

3 March 2020

Jean-Pierre de Raad
Manager Network Pricing
Electricity Authority
By email to tpm@ea.govt.nz

Dear Jean-Pierre

TPM 2019 Issues paper supplementary consultation

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) supplementary consultation paper on the Transmission Pricing Methodology 2019 Issues paper. The supplementary consultation paper is dated 11th February 2020.¹
2. Attached is a memo from Mike Hensen of NZIER "TPM 2019 Supplementary Consultation Paper 11 February 2020" dated 2nd March 2020. This is the "NZIER advice to MEUG."
3. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.

MEUG agrees DHC not IHC apply for post-2019 grid investment benefit-based charges²

4. MEUG agrees with the summary view in paragraph 3.13 "We (i.e. the EA) still consider that IHC has the efficiency benefits discussed in paragraph 3.4. However, we now consider these are outweighed by its efficiency costs." An important efficiency cost is discussed in paragraph 3.5 "Compared to IHC, DHC recovers more costs early in the life of an asset, when it is more likely there would be a better match between the allocation of charges and actual benefits and beneficiaries than later in the life of the investment. Further, under DHC the charges later in an asset's life are lower, reducing incentives to dispute allocations." We agree.
5. MEUG is comfortable with the TPM guidelines allowing Transpower to propose to the EA a different method than DHC if Transpower believe it will better meet the EA's statutory objective (question 2 in the supplementary consultation paper).

¹ <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/transmission-pricing-review/consultations/>, document URL <https://www.ea.govt.nz/dmsdocument/26354-supplementary-consultation-paper-transmission-pricing-methodology-2019-issues-paper>.

² IHC refers to Indexed Historic Cost and DHC refers to Depreciated Historic Cost.

Closure of a Transpower customers plant

6. Subject to confirming the interpretation of this proposal as set out in the NZIER advice to MEUG, MEUG agrees with the proposal.

Updating the residual charge allocation

7. MEUG agrees with the reservations set out in the NZIER advice to MEUG for this proposal.

8. As NZIER note:

“The EA rationale for using a moving average of change in energy delivered to adjust an allocation based on share of AMD is that the energy delivered is a good proxy for change in connection size and ability to pay. This assertion is unconvincing and is made without any supporting evidence or analysis about why an energy delivered adjustment factor is more consistent with the EA argument for AMD based allocation than simpler alternatives such as a lagged or partial adjustment of the residual allocation to changes in AMD over time.”

9. In addition to the alternatives listed by NZIER we think the EA needs to think more laterally about the ability to pay for the initial residual allocator such as using aggregated ICP level connected capacity.

Prudent Discount Policy

10. MEUG agrees with the observations in the NZIER advice to MEUG and the need for further information to clarify the proposal. We agree there is a benefit in continuing to develop an improved Prudent Discount Policy.

Yours sincerely



Ralph Matthes
Executive Director