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the lines company

20 October 2022

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Via email: network.pricing@ea.govt.nz

Consultation Paper—Transmission pricing review

1. Introduction

The Lines Company Limited (TLC) thanks the Electricity Authority (the Authority) for the opportunity to submit on the Consultation paper – Avoided Cost of Transmission (ACOT) – proposed TPM-related amendments, 16 September 2022.

TLC acknowledges that the Authority is seeking feedback on the Authority's proposal of removing provisions for ACOT payments from Distributed Generation pricing principles (DGPPs).

According to the Authority, the DGPPs were originally developed to encourage investment in small-scale electricity generation by requiring the following:

(a) pricing based on the incremental costs of connecting the DG to the distribution network only; and
(b) payment for 100% of avoided costs.

2. The new Transmission Pricing Methodology (TPM)

The new TPM is based on the principle that those who benefit from transmission investments must pay for them, and we believe that the Authority's framework using cost-benefit analysis to evaluate transmission investments and benefit-based allocation of the associated costs provides overall a good foundation for supporting efficient transmission investment within the context of a competitive electricity market model.

As the regional coincident peak demand (RCPD) charge was believed to distort the cost of transmission, with the new TPM coming into effect on the 1st of April, benefit-based charges and a residual charge will replace the regional coincident peak demand (RCPD) and HVDC charges. Benefit-based charges are allocated to beneficiaries of the benefit-based investments, while residual charges are allocated based on gross demand. Consequently, there will not be any avoided transmission cost, so ACOT payment must cease when the new TPM is implemented.

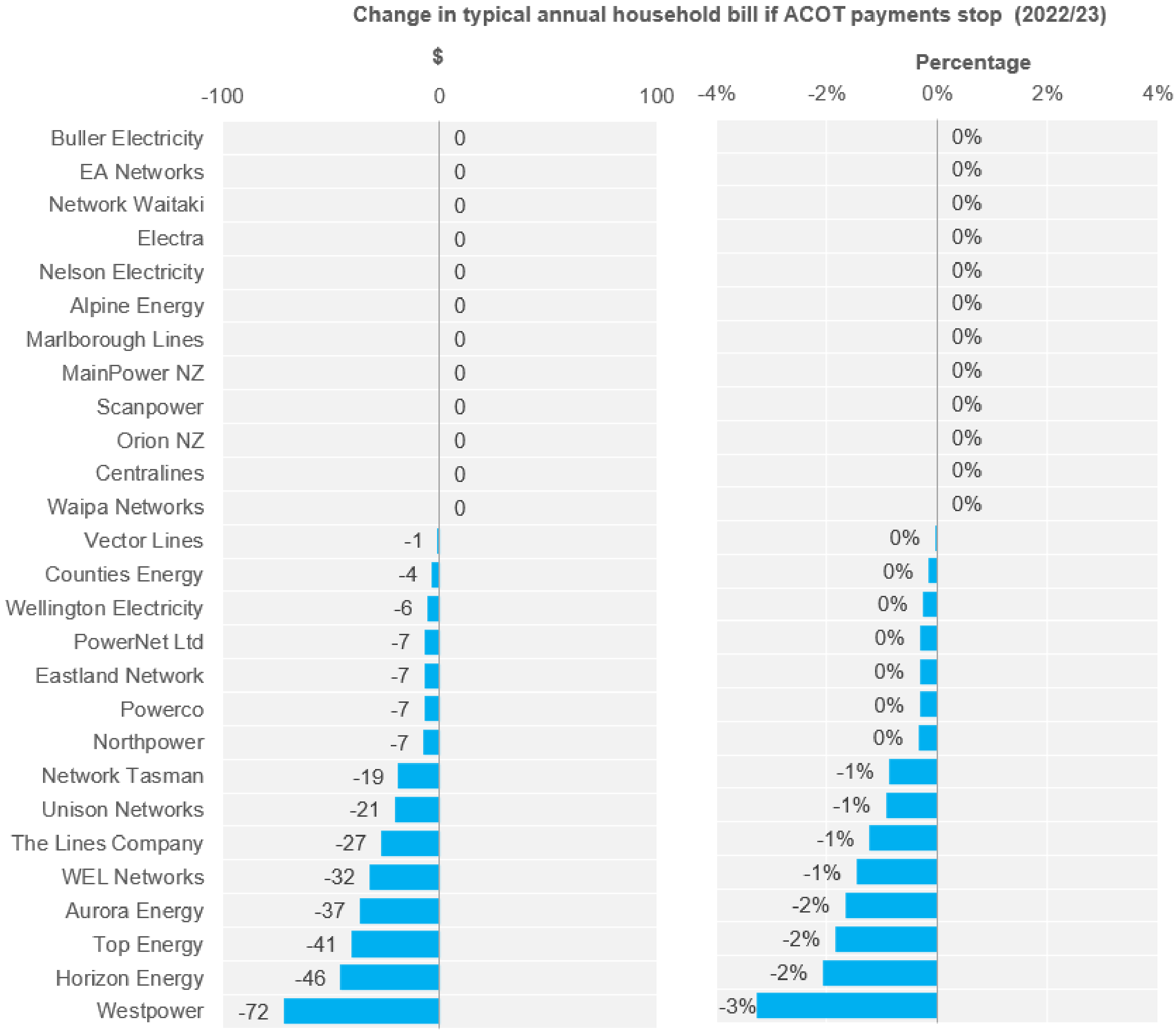
2. Wholesale pricing and congestion signal

