

Status of existing prudent discount agreements and notional embedding contract under the new TPM

22 June 2022

1. Introduction

Consultation

- 1.1 The Electricity Authority (Authority) is consulting on the Authority's proposal to amend the Code so that the existing notional embedding contract (NEC) is no longer an exception to the general rule that Transpower must charge for transmission services only in accordance with the Transmission Pricing Methodology (TPM).
- 1.2 Further, the Authority consider that regulatory change provisions within current NEC and prudent discount agreements (PDA's) should take effect to allow the parties to these contracts to consider whether they are able to achieve any form of resolution through the provisions of the respective agreements.

PowerNet Limited

- 1.3 PowerNet is an electricity management company with head offices based in Invercargill. We manage the non-exempt Electricity Distribution Businesses (EDB's) of Electricity Invercargill Limited (EIL) and OtagoNet Joint Venture Limited (OJV), the exempt EDB of The Power Company Limited (TPCL) and the non-grid connected Stewart Island Electric Supply Authority (SIESA). PowerNet is a joint venture company, owned (50/50) by TPCL and EIL.
- 1.4 PowerNet manage an asset base and investments in excess of NZ\$1 billion. It provides services to over 73,000 customers through more than 14,100 circuit kilometres and manage the fourth largest suite of EDB assets in New Zealand. TPCL operates in Southland and West Otago, EIL in Invercargill and Bluff, OJV in Frankton, Cromwell and Wanaka and the rural and coastal Otago region that surrounds Dunedin City and SIESA on Stewart Island.
- 1.5 TPCL and EIL, in partnership with Pioneer Generation jointly own the Southern Generation Limited partnership. TPCL and EIL jointly hold a 50% stake in the partnership. Southern Generation is a party to the Aniwhenua/Matahina PDA, having taken over the Nova interest in the original PDA.
- 1.6 This response is made by PowerNet on behalf of all of the networks we manage, as described above.

2. Response

- 2.1 PowerNet support the Authority's desire to treat the NEC and PDA's even-handedly.
- 2.2 We also acknowledge that existing PDAs and NEC have regulatory change provisions within them, indicating that the parties contemplated whether contracts could appropriately continue if there was a relevant change in the rules (such as a new TPM).
- 2.3 The Authority only provides an estimate of the incremental costs for a prudent discount application with effect from 1 April 2023 for the Blackpoint NEC. This is estimated to be approx. \$16,000. The two PDAs however require an application to be brought forward by more than the three years for the Blackpoint NEC – resulting in higher incremental costs.
- 2.4 In addition, the Aniwhenua/Matahina PDA was entered into for a term of 15 years – of which only 9 years will have completed by 1 April 2023. As a result the PDA has only delivered 2/3^{rds} of the agreed term.
- 2.5 The Authority acknowledge that assessing the benefits of the proposed amendment are difficult to quantify. And efficiency benefits relating to the proposed Code amendment proposal are likely to be relatively minor.
- 2.6 Whilst we accept that allowing unjustified prudent discounts to continue under the new TPM risks undermining the durability of the new TPM, the potential costs and impact on the individual parties to current agreements that are required to bring forward their applications has the potential to be of greater significance to individual parties than the wider scope considered by the Authority.
- 2.7 With this in mind, PowerNet consider that the onus, and associated costs, should be with Transpower for them to consider and identify whether current PDA and NEC agreements are no longer appropriate. Unless or until justification of the invalidity of current agreements are confirmed, current agreements should be assumed to remain valid and in effect.
- 2.8 In summary, PowerNet agree with the Code change to allow PDA's and the NEC to be treated equitably. We agree that existing PDAs and NEC can use regulatory change provisions within the agreements to contemplate continuation. However we believe all three current agreements should remain in effect until it is clearly identified that the agreements are no longer justified.

PowerNet Contact

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