

1 March 2022

Rob Bernau
Director, Network Pricing Directorate
Electricity Authority
By email to network.pricing@ea.govt.nz

Dear Rob

Settlement Residual Allocation Methodology

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority consultation paper "Settlement Residual Allocation Methodology" (SRAM) dated 18 January 2022.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.
3. MEUG agrees the proposed change to the TPM should require a review of SRAM rather than simply assuming the existing Loss and Constraint Excess (LCE) allocation methodology should be rolled over. We appreciate the time given for discussion with MEUG members by staff from the Authority. We suggest the Authority and industry would benefit by either a second consultation round and or a roundtable to consider submissions as part of the Authority evolving its early views set out in the consultation paper. We are also conscious of the possibility, in our view high probability, that improvements to the Financial Transmission Rights (FTR) market will be considered later this year. Ensuring decisions on SRAM and FTR align is important.
4. This submission has three parts. First initial comments on the paper. Followed by two sections suggesting two additional options, E and F, be considered.

Initial comments

5. MEUG's initial comments on the consultation paper follow:
 - a) A sixth principle should be considered as follows: "Settlement residual rebates should accrue to end customers rather than generators." It's end consumers that pay higher nodal prices at GXP that create the transmission constraint rentals. It is therefore consumers, not generators, that should be allocated the Settlement Residue.

¹ Document <https://www.ea.govt.nz/assets/dms-assets/28/Proposed-Transmission-Pricing-Methodology-Consultation-paper-v3.pdf> at <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/transmission-pricing-review/consultations/?ct=t%28Special+Market+Brief+-+The+proposed+TPM%29#c18989>

- b) The above creates a challenge about whether a battery is a generator or a consumer in terms of the SRAM. This needs further consideration.
- c) Commenting on Option A, TPM charges, paragraph [4.6] states
- “It would also appear likely to perform poorly at returning revenue to the class of customers who bear the cost of congestion – noting that it would be weighted heavily towards those who pay TPM residual charges – especially in the early years of the new TPM”

There appears to be an assumption that residual charges are for transmission services that are unrelated to transmission rentals created. That is incorrect. Residual charges are for asset charges and non-capital charges for existing assets that do create transmission rentals, albeit small for each asset but across all those assets it is non-trivial. Accordingly, MEUG sees the inclusion of residual charges in the allocation base as a benefit.

New option E: TPM charges to end consumers

6. Following on from the above comments MEUG proposes a new option E: TPM charges to end consumers. This is Option A with allocation to generators removed and consideration of batteries as generators to be worked through as discussed in paragraph [5.b)] above.

New option F: WEM demand

7. Option D: WEM purchasers, has a benefit of simplicity but would compromise the principle in [3.3 (a)] “Integrity of the WEM nodal transport charge”. MEUG agrees the latter disbenefit outweighs the simplicity. However, using an energy consumed allocator rather than the value of purchases would mitigate compromising the principle of “Integrity of the WEM nodal transport charge” and would be a simple option to implement. MEUG therefore suggests a new option F: WEM demand. This would rebate settlement rebates to all load at GXP on a uniform \$/MWh basis, i.e., dollar value of settlement rebates divided by demand at GXP. This could be undertaken using monthly reconciled demand data or use a forecast ex ante annual flat rate with a wash-up using, for example, the allocation and wash-up mechanism for “Purchasers” for payment of Authority levies.²
8. We look forward to further discussions with the EA on this important topic.

Yours sincerely



Ralph Matthes
Executive Director

² Refer Authority annual levies mechanism at <https://www.ea.govt.nz/about-us/what-we-do/how-were-funded/levy-rates/2020-2021/>