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SUBMISSION ON THE TRANSMISSION PRICING REVIEW: Proposed Transmission Pricing Methodology Consultation Paper

Rio Tinto welcomes the opportunity to provide a submission to the Electricity Authority (Authority) on its consultation paper: Proposed Transmission Pricing Methodology Consultation paper dated 8 October 2021. This submission is made by Rio Tinto on behalf of Pacific Aluminium (New Zealand) Limited and New Zealand Aluminium Smelters Limited (NZAS). Nothing in this submission is confidential.

Should you have any enquiries, please do not hesitate to contact Jennifer Nolan at Jennifer.nolan@riotinto.co

Yours sincerely

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A submission from

Rio Tinto

to the Electricity Authority on the

Proposed transmission pricing methodology: 2021 consultation paper

Draft: Due date 2 December 2021

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Introduction

1. Rio Tinto welcomes the opportunity to make a submission on the *Proposed transmission pricing methodology: consultation paper*, dated 8 October 2021 and the accompanying *Transmission Pricing Methodology, October 2021* (draft TPM 2021).

2. This submission comments primarily on the stand-alone cost prudent discount. The submission identifies what appear to be errors in the draft TPM 2021 by establishing the conceptual underpinnings of prudent discount provisions, describing how those concepts were reflected in the Guidelines, and identifying aspects of the draft TPM 2021 that do not appear to reflect the Guidelines and which are inconsistent with the conceptual reasoning supporting the relevant Guideline.

Concessions from principle in the Guidelines

3. Throughout the 11 years during which transmission pricing in New Zealand has been reviewed,[1] our submissions have been centred on a consistent theme: no transmission customer should pay more for transmission services than the economic cost of providing those services to that customer.

4. This principle is a necessary component in a transmission pricing methodology to achieve the Authority's statutory purpose of being in the long-term interest of consumers. If one or more transmission customers pay more than the economic cost of the service it or they receive then the potential exists for:

   - those customers who pay more than the economic cost of transmission services facing incentives to reduce production over time to below an economically efficient level, and potentially ceasing production;
   - other customers paying less than the economic cost of transmission services they receive and encouraged to make inefficient investments and to demand inefficient investment by Transpower; and
   - Transpower will facing continuing incentives for inefficient investment and operation of its network.

5. The Authority notes that no entity should pay more than the efficient stand-alone cost of the transmission services they receive.[2], during the lengthy process the Authority There has though appeared to be a progressive retreat from some of the core principles such as the above. Examples of movement from those principles appear to include:

   - Acknowledging that how the costs of existing assets—as well as the costs of new investment—are recovered is important to meeting the economic efficiency

[1] The Electricity Authority took over the work of the former Electricity Commission in November 2010.
[2] Electricity Authority, (2021), *Proposed transmission pricing methodology: consultation paper*, para 9.3; Electricity Authority, (2020), *Transmission pricing methodology: 2019 Issues Supplementary Consultation Paper, 11 February*, pages 16 to 17.

requirements of the Authority's statutory objective, but then adopting very different pricing methods depending upon the age of an asset:

   i. most pre-2019 assets will be priced through the residual charge, which the Authority has designed as a "tax" on off-take customers (but not generation customers) rather than a price for a service, with the amount of 'tax' paid by a transmission customer bearing no relationship to the cost of transmission services for that customer; and
   ii. charging for selected pre-2019 assets via a specific numerical regulation set out in Schedule 1 to the Guidelines; in calculating these charges, negative benefits are not carried forward, to apply reduced (and possibly varying) values for reliability, and selected modelling years, that reallocate large sums of money between transmission customers without a clear articulation of the rationale.

- Capping transmission charges so that some customers will continue to pay less than the cost of the services they receive and other customers will continue to pay more than the efficient cost.

6. The result of these concessions is that the Guidelines require a transmission pricing methodology that is likely to achieve fewer economic benefits than what could have been achieved from the review. For NZAS, it means that the combination of the benefits based charge, the residual charge and connection charges would result in NZAS continuing to be charged considerably more for transmission services than it costs to provide those services.

7. It is recognised that this consultation is in relation to the draft TPM 2021 and that the Authority has made its decisions in relation to the Guidelines. However, the compromises that appear to have been made made in arriving at the Guidelines provide important context for this submission.

8. The result appears to be a highly complex transmission pricing methodology resulting in a contortion of pricing and in particular setting a "high bar" to qualify for a prudent discount, to fit the Authority's guidelines. . This complexity leads to error.

