

1 March 2022

Electricity Authority  
By email: [network.pricing@ea.govt.nz](mailto:network.pricing@ea.govt.nz)

Dear Sir/Madam,

Northpower welcomes the opportunity to provide feedback on the Settlement Residual Allocation Methodology (**SRAM**) consultation paper.

### Pass-Through Principle

The consultation paper notes that loss and constraint excess (LCE) arises due to price differences in the wholesale market and that “these price differences mean consumers pay more for electricity than generators receive.”

As such, we support as a guiding principle that LCE rebates are returned to end customers. This ensures that LCE is returned to those whose payments resulted in the LCE – end consumers. We consider this is consistent with the Electricity Authority’s statutory purpose to promote competition and the efficient operation of the electricity industry. The return to consumers of amounts overpaid by consumers is to the benefit of consumers, also aligning to the statutory purpose.

In designing how that is achieved, we consider the following principles are important:

- Administrative costs are minimised.
- The calculation method is simple and easy for all participants to understand.
- There is flexibility in how the LCE payments are returned to end consumers.
- Transparency and disclosure provides assurance that LCE payments are returned to end consumers.

We would support an approach that enables each EDB to determine how it returns the LCE payment to consumers. EDBs could be required to disclose and publish this methodology, providing transparency to consumers and retailers. In Northpower's case, we already return discounts to our consumers, and the LCE payment could be returned at the same time as the annual pricing discount payment, which we make to retailers who pass onto consumers.

If the LCE payments were to instead be passed through to the retailer to pass through to the consumer, we would expect that retailers provide the same level of transparency to provide assurance that the payments are returned to consumers. In particular, as LCE payments are driven by the physical location of a load in relation to the generation (and the losses incurred and constraints encountered between those two points) retailers would need to calculate the LCE payments on a geographical basis, not simply apply an average payment across the country. The fact that LCE differs by region is the reason that LCE payments are currently returned to local EDBs to return to their consumers, rather than national retailers.

## **Payment Mechanism**

As set out above, we support an approach that enables each EDB to determine how it returns the LCE payment to consumers. If EDBs are required to follow a prescribed approach to allocating the LCEs to end consumers, we would prefer this was calculated either by Transpower or the Clearing Manager at an ICP level, to avoid EDBs having to inefficiently invest in the capability to complete these allocations.

The Authority has noted that Transpower has no contractual relationship with many wholesale electricity purchasers and proposed that Transpower break the payment down by wholesale electricity purchaser. However it could be the case that distributors also do not have a contractual relationship with the wholesale electricity purchaser. As such, if Transpower is to provide a breakdown of the LCE payment for pass-through, it would either need to be broken down by ICP, or by retailer as recorded in the Registry. It would also need to take into consideration that in some cases EDBs contract directly with a customer (in particular large industrials) and may not have a relationship with the recorded retailer in the Registry in respect of that customer, and as such the LCE for these customers would need to be calculated separately.

## **Negative LCE rebates**

It is possible (and has occurred in recent years) that LCE payments can become negative, requiring a payment from distributors to Transpower. If distributors are to be required to pass through LCE rebates to consumers,

they also need to be able to recover negative value LCE rebates in order to pay Transpower.

If you have any queries please contact us.

Yours sincerely



Shane Ruxton  
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