



**TRANSPOWER**

*Keeping the energy flowing*

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10 May 2021

Mr John Hancock  
Chair of IPAG  
Level 6, 2 Hunter Street,  
Wellington, 6011

By email: [john@hancock.co.nz](mailto:john@hancock.co.nz)

**RE: Cost allocation and related party transactions regarding Transpower's Flexibility Management System (FMS) and Distributed Energy Resource Market System (DERMS)**

Kia ora John,

I write to you to address the Innovation and Participation Advisory Group's (IPAG's) proposed recommendation that the Commerce Commission considers whether Transpower should adopt the same cost allocation and related party transaction rules that are used by Electricity Distribution Businesses (EDBs). The IPAG notes that rule changes may not be necessary if Transpower does this voluntarily for the potential provision of Flexibility Management System (FMS) and Distributed Energy Resources Management System (DERMS) services.

I can confirm that Transpower will not offer services in a way that creates competition issues. Transpower will not price services for FMS and DERMS in a way that impedes competition for these services or inhibits the development of a marketplace for flexibility managers and flexibility traders.

Transpower also commits to ensuring that our FMS and DERMS business unit is appropriately structured to ensure that costs are allocated in ways that do not create competition concerns. The cost allocation methodology prescribed for EDBs specifies a form of activity-based cost allocation (or variations thereof) to ensure that costs are allocated in accordance with sound accounting principles.

Transpower already applies activity-based cost allocation for FMS and DERMS activities. We are currently reviewing this method to ensure it is consistent with cost allocation methods required of other network businesses. If we identify that our current activity-based cost allocation does not achieve similar outcomes to the approach used by other network businesses, we intend to implement a cost allocation approach for FMS and DERMS that will lead to similar outcomes.

Transpower will continue to work transparently with the IPAG and the Electricity Authority (EA) to ensure the development of efficient flexibility markets for distributed energy resources that maximise long-term benefits for electricity consumers. In the near-term, we would value the opportunity to work with the IPAG and the EA on the development of standard procurement methodologies for procuring flexibility across the industry.

Kind Regards,



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Richard Hobbs