9. This submission focuses on prudent discount provisions. The comments are presented in two sections:

   - The first section establishes the conceptual underpinnings of the stand-alone cost provisions, describes how those concepts were reflected in the Guidelines, and illustrates how elements of the draft appear to not reflect the Guidelines and appear inconsistent with the conceptual reasoning supporting the relevant Guideline.

   - The second section provides detailed comments on the drafting of the prudent discount clauses, identifying wording that is considered to be inconsistent with the Guidelines or open to misinterpretation.

Prudent discount - concepts

The concept of standalone cost

10. The concept of a standalone cost test originates from the economic theory of contestable markets. In a contestable market, an incumbent faces the threat of entry. Firms are, by theoretical definition, capable of entering into the production and sale of any quantity of the market's products or services by making use of generally available technology and inputs, and thus incurring efficient economic total costs of that production. These potential entrants evaluate the profitability of their entry into the market by comparing these efficient costs with their potential revenues from diverting sales of the incumbent firm at prices just below those charged by the incumbent to its customers.

11. The potential entrants into a contestable market are assumed to face no entry barriers. Hence, the theory is not intended to accurately describe real markets (there are substantial barriers to entry to providing transmission services). Rather, the theory is used to evoke a standard to guide regulators in setting maximum efficient prices for individual customers when markets are not workably competitive.[3]

12. The application of "a high bar" for successful applications for a stand-alone cost prudent discount is inconsistent with that economic theory and should not be accepted.[4] Setting a high bar would inhibit the regulatory scrutiny intended by the test. As the High Court observed, of the hypothetical new entrant test that would charge no more than the standalone cost:[5]

> *Its rationale is to find a means of discovering the costs that would apply to a supplier if it were in a workably competitive market.*

13. In a contestable market, no customer or group of customers would agree to pay more to a supplier for their services than it would cost to produce those services efficiently in the long run on their own, or than it would cost a competing entity to supply them. That is, competition from potential entrants would drive incumbents to set prices no higher than the cost of stand-alone supply for the service or combinations of service.

14. Any customer that receives a set of services for no greater expenditures than their associated stand-alone cost is not harmed relative to the alternative of self-supply (or supply by a third party producing only those services). Thus, a customer paying no more than the stand-alone cost is not paying extra to support other customers.

15. Such imbalance in cost allocation would conflict with the Electricity Authority's statutory objective because they generally lead to a misallocation of resources, encourage inefficient

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[3] For the most complete original treatment see Baumol, W. J., Panzar, J. C., & Willig, R. D, (1982), Contestable Markets and the Theory of Industry Structure. New York: Harcourt Brace Jovanovich; for a discussion of the role of contestable markets as a benchmark for regulation see Baumol, W. J., & Willig, R. D, (1986), Contestability: Developments since the Book. Oxford Economic Papers, New Series, Vol.38, Supplement: Strategic Behaviour and Industrial Competition, pp. 9-36.

[4] Transpower, (2021), *TPM Proposal, Reasons Paper*, chapter 13, para 62.

[5] Wellington International Airport Ltd & Ors v Commerce Commission, 2013, para. 545.

investments by those paying less than cost, and repressed investment by those paying more than cost. These inefficiencies result in a loss of economic welfare, and tend to be compounded as higher prices are needed for other customers to fund the inefficient investment to supply the under-payers and because the reduced demand by the over-payers means higher average mark-ups on the remaining volumes. The consequent higher prices would exclude more customer demand with values that exceed the incremental cost of supply, causing additional loss of economic welfare and additional loss of volume with yet further negative consequences.

16. As a matter of logic, and economic theory, if all services and combinations of services satisfy the stand-alone test, and if the supplier earns zero economic profits (that is, no monopoly profits overall, as the Commerce Commission aims to achieve in regulating Transpower's revenue), all services and combinations of services will also provide revenues that exceed their associated incremental costs. Prices that are at least equal to the incremental cost, and no higher than stand-alone cost, are widely accepted in the economics literature as 'subsidy free'.

17. When viewed against this conceptual foundation for the stand-alone prudent discount, the provisions of the draft TPM 2021 do not appear to meet the objective.

