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thelines company

2 December 2021

Submissions
Electricity Authority
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Via email: TPM@ea.govt.nz

Consultation Paper—Proposed Transmission Pricing Methodology

1. Introduction

The Lines Company Limited (TLC) thanks the Electricity Authority (the Authority) for the opportunity to submit on the Authority's proposal of a new approach to transmission pricing, Consultation paper – Proposed Transmission Pricing Methodology (TPM), 8 October 2021.

According to the Authority, the proposed new TPM better positions New Zealand for a transition to a low-emissions economy by ensuring the best use of existing and future infrastructure. The proposed TPM is benefit-based, and the Authority indicates that those that benefit from transmission investments should pay for them. Benefit-based charges and a residual charge would replace the regional coincident peak demand (RCPD) and HVDC charges. It is emphasised by the Authority that the RCPD charge distorts the cost of transmission and the existing TPM allocates the cost of the grid based on how much people consumed at peaks in the previous year, regardless of whether there are capacity constraints.

We believe that the Authority's framework using cost-benefit analysis to evaluate transmission investments and benefit-based allocation of the associated costs provides a reasonable foundation for supporting efficient transmission investment within the context of a competitive electricity market model. However, we have a few concerns which we have raised in this submission.

2. Beneficiaries pay for the investments - Inconsistent with Distribution Pricing advocated by the Authority

The proposed TPM is based on the view that the RCPD charge distorts the cost of transmission and discourages customers from using the power when they need it the most (for example, cold winter evenings when electricity generation, transmission and distribution systems are running nearing capacity and are likely to be congested). The proposed TPM removes the RCPD charge and price signal for system peaks and congestion.

This approach is inconsistent with the Authority's view of distribution pricing. In the distribution pricing consultation paper[1], the Authority emphasised the importance of sending the right pricing signal. In another

[1] Supporting reform to efficient distribution pricing: a refreshed Distribution Pricing Practice Note

publication[2], the Authority notes current distribution prices do not signal when the network is congested nor when there is plenty of capacity. The Authority notes distribution network costs are driven by periods of peak demand and that more efficient pricing models have a fixed and variable (marginal cost) charge that aligns prices with the cost drivers.

In the recent distribution pricing consultation paper, the Authority also noted that after the removal of the RCPD mechanism in the proposed TPM, distributors will face an urgent need to address how the loss of this pricing signal should influence their distribution pricing. It is yet to see how the proposed benefit-based TPM will work in conjunction with cost-reflective distribution pricing, containing signals for fixed network cost and variable cost related to network congestions.

3. TPM in conjunction with Real-Time Wholesale Pricing

Existing wholesale electricity market (nodal) prices are expected to work alongside the new charges, providing a more accurate, responsive, and targeted signal of the cost of using the grid in the absence of other distorting signals.

Real-time pricing in the wholesale market will only be implemented in late 2022. TLC's experience is that residential customers want simple pricing plans as they do not necessarily see wholesale real-time prices, while large load customers mostly use contractual arrangements to protect against exposure to them. It is yet to see if the proposed TPM works effectively in conjunction with real-time wholesale prices to manage congestion.

4. Transitional Congestion Charge (TCC)

Transpower noted that any heightened short-term congestion risk from removing the RCPD charge can be effectively and efficiently managed through the tools available to it as the system operator and grid owner, so it did not propose a Transitional Congestion Charge (TCC) in its 30 June 2021 TPM proposal. The Authority agrees with its analysis. However, Transpower is still able to propose a TCC later via an operational review if this would better meet the Authority's statutory objective[3].

