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27 September 2022

Submissions
Electricity Authority
PO Box 10041
Wellington 6143

Nova Energy Limited
PO Box 3141, Wellington 6140

By email: network.pricing@ea.govt.nz

Re: Settlement Residual Allocation Methodology

Nova Energy (Nova) agrees with requiring Transpower to allocate the settlement residual in the proportions consistent with the Simple Benefit Based methodology used for transmission pricing.

Nova also believes it is necessary to mandate the electricity distribution businesses (EDBs) to pass through the residual to their customers. Allowing different distribution policies adds costs and uncertainties for retailers. Such differences are more likely to result in reducing the proportion of the residual reaching consumers through competitive forces.

There could be provision for EDBs to apply for dispensation to apply non-standard distribution where appropriate. An example could be for small networks where the sums of money are comparatively minor, and an annual distribution can be justified.

Further comment is appended to this letter.

Yours sincerely



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Commercial & Regulatory Manager

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Nova submission: Settlement Residual Allocation Methodology

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3	Do you have comments on our proposed SRAM principles?	It is clear how these might apply to customers connected to the Grid, but not clear how the principles are to be apply to customers of EDBs, particularly when their networks include embedded generation and embedded networks as well as a variety of customer connection types. Most ICP's are serviced by retailers, but some are also charged directly by the distributors.
4	Do you have comments on our preference for the Simple BB approach to the SRAM?	<p>Nova supports the assessment summarised in Figure 1.</p> <p>The share of the rebate accruing to generators under the Simple BB approach is appropriate as the TPM is introducing transmission charges under the TPM that generators did not previously incur.</p> <p>In its earlier submission on the SRAM, Nova favoured a simpler calculation and allocation methodology, but it agrees that applying the Simple BB approach is more consistent with the TPM and more equitable for all market participants.</p>
	Do you have any comments on the problem definition and background material in this chapter?	In the context of the new TPM, Nova agrees that the SRAM should return the over-recovery of market payments to grid users without undermining the incentives provided by the spot market and the TPM for efficient grid use and investment.
	Do you have any comments on the proposed drafting to incorporate the SRAM into the Code?	Nova agrees the SRAM should be defined in the Code, and any changes treated as a Code amendment.
	<p>In particular, do you have any comments on:</p> <ul style="list-style-type: none"> • the proposal to make a party's allocation of settlement residue a debt recoverable in court? 	Nova agrees that the intended recipients of the settlement residue need to have enforceable rights to receive the payments. That applies to both the EDBs and Retailers. Parties need to be able to rely on the payments when they factor these into their financial projections and retail pricing.
5	Do you agree that the Code should impose a limited pass-through	Nova does not believe that a limited obligation will provide retailers with adequate assurance of how and when they will receive the rebate. Retailers should not be

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	obligation on distributors to pass-through any settlement residual rebate they receive?	<p>required to monitor the distributors to determine how and when they will receive the rebate from each party. The payments need to be a simple credit from the distributor each month, much as many distributors already do.</p> <p>Mandating the pass-through obligation overcomes the complexity of tracking distributors policies and applying different pricing methodologies for different distribution networks.</p>
	Do you agree that distributors should be required to pass through the settlement residual rebate to their customers rather than to, for example, end users?	<p>So long as the settlement residual rebate reaches end users in a similar proportion of the fixed costs that are charged by the EDBs, the channel of distribution is less critical.</p> <p>There is an apparent distrust in the competitive model that sees some EDBs prefer to see an itemised distribution of the residue directly to end users. EDBs need to be cognisant of the costs involved in directly attributing the residue to individual end users. There is sufficient competition in the retail to ensure that end users benefit from the rebate, so long as retailers can be confident in the rebate reaching them.</p>
	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. The Code should also require distributors to reflect that breakdown in their allocation policies.
	Do you agree 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 allocation?	<p>Yes, but the requirement should be mandated.</p> <p>To the extent that there may be valid reasons for distributors to adopt an alternative approach to their distribution of SRAM payments then it seems pragmatic to allow the distributor to apply for an exemption in such cases. This would allow for input from affected parties and possibly a time limit on the exemption if appropriate.</p>

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	Do you agree that distributors should be required to explicitly disclose their rebate methodology and its rationale, and to report on its application?	<p>Yes, but that would seem a pointless exercise if retailers and generators have no influence over what methodology is adopted. Rather, the rebate methodology should be determined in the Code and compulsory for all distributors.</p> <p>Para 5.30 refers to distributors bundling transmission charges into their overall residual cost recovery but given that under the TPM the transmission charges should be a component of the distributors fixed charges they should still be able to identify the proportion of fixed cost recoveries that relate to the transmission charge.</p>
	Do you agree 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>Yes. Given the expectation that retailers should be factoring in the expected value of the rebate in their retail pricing it is important that they can relate the amounts received to specific customer groupings.</p>
	Do you agree the Code should require distributors to pass through rebates at least annually?	<p>Nova believes there is no reason why distributors should not be required to pass through rebates monthly in arrears. Annually is not adequate. Transpower distributes the LCE monthly and there no reason why distributors cannot do the same.</p> <p>In the unusual event there is a claw-back of the rebate in any month that can be offset from payments in following months or invoiced to their customers.</p> <p>Distributors can also scale rebates to monthly invoiced amounts and include a withholding amount for settlement of wash-ups over the billing cycle if necessary. Annual payments would likely be even more complex to determine, and customers would find it difficult to verify the sums being received.</p> <p>(Any Code requirement could apply de minimus levels for EDBs at which annual distributions would make more sense.)</p>
6	Do you agree with the objectives of the proposed amendments? If not, why not?	Yes

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	Do you agree the benefits of the proposed amendments outweigh their costs?	Yes
	Do you agree the 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.	Nova does not agree that the prescriptive pass through option is necessarily less favourable than the limited pass-through option. There can be provision in the Code for EDBs to seek exemptions to prescriptive requirements if they can show the costs of compliance exceed the expected benefits.