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## **SUBMISSION ON TPM: PROBLEM DEFINITION**

- 1 Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on the “Transmission Pricing Methodology: Problem definition relating to interconnection and HVDC assets” working paper (the **paper**) released by the Electricity Authority (Authority) in September 2014.

### **Introduction**

- 2 We are encouraged that the Authority has revisited the problem definition. However, the paper has not established that the supposed problems are particularly material. Much more importantly, in its final proposal the Authority will have to clearly explain why any proposed solution, whatever that turns out to be, will effectively deal with the problems, and in the lowest cost way. Even if all of the problems identified in the paper are accepted with associated worst case inefficiencies, that does not mean that the current TPM can be improved on, and it certainly does not follow that SPD beneficiaries-pay would make things better.
- 3 To be more specific, an area that Orion and many other submitters have repeatedly challenged the Authority on is *how* any proposed changes will improve grid investment decision-making. Two years down the track we have still not seen this explained.
- 4 The remainder of our submission is in two parts:
  - General comments on the paper, and
  - Responses to specific questions (as an appendix).
- 5 The Electricity Network Association (ENA) has also prepared a submission on the paper. Orion supports the ENA submission.

## General comments

### *The problem definition*

- 6 In terms of the revised problem definition, this is now stated with respect to HVDC and interconnection charges (and, regarding the third point, the prudent discount policy) as:
- the current TPM fails to promote efficient investment in transmission, generation, distribution and load,
  - the current TPM is not durable, and
  - the current TPM fails to promote efficient operation of the industry.
- 7 We do not challenge this problem definition directly here as we prefer to treat this as a list of *possible* problems and focus more on the paper's argument that the problems exist in fact and are as material as claimed.
- 8 However, before getting into that, and in anticipation of future papers on the TPM, we think it is worth setting out our view of an appropriate response **if** the problems are accepted and with the efficiency consequences as set out in the paper. What then would the set of possible solutions look like? We think it is some or all of the following:
- review the Commerce Act Part 4 application to Transpower via its individual price-quality path,
  - review the major capex IM for inherent limitations / conflicts with the TPM,
  - review transmission region definitions and the respective values of "N",
  - reconsider tilted postage stamp pricing for interconnection,
  - review HAMI and SI generators only paying for the HVDC,
  - include HVDC in with interconnection (for example, charge it all to load).
- 9 This aligns with the weight of submissions so far, which we would summarise as saying: "The current TPM is not perfect, but no TPM is likely to be perfect. In any case, whatever the imperfections of the current TPM are, the Authority's proposals (so far) will not improve matters."

### ***Investment efficiency***

- 10 Criticising grid investment decisions that are - according to the rules of the game - taken without regard to how transmission is priced is not very helpful, even if that criticism is well placed, since it fails to acknowledge that unless you change the rules, the decisions will be the same irrespective of the TPM.
- 11 It would really help the case if examples of inefficient investment, particularly by distributors and by loads in choosing inappropriate locations, were provided.
- 12 The problems of regulatory investment decision-making (paras 9.2(a) and (b)) are well understood. However, it is in the light of that understanding that New Zealand has chosen to use such a model, judging that the acknowledged problems are outweighed by the greater good. Now that decision may have been wrong, but if it was, a TPM review is not the way to address it.
- 13 The concerns about the lack of incentives on distributors to input to grid investment decision-making (para 9.2(b)) does not seem to be consistent with concerns that distributors over respond to RCPD price signals. (See section 11 of the paper.) Nor is it clear *why* this "...is not a sufficient reason to dispense with attempting to provide efficient price signals ... through transmission charges." (Para 9.2(d)). We agree with the conclusion but cannot follow the logic.
- 14 We are not sure that we should need to defend ourselves against the implication that we did not oppose recent major investments despite not benefiting from them yet picking up a share of the cost (para 9.2(d)), but in any case:
  - Firstly, we do not believe that a submission criticising the workings of the TPM rather than the investment itself (about which we have no special information or expertise) is admissible by the net benefits test.
  - Secondly, our involvement is presumably exactly what would be expected under a beneficiaries-pay approach – we would not involve ourselves in decisions about investments that provide us with no benefits and therefore no charges?
- 15 Care needs to be taken in asserting cross-subsidy (see para 8.5(b)). Which parties are paying less than incremental cost (which is normally around zero)? Which are (somewhat surprisingly) paying more than standalone cost? The paper does not say. Examples are needed to explain how a potential problem is a real problem.
- 16 Once words like "broadly" are used (para 8.6(a)) the situation becomes much less clear. Overall, given Transpower's price regulation, transmission charges will always "broadly" reflect the cost of supply. At what point does it become too broad?

