

**Network Waitaki Ltd Submission on the Electricity Commission
Consultation Paper:**

Transmission Pricing Methodology

For the purpose of consultation under rule 8 of section IV of part F of the Electricity
Governance Rules 2003

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Network Waitaki Ltd. (NWL) submits as follows with reference to the questions posed in the Electricity Commissions Consultation Paper:

Q1

The existing TPM was not accepted by many users who have been in a legislated “pay and dispute” position while the EC has been getting itself established and able to deal with the disputed issues. This position still needs to be resolved and the rights and obligations between contracted parties (of which the EC isn’t) addressed.

The process is building on a methodology that has not had its legal status adequately locked in and does not recognise the contractual relationships between affected parties.

Q2

The Electricity Commission and the Commerce Commission need to resolve who determines pricing. Transpower is a monopoly and subject to Commerce Commission pricing control. The Commerce Commission should have a major input into the TPM process.

Specific Comment on Pricing Principles

Rule 2.1

The definition of connection asset is critical to this pricing principle. NWL is of the opinion that for assets defined as connection assets the user should have the option of purchasing dedicated assets or providing their own alternatives.

Rule 2.2

Average costing of the core grid does not satisfy the beneficiary pays principle as all users don’t receive equal service levels and not necessarily require the levels of service provided. Further individual beneficiaries do not have an effective influence over investment in the core grid. A more balanced combination of pricing approaches related to service requirements and delivery is needed.

Rule 2.3

The TPM does not allocate sufficient cost to grid connected generation. Accordingly it disadvantages more efficiently located Distributed Generation. The TPM assumes a past model of transmissions role in the power system and not the role it needs to be moving towards. It acts to lock in the status quo and is a hurdle to system modernisation.

Rule 2.4

NWL does not agree with the sunk cost concept. Transmission assets should be subject to the same risks of being made redundant by new technology or alternative solutions, competition, etc. as all other sectors of the electricity industry. This mechanism protects monopolistic position and is a hurdle to system modernisation.

Rule 3.2

Transpower is not required to pursue least cost solutions when they are a non-transmission solution. The SOO doesn't work because no other party has the scale or scope to deliver solutions at a national system level. Transpower is the only provider of planning at system level and they have a transmission centred view of the system. Transpower will not deliver on section 172N objectives; the Commission needs to do the planning itself and not rely on Transpower.

Q3 and Q4

The key issue is that whether the outcomes that will be delivered by the TPM are consistent with the outcomes desired from the GPS and NEECS. This should be assessed.

Section 4.3

The impacts of policy and regulation can be modelled. The power system is a key national strategic asset and should be treated as such.

Q5, 6, and 7

NWL has the following issues with the proposed connection charges:

The current configuration of its GXP's results from changes made by Transpower for Transpower's benefit. These changes resulted in the removal of mesh connected assets leaving the GXP as spur connected. Network Waitaki only agreed to the changes on the basis that they would be neutral to our transmission charges because it was to NWL's advantage both in terms of pricing and service to remain mesh connected.

Transpower intend to dis-honour such agreements based the EC forcing its TPM per Part F Section IV 9.1.

There are conflicts between changing connection asset definition and the current contractual position. Again it is pointed out that line companies are only paying on the existing TPM because regulation has required them to pay and dispute. Further Transpower has not responded to the requirement to resolve the differences between contracted parties.

Existing assets are neither optimal nor rationalised to user requirements. Removing these features of the asset valuation from the TPM will result in price rises. Users currently pay on the basis of optimal new modern equivalent assets. This has resulted in preventing users by-passing Transpower's assets and the retention of old inefficient, expensive equipment that wouldn't be there if the TPM wasn't protecting Transpower's position from fair competition.

Spur connection often results in users getting a lower level of service or being unable to access the same level of benefits that other users get from the core grid. Equity is an important pricing principle. Spur connection is inferior and should be priced accordingly. The TPM results in those receiving lesser service paying higher prices. This distorts the economic competitiveness of neighbouring regions.

The configuration of grid is a historical outcome. Whether one GXP is grid connected or spur connected is a matter of historical accident which greatly impacts the economic competitive position of local economies. A GXP that is closer to generation and therefore should see better location signals may be spur connected and therefore penalised relative to a GXP in worse location but mesh connected.

