

18 November 2020

Transpower Ltd  
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Wellington 6140.

By email to [TPM@transpower.co.nz](mailto:TPM@transpower.co.nz)

**Re: Feedback on Prudent Discount Consultation**

Dear Transpower

We are pleased to be able to provide feedback on the TPM Prudent Discount Consultation paper.

Overall, the new standalone-cost PDP (SACDP) test for a party connected to the grid does create the risk of this limb being adopted frequently if it is not specified at a level where it can be used to address the key identified risk.

The measure of standalone cost is an elusive benchmark which has not been properly defined by either the Electricity Authority in its guidance to Transpower, or Transpower in its consultation paper on the topic. The ENA notes this task comes with significant challenge and is fraught with risk of being a lever for transmission relief rather than meeting the key risk identified by the Authority.

**Brownfields vs greenfields**

Transpower consider there are two options for assessing a SACDP application – they are either brownfields or greenfields. A brownfields approach is sensible when considering a possible stand-alone cost discount. As the consultation paper notes, there are precedents for using such an approach.

In stating this preference, the ENA notes any assessment undertaken by Transpower should be grounded in as much reality as possible about the plausibility of grid disconnection and accurately capturing the counter-factual of independent supply. The assessment needs to

factor all the relevant costs for the SACDP otherwise it is difficult for the industry to be confident the exercise of the SACDP is in fact remedying a real risk of a grid-connected customer foregoing their grid supply for an independent electricity system.

Should Transpower propose a “greenfields” approach then we suggest it needs to have workable assumptions about all aspects of the hypothetical independent electricity system including generation sources, wholesale costs and supply security levels for grid assets. The more hypothetical and less thorough the requirements are by Transpower – the more likely the new SACDP will undermine the basis for TPM reform and encourage spurious applications for transmission pricing relief.

### Reallocation of discount

Having read the Focus Area 4 section of the consultation paper it seems to us that the value of the discount (that is the reallocated costs) for non-BBI assets will largely fall on EDBs and their customers through the residual. The re-allocation of costs from the SACDP does create significant risk that the new TPM will exhibit the same characteristics of the old TPM which encouraged the Authority to undertake the review in the first instance. Therefore, we reiterate the importance of Transpower having a high threshold for accepting a SACDP to minimise any distortions to the pricing signal.

We observe that you argue the discount on BBI’s should also be funded through the residual charge as it would improve efficiency by having a broadly-based spread of the cost. We would point out that benefit-based charges are intended to be fixed and unavoidable to the beneficiaries and it would undermine the intent of BBI and BBC to reallocate prudent discounts to non-beneficiaries. Collectively the deemed beneficiaries of the investment should pay for it, even if contributions are unequal. In most circumstances the economic surplus from transmission investment should exceed the costs, so allocation to beneficiaries should not result in benefits that are less than costs.

In the event that Transpower determines that a broader funding base should be used to allocate the revenue shortfall, ENA notes that a wider funding base could be achieved by including grid-injection connection assets to ensure all grid users are contributing to this re-allocation of transmission costs. Depending on the method of allocation, it is possible that this reallocation would be passed through to consumers via the wholesale market so there may be little gain from this. At the very least ENA suggests that Transpower should consider this option in its evaluation.

### Application fees

ENA members support the proposal that applicants pay fees up-front for the costs to Transpower of applying for and processing a PDP request. We also support the proposal that

PDP applications are subject to expert verification prior to being submitted to Transpower. This approach seems to work well where it is used under Part 4 regulation of EDBs and Transpower and it limits the level of costs that would otherwise be paid for by other customers.

#### PDP Practice manual

We consider the idea of a 'practice manual' has merit because it will likely be difficult to develop an all-encompassing set of rules up front to cover off the different stand-alone cost PDP possibilities. As discussed above, we consider it vitally important that stakeholders have confidence that Transpower is applying a transparent and clear threshold for accepting a SACPDP as any ambiguity in the threshold for standalone cost could be subject to gaming.

We trust you will find these comments useful and we are happy to discuss any of them with you.

Once again, thanks for the opportunity to comment.

Kind regards

A handwritten signature in blue ink, appearing to be 'David de Boer', written in a cursive style.

David de Boer  
Principal Advisor

Electricity Networks Association