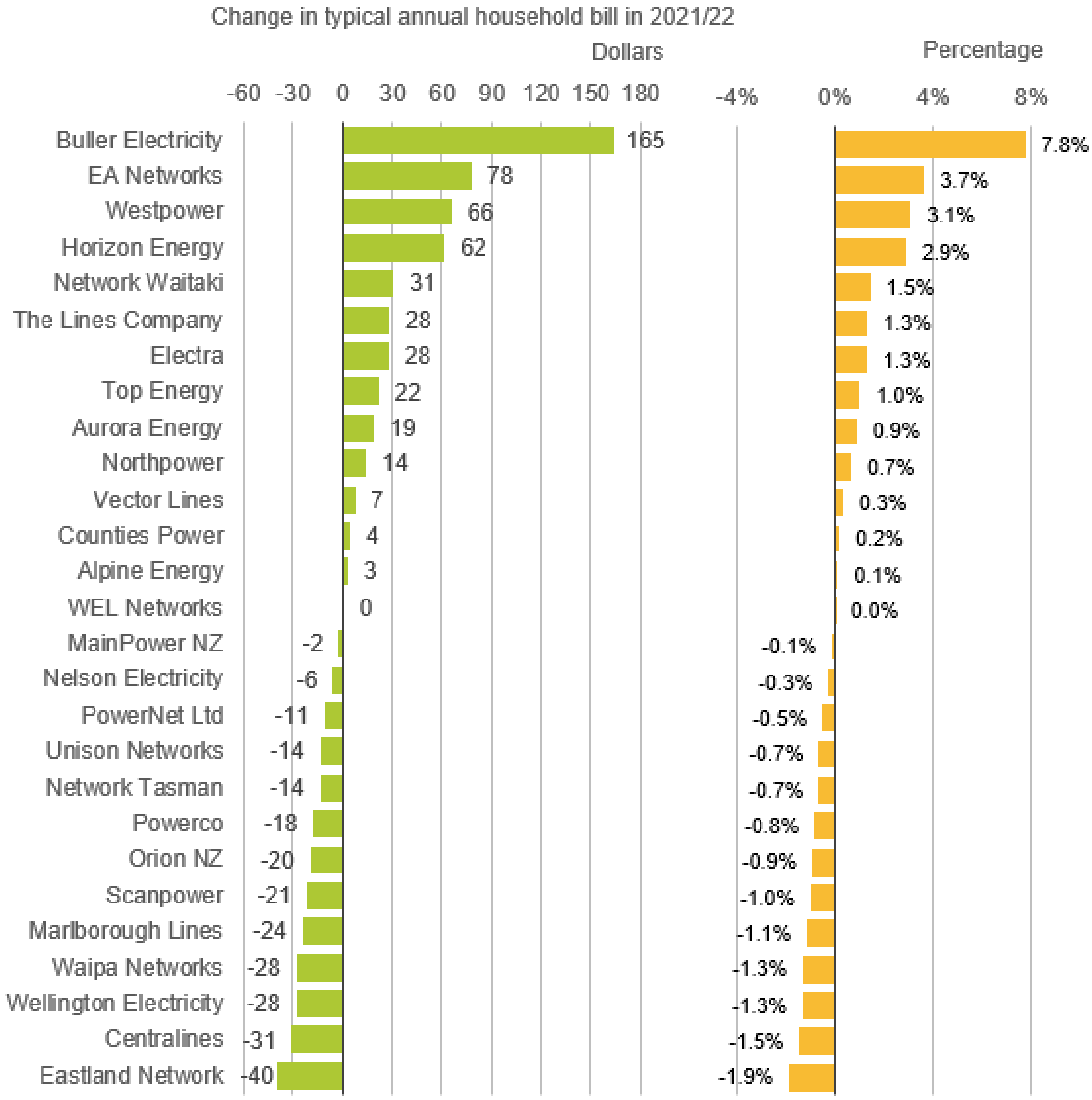
5. ACOT (Avoided Cost of Transmission) Charges and Customer Affordability

TLC does not support a TCC as some distributors may incur a double hit if a form of peak charge is added atop proposed benefit-based transmission charges. The Authority notes in the proposed TPM consultation paper that distributors whose customers face an estimated annual bill impact of more than $25 (Westpower, Horizon Energy, and The Lines Company and Electra) make significant ACOT payments. Customers would be impacted if distributors are to pay peak charges atop benefit-based charges.

The Authority has provided calculations of indicative transmission prices. Transmission charges for TLC are expected to increase by 28% from $4.7 million to $6.1 million being $1.3m. However, the removal of ACOT payments under regulated terms offsets the increase for customers.

The impact of the proposed TPM on a TLC average household bill is an increase $28 per annum. The proposal's "fixed-like charges", if passed to residential consumers as daily fixed charges, translate into approximately 0.8c/day. However, if any form of ACOT charge is applicable, it would add approximately $1.4m – $1.5m to the $6.1m (indicative) transmission charge which would mean an approximate $58 per annum increase.

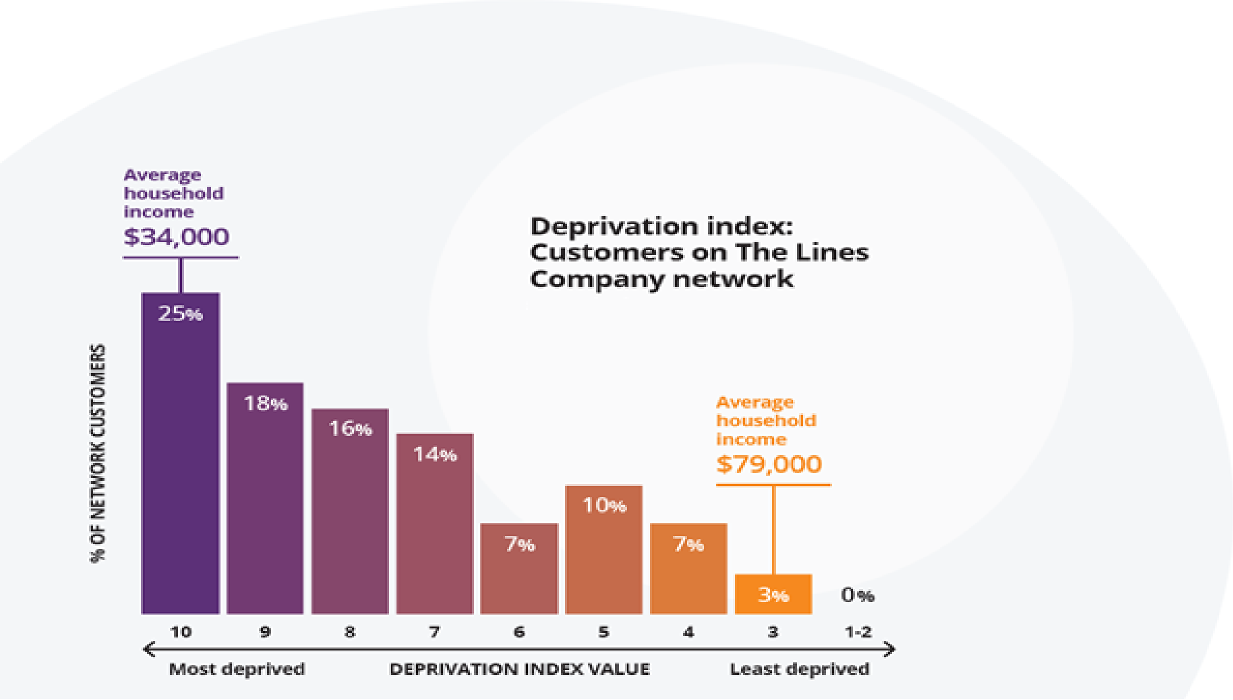
[2] It's time to reform distribution pricing
[3] Proposed Transmission Pricing Methodology _ Consultation paper (P,86)