Purpose of stand-alone cost prudent discount

18. Clause 135 of the draft TPM 2021 states the purpose of the stand-alone cost prudent discount as follows:

> *The purpose of a stand-alone cost prudent discount is to help ensure this transmission pricing methodology does not result in a customer paying transmission charges that exceed the efficient stand-alone cost of the transmission services the customer receives from interconnection investments. A stand-alone cost prudent discount achieves this by replacing the prudent discount recipient's benefit-based charges and residual charge with an annuity under a prudent discount agreement equal to the alternative project costs of an efficient stand-alone investment.*

19. This drafting does not appear to meet the intent of the Guidelines in two regards.

20. First, as drafted the stated purpose of the stand-alone produce discount does not appear to recognise the regulatory objective of a stand-alone cost test in addressing the harm from cross-subsidization. By limiting Transpower's charges to no-more than the efficient stand-alone cost, the Prudent Discount Policy should ensure that no customer is harmed by having revenues extracted from them that are greater than the costs of providing the services, *and* that these funds are not used to under-charge other customers; below the incremental cost of supplying them. We show below how failing to recognise the harm from such impacts on the methodological choices in relation to estimating the stand-alone cost.

21. Second, as drafted, clause 135 appears to be is internally inconsistent and does not appear to achieve its purpose. The first sentence states that the purpose is to ensure transmission

charges do not exceed the stand-alone cost for a customer's transmission services. However, the second sentence says that the assessed stand-alone cost replaces only some of the transmission charges—the benefit based and residual charges; other charges, and in particular connection charges, would be added to the 'stand-alone' cost. Hence, the proposed approach would appear to always result in a charge that exceeded the 'stand-alone' cost.

22. The draft clearly does not appear to be consistent with Guideline 47(c) which requires the TPM to:

> *provide that a prudent discount must be available where and to the extent that a designated transmission customer's **transmission charges** exceed the standalone cost of the **transmission lines services** it receives*

23. Transmission lines services are defined in the Guidelines as the services covered by Transpower's individual price-quality path, as determined by the Commerce Commission under Part 4 of the Commerce Act 1986. Transmission charges are defined to include the benefit based, residual and connection charges. Hence, the prudent discount must be available when the total of the transmission charges—not just the benefit based and residual charge—exceeds the stand-alone cost of the transmission services.

Stand-alone cost project should not require investment in new assets

24. Clause 136(b) requires that the alternative project for a stand-alone cost prudent discount must be "technically feasible using present day technology and construction methods." The intended interpretation of this provision appears that it could be misconstrued to require an assumption that the hypothetical new entrant would purchase new assets to provide the stand-alone service.

25. The counterfactual evoked by the contestable market's theory allows the new entrant to make use of generally available technology, and this technology should be assumed to include used assets of the same age as used to provide existing services. As the High Court observed:[6]

> *… in the hypothetical framework the new entrant could purchase used assets. The price it would be prepared to pay in a workably competitive market would be the price of new assets (the replacement cost) less the additional costs of operating the old assets due to their shorter remaining lives, higher maintenance costs, and less efficient configuration.*

26. The High Court rejected the Commerce Commission's analysis that had assumed a new entrant would purchase new assets:[7]

> *Much of the Commission's analysis of the HNET [hypothetical new entrant test] appears to assume that it leads to valuations equal to the cost of replacing old assets with new assets. In our view, this misunderstands the proper application*

[6] Wellington International Airport Ltd & Ors v Commerce Commission, 2013, para. 541.
[7] Wellington International Airport Ltd & Ors v Commerce Commission, 2013, para. 547.

of the test and effectively ignores the optimisation and depreciation elements in ODV valuation.

27. The draft TPM 2021 could be improved by an amendment to clarify that the efficient standalone cost of transmission services can be determined utilising optimised depreciated replacement cost (ODRC) valuations of existing assets. In the case of a theoretical purchase of existing assets, those assets might include those not technically feasible using present day technology and construction materials.

Existing corridors and easements

28. Clause 136(2) requires the costs of consents and property rights to be assessed even where consents and property rights might be infeasible to obtain. Transpower has significant discretion to describe 'broadly equivalent resource consents and property rights' that are feasible.

29. The discretion sought by Transpower appears to be contrary to the contestable market foundations of stand-alone cost, for two reasons.

