connecting our community

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TRANSMISSION PRICING CONSULTATION

Thank you for the opportunity to respond to the Transmission Pricing Issues Paper. EA Networks is also party to joint submissions; one issued by Lynne Taylor (PWC) and another from the Electricity Network Association (ENA). Where any difference in the submissions exist, this submission contains EA Networks specific independent views on the given subject matter.

Removal of RCPD

We support the proposal to remove the Regional Coincident Peak Demand (RCPD) methodology.

Under the current transmission pricing methodology EA Networks has experienced material volatility from Transpower's interconnection cost (refer to Appendix). This is a direct result of the RCPD methodology being used under current transmission pricing as affecting the Upper South Island load group. The resulting volatility is not durable and is incentivising grid defection by driving networks costs in excess of stand-alone costs to some customer groups in our region. We support the removal of the current RCPD approach and the move to a methodology that promotes stability in annual transmission costs.

The Authority proposes to use gross Anytime Maximum Demand (AMD) as the allocation method for the residual component of transmission costs. We support this, but on the basis that some form of dynamic demand response remains incentivised. In our view load control (particularly through the control over hot water cylinders) is very successful at deferring grid investment with little impact on consumers. This can continue to if appropriately incentivised for the benefit that it provides.

In using gross AMD, the Authority has taken a snapshot of historic periods. Whilst this may seem intuitively the right thing to do (to prevent gaming) we believe this is wrong since it assumes a static future state in terms of load, or consistent growth across all load customers. This is highly unlikely. Instead the Authority should consider using a rolling average (say five years) of gross AMD values. This would introduce some incentive to manage grid peaks to defer costly grid investment whilst ensuring volatility is muted. It would also protect those load customers (networks especially) that may see future *reduction* in load, or lower growth rates relative to others. The proposed approach ignores this potential outcome and would result in higher per customer charges to customers facing those scenarios.

Nodal prices and peak charges

We do not agree with the Authority's proposal that wholesale electricity nodal prices will highlight transmission constraints and thus influence the efficient investment in new generation and load location.

Very few customers in our region are exposed to nodal prices. This is because most mass market customers choose to remain insulated from their effects by seeking products that are hedged and provide stable fixed rates. In addition, Retailers bundle network charges and dull network signals that could be made available to end users if they were required to pass-through actual rates.

We are concerned that the Authority suggests behaviour and decision making will result from nodal prices alone. Our experience and research indicates that mass market customers seek simplicity in the electricity service they consume, specifically simplicity regarding pricing. Consequently, we do not believe that reliance on nodal pricing signals will have the desired effects since the signal will not be received by consumers in a timely manner (if at all). We therefore support the Authority's proposal to allow for a transitional peak charge, but question why this should only be temporary.

In our view it will be critical to retain a form of peak charging signalled by network charges (providing they do not lead to material volatility). This should be implemented by Transpower at their discretion and by their design. There should be no arbitrary time limit put on this since the need for such a signal cannot be forecast with any certainty.

Area of Benefit charge

We support the inclusion of historic investments in the proposed Area of Benefit (AoB) charge.

The Authority proposes introducing an AoB charge for future investments but has allowed for a limited number of historical investments (seven) to be included in this approach. We support this but question why the Authority has not included more historical investments that can be clearly identified (in terms of cost, residual value and beneficiaries).

The passage of time has allowed identifiable historic investments to depreciate to such levels that even if alternative investment options could have been identified at the time of original investment (in lieu of the actual transmission investments made) then the proposed cost to be funded under the proposed AoB charge now would be significantly below those alternative options. Only where that is not the case should those beneficiaries escape the retrospective charge that is being proposed by the Authority, if they can demonstrate this.

Clearly those that have benefited from such historic investments will lobby hard for the exclusion of these, whilst those that are yet to have major grid investments in their own regions will likely lobby the opposite. Under the proposal, the latter group will not only have contributed (and continue to contribute) to the formers investments but will be required to fully fund any of their own. This is not equitable or fair.

In our view, fairness and equity should be the overarching consideration for this aspect of the Authorities thinking, not pure economic theory. Consequently, we believe the Authority is right to include historic investments but suggest that more specific and identifiable investments should be included.

Timing

The Authority has attempted to change the transmission pricing methodology several times and across many years. We welcome this latest attempt and hope that it is successful. However, we remain concerned that in trying to overhaul the entirety, specific and significant problem areas (namely RCPD affecting the Upper South Island load group) will continue to persist not only in the meantime but indefinitely if indicated timeframes extend. Our region can not sustain continuation of the material effects that the current TPM is causing. We would like to see the Authority put specific attention and focus on resolving this issue now, in parallel with the wider TPM and proposal for change.

Yours sincerely

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Appendix – Material volatility in annual interconnection cost, Upper South Island Load Group (based on Transpower measurement years).

Note: Top chart shaded area (green) indicates +/- 20% threshold for year-on-year movement.