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## **Submission on Transmission Pricing Methodology: Use of LCE to offset transmission charges**

### **Introduction**

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Electricity Authority's ("the Authority") working paper, *Transmission pricing methodology: Use of LCE to offset transmission charges*, dated 21 January 2014.
2. Vector's view on the use of LCE to offset transmission charges remains unchanged since its submission on the October 2012 TPM Issues Paper.<sup>1</sup>
3. No part of this submission is confidential and Vector is happy for it to be made publicly available.
4. Vector's contact person for this submission is:

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### **Transpower retaining transmission rentals**

5. Vector supports Transpower retaining residual transmission rentals and auction income from locational hedges (transformed rentals) and netting them off its revenue requirement.
6. We believe the Authority's proposal would be improved if the transformed rentals are not tagged to individual (SPD) assets. The transformed rentals could then be used to reduce the revenue recovered from the remaining components of a pricing methodology, i.e. they would reduce the residual charges rather than the SPD charges.

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<sup>1</sup> <http://www.ea.govt.nz/our-work/consultations/priority-projects/tpm-issues-oct12/submissions/>

7. The use of transformed rentals to reduce Transpower's revenue requirement has a number of advantages, including:
  - a. reducing nodal price distortions through allocation of rentals;
  - b. lowering the revenue Transpower needs to recover through an inevitably imperfect TPM;
  - c. reducing administrative costs caused by industry participants having to pass the rentals along the supply chain; and
  - d. consumers benefitting from a real reduction in transmission charges. Consumers would avoid the stickiness issues with transmission rentals not being passed through to them by unregulated electricity distribution businesses and retailers. Transmission rentals will instead be implicitly passed through by way of lower transmission charges.
8. Castalia makes the point that linking rentals to SPD assets will have the perverse impact of lowering transmission charges in those areas where wholesale energy prices are raised by transmission constraints.<sup>2</sup> This supports our view that rentals should not be tagged to the individual SPD assets that generated them.
9. We **recommend** that the residual transmission rentals and auction income from locational hedges (transformed rentals) be netted off Transpower's aggregate revenue requirement and not tagged to individual SPD assets.

#### **Treatment of LCE payments**

10. The treatment of LCE payments should take into consideration:
  - a. What would distort intended transmission and nodal pricing the least?
  - b. What would ensure the greatest pass-through of the rentals to consumers?
11. We **recommend** either option 1 or 2 in the working paper, which we consider would best satisfy the above considerations.

Yours sincerely



Bruce Girdwood  
**Group Manager Regulatory Affairs**

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<sup>2</sup> Castalia Strategic Advisors 2013, *Review of the Electricity Authority's Cost Benefit Analysis of the Proposed Transmission Pricing Methodology*, 25 February 2013, <http://www.ea.govt.nz/our-work/consultations/priority-projects/tpm-issues-oct12/submissions/>, attachment to Genesis submission, page 20