

Submission on the Settlement Residual Allocation Methodology	
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Question	Comment
<p>Background and problem definition</p> <p>Q1. Do you have any comments on the problem definition and background material in this chapter?</p>	<p>Horizon Energy Distribution Limited (Horizon Networks) understands that the problem is that the current SRAM will be become obsolete once the new TPM is in place. As a result, a new SRAM is required and should deliver to the Authority’s statutory objective.</p> <p>Additionally, the Authority understands that most but not all EDBs are passing on the residual loss and constraint excess (LCE) to consumers. This results in inconsistent treatment of consumers.</p> <p>Horizon Networks considers that there are design challenges with the SRAM. Due to its links to the wholesale (spot) electricity market, the residual LCE paid to Transpower is volatile, while transmission charges paid to Transpower by its customers are not.</p> <p>Offsetting transmission charges with an LCE allocation methodology (SRAM) creates a link between the spot market and transmission pricing. The Authority should create a framework that allows this variable spot market derived rebate to be passed through to consumers in a way that is consistent with how fixed transmission charges are passed through</p> <p>A key concern is that the paper refers to the allocation of settlement residual as a ‘rebate’, however based on the current methodology it is possible for Transpower customers to be ‘charged’ for LCE. Many transmission customers are not aware of the ability for Tranpower to charge for LCE, either through historical corrections (where it has over-allocated LCE in a previous month) or</p>

	<p>through the way the connection assets have been used in that year.</p> <p>This is a problem because EDB pricing seeks to pass through the known, fixed transmission charges to consumers as part of setting annual pricing. Any variable element to transmission charges (such as additional payments required because of SRAM) cannot be passed through and is borne as a cost by the EDB.</p> <p>This is an issue that has affected Horizon Networks for financial year ending in 2022 (FY22), and we expect to occur in FY23.</p> <p>Horizon Networks Recommends: The Electricity Authority ensures that the SRAM focusses on the allocation of residual LCE in a way that means transmission customers and end consumers at each GXP pay no more than the fixed transmission advised annually by Transpower.</p>
<p>Principles</p> <p>Q2. Do you have comments on our proposed SRAM principles?</p>	<p>The principles of:</p> <ul style="list-style-type: none"> • Reduce over-payment for transmission • Do not undermine grid usage signals • Do not undermine investment signals • Do not add disproportionate cost or complexity <p>seem reasonable, however three of the four are framed in a negative manner by describing what the SRAM is not to do.</p> <p>This creates a risk, as there are actions would meet the SRAM principles as written, but not the SRAM intent.</p> <p>For example, if Transpower was to pay only 10% of SRAM to transmission customers (reducing over-payment) and then paying the rest to an unrelated party (such as a charity), would meet the principles listed above.</p> <p>Horizon Networks Recommends: The SRAM principles are updated to describe the outcomes SRAM is intending to achieve, rather than what it is intending to not achieve.</p>
<p>Principles</p> <p>Q3. Do you have comments on anything else in this chapter?</p>	<p>No</p>
<p>SRAM options</p>	<p>Yes. Horizon Networks supports simplification of the allocation methodology.</p>

<p>Q4. Do you have comments on our preference for the Simple BB approach to the SRAM?</p>	
<p>SRAM options</p> <p>Q5. Do you have any comments on our assessment of other SRAM options, including in particular the TPM charges method?</p>	<p>We expect that the differences between the methodologies to have no material impact on investment decisions.</p> <p>Investment decisions will be driven by factors such as location, access to resources (fuel, transport etc) and the overall cost to serve.</p> <p>As a result, we prefer the simplest (low cost, low complexity) approach to the allocation of LCE to transmission customers.</p>
<p>SRAM options</p> <p>Q6. Do you wish to propose another option for consideration?</p>	<p>No</p>
<p>SRAM options</p> <p>Q7. Do you have any comments on the proposed drafting to incorporate the SRAM into the Code?</p>	<p>Yes.</p> <p>The Code states <i>“Each grid owner must allocate and pay any settlement residue to its customers on a monthly basis...”</i></p> <p>We interpret this to mean that grid owners will no longer be able to require payment at a GXP due to the methodology calculating a negative residual LCE allocation amount to a consumer.</p> <p>The Code states <i>“A grid owner may adjust any payment made under subclause (1) to correct for a previous overpayment or underpayment under that subclause.”</i></p> <p>We interpret this to mean that the grid owners will be able to reduce the amount payable, but not be able to ‘claw back’ payments (require customers to pay back LCE) if LCE payments become negative for a month due to a historic correction being greater than the residual LCE available.¹</p> <p>The Code requires the grid owner to develop and allocate LCE payments in accordance with a methodology.</p> <p>We expect will mean the methodology is a document incorporated by reference in the Code. We expect any</p>

