Major Electricity Users' Group

23 December 2021

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

Dear Rob

TPM: Cross-submission on draft replacement Code

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the submissions of 32 other submitters on the Electricity Authority consultation paper "Proposed Transmission Pricing Methodology" (TPM) dated 8th October 2021 and related materials including expert reports and models.[1]

2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.

First Mover Disadvantage Type 2 policy

3. MEUG notes the submission by Refining NZ (p4):

> "Refining NZ has concern that any significant anticipatory capacity such as that to support a Renewable Energy Zone has the potential to result in higher costs and uncertainty for a limited number of customers and consumers and proposes that such costs would be better absorbed by Transpower's shareholder especially if they are to support government renewable energy drives."

4. MEUG submitted (paragraph 5)

> "If Transpower thinks it has better knowledge and a view on retaining optionality by over-building a connection asset than merchant generators and end use businesses, then Transpower should put up risk capital for over-investment in that connection asset."

5. Our submission did not consider the suggestion by Refining NZ that Transpower's shareholder, the government, could subsidise anticipatory connection asset investments. That is rather than the Transpower board making that decision, the shareholder would find a mechanism to assist the Directors agree to bear the risk. MEUG agrees that is an option to be considered. A relevant factor is that government this year has received

[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

$1.325 billion from ETS auction receipts. Though the option of shareholders agreeing to bear FMD type 2 risks is outside the remit of the EA, we think it was helpful for NZ Refining to raise it and we suggest the EA refer the suggestion back to the Transpower board and MBIE.

6. Absent Transpower Directors or shareholders agreeing to bear FMD type 2 risks, MEUG notes the following submission by Mercury Energy (p2) supported our submission opposing Transpower investing in connection assets over and above that agreed by contract:

> "Mercury believes that there is no scope for seeking to address Type 2 FMD for connection investments in the TPM. Mercury does not consider there is an efficient or fair way for Transpower to invest in capacity above what a connection customer needs and apportion that additional capacity's cost to any customer(s). We would be concerned if this resulted in inefficient overbuild without the same investment test and cost scrutiny of larger capex projects per the Commerce Commission regime."[2]

7. The submission by Vector (p8) also shared our concerns and points out that if the EA proposal does proceed then it needs to align with the benefits-based approach:

> "In our view, if Transpower unilaterally decides additional capacity is warranted for a connection customer then it should bear this risk for deploying the additional assets until that capacity is online.
>
> The Authority has proposed a benefits-based approach to connection charges to recover costs associated with any anticipatory capacity of investments. If this approach is progressed - consistent with our comments on the benefits-based charge - anticipatory beneficiaries should have express rights to scrutinise, and where appropriate veto, investment plans."

8. If the EA does, contrary to our submission, proceed with its preferred approach then we support Vector's suggestion that anticipatory beneficiaries have express rights to scrutinise, and where appropriate veto, investment plans.

Residual charges and AMD

9. The MEUG submission raised the issue of NZ Steel having 2 GXP at a point of connection that work in tandem. The summed coincident demands for those GXP, rather than treating each separately as the EA propose, reflects how they are operated in tandem. The NZ Steel submission provided a detailed analysis of the issue. MEUG notes the same issue is noted in the submissions of:

   - Buller Electricity (pp6-8) for two GXP at the Orowaiti (ORO) connection.
   - Oji Fibre Solutions (paragraphs 20 and 21) for three GXP at the Kinleith connection.

10. MEUG views this issue as a critical test of the reasonableness of the detailed TPM to implement the guidelines. All three of these Transpower customers originally agreed the

2 Have confirmed with Mercury Energy that the text of the submission that refers to "interconnection" in the first line should read "connection."

current connection configurations with the objective of have low-cost reliable supply including operational flexibility for their and Transpower's benefit. All three will be materially financially disadvantaged through the unreasonable application of the proposed TPM. As Buller Electricity (BEL) submitted (p7):

> "The decision for BEL to invest in the building of the Robertson St GXP substation was made on the basis of providing a reliable supply to consumers at the lowest possible cost which clearly met the Authority's objectives, yet the proposed TPM AMDR assessment process contradicts this, the consequences of which will add substantial costs to consumers rather than the benefits determined in the investment case. BEL considers it to be a fair and reasonable expectation that the common transmission services provided to us in the future would not be materially impacted (in terms of reliability and charging) by whether or not our GXP substation was BEL or Transpower owned/operated. Furthermore, we are unsure as to how the large differential which exists between our peak network demand & AMDR (11MW vs 19.6MW) gives a reason to justify that our size and ability to pay Residual Charges is aligned with 19.6MW rather than 11MW."

Need to plan to review progress when bedding in the new TPM

11. MEUG agrees with the submission by Unison (p1):

> "Overall, we note that the proposals and models to determine transmission charges are complex and, from a customer perspective, this makes it challenging to make an informed comment on the proposals. We think it will be important for the Authority and Transpower to review the TPM after a period of experience (especially following the determination of future benefit-based charges) to ensure that it is delivering outcomes that are consistent with the policy intents and delivering outcomes to consumers that are logical and durable. In particular, we note the policy intents that:
>
> 1. Transmission investments that benefit particular parties should be paid for by those parties in proportion to expected benefits; that charge allocations should be relatively enduring; and subject to infrequent adjustment;
> 2. By adopting a benefit-based charge, parties would be incentivised to scrutinise investment proposals and reveal accurate information to assist the investment decision-making process."

12. MEUG recommends the EA agree to plan for and inform the market that there will be a review, once experience is gained, to ensure the policy intents of the new TPM from a consumer perspective are being meet.

Yours sincerely

Ralph Matthes
Executive Director