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TRUSTPOWER SUBMISSION: TRANSMISSION PRICING METHODOLOGY – USE OF LCE TO OFFSET TRANSMISSION CHARGES

1. Trustpower welcomes the opportunity to provide a submission to the Authority on its working paper "*Transmission Pricing Methodology: Use of LCE to Offset Transmission Charges*" dated 21 January 2014 ("the LCE Paper").

2. We note the range of options presented in the LCE Paper as follows:

   a) Option 1: Crediting LCE against the maximum allowable revenue (MAR) in bulk;

   b) Option 2: Classifying LCE by asset class and applying LCE originating from connection assets against charges for individual assets. Under this alternative, the remaining LCE would be credited against the MAR in bulk; and

   c) Option 3: Classifying LCE by asset classes and applying LCE originating from connection assets against charges for individual assets. Crediting LCE from other asset classes against the MAR by asset class.

3. We also note that the Authority's preferred approach is Option 2, and that the LCE Paper is predicated on the introduction in some form of the Authority's proposals for comprehensive reform to the current Transmission Pricing Methodology ("TPM"), as outlined in its TPM Consultation Paper of October 2012 ("the TPM Paper").

4. It is our opinion that LCE allocation is certainly worth addressing, but that it should be addressed within the context of the current spot market and existing TPM, rather than as part of a hypothetical TPM, especially one with so many unresolved complications.

5. Nevertheless, within the narrow context presented by the Authority, Trustpower supports the Authority's view that Option 2 would best address the identified risks that nodal prices may be muted, and that gaming by generators may occur.

6. Generally, Trustpower is of the view that LCE should be returned as directly as possible to the spot market purchasers who paid it in the first place, in order to provide a simple hedge against locational price risk across all nodes[1]. We understand the potential blunting of the pure nodal prices that may result, but observe that the current allocation of LCE (and the Authority's preferred alternative allocation in the LCE paper) both have

[1] Refer Trustpower's submission on the TPM Paper at http://www.ea.govt.nz/dmsdocument/14406

the ultimate effect of also returning (some) LCE to purchasers, but via a circuitous set of allocation rules involving the grid owner, FTR auctions, network company charges/credits and timing delays. We believe that a more direct LCE allocation would achieve a better result with less risk, volatility and cost to consumers. This would also have flow-on impacts in terms of benefitting retail competition.

7. For any questions relating to the material in this submission, please contact me on 07 572 9888.

Regards,

JAMES TIPPING
REGULATORY STRATEGY MANAGER

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