¹ This occurred in January 2019 when there was no residual LCE available from the primary month and a historic correction of grid metering data resulted in a negative LCE (request for payment) to transmission customers.

	document incorporated by reference will have the same weighting as the Code, so will be consulted on and published on the Authority website.
SRAM options Q8. Do you have any comments on the proposed drafting to incorporate the SRAM into the Code?	The proposed drafting does not explicitly require grid owners to publish or make the methodology available. The drafting may be open to interpretation regarding any demand for payments made by grid owners as the Code only refers to paying to customers.
SRAM options Q9. In particular, do you have any comments on: <ul style="list-style-type: none"> the proposal to make a party's allocation of settlement residue a debt recoverable in a Court? the relationship between the Code Amendment, the benchmark agreement and transmission agreements? 	Comments on the proposal to make a party's allocation of settlement residue a debt recoverable in a Court: This proposal appears unnecessary and counter to the enforcement regulations that apply to the rest of the Code. This creates the situation where enforcement of different clauses within the Code will be governed by different jurisdictions. Rather than being explicit in the Code, it could be referred to in a guideline as an option available for the recovery of debt. Horizon Networks Recommends: The proposal to make enforcement of the allocation of settlement residual a debt recoverable in the courts is removed from the Code.
SRAM options Q10. Do you have comments on anything else in this chapter?	No.
Distributor pass-through Q11. Do you agree that the Code should impose a limited pass-through obligation on distributors to pass-through any settlement residual rebate they receive?	We agree that EDBs should not retain a rebate from a pass-through charge.
Distributor pass-through Q12. Do you agree that they should be required to pass-through the settlement residual rebate to their customers rather than to, for example, end users?	Yes, it is not practical for all EDBs to engage with end consumers. The proposed limited pass-through obligation provides the flexibility that allows each EDB to determine how the residual LCE reaches end consumers.
Distributor pass-through Q13. Do you agree that the Code should require Transpower to inform distributors of their rebate breakdown each month by location and (where applicable) by offtake vs. injection	Yes. This will help inform decisions regarding which customers within the network are entitled to the rebate.

<p>Distributor pass-through</p> <p>Q14. Do you agree that the Code should require the distributor, in passing through and allocating the rebate, to have regard to the intent that the rebate be allocated in proportion to transmission charges paid by each customer type in respect of each connection location?</p>	<p>No. Any participant attempting to comply with the Code should already have regard to guidance issued by the Authority. Placing this within the Code does not give the guidance any greater weighting.</p>
<p>Distributor pass-through</p> <p>Q15. Do you agree that distributors should be required to disclose their rebate methodology and its rationale, and to report on its application?</p>	<p>We are comfortable with disclosure of the rebate methodology and rationale to the Electricity Authority.</p> <p>Horizon Networks does not agree that detailed public disclosure of rebates and their application is beneficial to consumers. Loss and constraint excess is a concept that is not well understood amongst the industry. Without clear industry and public understanding of the concepts, reporting on detailed allocation will risk confusion and misunderstanding.</p> <p>Horizon Networks Recommends: The Electricity Authority work with the industry to develop and deliver education material to consumers on the use and allocation of LCE prior to any required disclosure of how EDBs are passing this onto consumers.</p>
<p>Distributor pass-through</p> <p>Q16. Do you think that distributors should be required to explicitly disclose to customers the amount of any allocation of settlement residual rebate they are being credited with at the time they are credited with it?</p>	<p>We are comfortable with this proposal, it aligns with our current practice.</p>
<p>Distributor pass-through</p> <p>Q17. Do you agree the Code should require distributors to pass through rebates at least annually?</p>	<p>We agree that this allocation should be annual. Monthly rebates can result in increased volatility of transmission charges.</p> <p>Additionally, there have been instances where, despite clear and regular communication, customers have not taken up the rebate in the year it was issued and continued to pay the full invoice amount.</p> <p>We expect the fact that the rebate has been allocated and clearly communicated to the customer as sufficient to demonstrate compliance with the proposed Code.</p>
<p>Distributor pass-through</p> <p>Q18. Do you have any other comments on this chapter?</p>	<p>Each EDB has a unique role in the community, and this can mean that the best outcome for consumers in terms of the allocation of LCE differs by EDB.</p>

