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Transpower Ltd
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By email to TPM@transpower.co.nz

Re: Consultation on Benefit Based Charges and Adjustments

Dear Transpower

Thank you for the opportunity to provide feedback on this consultation on TPM Benefit Based Charges (BBC). While the ENA represents the views of all EDBs, some of our members may choose to make their own submissions. This submission is not confidential.

Our overall views

Overall, we consider the approach to BBCs and adjustments in this consultation to be sensible. We recognize that there are few degrees of freedom for Transpower in how the Authority has detailed the BBCs in the Guidelines, but we consider that the way Transpower has specified the adjustments could well make the new TPM more durable than it otherwise might be.

We also support the linkages in the methodology to the way that Transpower and the Commission's consider grid investments, especially how costs and benefits are identified for particular grid capex proposals. We recognise that the challenging part for the TPM to work well will be identifying which grid users gain private benefits from those grid investments and the quantum of the benefits.

The process and tools that are proposed in this TPM Options consultation to solve this challenge are somewhat abstract and complex, and will likely be very detailed when they are implemented. This and a very short time window for this consultation have hampered our ability to digest these options papers and provide a lot of meaningful feedback. This complexity and level of detail are in contrast to the high-level blunt approach of the existing RCPD/HVDC TPM and may attract considerable resistance from stakeholders.

As an observation, there appears to be no explicit reference to the TPM design principles that Transpower consulted on earlier. The principles may well be implicit in your thinking, but it would be helpful to see that what you are proposing to implement is true to your earlier intentions.

For all the complexity with design of the BBCs, the ENA sees a significant in-principle shortcoming with the BBC analytical assessment being completely different to the methodology used to determine whether a Beneficiary Customer qualifies for a Standalone Cost Prudent Discount (SACPD). The different analytical frameworks for determining whether a customer qualifies as a beneficiary and the amount that they contribute to an asset should at least be similarly represented in an assessment of a SACPD. Therefore, we encourage Transpower to ensure there is consistency between these two elements of the new TPM. It cannot propose to assess a SACPD purely in relation to transmission network elements and BBC benefits on the basis of a full energy system benefit to the user. These two features of the TPM Guideline need to be internally consistent.

TPM Options – Part B

We have particular feedback here, though this may not align with the specific questions that you have asked through this section. To assist, we reference our comments to the appropriate sections of the consultation paper in both this Part B and in Part C below.

We note that there is a diversity in the principles that you applied to both the design of the BBCs and their application. Two examples are these differences between BBCs vs the standalone prudent discount approach, noted above, and the pricing principles applied to grid connected vs embedded generation. These differences result in inequities.

Inequities will also flow over the life of BBIs from the approach to charging first vs later customers. While benefits over the life of the assets are present valued, intergenerational benefits will vary over time which suggests that the allocations should probably be routinely updated or adjusted to ensure allocations are seen as fair.

Section 2 Standard method

The three-step approach looks sensible but as you point out it is complex with a lot of linkages to other inputs and processes. We appreciate the comments on the use of proxies to determine benefits but caution that this is where disputes will arise as time goes by and particular proxies become less useful.

We previously had questions about the suitability of vSPD as a tool to estimate benefits many decades into the future and share your concerns here. We also worry about the potential for a material disconnect between how the benefits fall from your standard methodology versus the benefits that fell from the vSPD method that the Authority used to allocate benefits in its Schedule 1.

2.2.2 *Definition of private benefits* – your interpretation here seems sensible, but we remain concerned about the use of 'simplifying assumptions' to link private benefits with changes to market costs from grid investments.

2.2.3 *Benefit classes* – the definition is reasonable, but the success of the whole TPM hinges on the quantification and allocation of market benefits. The Authority took the simple route using vSPD to estimate benefits from changes to wholesale prices, but this is not the whole story as you point out in this section.

The detail of how market and reliability benefits could be quantified in Appendix 2 and 3 is very fertile ground for endless technical debate and material transaction costs. You can just about guarantee that there is no right answer. We wonder whether there a simpler low-cost way of doing this.

We also believe that there should be a mechanism to recognise and ascribe value to specific 'other benefits' so that it is clear how costs are allocated and recovered from beneficiaries in this case.

2.2.4 *Counterfactual* – this looks reasonable. We like the transparent and principled approach but our comments on complexity and durability in 2.2.3 above are echoed here.

2.2.5 *Aggregating benefits* – In principle this makes sense, but the definition of generation regions could be a recipe for debate. We agree that load does not need to be aggregated into groups – but just make sure that the grid model is fit for purpose.

2.2.6 *Grid model* – We consider that the investment grid model is a more sensible way to identify the broad benefits of a transmission investment than an artificially precise implementation of vSPD into the future. We consider Transpower has identified the broad pros and cons associated with each option and concur that the investment grid model delivers the best balance of pros and cons.

2.2.7 *Additional standard method* – our comments in 2.2.6 above apply.

2.3.2 *Discounting future benefits* – it seems to us that the discount rate is not that important when sharing costs according to the *proportion* of benefits, though it will have an impact on the size of the residual vs the size of the BBCs.

2.3.3 *Remove disbenefits* – We agree with Transpower that the allocation of charges should not depend on the nature of the customer but deliver consistent allocations irrespective of generation ownership within different regions or similarly the composition of an overall customer-base.