- 17 The comments about cost spreading (9.2(d)) would benefit from some empirics. How thinly spread are the costs associated with interconnection investment? How different would they be if they were not spread so thin? One attempt at this is as follows:
- Across the whole country the annual interconnection revenue since 2009 has increased by about \$250 million per year, or about 0.6 cents per kWh, or around 2.5% for a typical consumer paying 25 cents per kWh.
  - Had none of this been attributed to connections outside the UNI then clearly those costs elsewhere would be less by the 0.6 cents per kWh.
  - Costs in the UNI on this basis would have increased by about 1.9 cents per kWh against the 0.6 cents per kWh, or 1.3 cents per kWh more.
- 18 The paper does not state at what point this increase becomes sufficient to incentivise small consumers to scrutinise investment proposals, but we doubt that the extra 1.3 cents per kWh is enough. But in any case these limited incentives are, or could be, allowed for in the way the investment tests are carried out.
- 19 It would have helped the paper's case significantly if it had provided some actual examples of relevant information that was not input to the grid investment decision process, but which, if it had been, would have improved the decision. If such examples are in fact available, a later paper would still need to demonstrate how the TPM affects incentives for the withheld information to be provided. (We acknowledge the Kawerau example (from para 9.35), but the Authority itself seems to be unsure whether this is a good example (since it is seeking submitter views) and in any case we have no basis to comment on it specifically. Perhaps it is better seen as an example of a possible problem with the connection / interconnection boundary?)
- 20 In any case the paper's analysis of submissions on investment proposals (para 9.28 onwards) indicates quite significant engagement by parties, and the paper concludes that "...the existing TPM does incentivise some parties to scrutinise Transpower investments." (Para 9.34). We see no basis for the conclusion in the same para that "...**better** targeting of transmission costs is likely to lead to **more effective** incentives on participants..." (Emphasis added.)

### ***Durability***

- 21 We have few comments on durability. Overall we believe the existing TPM has proved quite durable, and the key question to be answered in due course is whether any proposed new TPM is **more** durable. Our judgement is that the proposals so far are less durable.
- 22 Regarding para 8.8(b), we make two observations:
- Parties will always be incentivised to try and avoid transmission charges even if that involves just shifting them onto another party. We believe this incentive

is unavoidable, and we believe this is a very good reason why the Code should set a material change threshold for review of an approved TPM. The Authority could perhaps support the Code by stating that it will only review the material change threshold every, say, 5 years?

- The current TPM review is certainly a good example of how enormous resources can be devoted to a TPM review, in our view unnecessarily.

***Inefficient generator behaviour and demand side response***

- 23 Our comments here focus on load management in response to RCPD, although we do make one comment about HAMI and HVDC.
- 24 As we noted in our submission on the TPM LRMC working paper, it is important when considering demand response to understand the historical context. In Orion's case we have been actively managing load for many decades, and this has resulted in lower demands (and less network investment) than would otherwise have been the case. We believe most other distributors do the same. One consequence of this is that the potential for reduced response needs to be taken into account as much or more than possible additional response.
- 25 Para 11.29 of the paper goes to the nub of the issue when it states that "...the Authority does not know the magnitude of the response over and above the amount of load control that would take place if there was no RCPD charge, or the cost of responding." We can assist the Authority here. While *coordinated* USI load management was initially a response to the introduction of RCPD, we do not believe RCPD has elicited any material new response. Rather, it has just resulted in a different use of the existing response. Put another way, if there was no RCPD, USI distributors might no longer coordinate load management, but they would likely still make use of the existing response, just in different ways. We also note that the level of response has not changed as a result of the significant increase in the interconnection rate in recent years.<sup>1</sup>
- 26 A corollary of this is that, no matter what the societal cost of mass market load control (or indeed any form of demand response) is, the *incremental cost* of using it to respond to transmission price signals at the same time as it is used for local network purposes is near zero.
- 27 For the avoidance of doubt, this is not the same as saying that material changes to the strength of price signals that consumers see will not change their behaviour over time.

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<sup>1</sup> This is partly because a significant component of the response is storage water heating which, at least in the short to medium term, is either on or off irrespective of price (it reflects a long term investment in response to long-term price signals), and partly because the transmission component of the price signal (about one third) is only a part of the total price signal.