	<p>For example, some EDBs are able to pass the rebate back to consumers directly, some EDBs pass the rebate to customers and some EDBs pass the rebate through by discounting the following year's transmission charges.</p> <p>Each of these achieves the goal of passing the transmission rebate though in a way that ultimately benefits consumers.</p>
<p>Regulatory statement for the proposed amendments</p> <p>Q19. Do you agree with the objectives of the proposed amendments? If not, why not?</p>	<p>The objectives of the proposed amendment are to:</p> <ul style="list-style-type: none"> • replace the current SRAM with a new SRAM that is consistent with the Authority's statutory objective • improve the effectiveness of the SRAM by introducing pass-through obligations for distributors
<p>Regulatory statement for the proposed amendments</p> <p>Q20. Do you agree the benefits of the proposed amendments outweigh their costs?</p>	<p>It is unclear what the benefits are however it appears the key benefit is the avoidance inefficiencies if the status-quo is retained.</p> <p>The Authority has framed the benefits of the proposal in terms of a proportion of the TPM benefit from more efficient investment (\$179 million).</p> <p>Horizon Networks does not expect the allocation of residual LCE to consumers to have any measurable impact on investment decisions. Individual investment decisions are going to be influenced by more immediate business impacts that form the business case, such as access to a customer base, resources, transportation, skilled staff etc.</p>
<p>Regulatory statement for the proposed amendments</p> <p>Q21. Do you agree that alternative means of meeting the objective are not as effective in meeting the Authority's statutory objective? If you disagree, please explain your preferred alternative option in terms consistent with the Authority's statutory objective.</p>	<p>We agree that prescriptive regulations that require each EDB to pass LCE rebates through in the same manner will be less effective than the proposed drafting of the Code (limited pass through).</p> <p>In terms of allocation of LCE rebates to transmission customers, we do not consider either approach will materially distort the operation of the market or influence investment decisions. As a result, we support the simplest, most transparent and understandable option</p>
<p>Regulatory statement for the proposed amendments</p> <p>Q22. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?</p>	<p>Yes.</p>

<p>Regulatory statement for the proposed amendments</p> <p>Q23. Do you have any other comments on this chapter?</p>	<p>The concept of a ‘fit-for purpose’ regulatory statement and quantification of the costs and benefits should be introduced.</p> <p>The costs and benefits are expected to be relatively low, and the level of effort to quantify the costs and benefits should reflect this.</p> <p>By attempting to quantify benefits in relation to a \$179 million benefit already quantified, it leaves the reader expecting a more thorough analysis due to the high benefits expected from the change.</p>
<p>Regulatory statement for the proposed amendments</p> <p>Q24. Do you have any other feedback on any other aspect of this consultation paper?</p>	<p>The consultation paper did not recognise that LCE allocations can be negative, resulting in a higher-than-expected transmission charge at some GXP's.</p> <p>This is something that Horizon Networks experienced in FY22 and expects to experience in FY23. Where possible, we currently net off this charge against LCE rebates on other parts of the network, however this is not always possible and ends up costing Horizon Networks as we cannot pass this charge through in our prices.</p> <p>Horizon Networks finds the provision of a submission template useful.</p> <p>Horizon Networks questions if 24 questions are necessary in order for the Electricity Authority to make an informed decision regarding the proposed Code change. We suspect that the volume of questions may be a barrier for submitters wishing to provide focussed and high-quality submissions.</p>