

31 October 2019

Submissions  
Electricity Authority  
PO Box 10041  
WELLINGTON

### **2019 TPM proposal – ENA cross submission**

Dear Authority

We write in response to the Electricity Authority invitation to cross submit on the views that stakeholders expressed in their submissions on the Authority's latest Transmission Pricing Methodology (TPM3). We think that it is prudent for the Authority to call for cross submissions as part of this consultation process and we extend our thanks for this.

#### [Our overall comments on submissions](#)

Our review of stakeholder submissions leaves us satisfied that our own conclusions about the TPM3 proposal are right on point – almost all submissions raise serious concerns that the proposal is not fit for purpose (many submitters remain unclear as to the purpose of the TPM3 proposal). We are surprised at the forthrightness of some submissions and we observe that even submitters that would benefit from the proposal with material reductions in their transmission charges do not support it.

We urge the Authority to reassess its position on transmission pricing reform. We understand the Authority's in-principle desire to include a "beneficiaries pay" element to transmission pricing. However, the technical analysis provided by submitters raise real and significant concerns that the operation of the beneficiaries pay element requires such judgements, assumptions and delineations of deemed eligible historical investments that the resulting allocations are arbitrary. Far from leading to a durable TPM, these findings would indicate that the Authority's proposal would end up endlessly disputed.

In our submission we suggested that Transpower could make simple adjustments to how the HVDC costs are recovered and importantly to re-calibrate the existing RCPD pricing construct to minimise any avoidance behaviour that the current TPM promotes. We remain firmly of the view that this is the path the Authority should follow – it should use principle based 'guidelines' similar to those that we offered in our submission. The guideline approach that we promoted appears to have wider industry support that is echoed in the submissions of many other stakeholders.

#### [The TPM process needs to end](#)

From submissions it seems to us that there is a desire amongst many stakeholders for this TPM reform process to end. Over the last 7 years the Authority has offered three proposals for consideration, all of which have been roundly rejected through the submissions process. While the proposals were viewed as being not fit for purpose, the cost benefit analyses that accompanied each

proposal seem to have progressively become more unfit for purpose based on our reading of stakeholder submissions on TPM3.

On reflection, we consider that the Authority should propose a TPM4 based on well thought through guidelines that Transpower can reference when it needs to make changes to the existing TPM. It would be very helpful if the TPM guidelines under the proposal were structured to fit with a Government Policy Statement on transmission pricing which we now consider is essential to help bring this process to an end. The recently released Government response to the EPR recommendations seems to point in this direction as well.

As we note above, inevitably, Transpower would need to make material judgements and assumptions to operationalise the TPM guidelines. There is the potential for material disputes between stakeholders and Transpower to impact the Authority's TPM proposal, but we think that some type of 'Experts Rulings Panel' could be established to help Transpower make those trade-offs, as needed. We would point out that the potential for dispute will also exist under TPM3 due to what we refer to as 'moving the point of aggravation' from the Authority to Transpower and a circuit breaker Panel like this could be needed regardless.

We would be happy to discuss our thinking with the Authority and as appropriate with MBIE and Transpower, but we do see this approach as a workable way forward.

Meridian appears to be the major supporter of the TPM3 proposal though, having lobbied for change for 10 years, it is unlikely that they would stray from that path. We do see inconsistencies in their support however for instance, on one hand they call for urgent reform action, and on the other hand they express support for a CBA that shows no material benefits for 15 years! We also struggle to understand how they can support a CBA that comes in for some serious criticism from experts who are very experienced at providing structured evidence-based advice in a variety of settings.

#### TPM3 impacts on distribution

Our submission pointed to a number of impacts on the distribution sector that were not considered in the TPM proposal. The most important is a cost component that is missing from the TPM3 CBA – this being the additional investment that will be needed to meet the additional peak demand in some distribution networks from the implementation of TPM3. Various submitters provide their own estimates of these missing CBA costs (Houston Kemp suggests incremental annual capex range of \$106m to \$428m NPV while Axiom's conservative suggestion is that the additional costs at the distribution backbone level would be in the range of \$27m to \$81m through the CBA forecast period). We agree with the submitters who raised this issue as being one of the several missing cost components in the TPM3 CBA.

#### Network pricing

In its submission Vector draws attention to the contractual framework that governs the handling of transmission charges through the industry supply chain and they point out that the largest group of counterparties to Transpower are ENA members. In their submission Vector go on to point out that the very responses that the Authority are wanting from TPM3 simply will not come to pass because of this contractual set-up and, further, that the sticky fixed charges that are proposed in TPM3 will be variabilised by EDBs because the LFC regulations limit the level of fixed charges that can be passed through to retailers and end consumers.

The Vector line of argument is consistent with the concerns that we expressed in our submission on behalf of all EDBs. We do not agree with the TPM3 proposal to charge the vast majority of transmission charges to load, on the basis that this is the most efficient approach, but at the same time ignore the realities of the contractual and regulatory impacts of this approach. It is hard to see that the outcomes that are assumed in the TPM3 proposal will come to pass.

## Summing up

We are disappointed that the Authority has persisted with an approach to transmission pricing reform that has been rejected by stakeholders several times in that past. Other submitters have provided detailed review of much of the technical nature of the TPM3 proposal, especially the CBA, however fewer submitters have commented on the practical implementation issues that Transpower and ENA members will face. We think the Authority needs to stand back from the analysis and assess whether the proposals result in an accurate identification of beneficiaries and individual benefits: the old adage “precision does not equate to accuracy” applies.

Like most other submitters, we would like the Authority to bring this reform process to a timely close and leave Transpower to develop improvements to the current TPM arrangements that are guided by a Government Policy Statement and a set of application principles that will help them through this process.

Kind regards

A handwritten signature in black ink, appearing to be 'David de Boer', written in a cursive style.

David de Boer  
Principal Advisor  
Electricity Network Association