***Prudent discount policy***

- 28 We believe the prudent discount policy is a sensible adjunct to any TPM which acknowledges inevitable imperfections. We see no evidence that the existing policy is being misapplied or abused. Nor has the Authority provided any evidence.

***Assessment of inefficiency***

- 29 Consistent with our comments above, we remain unconvinced by the Authority's arguments that the inefficiency costs of the current TPM are material. We simply do not believe changes to the TPM can improve investment decision-making, at least so long as the decision-making process is unchanged.
- 30 However, we note that adding up the worst case inefficiency costs listed in the paper gives a maximum total present value of 'benefits' of around \$233 million,<sup>2</sup> or around \$23 million per year or say \$12 per consumer per year. It is generally believed that at least some of the annual cost of the HVDC is currently absorbed by SI generators. If just 1/6<sup>th</sup> of the current cost of the HVDC finds its way through to consumers by way of higher retail prices as a result of changes to the TPM, then this will offset this maximum possible efficiency gain in terms of what consumers pay. We admit that this is mixing wealth transfers with efficiency effects, but were we to ask consumers about whether they thought such an outcome was worth pursuing, we suspect they would say "no".

***Other comments***

- 31 The paper revisits the rationale for the DME framework (for example in para 4.9) and concludes that the framework means that the Authority should focus on the overall efficiency of the electricity industry for the long-term benefit of consumers. We submit that this is just a restatement of the Authority's statutory objective rather than a conclusion based on the application of the DME framework. We note that the framework is hardly mentioned in the rest of the paper. We endorse the Authority's decision to "...for completeness...also consider the current TPM and any proposed TPM against all limbs of the Authority's statutory objective." (Table 2, page 31), but we think that the Authority must do this in any case, and that this demonstrates that the framework adds little or no value, and in fact is an unhelpful constraint on the Authority's thinking. We also consider that, should the Authority persist with the use of the DME, then this should be in addition to the review requirements of the Code<sup>3</sup>,

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<sup>2</sup> Values taken from Table 1 of the paper, pp vi to viii. Where there is a range of values, the largest has been used.

<sup>3</sup> Section 12.87 of the Code requires that the process for any review of the TPM must take into account the requirements of clauses 12.79 and 12.89(1). The Authority must follow the processes outlined in clause 12.91 to 12.94 when reviewing a transmission pricing methodology. These Code requirements require consideration of the Authority's objective

which we note like the DME were also developed after widespread consultation and incorporation of feedback from stakeholders<sup>4</sup>.

- 32 The Authority must also take into account other Code requirements such as the purpose of the TPM which is to ensure that, subject to part 4 of the Commerce Act 1986, the full economic costs of Transpower's services are **allocated** in accordance with the Authority's objective in section 15 of the Act.
- 33 It is the Authority's role to ensure that the full economic costs in relation to an approved investment<sup>5</sup> are **allocated** in a manner that promotes competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers. It is not the Authority's role to ensure that these **approved investments** meet these requirements.
- 34 As the Authority has indicated in relation to its DME consultation, where with respect to any aspect of the TPM the Authority's preferred option is an alternative to the status quo, the next step will be to prepare and release an issues paper as required by clause 12.81 of the Code. This will include the draft guidelines and process that Transpower must follow in developing a new TPM, as required by clause 12.83 of the Code.
- 35 In accordance with Part 12 of the Code, the Authority will then consider submissions on that issues paper and determine the process that Transpower must follow to develop a revised TPM, and the guidelines that Transpower must follow in preparing a revised TPM (clauses 12.82 and 12.83 of the Code).
- 36 The paper also revisits the road transport analogy (from para 5.5). We have previously expressed our doubts about the usefulness of this analogy in the context of electricity transmission and distribution, so we are pleased that the paper goes on to point out the limited applicability of the analogy due to two crucial differences: that electricity transmission, unlike transport, is "...not subject to workable competition..." and "...is subject to significant economies of scale..." (both para 5.8, p23). In light of this we believe that the authority can reasonably drop this analogy from any further papers.
- 37 A further area that the paper revisits is the material change in circumstances criterion in Clause 12.86 of the Code. We are not sure exactly what position the paper is taking with respect to the Code requirement, particularly in para 4.13, p21. However, we consider the Code is quite clear, and to put it in the negative, the Authority **may**

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<sup>4</sup> Table 2, page 31 of the paper

<sup>5</sup> "**approved investment** means—

(a) an investment approved by the Electricity Commission under section III of part F of the rules before this Code came into force; or  
(b) an investment approved by the Commerce Commission under section 54R of the Commerce Act 1986; or  
(c) an investment that is permitted under an input methodology determined by the Commerce Commission under section 54S of the Commerce Act 1986"

**not** review the current TPM **unless** there has been a material change in circumstances. Since the current TPM was in place when the Code was promulgated it can be assumed it is the “approved” TPM and that the regulatory intent was to place some sort of bar to material changes to it. In this sense the Code itself makes, or should make, any existing TPM quite durable. We note that the great weight of submissions was that the three-pronged argument for a material change in circumstances made in the Authority’s October 2012 was unconvincing.

