

Submission on Electricity Authority's 2019 Consultation (Issues) Paper – Transmission pricing review

1. This submission

- 1.1. Marlborough Lines Limited (MLL) would like to thank the Electricity Authority (EA) for the opportunity to submit on the 2019 transmission pricing review consultation (Issues) paper (herein referred to as the 'issues paper').
- 1.2. The Electricity Networks Association (ENA) has prepared a submission to the issues paper. MLL is one of the EDB's represented by the ENA, and fully endorses that submission. Notwithstanding our support for the ENA submission, we consider it important to set our views from our perspective of the existing TPM and the resulting need for change. The views of the ENA submission are not restated in this submission.
- 1.3. This submission is therefore relatively brief. It directly responds (section 3) to selected questions included in the issues paper. Where questions have not been responded to, MLL either has no firm view, or the question has been responded to (directly or indirectly) through the ENA's submission.
- 1.4. The contact person for this submission is:

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2. About MLL

- 2.1. MLL is the electricity distribution business which owns and operates the electricity network in Marlborough. From the GXP, the supply to Marlborough consumers radiates out to a number of very isolated rural/remote areas including the Marlborough Sounds, Molesworth Station (New Zealand's largest farm at the head of the Awatere Valley), and the southern Marlborough coast; an area bordered by the Pacific Ocean on one side and the seaward and inland Kaikoura mountains on the other. The network connects approximately 25,800 consumers¹
- 2.2. The MLL network is supplied by three transmission circuits, terminating at a singular grid exit point (GXP) on the outskirts of Blenheim.

¹ As at September 2019

- 2.3. While parts of the Marlborough region have a low population density and cover some very rugged terrain, often with relatively dense vegetation coverage, a very high level of network reliability is consistently maintained.
- 2.4. Any change to the Transmission Pricing Methodology (TPM) has the potential to impact MLL, and its stakeholders. MLL's electricity supply is reliant on the transmission grid, and transmission charges make up approximately 20% of MLL's costs annually.

3. Issues paper question responses

- 3.1. Responses are presented in Table 1 for selected questions included in the issues paper.

Table 1 – Responses to selected questions from the paper.

Question	MLL response
Q1. Have the problems with the current TPM been correctly identified? In what ways does the current TPM work well?	<p>MLL agrees with the EA's view that the RCPD interconnection charge is achieving inefficient investment and outcomes in its current form.</p> <p>Under this current charging methodology, to minimise the interconnection charge passed through to consumers connected to MLL's network, the following activities are undertaken:</p> <ul style="list-style-type: none"> - Operation of mobile diesel generators to offset network load at times of suspected USI peaks. This is clearly inefficient due to: <ul style="list-style-type: none"> o The avoidable costs involved in operating mobile diesel generators; o The opportunity cost of staff involved in generator operation; o The increase in carbon dioxide emissions; and o Generating electricity to minimise load when there is significant spare capacity available in the local and regional transmission network. - Load control of water heating during times of high USI loading; and - Load control of irrigation consumers load. While this has not been carried out in recent years, it has been signalled to irrigation consumers that this may occur due to the increase in USI peaks occurring in summer months. This is an undesirable outcome, for the following reasons: <ul style="list-style-type: none"> o The summer months are generally when electricity supply is most valuable to irrigation consumers; o Engaging with irrigation consumers around the need for load control and the reasons behind it is challenging; o As summer months occur first in the transmission pricing year, the controlling of this load may end up being unnecessary if USI RCPD peaks occur in winter which eliminate the peaks earlier set in summer months; and o There is spare capacity in the grid, and load control would only be undertaken to minimise charges to consumers. <p>The paper proposes to replace the RCPD charge, it is not clear whether modifying the existing charge (for example increasing the number of the highest peaks on which the RCPD charge is based to lessen the strength of the pricing signal) has been considered by the EA.</p> <p>While the RCPD charge is resulting in some undesirable outcomes, having some form of peak charge does incentivise the limiting of network load and</p>

	<p>thereby reducing the need for further transmission capacity upgrade(s).</p> <p>MLL also agrees with the EA that consumers connected to MLL's network should not be paying (cross subsidising) for other transmission grid investments that clearly do not benefit its consumers, as illustrated in the case study under 2.52 of the issues paper.</p>
Q2. What are your overall views on the Authority's proposal for changes to the TPM guidelines?	<p>Overall, MLL is supportive of the proposal changes. The current TPM is resulting in some unnecessary and undesirable outcomes (refer Q1 response above) and requires change to ensure more efficient utilisation of the grid, and local distribution networks as well as achieving the EA's statutory objective.</p> <p>MLL (again, mentioned above) agrees that the RCPD interconnection charge in its current form is not achieving best outcomes, but believes there is merit in having a peak signal charge to minimise congestion and the potential need for avoidable transmission capacity upgrades in future.</p>
Q11. Should the current guidelines on connection charges be largely retained or are changes required?	MLL supports the proposed guidelines on connection charges.
Q49. Do you have any comments on the matters covered in this Appendix C?	Further material changes may occur from the (pending) outcomes of the Electricity Price Review (EPR). While MLL acknowledges the EA's efforts on pushing forward with the TPM in an attempt to bring it to a conclusion, the timing of the issues paper is questionable with the pending EPR. The EPR could have outcomes which may materially impact transmission pricing.

- 3.2. Further to the above responses, MLL questions whether the apparent lack of a coordinated approach across industry work streams or activities (i.e. the TPM, EPR and distribution pricing reform), including sequencing, may jeopardise the good intent of bring long term benefits to electricity consumers.
- 3.3. The maximum allowable revenue allowed for in the issues paper modelling will be less, based on the DPP3 determination recently confirmed by the Commerce Commission². It is not clear in the issues paper if sensitivity was used in this component of the modelling and what materiality any differences would result in, such as the expected rise in revenues by 18% to over \$1b by 2029/2030.



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² Commerce Commission, *Cost of capital determination for electricity distribution businesses' 2020-2025 default price-quality paths and Transpower New Zealand Limited's 2020-2025 individual price-quality path*, 25 September 2019