

20 October 2020

Transpower New Zealand
PO Box 1021
Wellington

By email: tpm@transpower.co.nz

Dear Sir/Madam

TPM congestion charge feedback

1. Orion New Zealand Limited (Orion) welcomes the opportunity to provide feedback on Transpower's Transitional Congestion Charge (TCC) workshops as part of the Transmission Pricing Methodology (TPM) development.
2. This feedback is provided from a distributor's view of the issues associated with introducing a transitional congestion charge.
3. We understand that the TPM guidelines provide for a transitional congestion charge that could be applied in addition to other charges, and that revenue collected via such a charge would offset the collective residual charge.
4. The purpose of the charge would be to ensure that any required load response would continue until an appropriate load response is instead incentivised via nodal or scarcity pricing. The Electricity Authority expects an TCC to be geographically targeted, and for any TCC to be phased out over a 5 year period.
5. We have a number of concerns and observations in relation to this, as follows.

Equity

6. We are concerned that areas faced with a TCC will be required to pay more (and other areas will pay less) even though there is no greater underlying cost for the transmission service during the period that a TCC would apply. Affected customers will receive a lower level of service (ie more hot water control) in exchange for a higher price. The prior response of these customers has avoided what would have been a nationally socialised cost of upgrade, and the reward they are now faced with is a higher charge. This does not appear equitable.
7. There is no easy solution to this dilemma, but perhaps the additional funds received could be reserved to pre-fund future upgrades in proportion to the assessment of area of benefit, when upgrades do occur.
8. Another option to mitigate (but not solve) this issue would be to structure the charge in such a way that it would only result in a charge applying if load exceeded a specified level that reflected the capacity of the assets in question, and reflected the ability to manage load.

Incentives to manage load remain

9. In the absence of an RCPD charge or TCC, there remain a number of compelling incentives to continue to manage load. While not all incentives will apply to all parties, the combination of incentives is likely to make a TCC redundant. These incentives include:
- Avoiding (or responding to) a grid emergency. Presumably a TCC would only be put in place where system capability is at risk if participants were to stop responding when the RCPD charge is removed. In these situations the participants will be called on to respond to a grid emergency. For our part we would invoke the normal management of water heating load in advance of this situation, or in response to a grid emergency. In the absence of this response we might otherwise be required to shed load with area wide outages.
 - Avoiding or delaying future “area of benefit” charges. Ceasing to manage load might bring forward the requirement for an upgrade, and the very fact that our management of load could defer that upgrade would be a very strong signal that we would attract area of benefit charges should that upgrade go ahead.
 - We respond for the benefit of customers. Our current transmission charges are a pass-through cost – regulation allows us to on-charge the entire amount, and prevents us from keeping any savings that we might make. Faced with this, and for the good of our customers, we look to minimise charges. The new TPM, even in the absence of a TCC, will still provide similar incentives. Avoiding or delaying upgrades will reduce the costs our customers face.
 - Alignment of our load management. While different distributors face different situations, our region of the grid is predominantly winter peaking, and the winter transmission peaks align well with our own system peaks. To optimise our own system and support our pricing structure we will continue to manage this winter peaking load and the grid will continue to see the same peak mitigation that it currently benefits from.
10. With these comments in mind, we ask that any TCC be structured in such a way that it is not activated unless an issue arises. Administrative agreements are likely to be all that is needed to address many of the concerns around step changes in peak loads.

Concluding remarks

11. 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