- 38 However, we do agree with the Authority if its position is that it might propose changes to the TPM even if there has not been a material change in circumstances, and if it perceives there are problems with the current TPM. We believe any party is entitled to do that. However the way that the Authority goes about this must be commensurate with it not being a 12.86 review. Depending on the perceived problem the approach could be little more than a letter from the Authority to Transpower. (And we note that Transpower is separately carrying out its own review of a number of aspects of the TPM.)

### **Concluding remarks**

- 39 Thank you for the opportunity to make this submission. Orion does not consider that any part of this submission is confidential. If you have any questions please contact Bruce Rogers (Pricing Manager), DDI 03 363 9870, email [bruce.rogers@oriongroup.co.nz](mailto:bruce.rogers@oriongroup.co.nz).

Yours sincerely



Bruce Rogers  
**Pricing Manager**

**Appendix: Response to specific questions**

Question	Response
<p>Q1 Do you agree that, in relation to decisions around transmission pricing, the Authority should focus on overall efficiency of the electricity industry for the long-term benefit of electricity consumers? Why or why not?</p>	<p>Orion agrees that in relation to the Authority’s decision on whether to approve or refer back to Transpower a (Transpower) proposed Transmission pricing methodology that the Authority should focus on the Authority’s objective in section 15 of the Act:</p> <p><i>The objective of the Authority is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.</i></p> <p>This requirement is clearly set out in clause 12.91 of Part 12 of the Participation Code (Code) which requires the Authority to have regard to clause 12.89(1) of the Code in making its decision on whether to approve a proposed transmission methodology or refer it back to Transpower. Clause 12.89(1) requires that:</p> <p><i>Transpower must develop its proposed transmission pricing methodology consistent with –</i></p> <ul style="list-style-type: none"> <li>(a) <i>Any determination made under Part 4 of the Commerce Act;</i></li> <li>(b) <i>The Authority’s objective set out in section 15 of the Act; and</i></li> <li>(c) <i>Any guidelines published under clause 12.83(b).</i></li> </ul> <p>We also believe that, as the TPM is part of the Code, then the Authority is required to do so, under the Act. However the Authority must also be cognisant that s 32 (2) of the Act requires that:</p> <p><i>The Code may not—</i></p> <ul style="list-style-type: none"> <li>(a) <i>impose obligations on any person other than an industry participant or a person acting on behalf of an industry participant, or the Authority; or</i></li> <li>(b) <i>purport to do or regulate anything that the Commerce Commission is authorised or required to do or regulate under Part 3 or 4 of the Commerce Act 1986 (other than to set quality standards for Transpower and set pricing methodologies (as defined in section 52C of that Act) for Transpower and distributors);</i></li> </ul> <p>We do not believe that it follows that the Authority must review the TPM without having a reasonable expectation of material improvement in efficiency.</p>

