

The logo for Northpower, featuring the word "Northpower" in a bold, orange, sans-serif font. The letter "N" is stylized with a small gap at the top. The text is centered within a light gray rectangular background.

# **Settlement Residual Allocation Methodology Consultation Paper**

**27 September 2022**

## Overview

Northpower welcomes the opportunity to provide feedback on the Electricity Authority's consultation on Settlement Residual Allocation Methodology.

We **support** mandatory pass-through by distributors, as we agree that LCE payments should be returned to end consumers. We also **support** the Authority's limited pass-through approach as we think it balances complexity and transaction costs against delivering the desired output.

We **do not support** the proposal that LCE payments are paid to retailers, rather we think that distributors should continue to be able to deliver these to end consumers. In our experience, retailers are unlikely to pass these through, in full and transparently, without regulation. In addition, even if they did pass them through, they are unlikely to allocate them to customers geographically according to node and associated congestion.

As such, we submit that while we support distribution of these amounts by EDBs to end consumers, in the event that the Authority decides the payments should go to retailers, then the payments should be made directly by the Clearing Manager or Transpower to retailers. There is no value to be added by transferring the payments to distributors and recalculating them, for retailers to then either retain the payments, or credit them without nodal signals to consumers across the country.

We also **do not support** the proposal that customers have to apply via a Court for a LCE payment which is not paid to them. The Authority manages a robust enforcement regime via the Code and Rulings Panel, and any parties that consider they should have received a payment can raise a breach and have it heard via usual processes.

### **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 the limited pass-through method proposed should be adopted, and that distributors should be required to pass-through any settlement residual rebate they receive to end consumers.

We consider that the limited pass-through method is a pragmatic, cost effective, and transparent way to pass LCE payments through, while avoiding unnecessary complexity. It is important to balance transaction costs of pass-through against efficiency, particularly as distributors are not currently compensated for managing these payments, and (unlike retailers) will not be permitted to retain a margin.

### **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?**

We disagree that LCE payments should be passed through to retailers rather than our consumer owners, and consider it likely that these payments will be partly or fully absorbed by retailers in this scenario.

As set out in the ENA's submission, we are accustomed to retailers absorbing reductions in lines charges, with retailers deriving windfall gains rather than reflecting these in end consumer prices. An example is the experience of Top Energy last year, where they reduced prices by 3c/kWh and retailers increased their share by 2.7c/kWh, leaving only 0.3c/kWh net benefit for consumers. By comparison, on our network, retailers increased their charge by only 0.3c/kWh.



## Quarterly Survey of Domestic Electricity Prices

Nominal indicators on 15 May 2022

Modelled NZ Consumer - 22 kWh per day on cheapest low user tariff available without a fixed term contract. For further detail see the notes page.

\* indicates an area where, due to GXP based billing, it is not possible to completely align lines charges with retail charges. Therefore the breakdown into components is an approximation.

Location	Lines Company	Notes	Indicators on 15-5-2022			Analysis of Change in Last Quarter			Absolute Price Change		
			Retail	Lines Comp	Energy and Other	Percentage Change			Absolute Price Change		
			c/kWh	c/kWh	c/kWh	%	%	%	c/kWh	c/kWh	c/kWh
<b>New Zealand</b>			32.4	11.6	20.7	1.4%	2.4%	0.9%	0.45	0.27	0.17
<b>North Island</b>											
Kerikeri	Top Energy	1	43.59	18.6	25.0	-0.8%	-14.1%	12.1%	-0.36	-3.06	2.70
Whangarei	Northpower	2	34.53	12.4	22.2	1.9%	2.9%	1.4%	0.65	0.34	0.30

As such we disagree with the Authority's proposition that "over time competition in the retail market will mean that they will have pass through the value of any settlement residual rebate that they receive" as being purely theoretical. In reality, experience shows there is insufficient competition in the retail market to achieve this outcome. Anecdotally through our discussions with small and new-entrant retailers, this is driven by their inability to buy energy and hedges at low enough prices sufficient to compete with the self-hedging gentailers.

In addition, retailers consistently tell us that they offer national propositions. It is unlikely that they would separately identify the LCE payments, rather if they did pass any of the payment through, it is likely to be averaged across the country, removing the nodal price signal the Authority is seeking to send. We understand one of the original rationales of distributing these payments to EDBs rather than retailers was to preserve these nodal signals.

If the Authority were to determine the payments should go to retailers, they should go direct from the Clearing Manager or Transpower. There is no value to be added from distributors calculating the allocation of rebates, for them to simply be absorbed or averaged across all customers by retailers. This outcome would be inefficient.

### **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. In order for distributors to distribute LCE payments under the new TPM, Transpower will need to provide sufficient data to calculate the allocation of LCE payments. The

methods that distributors can apply to calculate pass-through will be wholly reliant on the data supplied by Transpower and/or the Clearing Manager.

**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?**

Yes, we think it is reasonable that distributors have regard to the intent that the rebate be allocated in proportion to transmission charges paid by consumers. However, the Authority should avoid being overly prescriptive beyond this, so that distributors can retain the flexibility to do this in a way which aligns with their transmission pricing pass-through, and send appropriate pricing signals, while balancing transaction costs and complexity.

**Do you agree that distributors should be required to disclose their rebate methodology and its rationale, and to report on its application?**

We do not object to this requirement, albeit that we note increasing compliance requirements drive increased costs which are ultimately borne by consumers. As such we recommend that disclosure complexity is commensurate with the payments made and allocation approach taken.

**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?**

If distributors pay these amounts directly to consumers (generally via transparent pass-through on the customer's retail statement, along with their dividend and/or posted discount where relevant) this explicitly discloses to consumers the amount of any allocation of settlement residual rebate they are being credited with, and prevents the retailer from either distorting the transmission pricing signals (eg. by averaging the signal across nodes) or absorbing the credit themselves.

In the event that retailers are to receive the LCE payments, we think that retailers should have to disclose to consumers the amount, by separately disclosing it on consumer power bills.

**Do you agree the Code should require distributors to pass through rebates at least annually?**

Yes, we think that annual rebates are pragmatic to balance cost and efficiency.

**Do you have any comments on the proposal to make a party's allocation of settlement residue a debt recoverable in a Court, and**

## **the relationship between the Code Amendment, the benchmark agreement and transmission agreements?**

We don't think making LCE payment allocations a debt recoverable in Court is necessary. There are no restrictions on who can allege a breach of the Code, so any retailer or end consumer can raise a breach. Given the strong enforcement mechanisms within the Code, we don't consider it necessary for the Authority to abdicate its enforcement responsibilities to the Courts.

## **Any other comments?**

We think that distributors should be able to deduct from LCE payments their reasonable costs to manage and distribute these payments.

LCE payments occasionally turn negative, with a payment required back to Transpower. Consideration needs to go into how this would work under the new methodology, i.e. would distributors invoice these amounts to retailers?

If you have any queries regarding this submission please contact Shane Ruxton ([shane.ruxton@northpower.com](mailto:shane.ruxton@northpower.com))