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EA CONSULTATION PAPER: SETTLEMENT RESIDUAL ALLOCATION METHODOLOGY

This is Winstone Pulp International Limited's (WPI) submission on the "Settlement Residual Allocation Methodology (SRAM): principles, options and pass-through" published 18th January 2022.

We support the Major Electricity Users Group's (MEUG) submission on this paper and submit the following additional comments.

1. Problem/issue definition

We agree that the current methodology for allocation of the Loss and Constraint Excess (LCE) needs a fundamental review. We support the Electricity's Authority's (EA) approach of starting the review process by establishing the underlying principles to guide the selection of a preferred option for the new SRAM.

The current LCE allocation is arbitrary and not sufficiently targeted towards end consumers who are paying more than they should and would under an ideal market pricing mechanism.

We note the EA's primary concern expressed multiple times in this consultation paper: that a new SRAM could dampen nodal price signals. We think this concern is overweighted and could be further mitigated by careful detailed design of the selected option. Otherwise, it should have been address through the TPM design.

We consider that a new SRAM should be designed to return the excess to the end consumers, who have contributed to the excess by paying too much for their energy. A \$/MWh volume-based allocation to retailers and direct connected consumers could produce an equitable outcome that would not dampen nodal price signals.

2. Proposed SRAM principles

We submit that the proposed SRAM principles should be reviewed so that they more directly support the EA's purpose *"to promotes competition in, reliable supply by, and*

the efficient operation of, the New Zealand electricity industry for the long-term benefit of consumers”.

Importantly, consumers are paying more than they should for energy through the wholesale market and one of the principles should ensure the SRAM addresses this issue and aligns with the long-term benefits of consumers.

We agree with MEUG: *“it is end consumers that pay higher nodal prices at GXP that create the transmission constraint rentals. It is therefore consumers, not generators, that should be allocated the Settlement Residue.”*

We therefore propose an additional principle that “the SRAM should return the excess on a regional basis to consumers in the regions where the excess was generated.”

3. Comments on initial thinking on the options and alternatives

We support the EA’s intention to explore a wider suite of potential options, before focusing on a preferred option(s).

In our view, the EA should give more consideration to options designed using energy market allocators rather than attempt to find a solution solely based on transmission allocators. A SRAM that returns LCE through a wholesale market mechanism could be more effective in delivering a long-term benefit for consumers.

In line with this, we suggest the EA consider an option similar to Option D, but based on a volume rather than cost allocation methodology. Under this type of option, the excess could be allocated to consumers in each region in proportion to where the excess revenue was collected, and then all consumers in that region could receive a volume rebate based on a uniform \$/MWh of consumption.

Thank you for the opportunity to make this submission.

Yours sincerely

David Anderson
Managing Director