

27 September 2022

Electricity Authority
PO Box 10041
Wellington 6143.

By email to Networkpricing@ea.govt.nz

Submission to the Electricity Authority on Settlement Residual Allocation Methodology

The Electricity Networks Association (ENA) appreciates the opportunity to submit to the Electricity Authority on its consultation on the Settlement Residual Allocation Methodology (SRAM). This submission is on behalf of ENA's members (listed in the appendix to this submission), the electricity distribution businesses (EDBs) of New Zealand. This submission is not confidential.

ENA acknowledges the new transmission pricing methodology (TPM) will necessitate changes to the allocation of the settlement residual. ENA members have an active interest in ensuring that this allocation is done equitably, transparently and efficiently to ensure the long-term benefit to consumers.

ENA's view is that at its core the SRAM must encourage the effective use of the transmission grid, be cost-effective, and avoid needless complexity. The Authority has taken on board feedback from the ENA and other stakeholders in amending its evaluation principles to remove the mitigation of volatility principle and to highlight the importance of cost and complexity considerations. ENA views the amended principles as appropriate.

The allocation methodology must be simple, transparent, and cost-effective

As noted above, the SRAM must be cost-effective, transparent, and avoid needless complexity. There is no consensus amongst ENA members on which methodology would best deliver these three critical components. Individual ENA members have expressed their preferences in their submissions.

The Authority's faith in the retail market to ensure customers benefit is misplaced

ENA disagrees with the Authority's supposition that competition in the retail market will provide retailers with an incentive to pass residual rebates on to their customers in a way that suits the customers' preferences. EDBs lived experience has demonstrated, time and again, that when lines charges are lowered, this is not reflected in end-consumer prices, with the difference often retained by retailers as a windfall gain.

Flexibility in pass-through mechanisms is vitally important for EDBs

ENA supports the introduction of limited pass-through obligations. However, any obligation must provide EDBs with the ability to tailor their pass-through of the residual to their circumstances and must allow for EDBs to pass-through rebates either to customers directly or via retailers.

As noted above, EDBs support the transparent treatment of residual rebates. Publication of the EDB's pass-through methodology is a critical component of this transparency. However, it is vital that the choice of pass-through methodology remains with EDBs and is not prescribed by the Authority.

The ease and simplicity of any SRAM can be boosted by ensuring EDBs receive breakdowns of the rebates by location from Transpower. This can be simply achieved by Transpower including the rebate by location on their TPM invoices to EDBs.

The proposed requirement for EDBs to distribute the residual at least annually would allow EDBs flexibility in choice of pass-through method and is therefore appropriate. Few EDBs have direct contact with the vast majority of their customers. It is therefore unfeasible for EDBs to explicitly disclose to the customer any rebate they are being credited with at the time they are credited with it.

Making allocations a debt recoverable in a Court is unnecessary

The Code provides strong compliance and enforcement mechanism. There are no restrictions on who can allege a breach of the Code. Given the strong enforcement mechanisms within the Code, making allocation residuals a recoverable debt is superfluous and introduces unnecessary complexity. It appears that by proposing to make allocations a debt recoverable, the Authority wished to abdicate its Code enforcement responsibilities to the Courts.

Please don't hesitate to get in touch with ENA if you'd like to discuss our submission. Contact Keith Hutchinson (keith@electricity.org.nz, 021 0849 9419) in the first instance.

Yours sincerely,



Keith Hutchinson

Regulatory Manager

Electricity Networks Association

Appendix A – ENA Members

The Electricity Networks Association makes this submission along with the support of its members, listed below.

Alpine Energy
Aurora Energy
Buller Electricity
Centralines
Counties Energy
Eastland Network
Electra
EA Networks
Horizon Energy Distribution
Mainpower NZ
Marlborough Lines
Nelson Electricity
Network Tasman
Network Waitaki
Northpower
Orion New Zealand
Powerco
PowerNet
Scanpower
The Lines Company
Top Energy
Unison Networks
Vector
Waipa Networks
WEL Networks
Wellington Electricity Lines
Westpower