30. First, the efficient stand-alone cost should be calculated assuming the hypothetical entrant would be able to access transmission corridors at the same cost as Transpower, if those corridors were suitable for the alternative project. As noted above, the contestable market theory assumes that there are no barriers to entry. A cost that must be incurred by a (hypothetical) entrant, but which is not incurred by the incumbent, is an unambiguous barrier to entry. In 1968, Stigler defined a barrier to entry as: "A cost of producing that must be borne by a firm which seeks to enter an industry but is not borne by firms already in the industry".[8]

31. Transpower utilises a number of transmission corridors, or easements, without needing to pay for that access. The economic value of these easements do not form part of its Regulated Asset Base.[9] Similarly, no cost should be attributed to these corridors if utilised by the alternative project.

32. Second, where an alternative project would use an alternative corridor, the discretion as currently worded would facilitate very expensive conditions on the basis that the infeasible rights are at the limit of feasibility. Consistent with the contestable market foundation, Transpower should adopt the least cost option.

Right to terminate a stand-alone cost prudent discount

33. The draft TPM 2021 permits a customer to terminate its stand-alone cost prudent discount agreement with Transpower. The Authority observes that the ability of a customer to terminate its stand-alone cost prudent discount agreement is inconsistent with the requirements for an inefficient bypass prudent discount.[10] The Authority seeks comment on

[8] Stigler, G, (1968), The Organization of Industry.
[9] Commerce Commission, (2010), Transpower Input Methodologies Determination.
[10] Electricity Authority, Electricity Authority, (2021), *Proposed transmission pricing methodology: consultation paper*, para 9.7.

whether a customer should be prevented from terminating a stand-alone cost prudent discount agreement.[11]

34. The Authority explains its view as follows:[12]

> *The Authority believes the commercial discipline on a customer applying for an SACPD should reflect reality as closely as possible. This suggests a customer with an SACPD agreement should be committed to the agreement for its full term, as for an IBPD, and not have the right to terminate the agreement. The Authority considers this approach aligns better with ensuring an appropriately high threshold is met before an SACPD is approved, thereby reducing the possibility of the SACPD being a subsidy.*

35. This comment suggests the reason for a stand-alone cost prudent discount has become unclear. As described above (paragraphs 10 to 16), the stand-alone cost test is not intended to accurately describe real markets; the test provides a standard to guide regulators in setting *maximum efficient prices* when markets are not workably competitive. A charge should not be imposed on a customer that exceeds this regulatory standard; that is, prices should never exceed the stand-alone cost to a customer. Setting "an appropriately high threshold" and committing a customer to pay a price set at a point in time (that might subsequently exceed a revised stand-alone cost) would remove the regulatory test.

The reference to the "possibility of the SACPD being a subsidy" appears misplaced. To be a subsidy, the stand-alone cost prudent discount would need to be less than the incremental cost of the service. The stand-alone cost is the *maximum* price that should ever be charged so a price resulting from the application of the SACPD that is below the stand alone cost will not be a subsidy provided it exceeds the incremental cost of the service. The price paid by a customer should typically be much less than the stand-alone cost reflecting the economies of scope of transmission; that is, joint production of the services is more efficient than the total cost of producing them all separately.

Non-transmission alternatives

36. Although the draft TPM 2021 explicitly recognises that non-transmission alternatives can be considered in applying the prudent discount provisions, the clauses appear to require revision and consideration of non-transmission solutions. For example, in applying the stand-alone test, the sub-bullet points of cause 137(1) limit the test to only investments that would reduce excess or over-capacity in interconnection assets; it does not provide for an alternative that would substitute for connection assets.

37. Similarly, in considering the benefits of an alternative project for inefficient bypass prudent discount, clause 120 requires that the alternative project's costs include capital, operating, maintenance, and overhead costs. Clause 120 also specifically adds a change in electricity losses (positive or negative) and any change in tax liability. Alternative projects that include

[11] Electricity Authority, Electricity Authority, (2021), *Proposed transmission pricing methodology: consultation paper*, para 9.9.
[12] Electricity Authority, Electricity Authority, (2021), *Proposed transmission pricing methodology: consultation paper*, para 9.10.

transmission alternatives could have other significant benefits and costs, such as avoided energy costs and market impacts. While such costs could be generally described under capital, operating, maintenance, and overhead costs they are complex and are relevant for determining inefficient bypass and standalone costs.

38. In short, the prudent discount methodologies do not give guidance on how a transmission alternative would be assessed and could be improved by the inclusion of such guidance.

Prudent discount—drafting

39. Our comments above addressed conceptual concerns with the draft TPM 2021. In this section we provide detailed comments on individual clauses in the draft TPM 2021.

40. Clause 112(2) is potentially problematic when read in conjunction with the definition of Alternative Project. The definition of Alternative Project would be improved by the inclusion of a clarification that a theoretical purchase of existing assets is such an investment, for the reasons discussed above.

