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Electricity Authority
Level 7, Harbour Tower
2 Hunter Street
Wellington 6143

By email: submissions@ea.govt.nz

Submission on Consultation Paper - Transmission Pricing Review

WEL Networks (WEL) appreciates the opportunity to make a submission to the Electricity Authority (the Authority) regarding the consultation paper: **Transmission Pricing Methodology: 2019 issues paper.**

WEL supports a timely conclusion to the Transmission Pricing Methodology (TPM) review process. Acknowledging that any variation to the existing TPM must invariably create winners and losers, there will never be an ideal methodology that satisfies all participants. We consider that the constant and prolonged uncertainty surrounding the TPM has created poor outcomes and inefficiencies which have ultimately been borne by consumers.

Peak Pricing Signal

WEL agrees with the Authority that there is benefit to reforming or refining the current Regional Coincident Peak Demand (RCPD) – peak pricing methodology. However, we do not support the complete removal of a peak pricing signal from the TPM; we consider that a peak pricing signal is essential for a robust and efficient TPM.

We consider that a lack of peak pricing signal will see peak demand rise faster than anticipated and require transmission (and distribution) upgrades sooner than expected. Bringing forward investment decisions will increase their costs as evidenced in Transpower's response paper: *the role for peak pricing in the TPM: November 2018.* This outcome is not in the long-term best interest of consumers and risks hindering energy affordability.

We remain concerned regarding the Authority's unproven proposal to rely on nodal pricing as a proxy for the peak pricing signal. Though RCPD may be imperfect, it is a price signal which distributors are able to respond to for the benefit of consumers on their networks, deferring transmission upgrades for many years. In our view, the risks of relying on nodal pricing to act as a peak pricing signal for transmission investment outweigh the perceived benefits.

In recent years, WEL has earnestly transitioned to more cost-reflective distribution pricing. Our Time-of-Use (TOU) pricing allows consumers to make consumption decisions against a price signal which reflects the impact those decisions have on our network. Eliminating peak pricing signals from the TPM risks setting distribution and transmission pricing on diverging paths, when the two should be complementary.

Avoided Cost of Transmission
The Authority notes that significant benefits are realised when the discontinuation of RCPD leads to the end of Avoided Cost of Transmission (ACOT) payments to generators. Although a well-intentioned mechanism, ACOT payments are often made for generation which does not avoid or defer transmission investment. This is particularly prevalent for ACOT payments made to non-dispatchable or non-firm generation.

The Authority proposes that generators could still be eligible for ACOT payments if variable charges (such as a transitional peak and/or kvar charges) are included in the TPM. The rationale is that ACOT price signals could encourage efficient operation by distributed generation. This argument may have some merit where distributed generation is dispatchable and firm. However, any benefit non-dispatchable or non-firm generation provide by reducing variable transmission charges can only be considered incidental at best.

Considering non-dispatchable or non-firm generation for ACOT payments based on any incidental benefit they provide would run counter to the Authority's statutory objective and result in a long-term reallocation of millions of dollars from consumers to generators for no tangible benefit.

Additionally, WEL has a bilateral agreement with a generator for ACOT payments. Terms dictate that WEL pay for the generator's contribution to reducing transmission charges so long as legislation or regulations 'do not prevent us from doing so'. We understand that other distributors have similarly worded agreements.

WEL suggests that the conclusion of ACOT payments be more explicitly worded in the proposed Code amendment. This would ensure that distributors are not required to continue payments by bilateral arrangements and that consumers receive the maximum benefit from the proposed TPM.

Consultation on Transmission Investment Decisions
WEL accepts the rationale for continuing the connection charge and the introduction of benefit-based charging. However, to increase the legitimacy of benefit-based charging WEL considers it would be essential to strengthen Transpower's obligations to consult on proposed transmission upgrades.

Throughout the current TPM there have been cases of transmission investment against the advice or wishes of stakeholders. With the proposed introduction of benefit-based charging now is the ideal time to strengthen the obligations and methodology which Transpower must use while consulting on investment decisions.

Genuine consultation on investment decisions would involve giving all alternative proposals to transmission investment fair consideration. Sufficient time should be prescribed for investment consultations, ensuring that all stakeholders facing a benefit-based charge can fully investigate and give practical feedback.

If you have any further questions or require clarification, please do not hesitate to contact me.

Yours sincerely

David Wiles
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