

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

29 June 2023

Benchmark agreement and SRAM related Code changes

Mercury welcomes the opportunity to provide feedback on Electricity Authority's (**Authority's**) its consultation paper, *Benchmark agreement and SRAM related Code changes*, 17 May 2023 (**Consultation Paper**).

The Authority is seeking views on proposed Code amendments that follow from the Authority's decision to implement and give effect to a new settlement residual allocation methodology (SRAM) from 1 April 2023. These proposed amendments are intended to address Transpower's funding for the implementation of SRAM and make it consistent with the new TPM. The Authority is also seeking views on three options that aim to accommodate embedded networks in the SRAM.

Mercury's present submission focuses on responding to the three options that aim to accommodate embedded networks in the SRAM. The issue is set out in paragraphs 4.2 and 4.4 of the Consultation Paper:

In November 2022 the Authority introduced requirements on distributors to pass through settlement residual rebates (which they will receive from May 2023 onwards) to their own customers.

The Code requirements on distributors to pass through settlement residual rebates to their customers do not apply to embedded networks. It follows that embedded networks may opt to retain the rebates they receive, instead of passing them on to their customers. This means that the Authority's intention in requiring pass-through (that transmission users ultimately receive the settlement residual rebates) may not be achieved where those users are on embedded networks.

The Authority sets out the following options for addressing this issue in paragraph 4.8:

- (a) **no change** – *embedded networks receive settlement residual rebates (in proportion to transmission charges), but do not have an obligation to pass these payments through to their customers (as they are not receiving their rebates directly from a grid owner)*
- (b) **expanded pass-through** – *change the Code to require all distributors including embedded networks to pass through settlement residual rebates to their customers*
- (c) **exclude embedded networks** – *change the Code to require that distributors must not pass through settlement residual rebates in respect of embedded networks (and would instead distribute all of the settlement residue they receive proportionally amongst their other customers)*

Of these three options, Mercury prefers option "(c) exclude embedded networks". We expect that it would in general result in distributors passing through the settlement residual rebate to retailers, who then pass it through to their customers as a result of the process of retail competition, which is the Authority's intended outcome.

As Mercury understands, option (c) would also avoid an additional regulatory cost compared with option "(b) expanded pass-through", should option (b) result in embedded network operators having to develop systems and processes to pass through settlement residual rebate to their customers. Mercury proposes that embedded network operators should confirm that they would avoid such costs under option (c) compared with option (b).



Regarding option (a), as the Authority notes, it raises the risk that it may give embedded networks an unfair competitive advantage over distributors, which may have a detrimental effect on competition between embedded networks and distributors. In addition, failure to pass through the rebate would mean that consumers would not receive the settlement residual rebate, which would be detrimental to economic efficiency.

Mercury looks forward to engaging further with the Authority on its implementation of the SRAM.

Yours sincerely

A handwritten signature in blue ink, reading "Antony Srzich". The signature is fluid and cursive, with the first name "Antony" being larger and more prominent than the last name "Srzich".

Antony Srzich
Principal Advisor Regulatory Economics

