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thelines company

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Submissions
Electricity Authority
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Via email: submissions@ea.govt.nz

Consultation Paper—Transmission pricing review

1. Introduction

1.1. The Lines Company Limited (TLC) thanks the Electricity Authority (the Authority) for the opportunity to submit on the Authority's proposal of a new approach to transmission pricing, Consultation paper–Transmission pricing review, 23 July 2019.

1.2. TLC addresses specific issues in this submission, and we have provided our views through the *Distribution Group Submission of small and medium-sized distributors*, and the submission by the Electricity Networks Association.

1.3. According to the Authority, changing the transmission pricing methodology (TPM) is necessary and becoming increasingly urgent because of significant flaws in the current TPM which is leading to inefficient investment and consumption outcomes.

1.4. TLC considers that the most significant impact on the electricity sector is expected to be from emerging technologies, and particularly electric vehicles (EV's). From a distribution perspective, the major impact on cost changes is the overall impact this has on demand during peak periods, which drives the fundamental network infrastructure sizing.

1.5. If EV charging occurs predominantly in off-peak periods, there is an opportunity for network utilisation efficiency to improve, and as a result for the average distribution price (per kWh) to decrease. Central to this outcome is ensuring that distribution and transmission costs are reflected to consumers to encourage off-peak use.

1.6. TLC believes that a barrier to pricing reform, for both distribution and transmission, are the Low Fixed Charge (LFC) Regulations. It is comprehensively acknowledged that the LFC regulations are not fit-for-purpose, and TLC believes that they require immediate consideration, both industry-wide and politically, to assist in distribution and transmission pricing.

2. Affordability

2.1. TLC has submitted previously[1] that we are concerned with our consumers' affordability. Like many regional distributors, TLC has a high proportion of low-income consumers with high

[1] The Lines Company Limited Submission on the Electricity Price Review, 23 October 2018, page 7

deprival indices (as indicated in the 2013 census). This issue is complex, multi-faceted and along with income, other contributing factors include the quality of housing stock, heating methods, family size and education. We note that LFC regulations can contribute to deprivation rather than provide relief, because they are linked to consumption volume alone, and restrict fair recovery of fixed infrastructure costs.

2.2. The Authority state, "consumers in almost all regions would be better off as a result of the proposal. There are a small number of exceptions. These generally reflect the role of distributed generation in avoiding transmission charges under the status quo, which would not be possible under the proposal."[2] Table 6, Distribution of consumers' benefits, indicates a non-residential and residential benefit at Whakamaru of -17.1% and -17.9% respectively.

2.3. The result for the central North Island, represented by the Whakamaru backbone node, reflects that the grid use efficiency benefits will not be sufficient to offset the increase in 'fixed-like' transmission charges as a result of the proposal. TLC, Eastland Network, Waipa Networks and Unison connect to this node. Accordingly, transmission charges for TLC would indicatively rise from $3.3 million to $5 million per year.

2.4. The exceptions that the proposal highlights include some of New Zealand's most vulnerable consumers with the greatest affordability issues.

2.5. In TLC's view, the proposal requires more consideration by the Authority and we are of the view that the TPM proposal should not proceed until there is more clarity about a transmission pricing Government Policy Statement (GPS), and any distribution pricing GPS, as recommended by the Electricity Price Review Panel.

