



MAJOR ELECTRICITY  
USERS' GROUP

# Transmission Pricing Methodology

Presentation to the  
Electricity Commission Conference  
26 April 2007

# Outline

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- MEUG introductory statement
- Our submissions and the proposed TPM
- “But for”: an opportunity about to be missed?

# MEUG introductory statement

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- Little progress compared to status quo
- Billions of dollars on investment decisions dependent on TPM – we must get it right
- Proposed wind farms in lower SI illustrate that outcomes of draft TPM are sub-optimal
- The “but-for” proposal by NZIER will improve investment signals

# Our submissions & proposed TPM

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- Agree with most of Transpower's proposals
- Agree with most of the Commission's assessments

# Our submissions (2)

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- Appreciate the Commission has responded to some of our submissions by:
  - Agreeing to provide an opportunity to comment on proposed TPM before it goes to Minister
  - Requiring Transpower to act reasonably when exercising discretion relating to grid definition
  - Clarifying that HVDC transmission pricing guidelines are not the subject of the current consultation
  - Proposing that real time information on coincident peaks be provided by Transpower
  - Clarifying the timeline for the capacity measurement period for coincident peaks

# Our submissions (3)

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- Disappointed the Commission has decided to:
  - Not allow parties which share connection assets to first try to agree allocation of costs among themselves
  - Not adopt the direct charging method in instead of using replacement cost for the allocation of the return on capital required from connection assets among customers
  - Not require Transpower to explain why a TPM with “deeper” connection definition will give rise to reduced connection and increased interconnection charges

# “But for”

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- We are very disappointed the Commission proposes to reject our “but for” proposal on the grounds it is not “practicable to implement at this time”
- We acknowledge the Commission has agreed “but for” should be considered in a longer-term study on locational pricing
- We urge the Commission to reconsider

# “But for”: The EC’s rationale

- EC: “but for” in NZ would need to cover existing assets as well as new connections
  - *No reason given by the EC and none apparent*
- EC: difficult in practice to consistently apply over the entire grid
  - *Only needs to be applied to new assets and the “test” is easily understood*

## “But for”: The EC’s rationale (2)

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- EC: relies on defining a baseline grid and this is contentious
  - *No, but does rely upon knowing the service that Transpower is required to provide, but so does any rational investment decision*
- EC: extending the method to existing assets involves a large number of subjective decisions
  - *Does not need to be applied to existing assets*

# “But for”: The EC’s rationale (3)

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- EC: Defining the benefits attributable to the new assets to be netted off the “but for” charge is problematic
  - *Not if the services provided by Transpower are appropriately specified which they should be anyway*

# “But for”: The EC’s rationale (4)

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- EC: Transaction costs would be high
  - *No, the extent of grid upgrade required by an additional connection will need to be determined and costed anyway, so incremental costs are low*
- EC: Not particularly transparent
  - *The alternative is socialized spreading of costs among load which is very opaque*

# “But for”: The EC’s rationale (5)

- EC: Not widely accepted in PJM and is being re-evaluated
  - *All cost allocations have critics. “But for” has survived to date*
  - *If the “re-evaluation” referred to is the work underway in PJM’s Regional Planning Process WG, then at its 16 March 2007 meeting straw proposal #2 which included some immediate socialization of residual costs not easily allocated to causers or beneficiaries was dropped from further consideration*

# “But for”: The EC’s rationale (6)

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- *Still under consideration by the RPPWG are:*
  - *allocation to cost causers and beneficiaries over the life of the project (#1) (ie “but for”)*
  - *allocation to cost causers and beneficiaries for the first 5 years followed by postage stamp and socialisation*
  - *two alternatives suggested by participants very recently*
- The EC has failed to show the “but for” method is not practicable to implement at this time.

# Advantages of “but for”

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- Needed to send the right signals to current crop of new generation investment proposals about where they should locate
- We already have the Environment Court being invited to make RMA decisions for Central Otago contingent on transmission availability

# Conclusion

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- The Commission should not pass up the current opportunity to make the definition of connection assets deeper by adopting the “but for” approach to defining new connection assets