



ELECTRICITY COMMISSION

**Guidelines for Transpower
Transmission Pricing Methodology**

24 March 2006

Introduction

- 1 The following paragraphs are the Guidelines required by rule 6.2 of section IV of part F of the Electricity Governance Rules 2003 (**Rules**)¹, which Transpower must follow in developing the transmission pricing methodology.
- 2 The Commission may review an approved transmission pricing methodology in accordance with rule 11.2.

Overall Guidance

- 3 The purpose of the Guidelines is to ensure that, subject to Part 4A of the Commerce Act 1986, the full economic costs of Transpower's services are allocated in accordance with the principles specified in rule 2.
- 4 Transpower should provide an explanatory document updating "Pricing for Grid Connection Services," at a similar level of detail, and suitable for Transpower's customers to understand the basis on which it levies charges.
- 5 In proposing a detailed pricing methodology in response to the Guidelines, Transpower should detail the linkage between its charges for specific assets, its overall expected revenue and allocation of this to specific grid connection points.

Application

- 6 The Commission notes that rule 12.3.1 of section III of part F of the Rules requires the provision of a comprehensive plan for asset management and operation of the grid. Accordingly the pricing methodology is to apply to the revenue required to meet all of Transpower's costs in providing transmission assets approved as part of a grid upgrade plan. If Transpower desires to seek recovery of costs through the pricing methodology that are not approved as part of a grid upgrade plan, then Transpower should propose a methodology for the determination and allocation of these costs.
- 7 Transpower may be required in the future to fund alternatives to transmission. Transpower should indicate in its proposed methodology how it intends to allocate the costs of transmission alternatives if they are funded by Transpower.

Nodal Pricing

- 8 Nodal pricing is a key component of transmission pricing, which Transpower should take into account when preparing its proposed transmission pricing methodology.

¹ References to rules in these guidelines are to rules in section IV of part F of the Electricity Governance Rules 2003 unless otherwise stated.

Connection Charges

- 9 A definition of deep connection should be developed and applied consistently and transparently. The definition of deep connection must avoid subsidisation of interconnection assets to the extent practicable.
- 10 The costs of connection assets are to be recovered from those connected to them.
- 11 Where parties share the use of connection assets then the costs should be allocated among them on a peak demand or injection basis, in a manner that maximises efficiency.

Interconnection Charges

- 12 Charges for existing and new interconnection assets should be on a postage stamp basis. This is similar to current interconnection charges.
- 13 Transpower should review the existing basis on which it calculates the interconnection charge at a grid exit point. Specifically, Transpower should review whether using the 12 highest half-hour offtake peaks in the 12 months up to and including the current month is most consistent with the Pricing Principles in rule 2. This review includes consideration of anytime versus regional or national coincident peaks.
- 14 Transpower should also review whether permitting greater aggregation across GXP loads for the purpose of calculating interconnection charges to encourage peak load management within regions would produce prices more consistent with the Pricing Principles in rule 2.

HVDC Charges

- 15 The costs of the HVDC link² and any replacement of or upgrade to it should be charged to all South Island generating stations that inject into the grid.
- 16 In allocating those costs, Transpower should consider the linkages with other elements of market pricing, and in particular, with the allocation of loss and constraint rentals or any revenue from financial transmission rights for transmission assets covered by the charge.

Interim Part F Expenditure

- 17 The approved costs incurred by Transpower in relation to interim grid expenditure approved under rule 16 of section III of part F of the Rules should be recovered on the basis of the pricing methodology for connection, interconnection assets or HVDC assets, as appropriate.

² "HVDC link" has the meaning set out in part A of the Rules.

Prudent Discounts

- 18 A prudent discount policy should be adopted to ensure that inefficient by-pass of the existing grid does not occur. Transpower should detail as part of the pricing methodology practical ways to facilitate greater transparency on this matter.

Transitional Arrangements

- 19 Overall transitional arrangements should be proposed where revision of the methodology leads to large increases or decreases in current charges.