41. The definition of Transmission Services used to underpin the definition of Alternative Project also raises some concerns. It could be interpreted that the only party that can provide Transmission Services is a current grid owner, that is, Transpower. This could be addressed by the definition of Transmission Services being amended as follows:

> Transmission Services means the following services ~~provided by a grid owner~~:
>
> (a) electricity lines services, as defined in section 54C of the Commerce Act 1986, but excluding system operator services, <u>where the provider of such services would then be a grid owner</u>:
>
> (b) the provision of transmission alternatives"

42. Clause 119(2) could also be potentially problematic in its implementation. While the term 'substantially similar level of service' may be appropriate in many circumstances, that will not always be the case. In assessing whether an alternative service is substantially similar, an assessment is also needed of the services actually demanded by the customer. In some cases, the differences in service level between what is or has been provided and the service level required by the customer could be substantial. For example, an alternative project that provides a 'substantially similar level of service' to that required by a load that substantially reduces its demand by de-rating equipment may be very different to that which would have been required prior to the de-rating.

43. Clause 199(2)(d) appears to be an additional clause giving Transpower broad discretion and does not appear to be necessary. The three previous points include access, quality, reliability and security. These points are broad enough to cover transmission services and Transpower still has discretion to define them. Point (d) appears to be redundant as it adds "any other measure of quality" to point (b) the "quality of energy supplied".

44. Clause 120 requires that the alternative project's costs include capital, operating, maintenance, and overhead costs. Clause 120 also specifically adds a change in electricity

losses (positive or negative) and any change in tax liability. Alternative projects that include transmission alternatives could have other significant benefits and costs, such as avoided energy costs and market impacts. While such costs could be generally described under capital, operating, maintenance, and overhead costs they are complex and are relevant for determining inefficient bypass and standalone costs. The prudent discount methodologies do not give guidance on how a transmission alternative would be assessed.

45. Clause 121(2) gives the formula for assessing the present value for alternative project costs and for avoided transmission costs. The formula in 121(2) arbitrarily limits the cashflows assessed in the present value calculation to the prudent discount calculation period (limited to 15 years) without allowing for any residual value of the cashflows after the prudent discount calculation period. Throughout the TPM the separate issues of the duration of prudent discount contracts and the assessment of value appear to create confusion and could be clarified.

46. The formula in 121(2) specifies that the prudent discount rate should be used. The prudent discount rate is described as the pre-tax WACC determined by, or assessed consistently with, the Commerce Commission process in the Information Disclosure rules. However, clause 120 requires tax cash effects be assessed in the cash flows. The formula in 121(2) should be a post-tax WACC.

47. Under clause 124(3) "The term of the prudent discount agreement must be the same as the relevant prudent discount calculation period, subject to earlier termination in accordance with the terms of the prudent discount agreement." This requirement is complicated by the valuation calculation error in clause 125 where the assessment of value does not include any residual value of the alternative project at the end of the prudent discount calculation period. Any calculation of value over a period less than the economic life of a project will operate to understate its value unless any residual value at the end of the assessment period is also assessed. With the issue identified in clause 125, it becomes necessary for the term of the prudent discount to be equal to the economic life of the alternative project to get the correct valuation and annuity.

48. The Authority has correctly identified that a mandated maximum term may be inefficient as it creates uncertainty for renewing the prudent discount agreement at the end of the term even though the alternative project has remaining economic life. However, an important point is not addressed; because of the issue identified in clause 125 of the TPM, the alternative project would be fully amortised by the end of the term. The transmission charges for the next prudent discount agreement should then be zero. Therefore, the maximum term create uncertainty about renewal and also the likelihood that charges will exceed inefficient bypass or standalone cost.

49. The term of an agreement does not need to be linked to the economic life of a project. Neither does, or should, the calculation of value and payments be linked to the contract term. The definition of the prudent discount calculation requires that the period must be 15 years for a standalone cost prudent discount and the lesser of the economic life of the alternative project or 15 years for an inefficient bypass prudent discount. The Authority correctly observes that, while 15 years may make a reasonable default period, there is no

good reason for it to be the limit on an agreement between Transpower and a transmission customer. The certainty of re-contracting could also be improved by requiring Transpower to enter into a new prudent discount agreement, where the economic life of the alternative project continues post the agreement, without requiring a new application where the conditions of Transpower's approval continue to be satisfied, in accordance with clause 124(2)(c).

