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Electricity Authority

Wellington

Submission on Transmission Pricing Methodology (TPM) consultation paper dated 10 October 2012

Northpower is a party and contributor to the submission (on this consultation paper) prepared by PricewaterhouseCoopers (PwC) on behalf of 22 Electricity Distribution Businesses. Having reviewed PwC's draft and provided feedback, Northpower has determined that there is no point in submitting a parallel submission covering the same points. Instead, we endorse the PwC submission and merely:

- Highlight some fundamental issues; and
- Document three suggestions for improvement to the existing TPM or any alternative TPM.

1. Fundamental issues

1.1 The criteria for a major review of the TPM has not been met

From Northpower's perspective, the criteria of "a material change in circumstances" required by Clause 12.86 of the Code has not been triggered. Specifically referring to the Authority's three points in clause 2.3.9 of the consultation paper:

(a) Recovery of the costs of major new investments (HVDC Pole 3 and NIGUP). The need for major new investment in the interconnected grid was known when the previous TPM was developed and, in Northpower's opinion, it does not constitute a "change in circumstances".

(b) Changes in regulatory oversight. Successive governments have made (and will continue to make) changes to government departments and ministries through renaming, mergers and reassignments of responsibilities. It is "business as usual".

(c) Advances in technology: Northpower strongly disagrees that a methodology should be made considerably more complex just because technology enables greater computing power. On the contrary, there has been considerable focus on simplifying and standardising electricity pricing, for instance through the Distribution Pricing Principles and standardisation of tariff codes.

1.2 The TPM is about allocation, not economic efficiency

As highlighted in clauses 2.2.4 to 2.2.7 of the consultation paper, the size of Transpower's revenue pie is set by the Commerce Commission. The TPM is simply a methodology for dividing up the pie between the connected parties in a fair manner. As such, the normal concepts of achieving efficient outcomes through pricing do not apply because a reduction on costs for one party must necessarily increase the costs collectively for all other parties. In contrast, efficient pricing of energy can lead to overall reductions in costs through such mechanisms as encouraging utilisation of energy generated from lower cost sources or by reducing overall consumption.

1.3 In reality, connected parties' ability to influence the grid design is very limited

In the consultation paper, there appears to be an underlying assumption that participants who pay the charges under the TPM actually have some influence as to where new investment in the interconnected grid will be made and what that will be. In practice, Transpower plans the interconnected grid and decides which projects Transpower will submit to the Commerce Commission (or previously to the Electricity Commission). At the consultation stage, participants can submit in support or in opposition to the proposed projects but that is the limit. Under the proposed "beneficiaries pays" methodology, participants who are deemed to benefit from a new investment would be required to pay whether they supported the investment, favoured an alternative strategy, or saw no need for the project at all.

The Default Transmission Agreement (DTA) requires Transpower to consult with customers connected to the grid in terms of any changes to relevant Connection assets at their Points of Connection to the grid, but that does not extend to the overall interconnected grid.

Therefore, from Northpower's perspective, linking the concept of "beneficiaries pays" to the efficient augmentation of the grid since 2004 and onwards into the future appears to implying a linkage that does not exist in the present environment of grid-planning rules and processes.

1.4 Retrospective legislation is generally undesirable

Except when correcting an error or an unintended consequence, it is generally accepted that changes to legislation should not be applied retrospectively. The Authority's proposal to apply "beneficiaries pay" to new grid investments approved since 2004 is effectively retrospective legislation.

In Northpower's view, new investment projects already approved and either completed or substantially completed prior to 2014 are now sunk costs. Changes in behaviour by "beneficiaries" of those investments will not change those investments at all. In fact, we should be encouraging the maximum use of these new projects to maximise the benefits of those investments.

2. Suggestions for improvements to the existing or any future TPM

There are some fundamental improvements that Northpower suggests could be made to the existing TPM (if it remains) or to any replacement TPM.

2.1 Generators should contribute to the costs of the interconnected grid

Throughout the series of consultations on the TPM, Northpower has strongly advocated that Generators should pay all, or at least 50%, of the costs of the interconnected grid (instead of just the HVDC). This would be consistent with the "cost of getting the goods to market" concept.

At present, subject to obtaining RMA approvals, generators can set up anywhere in New Zealand, connect to the grid, and only pay for the relevant local connection assets. The Distributors and Direct-connects pay for the entire cost of the interconnected grid and any augmentations, even if those augmentations are required to enable dispatch of new generation.

2.2 The UNI RCPD can now change from the average of 12 to the average of 100 highest demands

The Regional Coincident Peak Demand (RCPD) in the Upper North Island (UNI) is currently assessed on the basis of the average of the 12 highest regional demands. In contrast, the Lower North Island RCPD is assessed over the average of the 100 highest regional demands. It is now timely to change to the average of 100 highest regional demands for the UNI.

When the existing TPM was introduced, the difference (using 12 highest demands in UNI versus 100 highest demands in LNI) was justified (by the Electricity Commission) on the basis of the need to keep a sharp focus on managing peak demand in the UNI due to constraints on the grid supplying the UNI and also through the UNI (particularly from Henderson to Otahuhu).

With the NIGUP project successfully commissioned and the NAaN project due for commissioning in early 2014, those constraints will be confined to history and the focus on management of peak demand for the purposes of reducing grid constraints will no longer be applicable.

2.3 Grid charges should continue to be set on the basis of the existing Capacity Measuring Periods

The present TPM uses the historical demands from the preceding September to August - the Capacity Measuring Period (CPM) – to determine the charges for each connected party for the forthcoming year. This has had the positive outcome of fixing the monthly charges for the entire year which is essential for Distributors who have to set their prices in advance and for end-use customers who value predictability in their budgeting process.

Whether the existing TPM is retained, modified in some way, or completely replaced with a new TPM, Northpower urges the Authority to continue to specify that the charges are set (and therefore locked in) on the same basis. The alternative of potentially varying charges every month, with little hope of successfully forecasting them in advance, would be a significant backward step. [It is understood that the Authority has subsequently indicated a willingness to consider utilising the current CPM in the application of any amended TPM.]

3. Conclusion

We trust that the above points are useful and relevant to the Authority in deciding on the way forward. However, we reiterate that Northpower's views are captured in the PwC submission and the above points in this Northpower submission are only intended to be a minor augmentation to the PwC submission.

Regards

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