Transpower ownership of dedicated connection assets should be discouraged. The user can manage them more effectively and should be in total control of any decisions with regard to service, quality of assets, operating practice, etc.

Q8.

NWL would prefer to see all connection assets at the primary GXP voltage treated as core grid and all connection assets involved in conversion to and supply at the secondary voltage owned by the users.

The user making its own decisions on how to best services its requirements and paying for it itself removes all argument about whether charging is fair as the benefactor is in total control of the costs.

Q9

No. Transpower have consistently acted to maximise their position with regard to revenues. The EC will need to referee.

Q10

The TPM will have an impact on how users/investors will develop the assets to optimise position. Pricing should target the best and least cost engineering solution. It currently fails in this regard and the proposal will amplify this outcome.

The suggested alternative is a charge related to capacity requirement and the distance between the generation centre (specific for that user) and the users load centre based on actual power flows.

Q11

Shared connection assets are to be allocated on the basis of aggregated local GXP peak demand. If user share is to be variable then an aggregate demand signal will need to be provided to each user so that they can manage their load. This mechanism has the potential to make transmission pricing volatile and drive up consumer charges because the load management pricing signals apply a conflicting methodology to the connection asset user allocation methodology. This in turn will create pricing control issues for line companies with the Commerce Commission.

Charging on the basis of an agreed fixed demand entitlement would be better and more straight forward.

Q12

Users should be required to pay on the basis of their agreement with the service provided. If one customer requires a higher service level (e.g. security) then they should bear the cost. Currently customers have such standards imposed on them by Transpower and these usually relate to the requirements of the biggest user.

Q13

Existing land and building assets are historic and not optimal. Changing the allocation methodology in this way will provide an opportunity for Transpower to increase revenue through increased valuations. There is no incentive provided to Transpower to eliminate sub-optimal asset and inefficiency. NWL would prefer to see these costs remain as part of the core grid with charges based on optimal solutions related to the capacity entitlement purchased by customers.

Q14

As for Q13 the proposed methodology is not based on optimal solutions and will drive up charges but reduce efficiency incentives on Transpower.

Q15

Replacement costs are acceptable provided that they are based on the Modern Equivalent Asset so that no change is seen in charges when assets are renewed. Transpower should keep independent from determining these values and standards of equipment applied should be related to what the user requires not what Transpower insists on. Currently Transpower can gold plate by setting high technical standards that are out of align with those applied by line companies to consumers. There should be no difference in the value of a 33kV CB, for example, applied by Transpower and a CB installed on a distribution network. There are a lot of such inconsistencies between transmission and distribution ODV Handbook Standard RC's for exactly the same equipment.

Q16

NWL supports common valuation methodologies being used for different regulatory purposes as much as possible.

Q17

NWL would not expect to see change in its charges resulting from replacement of an asset. Any modernisation should be creating a more efficient solution and therefore charges should decrease. Upgrades should be user driven and therefore charges addressed through the New Investment process.

Q18

No. It is pointless being so pedantic with regard to these costs as the pricing signal does not get passed through to consumers. ELB's average cost the equipment costs on their networks and this would suffice for Transpower.

Q19

Many line companies have operational control of Transpower's connection assets. These should be excluded for allocation purposes. The proposed methodology will encourage by-pass of Transpower's assets. NWL's preference is for the Transpower to not have ownership or operational responsibility of connection asset in the first instance and we recommend divestment to ELB's accordingly.

Q20

NWL considers the mechanism to be orientated towards monopolistic revenue gathering rather than user service orientated. Policy and regulation development is capture by transmission centred thinking and balanced systems engineering.

Q21 to Q24

NWL does not use the HVDC and therefore has no comment. The South Island public remains aggrieved at the loss of the South Island Differential.

Q25

NWL considers the regional definition to be an improvement subject to adequate peak demand signals being provided by Transpower to permit the existing investment in load control to be applied effectively to load management. Without load control NWL's peak demand will jump 25%. This may be good for Transpower's revenue but will be very bad for system supply and pricing risks.

Q26

Load management relies on being able to predict demand. Changing targets and calculation methodology increases uncertainty. Investments in load management asset have at least a 25 year life cycle and take about 10 years of investment cycle to take effect. Changes within these timeframes will create a lot of tail chasing for asset managers.