<p>Q2 Do you agree with the Authority’s view on what constitutes an efficient charge? What role do you consider durability plays in determining efficient charges? Please explain your answers.</p>	<p>The view seems reasonable. However we do not agree that the existing TPM lacks durability, and nor do we agree that other possible TPMs would necessarily be more durable. We think it is inevitable that parties will seek to leverage any existing TPM to their advantage and/or seek to have the TPM amended in their favour, and those parties would be commercially remiss if they did not do so. Durability in some absolute sense is likely a Holy Grail.</p>
<p>Q3: Do you agree with the Authority’s revised position on the problem definition, described above? Please explain your answer.</p>	<p>See the body of our submission.</p>
<p>Q4: To supplement information already provided by Transpower, do you have any comments on the steps taken by Transpower or by other parties after approval of the NAaN, NIGU, and other investments such as the LSI Reliability Upgrade investments, to review whether it might have been efficient to postpone elements of them?</p>	<p>No.</p>
<p>Q5: To what extent do current interconnection charges promote efficient timing of investments? Please explain your response.</p>	<p>To an extent RCPD encourages efficient deferral by maintaining load growth on a managed path. However the most important factor in efficient investment is the major capital expenditure IM and how this is administered by the Commerce Commission. If poor decisions have been made then the most direct and effective solution is to change the IM and improve that associated process. Again we stress that it is not the purpose of the TPM to promote efficient timing of investments.</p>
<p>Q6: To what extent do you consider participant support for transmission investments takes into account the cost implications for them and for other parties? To what extent do you consider the efforts made by participants to provide relevant information on transmission investments take into account the cost implications for them and for other parties?</p>	<p>Orion would not oppose an investment that we do not benefit from for that reason alone. This is because we understand that the interaction of the TPM, the capex IM and the wider regulation of Transpower means that the cost of any approved interconnection investment will be shared across all transmission customers, and we do not consider that it is appropriate for us to complain about a feature of that interaction in the context of a particular investment proposal. Moreover, if we did so complain, such complaint would appropriately be ignored by the Commission in its deliberations.</p> <p>Because we have no particular knowledge in regards to other parts of the country (the upper North Island for example) we would not normally see that we had any useful information to put on the table.</p> <p>We can understand that parties have commercial incentives to present information in particular ways, and that those incentives might be influenced by the TPM. However, it does not follow that the information being presented in a particular way will lead to poor decisions, or that changing incentives via the TPM will improve decisions. In our view the quality of the decisions depends</p>

	<p>much more on the capex IM and the way it is implemented rather than the TPM. As we have previously submitted, if the Authority believes the IM process is leading to poor investment decisions then the obvious first port of call is to reform that process.</p>
<p>Q7: Do you agree that the Kawerau investment proposal described is an example of an inefficient investment resulting from the TPM? Please explain your answer.</p>	<p>No comment. As the Authority itself accepts transmission investments are complex and that other parties have more information regarding the complexities of this particular project.<sup>6</sup></p>
<p>Q8: Do you consider that current TPM can incentivise parties to prefer interconnection assets over connection assets or building and owning their own assets (by which they will be required to pay a higher portion of transmission costs)? Please explain your answer and provide any examples you may have.</p>	<p>As previously submitted, there is a theoretical risk of this happening and there may even be isolated examples. However we are not sure it is a material problem or a systematic problem. Whenever there is a boundary then we can expect boundary issues to occur occasionally. However the recent acquisition of numerous connection assets by EDB's is likely to reduce this issue.</p>
<p>Q9: Do you agree that the TPM can materially impact investment efficiency? Please explain why or why not.</p>	<p>Materially, no. We believe any impact is very much second order when compared with the potential efficiency impacts of the major capex IM and associated process.</p>
<p>Q10: Do you agree that cross-subsidisation of TPM costs between consumers is an important consideration when considering the durability of TPM charges?</p>	<p>We believe some averaging of costs is inevitable under any practical TPM. In terms of cross-subsidy, we are not aware of any cases where transmission prices are such that grid users face less than incremental cost, or greater than standalone cost. We think it is highly unlikely that a user could face a cost greater than standalone cost, and thus have a credible inefficient disconnection threat, but if they did the prudent discount policy could well resolve the problem.  We suspect all grid users would prefer to pay less, and will, acting commercially always seek to minimise their charges.</p>
<p>Q11: Do you consider that the current TPM is durable? Why or why not?</p>	<p>We do not know what the natural life expectancy of a TPM is, but the current TPM is proving quite durable, possibly because most parties think it is reasonably good.  Because of the large costs being allocated, and because there is no practical way to exclude parties</p>

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<sup>6</sup> Paragraph 9.36 of the paper

