

18 November 2020

Transpower New Zealand
PO Box 1021
Wellington

By email: tpm@transpower.co.nz

Dear Sir/Madam

TPM prudent discount policy feedback

1. Orion New Zealand Limited (Orion) welcomes the opportunity to provide feedback on Transpower's prudent discount policy consultation paper as part of the Transmission Pricing Methodology (TPM) development.
2. We note the requirement under the TPM guidelines to include a prudent discount policy to apply only where the customer would otherwise pay more than the standalone cost or would find it viable to inefficiently bypass the grid.
3. These conditions set quite a high bar for access to a prudent discount. Given that the cost of any such discount is to be spread across other customers (mainly distribution businesses), we consider that the policy should appropriately reflect these provisions, and not apply prudent discounts more generously than is necessary.
4. Separately, the TPM provisions should contemplate *efficient* bypass – there may be situations where a bypass solution (particularly for a prospective transmission customer) might provide an overall lower total economic cost. In these situations a prudent discount should not be applied.

Application fees

5. We support the proposal that applicants pay a non-refundable application fee, or staged application fee. It is appropriate that these costs are faced by the party requesting the discount (rather than being funded by other customers). It will also provide a level of pre-validation for applications, focussing the effort of assessing applications on the more compelling prudent discount requests.

Reallocation of the discount

6. We note Transpower's suggestion that the discount should be recovered through the residual charge. We are concerned that this might not provide an appropriate outcome as the residual charge reduces (as it is expected to) and benefits based charges grow. We suggest that more weight should be given to the Electricity Authority's expectation that this cost should be "spread across a large pool of customers".

7. We note concerns that an allocation against benefits based charges might lead to a situation where the charges exceed the benefits in specific situations. In relation to this we note that:
 - we expect that in most circumstances there would be some margin between the economic benefits of a transmission investment and the benefits based charge allocation, providing some buffer, and
 - if the allocation of prudent discount funding was significant, then the affected party may have the option to apply for their own prudent discount.
8. We support the alternative approach of spreading the funding for prudent discounts over all customers, in proportion to their total transmission charges.

Brownfields vs greenfields

9. We support the proposed brownfields approach for assessment of stand alone cost prudent discount assessments. We consider that this best reflects *viable* bypass opportunities faced in the real world.

Concluding remarks

10. Thank you for the opportunity to provide this information. We do not consider that any part of this information is confidential. If you have any questions please contact Alex Nisbet (Pricing Manager), DDI 03 363 9737, email alex.nisbet@oriongroup.co.nz.

Yours sincerely



Alex Nisbet
Pricing Manager