintended consequences.

Preferred methodology

KCE's preferred methodology is described in the IEGA submission under the section *Suggested revised TPM*.

KCE welcomes the opportunity to provide cross submissions as there will be some issues raised by other submitters that will cut across or align with KCE's position.

We welcome the opportunity to discuss this issue at any time.

Kind Regards

Chris Fincham

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