



4 March 2014

Submissions  
Electricity Authority  
By email: [submissions@ea.govt.nz](mailto:submissions@ea.govt.nz)

### **Transmission Pricing Methodology: Use of LCE to Offset Transmission Charges**

Meridian welcomes the opportunity to provide feedback on the Electricity Authority's working paper 'Use of LCE to Offset Transmission Charges'.

Meridian supports the use of loss and constraint excess (LCE) to offset transmission charges. This is a market-based approach to transmission charging, and therefore preferred under the Authority's decision making framework.

We note that concerns have been raised by submitters in relation to the Authority's initial proposal for the allocation of LCE, as set out in the October 2012 consultation paper. Specifically, some submitters were concerned that the allocation of LCE to individual assets could result in:

1. Muting of short term price signals; and
2. Inefficient generator offer behaviour.

Meridian considers the risk of these concerns manifesting to be low due to:

1. The transforming of LCE through the Financial Transmission Rights (FTR) regime into residual LCE; and
2. The proposed dynamic allocation of transmission charges under an SPD-based beneficiaries pays approach.

These features make it very difficult to reliably predict the quantum of LCE received (in the form of a transmission charge offset) by a participant in a particular trading period. As such, any impact on short term price signals or generator offer behaviour is likely to be minimal.

However, we recognise that some participants may continue to hold such concerns. Adopting an approach to allocating LCE that addresses these concerns is likely to provide a more durable outcome.

As noted in Meridian's submission on the October 2012 consultation paper, a critical principle in the overall design of a Transmission Pricing Methodology (TPM) is that HVDC and HVAC assets should be treated consistently. On the basis that the new TPM will remove the present distinction between HVDC and HVAC assets for charging purposes, Meridian supports the Authority's proposal to allocate LCE to Transpower's Maximum Allowable Revenue in bulk (rather than to individual assets).

With respect to the three options described in the working paper, Meridian supports the Authority's preference for Option 2. Crediting LCE to individual connection assets will avoid cross-subsidisation between asset classes and does not carry any practical risk of muting short term price signals or inefficient generator offer behaviour.

Please contact me if you have any questions regarding this submission.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Matthew Hall', is positioned above the typed name.

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