2.4 *Allocating to customers* – seems reasonable.

Section 3 Simple method

Is this a material issue such that it needs a very detailed and defined method? The power flow approach seems to be somewhat similar to the standard method 'network model' as does the definition of regions. ENA members consider that a one size fits all approach to larger and smaller BBI definitions may not be equitable as it does not account for the scale and circumstances of individual EDBs. What is a large investment for one EDB could be a small investment for a neighbour. For this and other reasons the definition of 'regions' becomes critical to the allocation of BBC.

Section 4 Consultation on BBI

Seems sensible.

TPM Options – Part C

We have two overall comments about adjustments over time – one relates to how a series of incremental changes to BBI are handled (rather than a single change). Here there may need to be an adjustment mechanism that can accommodate this and recognise the resultant beneficiary allocations to users of that asset. The other comment relates to the lack of clarity as to how opex is allocated to load customers. Is this through an adjustment to BBCs or via another mechanism.

We think that the simple flow-chart approach that you apply to explaining the proposed adjustments is a good idea – this reduces the potential for confusion but, again, there are simply lots of adjustments and detail.

Section 2 Residual charge reallocation

This seems a sensible approach to what is a fairly prescriptive approach by the Authority to this part of the TPM. ENA members consider that when large loads or generation come along Transpower should adjust the RC to ensure there is not temporary free riding. Ultimately efficiency is improved when there is a broader base of customers against which to recover transmission costs as fixed charges but there will inevitably still be some transmission costs to be recovered from end customers as variable charges.

Section 3 Schedule 1 reallocation

3.1 *Assumptions* – from the material provided we are not sure how to assess which is better of the two options that are proposed (rerun vSPD or apply rules)

3.2 *Initial thinking* – we agree with the re-run vSPD logic but are unsure about the rule-based approach (or should you use the network investment model to re-run the Schedule 1 assets benefits so that the new charges are consistent with BBC in Part B)

Section 4 Adjustment triggers

4.1 *Damage* – we agree that this should be at your discretion because changes to the covered costs from damage will likely vary from case to case and hard numerical thresholds may not make sense. However, Transpower discretion should consider materiality, be rule based and be workable. The other matter that concerns us here is the treatment of an insurance pay-out for any loss – this will have the effect of reducing the reallocation of any loss to the residual. Therefore, a clear understanding of how Transpower allocates insurance proceeds from its captive subsidiary, in a wide-spread damage event, will be important.

4.2 *Capex on existing BBI* – we agree that there should be a materiality threshold for changes to the BBC on Schedule 1 investments but that any additional investments in these assets should be treated as new assets with forward looking allocations. The alternative will introduce a hybrid version of some Schedule 1 assets.

4.3 *New Customer* – it makes sense for Transpower to have discretion on whether to carry out a full intra region reallocation, but the discretion needs to come with materiality conditions and clear rules up front.

4.4 *Customer exit* – Transpower's proposal appears reasonable but again, we think that some form of materiality threshold is needed for all these adjustments otherwise the admin/transaction costs of maintaining the new TPM could be large and unwieldy.

4.5 *New plant* – looks reasonable but same comments as 4.4 above.

4.6 *Increase in load/injection* – seems a sensible approach but it is difficult to judge whether the criteria for substantial or sustained are appropriate or not because it depends what the size of the load/generation was in the original BBC allocation. Scale and relativity matter also – see our comments in Section 3 in Part B.

4.7 *Plant derating* – not sure on this one, our comments from 4.6 may apply here.

4.8 *Partial sale of business* – looks reasonable

4.9 *Sum to 100%* - looks reasonable

4.10 *Voluntary under recovery* – looks reasonable

4.11 *Substantial & sustained* changes – looks reasonable but is 'loosely' worded and may need to have some tighter criteria around it to direct where it may or may not be used.

Section 5 Reassignment

We wonder whether this is likely to be a material issue given the other adjustment mechanisms and therefore does it warrant such a detailed process.

Section 6 Implementation of Adjustments

Seems reasonable.

Closing comments

We consider that Transpower is on the right track with operationalising the TPM guidelines, but we have concerns that a lot of the material in this consultation is somewhat abstract which makes it hard to comment on the practicalities in a meaningful way.

This could be overcome if you were to road test the overall approach to see what the interactions between the adjustments would be for a particular BBI. You could select a (schedule 1) investment and apply shocks to it – that is, apply various Part C adjustments to it over time and observe the impacts on both BBCs and the residual for a range of transmission customers.

In our October 2019 cross submission on the Authority Supplementary TPM Consultation we proposed that an 'Experts Ruling Panel' would be needed to assist Transpower make the many judgements and trade-offs to operationalise the TPM and hopefully minimise the likelihood of major disputes.

Having now reviewed the proposed Parts B and C methodology, we are even more of a mind that a reference panel of some sort could be useful in minimising the risk of disputes. The sheer number of important input assumptions (eg: the $ value of VoLL or the operational $ cost of generators) that are needed to make this work will have a major impact on the outcomes for transmission customers and consumers around the country. We are unsure whether you have a process in mind to deal with these issues, but a panel is potentially a good starting point.

Once again thanks for the opportunity to comment.

Kind regards

David de Boer
Principal Advisor

Electricity Networks Association