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TRUSTPOWER CROSS SUBMISSION ON CONGESTION REBATE METHODOLOGY

- 1.1.1 Trustpower Limited (**Trustpower**) welcomes the opportunity to provide a cross submission to the Electricity Authority (**the Authority**) on its Settlement Residual Allocation Methodology (**SRAM**): principles, options and pass-through consultation paper.
- 1.1.2 After reviewing other parties' submissions on the consultation paper, we wish to highlight the alignment between the majority of submitters' views and our own long-standing view that loss and constraint excess (**LCE**) should be returned to spot market purchases as directly as possible¹:

"... LCE should be returned as directly as possible to the spot market purchasers who paid it in the first place, in order to provide a simple hedge against locational price risk across all nodes. We understand the potential blunting of the pure nodal prices that may result, but observe that the current allocation of LCE (and the Authority's preferred alternative allocation in the LCE paper) both have the ultimate effect of also returning (some) LCE to purchasers, but via a circuitous set of allocation rules involving the grid owner, FTR auctions, network company charges/credits and timing delays. We believe that a more direct LCE allocation would achieve a better result with less risk, volatility and cost to consumers. This would also have flow-on impacts in terms of benefitting retail competition."

- 1.1.3 In particular, Unison noted²:

"... Unison's overarching view is that consumers ultimately bear all the costs of the electricity supply chain. Therefore, if there is a surplus that arises that is unnecessary to compensate for a cost that is incurred within the industry (as is the case with LCE) then it should be proportionately allocated back to consumers in a manner that is simple and cost effective. We also note that from a materiality perspective, even at its highest level of \$80 million in 2021, this represents less than 1% of total delivered electricity costs. Accordingly, in our view, finding a simple, cost-effective manner of delivering this value to end-consumers should be a primary consideration. Options B and C above seem overly complex allocation mechanisms for the scale of the issue."

- 1.1.4 Similarly, Transpower outlined that³:

"Going back to first principles, we consider the underlying problem is that consumers pay more for electricity than generators receive. In TPM Guidelines' language, purchasers pay more for electricity than the stand-alone cost of generating it. The role of the SRAM should be to close the gap between what consumers (ultimately) pay and the cost of electricity generation, and to do so in the most direct way possible without undermining transmission or nodal price signals."

- 1.1.5 We agree with Transpower and others that:

¹ <https://www.ea.govt.nz/assets/dms-assets/17/17492Trustpower.pdf>

² [Unison-SRAM-submission-2022.pdf \(ea.govt.nz\)](#)

³ [Transpower-SRAM-submission-2022.pdf \(ea.govt.nz\)](#)

- a) The Authority should go back to first principles and further explore Option D as part of the next step in this process. It is unclear that nodal price purity will better promote the statutory objective than a less complex set of market arrangements and so this should be properly tested; and
 - b) In the interim, implementing Mercury's proposed requirement for distributors to pass through the existing LCE should be progressed with urgency as it provides a better solution for end customers while a first principles review is undertaken.
- 1.1.6 We also agree with Transpower's observations that volatility is an inherent part of the nodal pricing model and that principle 3 (mitigation of volatility) does not align with the Authority's logic for not including a transitional congestion charge in the proposed TPM, as more volatile nodal price signals are an intentional feature of the new arrangements⁴.
- 1.1.7 We also note Transpower's observation that:
- "The discussion at paragraph 3.9 of the SRAM Consultation Paper also implies the SRAM could help fill the gap from an absence of a congestion charge in the proposed TPM by ensuring "the user whose usage had grown rapidly would bear a higher share of the cost of congestion before the investment (due to their proportionately small rebate) and after the investment (due to their proportionately higher BB allocation)." **One of the reasons a permanent congestion charge was not provided for in the TPM Guidelines was that benefit-based charges coupled with nodal pricing would do the heavy lifting in terms of sending efficient pricing signals, rendering other pricing signals redundant or duplicative.**"*
- 1.1.8 Setting aside Trustpower's continued fundamental objections to the new TPM (which are comprehensively documented elsewhere and so not repeated here), this inconsistency in the logic being applied by the Authority around the potential role of the SRAM in filling the gap created by the removal of the existing peak demand charge under the new TPM needs to be explained.
- 1.1.9 If the Authority is having doubts that nodal prices and benefit-based charges will not in fact be sufficient for sending all the right signals to the market, then this would be better addressed outside the SRAM process.

For any questions relating to the material in this submission, please contact Fiona Wiseman on 027 549 9330 or via email: fiona.wiseman@trustpower.co.nz

⁴ In particular, the Authority advised Transpower previously that high or volatile nodal prices can provide valuable information, signalling the time and locations where more flexible generation, demand response or a transmission response would be most valuable. In the same correspondence the Authority also noted there are various services available to help market participants manage price risk. For further details refer to:

https://www.transpower.co.nz/sites/default/files/uncontrolled_docs/13.%2018%20Jan%202021%20-%20TPM%20Development%20Checkpoint%201%20re-submission%20to%20the%20Electricity%20Authority%20%28Transitional%20Congestion%20Charge%29.pdf