

10 June 2020

Warren McNabb
Chair
Independent Electricity Generators Association

By email: warren.mcnabb@altimarloch.com
Copy to: contact@iega.org.nz

Dear Mr McNabb

RE: TPM Peak Charge papers released 12 March 2020

Thank you for your letter the Electricity Authority Board dated 28 May 2020. I have been asked to respond on the Authority's behalf.

As you will be aware, the Authority has now released its decision to issue new TPM guidelines and a process for developing a proposed TPM. Prior to this decision, the Authority Board considered the issues raised in your letter, as it has considered matters raised throughout the TPM process.

Having considered these issues, the Authority remained satisfied with the process it has undertaken, as well as the substantive position it has reached in respect of the TPM guidelines and on the transitional congestion charge in particular.

In relation to the specific concerns raised in your letter:

- (a) The Authority is satisfied that it undertook sufficient engagement on the transitional congestion charge to proceed to a decision on the TPM guidelines. In addition to its submission and cross-submission processes in respect of the 2019 Issues Paper, the Authority heard oral submissions in December 2019 and released its information paper on the peak charge in March 2020. Following the publication of that information paper, the Authority has received a number of communications from stakeholders expressing further views on that paper, including IEGA's letter. These views have been considered. In light of the above, the Authority considers that stakeholders have received sufficient opportunity to engage with the various views on the congestion charge.
- (b) The Authority disagrees that it has breached a promise made to come back to stakeholders on the peak charge. Even if such a promise had been made (which it was not, as is evident from the extracts quoted by IEGA), the Authority's release of the peak charge information paper would have more than fulfilled it. Further, the Authority noted in its information paper that it had spoken with Transpower, and Transpower concurred there would be merit in it leading a sector workshop on the design of the transitional congestion charge. This will provide a further opportunity for stakeholder engagement. The Authority expects this workshop to take place in the coming months.

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- (c) The Authority disagrees with the characterisation put forward in IEGA's letter that the information paper added very little new information or appeared to be a decision paper in all but name. Rather, as was noted at the time, the peak charge information paper looked to further explain and expand on the Authority's thinking, taking into account the various submissions received. It was not a decision paper, with the Authority's final decision on the TPM guidelines being taken on 4 June 2020. The Authority also disagrees that the paper acknowledged only a minimal number of submitters and points raised in submissions; rather, to avoid repetition, the paper addressed submissions thematically, citing examples of where particular points had been made rather than referring to all submissions individually – many of which made very similar points.
- (d) The Authority has, throughout its process, sought to ensure that participants are thoroughly informed as to its proposals, commencing with the release of a detailed issues paper in July 2019 and accompanying workshops. The Authority has also provided clarification and further information through answering questions put to it and releasing information papers on key topics.
- (e) The Authority disagrees with IEGA's characterisation that it is relying on timely and successful implementation of other work streams to ensure its approach is efficient. Rather, the Authority's approach allows the efficiencies associated with such advances to be taken advantage of, if or when they are put in place. In recognition of the fact that there is uncertainty and that risks could be more acute if relevant business processes or contracts, or some of the elements cited in IEGA's letter, were not yet in place as expected, the Authority has provided for the inclusion of a transitional congestion charge.
- (f) The Authority considers the conclusions to be drawn from Concept Consulting's analysis of the Winter Capacity Margin do not alter as a result of Transpower's latest Annual Security Assessment. The Authority agrees that it is possible the margin could fall below the economic optimum if circumstances that describe Sensitivity 1 or 2 come to pass, though Concept stated its base case was most representative of expected outcomes. The Authority disagrees that the possibility of other outcomes therefore means a transitional congestion charge will have to have the features of, or be at a level similar to, the RCPD charge. Transpower has a number of management tools at its disposal (see pages i-ii of the information paper) and the optimal solution will depend on the particular circumstances.
- (g) The Authority does not consider it necessary to conduct further analysis into the impact of low wind generation on spot prices in relation to the TPM guidelines. The guidelines relate to efficient transmission pricing, and its impact on demand (and in turn on grid and generation investment). The volatility in spot prices due to the changing availability of generation or different types of generation is not central to this. Efficient transmission pricing will contribute to the right investment in generation being made in the right place and at the right time.
- (h) The Authority disagrees that its reliance on nodal prices and a transitional congestion charge would reduce diversity in peak management options – if anything, and for the reasons outlined in its peak charge information paper, the approach better highlights the different options available to participants including Transpower, facilitates the use of the most efficient solution and allows for further innovation.
- (i) As to the alternatives IEGA proposes, the Authority's decision paper documents how the Authority has extensively considered the option of amending the current RCPD charge, as well as other alternatives, and concluded that such an approach would not yield as

significant long-term benefits for consumers as would the Authority's approach now set out in the new guidelines.

We thank IEGA for its continued engagement with the TPM process.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Rob Bernau', written over a faint horizontal line.

Rob Bernau
General Manager Market Design