

16 December 2022

Scott Scrimgeour
Commercial & Regulatory Manager
Wellington Electricity Lines Ltd
By email to WE_CustomerService@welectricity.co.nz

Dear Scott

Future pricing consultation

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Wellington Electricity Lines (WE*) paper "Notification of TPM price changes and consultation on future distribution price structures," November 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. The purpose of this submission is to correct the proposed allocation of TPM residual charges. The consultation paper advises WE* propose energy used as the allocator for TPM residual charges. MEUG submits that approach is not reasonable and WE* can and should implement a methodology that better reflects the intent of the TPM that has a two-step mechanism using AMD, or a proxy for AMD, as an initial allocator with subsequent annual updates using lagged energy use.
4. This is a material issue. Residual charges for WE* are estimated to be \$30.5m for the year starting 1 April 2023, being 64% of total transmission charges.² It is likely the proposed allocation of residual charges is a primary reason for the expected change to WE* total average line charges for residential to decrease by 11% and for commercial prices to increase by 3%.
5. The Electricity Authority TPM decision paper on 22 June 2022 summarised the two-step mechanism for the residual as an initial allocation using anytime maximum demand (AMD) that is then updated annually using lagged energy use:³
 - "The allocation is fixed-like (based on each customer's historical gross anytime maximum demand, averaged across four financial years from 2014-2017)."
 - "The initial allocations are updated annually, based on changes in customers' lagged four-year rolling average of gross energy usage, with this four-year period commencing the financial year eight years prior."

¹ Invitation to comment received by email 18 November 2022.

² Refer Figure 6, with calculation before assumed reduction in ACOT charges of around \$2m pending final EA decision.

³ Refer [7.5] and [7.6] at <https://www.ea.govt.nz/assets/dms-assets/30/2022-TPM-Decision-paper1358263.1.pdf>

6. The WE* consultation paper advises the allocation of all transmission charges from April 2023 to be as follows, with the text relevant to the residual underlined by MEUG:⁴

"The allocation drivers used to allocate costs to each customer group align with the TPM cost drivers – BBC and Residual costs are allocated by kWh and Connection costs are allocated by AMD which is approximated using connected capacity."

7. No explanation is made in the consultation paper as to why WE* intend to have the initial allocator of residual charges as kWh rather than AMD.
8. The reason cannot be WE* do not use or have a proxy for AMD because the allocator for connection costs is "AMD which is approximated using connected capacity." For residential consumers the paper notes the allocation within a customer group for fixed costs as follows:⁴

"Costs are allocated to residential and small commercial customers using a standard connected capacity size of 15kVA"

9. The same standard 15kVA capacity size could be used as a proxy for individual residential and small commercial AMD. The sum of all individual AMD for residential and small commercial consumers, plus the actual AMD for each large commercial and industrial consumer will be the equivalent of the total anytime maximum demand (residual) (i.e., $AMDR_{total}$) used to calculate the residual charge rate (RCR) in cl. 74, Schedule 12.4 TPM of the Code. The numerator for calculating RCR in cl.74 is the residual revenue (RR), i.e., the \$30.5m noted in paragraph [4] above.
10. The sum of the individual AMD of residential and small commercial customers is the basis of the denominator required to be comparable to that used in cl. 74. It is not the coincident maximum demand for those customer groups because that allows for diversity of individual loads that are not at AMD when coincident demand occurs. Use of after diversity coincident maximum demand was rejected as an allocator for the residual when options were being considered prior to the final TPM decision.
11. By correcting the allocation of residual charges to align with the new TPM we expect the changes to total WE* line charges for commercial customers on average to have less of an increase and perhaps even to share with residential consumers in a decrease in charges from 1 April 2023.

Yours sincerely



Ralph Matthes
Executive Director

Copy for information to:
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⁴ WE* consultation paper p7.