

Proposed code amendment – Transmission pricing principles

Submission to the Electricity Authority



From Contact Energy



This submission by Contact Energy Limited (“Contact”) responds to the *Consultation Paper Proposed Code Amendment – Regulatory Framework for the Transmission Pricing Methodology* (“the consultation paper”) issued by the Electricity Authority (“the Authority”) on 14 February 2011.

For any questions relating to our submission, please contact:

Simon Hope | Regulatory Affairs Manager

Contact Energy | DDI: 04 496 1521 | Mobile: 021 228 3876

Simplifying the TPM decision-making framework is a positive step

Contact supports the Authority's proposed approach (Option 1) to remove the pricing principles and the related interpretation clauses from the Electricity Industry Participation Code ("the Code"), and hence from the decision framework for the Transmission Pricing Methodology ("TPM").

Contact believes that there is value in simplifying the decision-making framework for developing and evaluating the guidelines under which a TPM outcome is derived. The Authority's statutory objective provides a sufficient and practical assessment mechanism for TPM development, and we note the general support provided by participants for the Authority's interpretation of that objective.

Contact submits that the proposal should not prejudice any particular TPM outcome, but simply seeks to improve the process under which decisions are made. For this reason there should be general support for the proposal.

The proposal should also reduce the likelihood of contradictory outcomes being arrived at in TPM development.

In the cost benefit analysis contained in the consultation paper, the Authority identifies that the proposal should reduce transaction costs associated with the TPM decision making process, which will ultimately benefit all participants. Contact acknowledges the difficulties with performing cost benefit analysis on issues such as this, but believes the Authority has produced reasonable and pragmatic estimates of net benefits for each option relative to the base case.

Contact agrees with the Authority that Option 1 is likely to have a higher net benefit than the two alternatives.

Specific answers to Questions

No.	Question	Contact Energy response
Q1	Do you agree there is sufficient reason to review the regulatory framework? If not, why not?	Yes
Q2	Do you agree with the objectives? If not, why not? Are there other objectives that should be included in the assessment?	Yes
Q3	Do you agree with the assessment of option1? If not, why not?	Yes
Q4	Do you agree with the assessment of option 2? If not, why not?	Yes
Q5	Do you agree with the assessment of option 3? If not, why not? (e.g. if there are more appropriate pricing principles)	Yes. While the principles outlined in Option 3 are an improvement on the status quo, Contact submits that they will likely still result in higher transaction costs than would the proposed option.
Q6	Do you agree that option 1 has a [higher] net benefit than the two alternatives? If not, why not?	Yes