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TRUSTPOWER SUBMISSION: TPM – CONNECTION CHARGES

1 Introduction

- 1.1.1 Trustpower Limited (“Trustpower”) welcomes the opportunity to provide a submission to the Electricity Authority (“the Authority”) on its Transmission Pricing Methodology (TPM): Connection charges working paper (“the Working Paper”).
- 1.1.2 Our submission focusses on the following key points:
 - a) The increased time spent on dispute resolution could decrease efficiency;
 - b) The problem definition is insufficient to justify change; and
 - c) De-averaging of the asset charge is not likely to maximise benefit to consumers.
- 1.1.3 Each of these points is explored in the remaining sections of this submission.

2 Increased time spent on dispute resolution could decrease efficiency

- 2.1.1 As stated by the Authority in section 5.11 of the Working Paper, the “*submissions on this proposal [to the 2012 TPM Issues Paper] suggest the costs of this proposal may exceed the benefits*”. A key point raised in the earlier submissions to the Issues Paper was that:

“Individual referral to the Authority may lead to a greater number of disputes. Referral of disputes to the Authority would put the Authority back in the position of a second transmission investment regulator, which is counter to the intent of the reforms that led to its creation. The Commission already regulates expenditure on asset replacements.”

We agree with this statement.

- 2.1.2 Transpower provided input to the Working Paper that the current flattened charge is consistent with a service-type charge that allows Transpower to employ a fleet management strategy for the purposes of managing the connection assets charged through the pool.
- 2.1.3 Fleet management strategies can increase efficiency by:

- a) Considering whole-of-life costs instead of just the purchase price;
 - b) Establishing predictable replacement schedules which control costs by considering operating costs, reliability history and estimated resale value; and
 - c) Providing fleet managers with the ability to negotiate discounts on purchase price by using economies of scale.
- 2.1.4 If consumers were to face a DRC-based charge, they may be unwilling to allow their assets to be replaced or upgraded as part of a fleet upgrade. Despite it being more efficient economically for Transpower, consumers will be incentivised to delay upgrades to the last possible moment. This will undermine the fleet strategy, which has not been proven to be inefficient.
- 2.1.5 DRC-based charging was applied during the 1990s but customer hold-out meant Transpower was unable to replace some assets when it was deemed efficient to do so. As a result, Transpower reverted to ARC-based charging. The Authority seems to believe that the difference this time is that, even if the customer disputes the investments, Transpower is able to proceed with investments for which it has regulatory approval from the Commerce Commission (ComCom). This raises two issues:
- a) Continually overriding customer opinion using legislation reduces customer goodwill; and
 - b) Investments already require financial approval from the ComCom. If there is a belief that inefficient investment is occurring (or could occur), it should be the role of the ComCom to rectify the situation.
- 2.1.6 There were good reasons to abandon the DRC model in the 1990s, and the Authority has not shown adequate reasoning for re-introducing it.

3 The problem definition is insufficient

- 3.1.1 The two potential problems the Authority has identified are:
- a) Parties are incentivised to have connection assets configured within a transmission loop so that connection assets are inefficiently reclassified as interconnection assets; and
 - b) If asset commissioning is staged, assets may be commissioned in a way that connection costs are inefficiently shifted into the interconnection charge during the commissioning process.
- 3.1.2 The problems the Authority has identified are theoretical possibilities, but are unlikely to occur in reality. The Authority has failed to present any examples of inefficient loop connections occurring. The only example the Authority has provided is Project Aqua, which *might* have inefficiently configured their transmission *if* the project had gone ahead, which it did not.
- 3.1.3 With regard to inefficiently staging the commissioning of a project to avoid transmission charges, again this is a theoretical possibility but not likely a reality. The one example the Authority has provided showed that when the Authority believed that Vector and Transpower were trying to change connection classification inefficiently, the two parties were denied an exemption. This shows the system works – the inefficiency was prevented. This is not an example that provides justification for regulatory change.
- 3.1.4 There is not a convincing problem definition, and no identified examples of the inefficiencies the Authority has described.

4 De-averaging of the asset charge is not likely to maximise benefit to consumers

- 4.1.1 A key motivating factor for the transition back to a DRC-based charge is the Authority's belief that "*customers may be inefficiently incentivised to seek more frequent replacement or upgrades*

as the additional costs would be socialised in the connection pool.” However the Authority has not provided any evidence that this occurs.

- 4.1.2 Removing the ARC-based charge removes the insurance effect that it provides. Although some assets may last well beyond their financial life, others may need replacing earlier. Paying based on the average cost allows charges to be predicted and planned for. As discussed at length in many parties’ submissions earlier in this TPM review, predictability of charges allows for greater efficiency.
- 4.1.3 As a retailer responsible for recovering distribution charges from our customers, we value certainty and stability in those charges. A scenario in which a network company’s charges decreased over time and then increased significantly when a major asset was replaced would not be desirable. This would not be a straightforward issue to explain to customers and would be unlikely to increase customers’ confidence in their charges.

5 Conclusion

5.1.1 In summary, our position on this issue is as follows:

- a) Introducing a DRC-based charge could lead to consumers that are about to face significant increases in cost, objecting to upgrades that are required under the GRS;
- b) DRC-based charges could prevent Transpower from running an efficient fleet management model;
- c) The problems the Authority has described are largely theoretical and unlikely to occur in practice (this is supported by the lack of examples);
- d) We do not believe there is an issue with customers inefficiently seeking more frequent upgrades; and
- e) We support the current ARC-based charge due to the insurance and predictability in pricing it provides.

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

Regards,



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