

4 March 2014

Electricity Authority  
PO Box 10041  
Wellington 6143

Dear Sir or Madam

**Working Paper - Use of LCE to offset transmission charges**

Mighty River Power welcomes the opportunity to comment on the working paper on use of loss and constraint excess (LCE) to offset transmission charges. Nothing in our submission is confidential.

We support option 2 which is the option favoured by the Electricity Authority. Option 2 involves classifying LCE by asset class and applying LCE originating from connection assets against charges for individual assets. Under this option, the remaining LCE would be credited against the maximum allowable revenue (MAR) in bulk.

We consider option 2 to be the most straightforward solution. In addition, as pointed out in the working paper the gaming risk in relation to connection assets is low. With non-connection assets, as we pointed out in our submission on the October 2012 TPM working paper, some parties may have both the incentive and the ability to inefficiently “game” the spot market to alter the creation and allocation of LCE in order to reduce their transmission charges. This may be at the expense of other participants. Crediting remaining LCE against the remainder of the MAR rather than against specific assets will significantly reduce gaming risk. We agree that the benefit of reducing gaming risk is likely to outweigh the costs of LCE cross-subsidising costs between asset classes under option 2.

Mighty River Power supports the conclusion that a long averaging period to calculate the distribution of LCE assets or asset classes would go some way towards diminishing the risks of gaming. As noted in the working paper, the Commerce Commission rather than the Electricity Authority sets the MAR but the Electricity Authority could amend the TPM and/or other parts of the Code to deal with any issues. We agree that this and other considerations such as the timing of money flows and invoicing will be worked through in the detailed design of any changes to the TPM and are likely to apply equally to all the options considered in the working paper.

If you have any questions please contact Nick Wilson, Senior Regulatory Advisor  
[nick.wilson@mrp.co.nz](mailto:nick.wilson@mrp.co.nz) 095803623 or 0277050476.

Yours faithfully

Nick Wilson  
Senior Regulatory Advisor