

14 March 2022

David Knight
General Counsel and Company Secretary
Transpower New Zealand
Wellington

By email: david.knight@transpower.co.nz

Dear David

RE: Commencement date for a new transmission pricing methodology (TPM)

I am writing further to the Authority's 22 February 2022 letter to Transpower, which commenced formal consultation with Transpower on the Authority's proposed commencement date for a new TPM.

To assist Transpower's consideration of the proposed commencement date, that letter attached (in strict confidence) an extract from the draft minutes from the Authority Board's 18 February 2022 meeting that set out the changes that the Board has decided 'in principle' to make to the TPM proposed in October 2021 (these 'in-principle' decisions being to assist staff work and subject to the Board making a final decision on both these matters and the TPM as a whole). There are a number of topics, some referenced in those draft minutes, where Authority and Transpower staff have continued discussions to test the workability of these in-principle views and options for any remaining matters raised during the consultation process.

At our joint TPM Steering Group meeting on 8 March 2022 you agreed that it would be helpful to Transpower in preparing its response to the TPM commencement date consultation for Authority management to record its view on how these issues were progressing, ie, what at this point it intended to recommend to the Authority Board. Those management views are attached. I note that the Authority Board is scheduled to make its final decision on whether or not to incorporate a new TPM into the Code on 31 March 2022, and that management views given at this point cannot bind the Board in its final decision making. Rather, these are intended as an open expression of the Authority staff's views, provided with the aim of improving the quality of Transpower's response and the Authority's ultimate decision.

As with the draft minutes extract that we previously sent to you, we ask that you receive and treat this information in strict confidence and disclose it within your organisation on a need-to-know basis only.

Yours faithfully



Rob Bernau
Director, Network Pricing

Attachment

1. Benefit-based charge standard method: counterfactual

Board in-principle decision 18 February

- Agreed that the TPM provisions for determining the counter-factual scenario in the BBC standard method are generally appropriate and noted that staff are seeking further feedback from Transpower regarding whether further discretion should be allowed for determining the counter-factual scenario to allow for “edge cases”

Authority management position as of 14 March

- Further discretion is not needed/should not be provided for determining the counterfactual in edge cases.

2. Adjustments: write-down provisions

Board in-principle decision 18 February

- Agreed in principle that, with respect to the adjustments provisions, the proposed TPM should be changed, to better align the amended write-down provisions proposed by Transpower with the Commerce Commission’s regime, while ensuring that those provisions are limited such that the incentive for scrutiny of new transmission investments is preserved

Authority management position as of 14 March

- Incorporate Transpower’s proposed new drafting on write-downs related to stranded assets (which would preserve incentives for scrutiny of new transmission investments and would preserve the proposed reassignment provisions)
- Incorporate Transpower’s proposed drafting on write-downs related to asset disposals and decommissioning

3. Residual charge: multiple points of connection in the same location

Board in-principle decision 18 February

- Discussed and provided feedback on the issue presented by staff with respect to the allocation of the residual charge where a customer has multiple points of connection in the same location and noted that staff are seeking further feedback from Transpower regarding whether a possible exception would be workable

Authority management position as of 14 March

- Allow an exception to the non-coincident AMD measurement approach, implementing Transpower’s suggestion to allocate the residual charge based on coincident AMD for GXPs at the same location

4. Prudent discount policy (PDP): prudent discount practice manual

Board in-principle decision 18 February

- Agreed in principle that, with respect to the PDP, the proposed TPM should provide that Transpower must publish the following aspects of a (non-binding) prudent discount practice manual (PD practice manual) by 1 December 2022: (A) application requirements for prudent discounts, (B) the application fee for prudent discounts and (C) information on how Transpower intends to assess prudent discount applications with an effective date of 1 April 2023, noting

that staff are seeking further feedback from Transpower regarding whether this publication requirement is reasonably practicable within the time specified

Authority management position as of 14 March

- The TPM will include a requirement to publish a PD practice manual
- We expect Transpower to make “reasonable endeavours” to publish agreed bare minimum parts of the PD practice manual by approximately 1 February 2023 (we would expect the exact date to be agreed by exchange of letters between the Authority and Transpower)
- Key aspects of the bare minimum PD practice manual are process requirements, fees, and plain English descriptions of key SACPD terms including “brownfields”

5. PDP: backdating PDAs agreed soon after TPM commences

Board in-principle decision 18 February

- Agreed in principle that, with respect to the PDP, the proposed TPM should provide that PDAs agreed soon after the commencement of any new TPM should be backdated to the beginning of year 1 of the new TPM (provided the transmission customer meets specific notification and application deadlines)

Authority management position as of 14 March

- Allow backdating of new PDPs back to 1 April 2023, provided that customer applies within six months after publication of the prudent discount application fees and process requirements
- We expect that any revenue foregone in the year backdated discounts are applied will be recovered via existing mechanisms under Transpower’s individual price-quality path (eg, the EV account), rather than through some other mechanism in the TPM

6. PDP: ending existing prudent discount agreements (PDAs) and notional embedding contract (NECs)

Board in-principle decision 18 February

- Agreed in principle that, with respect to the PDP, the proposed TPM should provide that all existing PDAs and notional embedding contracts (NECs) come to an end at the commencement of any new TPM

Authority management position as of 14 March

- The Authority is likely to put forward a separate Code amendment, for consultation in May 2022, which would provide for all existing PDAs and NECs to come to an end at the commencement of any new TPM