



Submission to Electricity Authority

on

Transmission Pricing Methodology
Review: TPM options working paper

11 August 2015

Introduction

Alpine Energy Limited welcomes the opportunity to submit on the Electricity Authority's *Transmission Pricing Methodology Review: TPM options working paper* (working paper).

We have seen and contributed to the submission made by the Electricity Networks association (ENA) and agree with that submission. The comments in this submission should be read as complementary to the ENA submission.

No part of our submission is confidential.

Key points

The key points that we have elected to comment on are the:

- complexity of the proposed TPM
- inequitable approach to EDBs and directly connected consumers
- Authority's approval of some of Transpower's proposed changes to the current TPM which contradict what the Authority's proposition in the working paper.

The proposed TPM is too complicated

It is our view that the proposed TPM is too complicated to be applied equitably and consistently across the electricity sector. The proposed method consists of a number of components which require complex calculations and are largely based on assumptions.

The reliance on assumptions and perceived benefits means that transmission prices are calculated using a largely qualitative, rather than quantitative approach. Overall, the Authority has not shown that the benefits delivered by the proposed TPM justify the time and resources that will be taken up by the TPM's implementation.

The TPM's approach to EDBs vs directly connected consumers is inequitable

The Authority proposes using AMI/AMD to calculate the demand of large directly connected consumers as their installed capacity is larger than their actual demand. Despite the fact that this is also the case for EDBs, the Authority prefers to use nominal ICP capacity based on that ICP's metering category to calculate an EDB's demand.

The proposed method grossly overestimates an EDB's demand and results in charges that are arbitrary and not cost-reflective. The inequity in the calculation of demand between EDBs and direct connects also results in the majority of the cost being absorbed by EDBs. This inequitable and inefficient approach will result in continuous lobbying by the affected

parties, thereby exacerbating the very problem the Authority wishes to address—namely, the current TPM’s lack of durability and its vulnerability to lobbying.

EDBs’ high capacity-related costs would also incentivise large industrial consumers to connect directly to the grid, bypassing EDBs to avoid higher transmission charges. This is consistent with the Authority’s market-like approach. However, the same market-like approach would allow an EDB to construct its own transmission assets, bypassing Transpower.

Although this approach would spare the EDB the high transmission costs, it would not necessarily improve the efficiency of the electricity sector, again adding to the issue the Authority is trying to address—namely, inefficient investment.

The Authority has approved changes which are in conflict with its proposed TPM

In the working paper, the Authority stresses its preference of a congestion-based rather than a peak-based approach to transmission pricing. Since the release of the working paper, however, the Authority has approved Transpower’s proposal of using N=100 and removing the summer peak to calculate its interconnection charges.

The Authority has not explained how the approval of Transpower’s proposal impacts on its proposed TPM. We can only assume that the Authority’s approval of an adjusted peak-based charge means that the congestion-based charges proposed in the working paper are no longer relevant.

Closing remarks

We hope that our submission is helpful to Electricity Authority in informing its decision on the setting of the transmission pricing methodology. We are happy to discuss our opinions further with Electricity Authority if it would find it useful to do so.

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