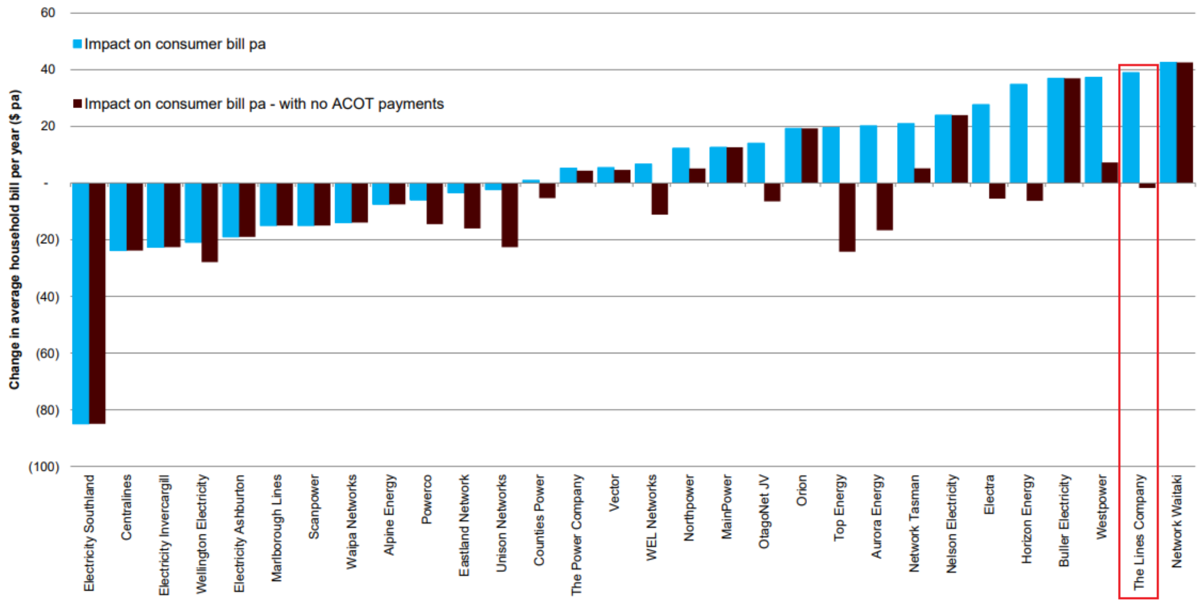
3. Effect of the proposal on Avoided Cost of Transmission (ACOT) payments

3.1. The proposal states, "We estimate that, if distributors ceased making payments for avoided transmission costs to distributed generation, savings to consumers in some parts of the country could be significant. For example, we estimate that consumers served by Aurora Energy, Counties Electra Energy, Horizon Energy, OtagoNet, The Lines Company, Top Energy and WEL Networks could pay lower distribution charges under our proposal (compared to the status quo) if the ACOT payment were no longer paid to distributed generation in those regions."[3]

3.2. The following paragraph continues, "However, these effects represent an upper limit. If the additional components of a transitional peak charge or kvar charge were included in the TPM, there may be some cause for ACOT payments (in the locations to which these charges were applied), if it avoided or deferred grid investments. If so, the savings for consumers would be smaller but they would be receiving a 'service' from the distributed generation in exchange for the ACOT payment. If the transitional peak or kvar charges were found to be needed then this payment would be efficient."[4]

3.3. The figure below provides the estimated impact of the proposal on bills, with and without ACOT. This is of concern to TLC and a situation where there is an increase in transmission charges as per the proposal *and* ACOT payments are deemed 'efficient' is not acceptable to TLC and our consumers.

[2] Consultation paper, 4.65, page 32
[3] Consultation paper, 5.44, page 70
[4] Consultation paper, 5.45, page 70



4. Benefit-based charge

4.1. TLC remains of the view that the benefit-based charge should be applied only to post-2019 investments. The reasons include avoiding creating uncertainty, efficiency, durability and the desirability of avoiding wealth transfers.

5. Allocation of the residual charge

5.1. TLC does not support the use of AMD for the allocation of the residual charge. TLC's view is that a net load approach is appropriate because it is the net measure which best reflects use.

5.2. The Authority states, "Our current preferred option is that the residual should be allocated based on a gross load approach, as gross demand is a better proxy for customers' size (and so their willingness and ability to pay) than net demand."[5]

5.3. As discussed earlier, TLC believes the Authority has this wrong. The Authority fails to take into consideration TLC's consumer's ability to pay and the rural and vast nature of our network. In addition, the proposal has allocated Tangiwai to TLC; however, this configuration has changed recently.

6. Conclusion

6.1. TLC acknowledges the considerable amount of work and detail in the proposal. We also note and support that it is proposed that the revised TPM Guidelines include considerable discretion for Transpower in how it practically implements the revised TPM.

Yours sincerely
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Pricing Manager

[5] Consultation paper, B.213, page 154