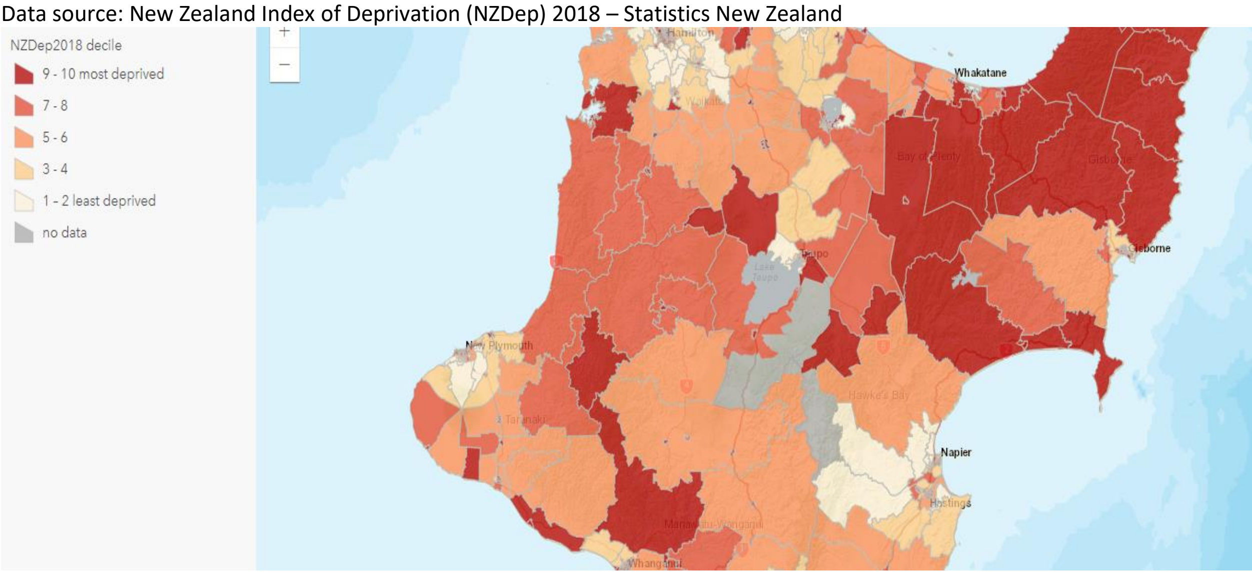
Source: Proposed Transmission Pricing Methodology - Consultation paper 08 October 2021 (p,103)

As we have raised in our previous submission, we are concerned with our consumers' affordability. Like many regional distributors, TLC has a high proportion of low-income consumers with high deprivation indices.

Energy hardship and affordability is a significant issue and constraint. Energy hardship in our region is prevalent. Geographically, the TLC network is vast, encompassing alpine environments, cold climates and many areas with poor housing stock. Socially and economically significant parts of it have been identified as amongst the most deprived in the country. Around 60% of TLC's residential customers have a deprivation score of 8 or higher – the most deprived index on the scale. Geographically, the TLC network is vast, encompassing alpine environments, cold climates and many areas with poor housing stock. A quarter of TLC customers have an average household income of less than $35,000 per annum … for many, making ends meet is a real challenge.



Data source: New Zealand Index of Deprivation (NZDep) 2018 – Statistics New Zealand



This issue is complex, multi-faceted and along with income, other contributing factors include the quality of housing stock, heating methods, family size, and education. Customer affordability is of the highest concern to TLC and a situation where there is an increase in transmission charges as per the proposal and where any form of ACOT payment is deemed 'efficient' is not acceptable to TLC and our consumers.

If you have any questions about this submission, please contact Saba Malik (Saba.Malik@thelines.co.nz).

Yours Sincerely

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