50. Under clause 124(2)(d) prudent discount agreements must provide for "if the prudent discount agreement is for a stand-alone cost prudent discount, the customer to have the right to terminate the prudent discount agreement at the start of a pricing year by notifying Transpower at least 6 months before the start of the pricing year." This condition should remain and customers should be allowed to enter into standalone prudent discounts of less than 15 years. This may be preferable because a transmission customer could find itself entering into a contract where the customer reasonably expects that the life of its plant is less than 15 years but would still find itself paying in excess of stand-alone cost.

51. The Authority questions the right of customers to terminate a standalone prudent discount under clause 124(2)(d) on the basis that an alternative project owner would require a longer commitment. This rationale applies for an inefficient bypass prudent discount, but the stand-alone prudent discount is not equivalent and serves a different purpose. The purpose of a stand-alone cost assessment is to determine the maximum price that would be paid by a customer on a theoretical basis where a notional competitor is able to provide service with all monopoly barriers to entry removed. Requiring this notional competitor to have a long-term contract with the customer, where Transpower may have already reached the expiry of previous transmission contracts and connection investment agreements, is not consistent with removing all barriers to entry.

52. Clause 130 describes the process for assessing an inefficient bypass prudent discount where there are multiple benefitting customers. There is no equivalent process in the standalone test. The intent of the standalone test is to remove barriers to entry to a theoretical competitor. Any such competitor would offer services at reduced cost to multiple customers where there are scale economies in doing so.

53. Clause 136(1)(a) has the same interpretation issue around "substantially similar" discussed above at paragraph 39.

54. Clause 137(1) is extremely narrow in the application of a standalone test despite explicitly stating that transmission alternatives can be considered. The bullet points limit the test to only investments that would reduce excess or over-capacity in interconnection assets. While clause 137(2) explicitly allows such investments to follow different routes the limitations that could be implied by subparagraphs (a) and (c) are not required. Those subparagraphs potentially limit the application of transmission alternatives and approaches such as the theoretical purchase of existing assets.

55. Point 137(1)(b) requires that connection assets are held constant. There is no basis for such a restriction and the Transmission Pricing Guidelines are clear; Transmission charges must not exceed standalone cost. Where the alternative project would avoid or reduce

connection assets, that should be reflected in the assessment. Only where the alternative uses the same connection assets should connection assets and charges be held constant.

56. Clause 139 explicitly requires that the standalone prudent discount can only apply to benefit based and residual charges, and to no other charges. This clearly does not meet the guidelines, which require that transmission charges, which include all charges under the TPM (including the subsidy to subsidise customers whose charges are capped), should not exceed standalone cost. this was noted in paragraphs 19 to 24.

Residual charge adjustment events

57. Clause 70 determines how AMDR is set for the purpose of calculating residual charges. Clauses 94 to 98 determine how a customer's residual charges are adjusted when eligible for an adjustment event. While clauses 96 and 97 make it clear that AMDR and residual charges are set to zero for eligible adjustments, the lack of relationship with clause 70 can cause confusion.

58. Clarity and readability of the TPM would be improved if clause 70 included the setting of AMDR under clauses 96, 97, and 98 as methods of determining AMDR with the three methods specified in 70(1)(a) to 70(1)(c).

59. There is also the potential for inefficient outcomes for disconnecting plant. The requirement currently under clause 94(1)(b) is that "a customer (the disconnecting load customer) disconnects consuming plant from the grid:" This appears to say that, for a customer of Transpower, the disconnection of plant only counts if it is disconnected from the grid. It is possible that a party disconnecting plant may want to keep its existing connection assets, rather than replace them, even though disconnecting plant downstream of the connection makes it impossible to use the capacity. Clause 94(1)(b) may make such an approach ineligible for the residual charge adjustment and could force the potentially inefficient replacement of either Transpower's and/or the customer's connecting assets. Instead, clause 94(1)(b) could simply say "a customer (the disconnecting load customer) disconnects consuming plant:"

Conclusion

60. We have concerns with the Authority's conclusion that the stand-alone prudent discount provisions in the draft TPM 2021 are "consistent with the Guidelines and its statutory objective", for the reasons described in this submission. The issues identified in this submission, both conceptually and in drafting, could be addressed as noted, and it is submitted, should be addressed in the interests of delivering the intent of the Guidelines and an efficient system. We appreciate the opportunity to make this submission.