

18 March 2022

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Tenā koe James

### **Commencement date for a new transmission pricing methodology (TPM)**

Thank you for your letter of 22 February 2022, and for Rob Bernau's follow up letter to David Knight on 14 March. As required by the Code clauses quoted in your letter, the Authority is consulting with Transpower on the Authority's proposed commencement date for the new TPM—being 1 April 2023.

As the Authority is aware from our submission on the Authority's TPM consultation paper, we remain concerned about the compressed timeframe for the large amount of critical TPM implementation work we need to complete before 1 April 2023. Chapter 11 of our submission set out the multitude of data processing, calculation, system development, stakeholder engagement and other tasks we need to complete before we can implement the new TPM.

Our deadline for having calculated, consulted on, and finalised audit-ready transmission charges for pricing year 2023 is 1 October 2022. Assuming the Authority's Board approves the proposed new TPM by the end of March as indicated, we, and our customers, will have only five months to do the work necessary to complete these critical tasks. Even without any late changes or other headwinds between now and October, we consider there is a non-trivial risk of not meeting the 1 October deadline. This risk is exacerbated by the unpredictability of COVID, absences for key staff, and an already tight employment and consultancy market. Our implementation plan assumes nothing will go wrong and nothing unforeseen occurs.

We consider there are some other factors that would support a commencement date for the new TPM after 1 April 2023. Issues with the proposed commencement date include:

- little or no time to iron out any problems with the TPM drafting that are discovered during implementation;
- little or no time for our customers to come to grips with the new TPM and settlement residual allocation methodology (SRAM), and what that may mean for our customers' own prices and contracts with their customers;
- less time for the Authority to make enabling Code changes, including those relating to the new SRAM, the benchmark agreement and the availability of gross load data; and
- an increased likelihood of wash-ups in the first years of the new TPM, such as those for gross load and prudent discounts referred to in the draft Board minute extracts enclosed with your letter.

Despite these challenges and the risks associated with a commencement date of 1 April 2023, Transpower will continue to work positively with the Authority and other stakeholders to achieve successful implementation of the new TPM by 1 April 2023.

As discussed with your team, some of the matters outlined in the Authority's letters, and recent RFIs, would involve potentially significant changes in approach. We want to stress the potential implementation challenges and additional complexity such changes would occasion, including impacts on timing and operability of a new TPM. We are therefore assuming that there will be minimal further material changes affecting the new TPM operating systems.

For this reason, any significant departures from the Authority's previously conveyed positions could place further strain on implementation, and the prospects of a smooth and orderly transition to a new TPM. Additionally, we think that it would be helpful that some discretionary items that are not critical to determining prices for April 2023 are not hard-wired into the Code. For example, expectations for the initial prudent discount manual, including timelines for consultation and publishing.


I am aware that our teams have had detailed discussions on what a "Plan B" would look like for the TPM in the event that threats such as adverse litigation or COVID overwhelm delivery of the TPM. Without necessarily resolving what Plan B looks like, I think it is helpful from a risk mitigation perspective, that our respective teams have commenced discussion on such matters.

In considering the appropriate commencement date, the Authority should note that we expect Transpower's assurance process in respect of prices for April 2023 may require additional qualifications reflecting the learnings and challenges that will arise during the first application of the new TPM.

We appreciated the inclusion in your letter of extracts from draft minutes of the Authority Board's 'in principle' decisions in relation to the TPM, and the Authority's management's clarification of its position in relation to those 'in principle' decisions outlined in Rob Bernau's 14 March letter. We have also appreciated the communication and engagement from your team and the spirit of mutual goodwill that has been fostered in our respective teams.

While we acknowledge 1 April 2023 as the Authority's preferred commencement date for the new TPM, I repeat my prior comments that an orderly achievement of that date assumes that we do not encounter any material obstacles, unforeseen or otherwise.

Yours faithfully



Alison Andrew  
Chief Executive