The new transmission pricing methodology assumes that wholesale electricity market (nodal) prices provide a more accurate, responsive, and targeted signal for the cost of using the grid in the absence of other distorting signals; hence, no additional signal is needed. Transitionary ACOT payments would undermine the spot market pricing signals' role in incentivising generators, signalling constraints, and generation shortfalls.

3. ACOT charges and customer impact

We support the Authority's proposal to remove all ACOT provisions from the code without any transitionary period. Small EDBs observing an increase in transmission charges will get a double hit if any form of ACOT charge is added atop increased transmission charges; these increases will flow through to our customers.

As per indicative charges provided by Transpower, transmission charges for TLC increased by 23% from $5.3 million to $6.5 million. The transmission charges for TLC increase by $1.2m from the status quo; however, the absence of ACOT charges offsets the increase. The impact of the new TPM on an average TLC customer is $24p.a increase in the average household bill and the removal of ACOT will result in approximately $27p.a decrease in the average household bill, which is $3p.a reduction in the average bill.



Source: Household bill impacts of proposed ACOT reform – Electricity Authority

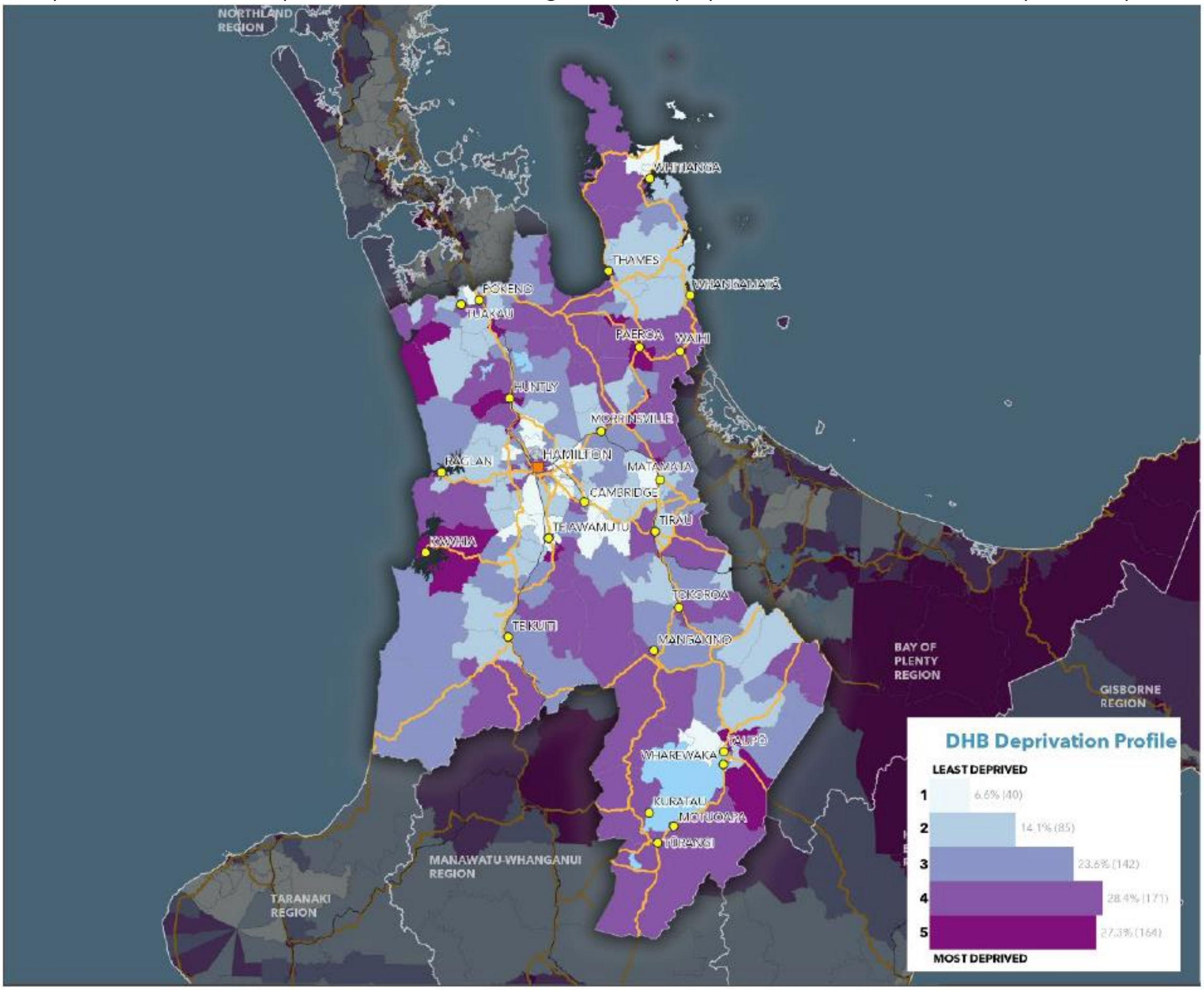
4. Customer affordability

We are concerned with our consumers' affordability as we have a high proportion of low-income customers with high socio-economic deprivation indices.

TLC owns and operates the electricity distribution network in the King Country, Ruapehu and Central Plateau areas covered by the Otorohanga district council in the North, Waitomo and Taupo district councils and Taupo District council to the east of the supply area.

Geographically, TLC's network is vast, encompassing alpine environments, cold climates and many areas with poor housing stock. Significant parts of the network have been identified as among the country's most socially and economically deprived.

The spatial distribution of deprivation in the Waikato region and the proportion of data zones in each deprivation quintile



Source: Waikato Regional Council Technical Report 2021/14 - Socio-economic deprivation in the Waikato region (p,41)

A quarter of TLC customers have an average household income of less than $35,000 per annum; making ends meet is a real challenge for many. This issue is complex and multi-faceted, and along with income, other contributing factors include the quality of housing stock, heating methods, family size, and education.

As we have raised in our previous submissions, customer affordability is of the deepest concern to TLC, and a situation where there is an increase in transmission charges and where any form of ACOT payment is deemed 'efficient' (even for a transitionary period) is unacceptable to TLC and our customers.

If you have questions about this submission, please contact Saba Malik (saba.Malik@thelines.co.nz).

Yours Sincerely

Saba Malik
Compliance and Revenue Assurance Manager