

24 June 2014

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Sirs

Re: Transmission Pricing Methodology: Connection charges

Thank you for the opportunity to provide feedback on the working paper on connection charges. The Authority outlines a number of reasons why it favours charges based on the depreciated replacement cost (DRC) versus the current basis of applying depreciation to all connection pool assets (ARC). Nova concurs that the DRC method is more transparent to users and may show a net benefit over ARC on a pure economic basis.

For this reason Nova favours a move to DRC for generators and major electricity users directly connected to the Transpower grid. The owners of those assets are sufficiently informed to engage with Transpower over the service standards appropriate to their needs, and can adequately cope with the changes in charges over time as assets are depreciated or upgraded. They are also in a position to advise Transpower on the expected economic life of the generator or load connected to the grid when upgrades and replacements are contemplated.

For distribution networks, however, the ARC methodology is more appropriate. The differences in charges between distribution networks are already greater than desirable without adding significant changes over time and greater variation in costs between NSP's. Variations in connection charges are also unlikely to lead to different economic decisions within each network. The Grid Reliability Standards required are the same for all networks and there is less incentive for distribution companies to engage with Transpower on decisions around upgrade and replacement of assets. For this reason Nova believes that there is negligible benefit in adding to the complexity of network charges by moving to DRC for this group.

Any cross subsidisation that occurs by retaining ARC for distribution companies is effectively socialised across a wide range of users, whereas the generators and major users should be directly accountable for their costs to the grid, and for them the DRC method is more appropriate. Nova believes that Transpower should be able to implement such a mixed pricing model for connection charges.

Yours sincerely



Paul Baker
Commercial & Regulatory Advisor

pbaker@novaenergy.co.nz
dd: 04 901 7338