Entrust
Majority shareholder of Vector

13 SEPTEMBER 2024: SUBMISSION TO ELECTRICITY AUTHORITY REGARDING TRANSMISSION PRICING METHODOLOGY AMENDMENTS

Barriers to investment in batteries and competition should be removed

Entrust welcomes the Electricity Authority (Authority) and Commerce Commission's recent announcement that they are working together to improve the performance of the electricity industry, including encouraging investment, boosting competition and putting downward pressure on prices.

It is becoming increasingly clear that urgent action is needed on a number of fronts. Energy affordability is a vital concern, it's impacting residential and businesses consumers everywhere and it's often beyond their control.

The serious competition problems the industry is facing with record high spot prices, large electricity users shutting down and job losses, put the need to remove barriers to entry and investment and promote stronger competition in stark focus. We are starting to see higher prices for consumers. Over the last five years, lower electricity lines charges have masked retail price increases.[1] This will no longer be the case after the price changes for line services from April next year.

Summary of Entrust's submission

- Entrust supports activity aimed at identifying barriers to competition and investment in new and emerging technology, including grid scale batteries and batteries at the customer and distribution network levels.

- Battery technology is likely to become increasingly important in the energy sector; for example, as a way of improving resilience and also to manage peak demand when supply may be more expensive.

- We agree with the Electricity Authority that the transmission pricing methodology (TPM) is penalising new and emerging technology, including grid scale batteries paying disproportionately high transmission charges.

- Entrust agrees the TPM needs to change. We agree with the Authority it would be better to set connection charges at the higher of the maximum offtake and injection, rather than on the basis of both maximum offtake and maximum injection.

- We also consider that using a hybrid of historic maximum demand and volumetric usage to set the residual charge is problematic.

- The changes the Authority is proposing would change the nature of who benefits/loses from the TPM rather than resolving the matter. It could be worth exploring whether alternative methodologies would more durable.

[1] See most recently, for example, https://www.entrustnz.co.nz/media/f2ehwdww/2024-submission-re-consumer-plan-comparison-and-switching-6-mar.pdf and https://www.entrustnz.co.nz/media/paopgsri/2024-07-03-submission-to-commerce-commission-regarding-dpp4-draft-decision.pdf.

- Entrust submits that the Authority should broaden the review to test whether the TPM results in barriers to investment for other investments and technologies, including electricity generation.

Entrust's submission

Entrust agrees with the Authority's assessment that problems with the TPM will result in owners of grid scale batteries paying disproportionately high connection and residual charges. We support review of the TPM to address this issue.

If a charge is based on both injection and offtake, it follows that transmission customers that both inject and consume electricity will pay more. Entrust also raised concerns about workability issues.[2]

Entrust agrees connection costs should not be allocated on the basis of aggregate anytime maximum demand and injection. We also agree it would be better to set connection charges at the higher of the maximum offtake and injection.

The consultation also highlights that using a hybrid of historic maximum demand and volumetric usage to set residual charges is problematic and fundamentally discriminatory.

Two different transmission customers with identical grid-use could face different charges because their historic use differs. The Authority's proposals would change the nature of who benefits/loses from the TPM rather than resolving the matter. Entrust considers that this would have adverse implications for competition and investment, even if the proposed changes are made. The Authority, for example, acknowledges "a new industrial customer might have an advantage over an existing industrial customer with which it is competing, or vice versa."

The Authority should be careful to avoid layering complexity on top of complexity. It could be worth exploring whether alternative methodologies would more durable, rather than tweaking the existing methodology. Various options were well canvassed by the Authority and stakeholders during the Authority's TPM review circa 2012-20.

Entrust submits that the Authority should broaden the review to test whether the TPM results in barriers to investment for other investments and technologies, including electricity generation. The Authority's decision to ban use of anytime maximum demand for distribution pricing puts into question its efficacy for transmission pricing.[3]

Concluding remarks

Entrust welcomes that the Authority is reviewing elements of the TPM. A successful energy transition requires that barriers to competition and investment, including in relation to new technologies such as battery storage, are remedied.

Kind Regards,

Alastair Bell
Chair of Regulation and Policy Committee

[2] https://www.entrustnz.co.nz/media/1vydy2zd/submission-on-the-tpm-supplementary-consultation-3-march-2020.pdf
[3] https://www.ea.govt.nz/documents/1878/Letter-to-distributors-re-pricing-September-2022.pdf