	from using the transmission service, any TPM is exposed to attempts to shift cost to other parties.
Q12: Do you agree that the examples provided above are examples of a durability problem? Please explain your response.	No, or at least they are examples that potentially apply to any TPM.
Q13: If you consider there to be a durability problem, do you know of any further examples of durability problems with the TPM? If so, please describe. Please also estimate the costs that you have incurred in relation to submissions on the TPM for as far in the past as you are able to provide (ie in relation to current and previous TPMs).	We are not sure that providing information on cost is a measure of durability. We do not believe we would have incurred any material cost in the past 5 years had successive regulatory agencies not initiated TPM related work programmes.
Q14: Do you agree that durability is a particularly difficult problem to measure? Please explain why or why not. Are you aware of an appropriate methodology for measuring durability? If so, please provide details of that methodology.	Yes. The regulatory framework could support durability by limiting TPM reviews to once every "X" years. (We note that the Part 4 IMs are reviewed on a seven year cycle.)
Q15: Do you consider that the RCPD allocation provides an efficient signal of the need for load shedding at coincident peak times? Do you agree with the Authority's estimate of the possible efficiency effects?	RCPD provides a signal to which Orion and other USI distributors respond and this undoubtedly keeps USI demand on a lower track than it would be otherwise.  We do not agree with the Authority's estimate of possible efficiency effects. We note that USI load management generally occurs at the same time as load management for local network purposes, so to the extent that there is a material cost associated with load management there is unlikely to be any reduction in that cost resulting from changes to the TPM.  We believe that for load management to be effective, distributors and end-use customers require stable long-term price signals which give them the opportunity to respond in the longer term through investments in fuel-switching ability, demand-reduction technology and energy efficiency programmes.
Q16: Do you agree that the interconnection charge may over-signal the need for overall reductions in consumption? Do you agree with the Authority's	Presumably it is interconnection charges as calculated and applied via RCPD that is being referred to?

<p>estimates of inefficiency? Which of the four scenarios, if any, do you consider the most plausible? Please explain your answer.</p>	<p>If the cost of demand response will be incurred anyway (due to load management for local network purposes) then the gain associated with changes to the TPM changes is minimal or zero.</p> <p>Despite the significant uplift in the interconnection rate over recent years, our approach to load management has not changed materially.</p> <p>Again we reiterate that for load management to be effective, distributors and end-use customers require stable long-term price signals which give them the opportunity to respond in the longer term through investments in fuel-switching ability, demand-reduction technology and energy efficiency programmes</p>
<p>Q17: Do you agree that the interconnection charge may over-signal the cost of increasing Tiwai smelter production in summer? Do you agree with the Authority's inefficiency assessments? Please explain why or why not.</p>	<p>No comment.</p>
<p>Q18: Do you agree that the interconnection charge and ACOT payments may over-signal the value of embedded generation? Please explain your answer.</p>	<p>If they do and this is material then Part 6 of the Code needs urgent review.</p>
<p>Q19: Do you agree with the Authority's assessment that, although the interconnection charge may over-signal the value of generation to direct-connect consumers, any resulting efficiency loss is likely to be relatively small? Please explain your answer.</p>	<p>No comment.</p>
<p>Q20: Do you agree that the HAMI allocation may incentivise SI generators to withhold existing capacity? Do you agree with the Authority's estimate of inefficiency? Please explain your answer.</p>	<p>Yes to the first part of the question in that we accept Meridian's and Contact's statements that it does.</p> <p>What we do not understand is why Meridian and Contact have not entered into an arrangement that manages the risk associated with greater injection. Since HAMI only affects each SI generator's <i>share</i> of a given quantum of HVDC charges, both parties could increase injection without increasing costs. The arrangement would seem to be very simple (some sort of swap), so this suggests that the financial impact on the parties is actually quite small, or that other considerations have a much greater impact.</p>
<p>Q21: Do you agree that the HAMI allocation may discourage upgrades to SI generation capacity? Do</p>	<p>Not necessarily. Meridian's upgrade of Manapouri occurred within this framework, and greater</p>

<p>you think this is a material problem? Please explain your answer.</p>	<p>capacity does not necessarily mean greater HAMI.</p>
<p>Q22: Do you agree that the HVDC charge may discourage investment in SI grid-connected generation? Do you agree with the Authority's inefficiency estimate? Please explain your answer.</p>	<p>It may, but then there may be other reasons why proposed investments have not proceeded, as the paper notes.</p>
<p>Q23: Do you agree that the HVDC charge may bring forward the need for upper SI transmission investment? Do you agree with the Authority's estimate of inefficiency? Please explain your answer.</p>	<p>No comment.</p>
<p>Q24: Do you agree with the Authority's view on prudent discount policy? Do you agree with Transpower's view that a PDP for notional generation is not practically achievable because of the difficulties in valuing notional disconnection? Please explain your answer.</p>	<p>We believe some sort of prudent discount policy is inevitable and desirable, but in any case we agree with the Authority that whether one is needed and what form it takes depends on what changes, if any, are made to the TPM.</p>
<p>Q25: Do you consider that there are any other material problems with the TPM (in particular, the HVDC charge, interconnection charge, and the prudent discount policy) that the Authority has not considered in this paper? If so, please provide details.</p>	<p>No.</p>