

Contact Energy Limited Transmission Pricing Methodology



Cross submission to the Electricity Authority
28 March 2013



This cross submission by Contact Energy Limited (**Contact**) is in response to the Transmission Pricing Methodology (TPM) submissions received by the Electricity Authority (**Authority**) on 1 March 2013.

For any questions relating to this submission, please contact:

Catherine Thompson | Regulatory Affairs Manager
Contact Energy | DDI: 04 462 1130 | Mobile: 0274 399 676

or

Louise Griffin | Regulatory Affairs Advisor
Contact Energy | DDI: 04-496-1567 | Mobile: 021-243-1442

Cross submission

It is clear from reviewing the submissions that the Authority has not made a case for radical change to the TPM. Participants **do not** believe that the proposal correctly identifies the problem, provides a durable solution or is supported by robust cost benefit analysis. Moreover, the Authority's implementation timeframe and costs are not realistic, especially given the Authorities poor project delivery to date.

We recommend the Authority at least considers as an option limiting changes to incremental modifications that can be well supported. There is no need to rush more substantive change, given that major new transmission investment is unlikely in the near future.

Contact proposes that the incremental modification include:

- implementation of the Kvar charge;
- modification to the HVDC charging regime including:
 - replacement of the historical anytime maximum injection (**HAMI**) with a megawatt hour charge; and
 - expansion of the definition of '**South Island generation**' so it includes all South Island generation greater than 10 megawatts that injects into the Grid or a local network (so it includes embedded generation);
- removal of the subsidy for embedded generation i.e. the avoided cost of transmission benefits in export regions, as covered in our original submission;
- consideration of whether these changes have any flow on implications for the prudent discount policy.

Focusing on these relatively small but nevertheless significant changes, would allow the Authority to apply rigour to the problem definition, design and cost benefit analysis.

Given the significance of the policy change for embedded generation, it may be appropriate to consider some form of transitional arrangement.

Other comments

We refute NZIER's comment¹ that it is likely that the HVDC HAMI charge has already been factored into South Island generators asset values. We can only comment in relation to Contact and advise that this is incorrect.

Pacific Aluminium's comments on Economic Value accounts are not appropriate for the methodology phase of the Authority's consultation process.

Suggested next steps

To progress a solution on the TPM we recommend the Authority issues a new paper that considers as a minimum, the status quo and an incremental change option. If the Authority

¹ NZIER Report – Transmission Pricing Methodology 2012; Appendix to the submission of the Major Electricity Users' Group dated 28 February 2012.

wishes to persist with a more radical option then this could be usefully compared to the incremental change option.

Given the level of discontent with the current proposal, Contact sees no merit in an industry conference until a revised proposal with an appropriate set of options is put on the table.

If the Authority pursues the approach outlined above then we would suggest a staged change with accelerated implementation of an amended status quo and a timetable for broader change mapped out. This will go a long way to providing certainty for market participants and capital providers.