Q27

It is not clear to NWL what impact including Comalco in the LSI region will have on pricing verses treating them as an individual case. A large portion of the LSI core grid investment wouldn't exist if Comalco's requirements weren't being catered for.

Q28

NWL considers the existing 12 half hour peak methodology to be excessively harsh for demand signalling. System peaks typically last for just a few hours on a daily basis and electrical equipment is designed to be overload for such durations without detrimental effects on life, etc. Using the full capability of the equipment that is being paid for should be permitted. The integration period for peak demand measurement would be better if it was two hours not half an hour. Rather than trying to choose an N that approximates load duration why not use the actual 10% (or 2/24 hours) duration demand.

Q29

NWL agrees with the concepts of aggregating GXP's and assessing coincident peaks. This allows the customers to benefit from diversity. It should be noted however traditionally consumers have been encouraged to invest in load levelling rather than demand chopping which may irritate them a little. The proposed methodology will reward consumers for turning supply off during peaks and generators on, making demand side response more volatile.

Q30 and Q31

Capacity measurement based on the previous year presents a changeover issue. ELB's will be managing load to the current pricing signals and not those of the proposed TPM. To avoid the one years instability in pricing this will create it is recommended that for the year prior to the introduction of the new TPM the demand based charge under the current TPM be fixed at the previous years performance. If the new TPM is to be introduced in 2008 then the existing TPM needs to be frozen in 2007.

Q32

NWL prefers Transpower's alternative of a single washup after the first year.

Q33

The issue is the definition of inefficient by-pass. The current application of policy by Transpower does not view efficiency from the perspective of least cost solution to the consumer and therefore national economic good but from the perspective of its own sunk investment. Current practice is a hurdle to system modernisation. NWL believes Transpower's investment should be exposed to the risk of by-pass if they are not delivering the least cost solution to their customers. If assets become sub-optimal through technology change, etc. there should be incentive to modernise. Current policy protects an inefficient monopoly position. Other parts of the industry do not have such privileged protections.

Q34

The recommended alternative is to base assessment on least cost solution to the economy.

Q35

Transpower has a vested interest in not delivering a workable process or balanced outcomes. The EC should adjudicate and there should be timelines for processing by-pass applications. The process should be agreed and not unilaterally imposed by Transpower.

Q36

The gains nodal pricing achieve over a flat c/kWh charge for transmission are not sufficient understood by NWL to comment.

Q37

Those expected to pay for alternatives should have the opportunity of being the owner and operator i.e. be given equal opportunity as the investor of last resort. Both Transpower and ELB's should have unconstrained ability to use generation for alternative transmission solutions.

Q38

No comment.

Q39

If large changes in pricing result from changing the TPM then either the existing methodology is unfair or the new one is unfair. Consumers should not be the victims

of internal positioning and risk transfer between sectors within the industry. Change in revenue take from individual customers should be constrained to Transpower's CPI-X constraints.

Changes are currently assessed on the basis of averages. This allows individual customers to be subjected to very large changes in pricing. Puritanical adherence to a methodology that makes no provision for transition issues is not a customer focused approach and its flow on effects creates unnecessary angst for consumers who cannot understand why their pricing changes so significantly when there is no change to service.

The change in TPM will have a flow on effect for consumers as line company PM's will need to be aligned. ELB's will therefore need some relief from pricing control to allow this to happen. It would be worthwhile considering the merits of establishing a common industry standard distribution pricing methodology to be introduced at the same time.

Also refer to Q30 response.

Q40

As general principle Transpowers ownership of connection asset should be minimised. These assets can be exposed to more competitive pressures than the current regulatory framework provides.

BA's have proven to be fairly unilateral in their application and non-yielding in terms of customer responsiveness.

The impact of cost to end use consumers should be more thoroughly investigated. Transpower does not manage load at consumer level and the responses likely from their customers does not appear to be well understood.

Q41

The weakness of the proposed TPM is that it has been developed by Transpower which has an obligation to put its own interests first and approaches the task from a transmission centred perspective. NWL is a supporter of centralised system planning.

Q42

Guidelines 4 and 5 are not were not found in the consultation paper.



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