



T R A N S P O W E R

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John Rampton
General Manager
Electricity Authority
WELLINGTON

By email: submissions@ea.govt.nz

Dear John

Working Paper – Transmission pricing methodology: Long Run Marginal Cost (LRMC) charges

We welcome the opportunity to submit on the Electricity Authority's Working Paper "Transmission Pricing Methodology: LRMC charges", 29 July 2014. No part of our submission is confidential.

Having reviewed the working paper, we remain of the view that LRMC or LRMC-like charging warrants further exploration *if* the Authority can convince itself that radical changes to transmission pricing are desirable. We are however doubtful that there is a case for radical change, and are concerned with the costs and uncertainty imposed by continued consideration of radical change.

The working paper reinforces that there is an endless range of pricing options, none of which are close to perfect. The information challenges and uncertainties in predicting future expansion paths mean that complex, fine-grained, unstable pricing is unlikely to be worthwhile. If the Authority does pursue LRMC further, we would prefer simpler options such as a revenue-adequate tilted postage stamp (with no residual charge).

We note that the current pricing arrangement of a regionally differentiated postage stamp interconnection charge and geographically-targeted HVDC charge already provides a relatively simple LRMC-like charge. As a less radical option, these charges could be modified over time to adjust price signals.

Please let me know if you have any questions or would like to discuss any of the points made in this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'JC' followed by a long horizontal line.

Jeremy Cain
Regulatory Affairs Manager