

9 December 2020

James Kilty  
Deputy Chief Executive Officer  
Contact Energy Ltd

By email: [James.Kilty@contactenergy.co.nz](mailto:James.Kilty@contactenergy.co.nz)

Dear James

### **Transmission charges and grid-connected battery investment**

Thank you for your letter of 16 November 2020 to James Stevenson-Wallace, setting out your concerns about the potential impact of the Authority's 2020 transmission pricing methodology (TPM) guidelines on investment in grid-connected batteries.

Before addressing your specific request, it is useful to reiterate the premise of the Authority's TPM reform. The Authority considers that battery owners, like all other transmission customers, should in principle contribute to the cost of transmission investments from which they benefit. Battery owners gain substantial benefit from connection to the grid and should pay for that.

Within this framework, the TPM residual charge is intended to ensure that Transpower can recover its revenue in a way that minimises any effect on transmission customers' grid use and investment. For this reason, the TPM guidelines provide for a broad-based charge paid by all customers that draw energy from the grid, allocated based on a measure that reflects a customer's size and ability to pay. As we transition into a benefit-based TPM, the amount of grid costs recovered via the residual charge will reduce materially over time.

You have asked that the Authority work with stakeholders to rapidly develop an amendment to the TPM guidelines to address your concerns regarding transmission charges payable in relation to grid-connected batteries. We do not consider that re-opening the TPM guidelines is appropriate. As you are aware, a decision confirming new TPM guidelines was made in June 2020, following several rounds of consultation where there was extensive opportunity to raise issues.

However, the matters raised in your letter may be considered by Transpower in its development of a proposed TPM. In our view the TPM guidelines provide Transpower with flexibility around various aspects of its design of a proposed TPM. Transpower may choose to consider the matters raised in your letter. The Authority encourages you to continue to engage with Transpower on these matters.

With this in mind, we note that:

- The Authority understands the potential for grid-connected batteries, like many other technologies, to contribute to New Zealand's transition to a low-emissions economy.
- However, we do not agree that any new TPM should essentially subsidise grid-connected batteries, in preference to other technologies or solutions for emissions reduction. We are

particularly concerned that favourable treatment to encourage grid-connected batteries under any new TPM could result in an enduring subsidy, payable by all New Zealand electricity consumers, to investors like Contact Energy. In our view, any potential subsidy for grid-connected batteries should be explicitly considered, decided and implemented as part of New Zealand's broader climate policy, rather than as a by-product of TPM reform.

- A grid-connected battery owner meets the definition of a load customer under the TPM guidelines, and on that basis would contribute to the residual charge. However, we note that there may be reasonable further discussion to be had – between Contact and Transpower, as part of its development of the proposed TPM, in the first instance – about whether, in allocating the residual charge, there is justification for treating batteries differently to other load for the purpose of preserving competitive neutrality between batteries and generation in the wholesale market.

The Authority will continue to consider matters relating to the residual charge, in preparation for reviewing Transpower's proposed TPM.

In the meantime I would be happy to discuss this further with you if that would be useful.

Yours faithfully



Rob Bernau  
Director TPM

Copy to:

Alison Andrew, Chief Executive, Transpower, by email: [alison.andrew@transpower.co.nz](mailto:alison.andrew@transpower.co.nz)

Chris Bunny, Deputy Chief Executive, MBIE, by email: [chris.bunny@mbie.govt.nz](mailto:chris.bunny@mbie.govt.nz)