

22 February 2022

Alison Andrew  
Chief Executive  
Transpower New Zealand  
Wellington

By email: Alison.Andrew@transpower.co.nz

Dear Alison

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

As previously discussed between David Knight and Rob Bernau, I am writing to consult with Transpower on the Authority's proposed commencement date for a new TPM, which is 1 April 2023.

The Authority has considered submissions and cross-submissions made in response to our October 2021 consultation on a proposed new TPM. This resulted in the Authority Board, on 18 February, deciding 'in principle' on a number of changes to that proposed TPM.

We anticipate a final decision on whether to incorporate a new TPM into the Code is likely to be reached by the Board by early April 2022, and we expect to be able to advise stakeholders of our decision in April.

The Electricity Industry Participation Code 2010 (the Code) requires, at clauses 12.93 and 12.94, that the Authority determine a commencement date on which a new TPM must take effect, and in doing so that the Authority must consult with Transpower. This letter gives effect to that consultation requirement.

I note the feedback on the proposed commencement date that was provided in Transpower's submission in response to the Authority's recent TPM consultation, and I understand our teams continue to discuss the work Transpower would need to do to implement a new TPM by April 2023. That said, in accordance with the Code consultation requirement noted above, the Authority is now providing Transpower with a further formal opportunity to provide its views to the Authority on the proposed commencement date.

To assist Transpower's consideration of the proposed commencement date, I have attached an extract from the draft minutes from the Authority Board's 18 February meeting that sets out the 'in-principle' changes that the Board has decided to make to the TPM proposed in October 2021. These in-principle decisions are not yet public and are highly commercially sensitive. The Authority intends to release this letter, including the extract from the draft minutes, once its TPM decision making process is complete. Until then, and consistent with previous exchanges between our organisations on the proposed TPM, can you please receive and treat this information in strict confidence and disclose it within your organisation on a need-to-know basis only.

Noting the timeframe set out above for a final TPM decision, we would appreciate a response to this letter from Transpower by 16 March 2022.

I would like to take this opportunity to thank you and your team again for your sustained efforts and the significant work that Transpower continues to carry out in anticipation of a new TPM.

Yours faithfully

PP

A handwritten signature in black ink, appearing to read 'J. Stevenson-Wallace', written in a cursive style.

James Stevenson-Wallace  
**Chief Executive**

## 1.1 The Board

- (a) **agreed** in principle that, with respect to the grid asset reclassification provisions, the proposed TPM should:
  - (i) provide a discretion for Transpower to reclassify interconnection assets as connection assets, but with refinements which will limit the discretion and add explicit consultation requirements and appeal rights
  - (ii) not provide a discretion for Transpower to reclassify connection assets as interconnection assets.
- (b) **agreed** in principle that, for the connection charge, the proposed TPM should address the Type 2 first mover disadvantage (FMD) issue, where extra capacity is being built into connection assets anticipating future connections, by:
  - (i) allocating the costs of this anticipatory capacity through a combination of the previously proposed benefit-based approach (50% of the costs) and Transpower proposed 'pool and share' method (the remaining 50% of costs)
  - (ii) explicitly requiring Transpower to inform customers of the impact on their charges before deciding to make an investment in anticipatory capacity.
- (c) **agreed** in principle that, for the benefit-based charge (BBC):
  - (i) the proposed TPM should initially allocate costs under the simple method 62.5% to load customers and 37.5% to generation customers
  - (ii) subject to future consideration of TPM re-openers, there should not be a scheduled five yearly review of the BBC simple method load:generation weighting factor
  - (iii) the assumptions book that underlies the benefit-based allocations should not be binding.
- (d) **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".
- (e) **agreed** in principle that, for the residual charge, the proposed TPM should:
  - (i) continue to treat cogeneration the same way as other generation located behind the GXP for the purposes of residual charge allocation
  - (ii) in respect of the application of the residual charge to battery storage:

- continue to take a final consumption approach to allocating the residual charge, i.e., only count battery losses
  - treat energy injected by a behind-the-meter system to a distribution network as embedded electricity, where information is unavailable on whether the energy was injected by a battery or by a generator
  - count the losses of embedded batteries (as well as grid-connected batteries) towards anytime maximum demand (AMD), for the purpose of initial allocation of the residual charge
- (iii) in respect of the measurement of gross energy:
- provide Transpower with what Transpower refers to as a “safe harbour” if it uses listed data sources to calculate allocation data, which includes gross energy, i.e., it is not required to use any other data sources
  - amend Transpower’s suggested drafting to provide that Transpower may use the listed data sources except where the Code, rather than just other provisions of the TPM, provides otherwise (therefore future-proofing to allow for any future Code amendment that provides for more information disclosure to also require Transpower to use that information)
  - include a wash-up provision if necessary which requires Transpower to recalculate charges after the first year (for example if particular criteria are met or if the Authority requires it), but for the avoidance of doubt should avoid a wash-up where possible.
- (f) **agreed** that staff will undertake a separate Code amendment workstream to provide for more information about behind-the-meter generation and consumption to inform ongoing calculation of and adjustments to the residual charge, which would likely involve:
- (i) requirements on participants to measure, retain, and provide such information for future periods
  - (ii) requirements on some participants to provide historical information (2014-2017 onwards) for calculating allocations during the initial years under the new TPM.
- (g) **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.

- (h) **agreed** in principle that, with respect to the adjustments provisions, the proposed TPM should be changed, to:
  - (i) 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
  - (ii) allow an adjustment to the distributor's connection charge when a distribution-connected load customer's large plant is derated, subject to certain criteria (e.g., that the connection investment is more than 10 years old)
  - (iii) permit the adjustment of the residual charge with the standard 5-8 year lag when a party disconnects or de-rates a plant (but remains a customer) as well as in other circumstances.
- (i) **agreed** in principle that no changes are required to the proposed TPM to address submitter concerns that the transitional price cap does not provide customers with enough protection from price shocks.
- (j) **agreed** in principle that, with respect to the prudent discount policy (PDP), the proposed TPM should provide that:
  - (i) connection assets and connection charges should be included in a standalone cost prudent discount assessment
  - (ii) 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
  - (iii) customers cannot jointly apply for a standalone cost prudent discount
  - (iv) the alternative project under a standalone cost prudent discount should provide the same level of service to the customer as is being provided by Transpower currently (as required by the Guidelines)
  - (v) customers can terminate a prudent discount agreement (PDA) before the end date of the agreement
  - (vi) all existing PDAs and notional embedding contracts (NECs) come to an end at the commencement of any new TPM
  - (vii) 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).

- (k) **agreed** in principle that the proposed TPM should not provide for a transitional congestion charge (TCC).
- (l) **noted** staff's view that stakeholder concerns on the following matters can be addressed:
  - (i) uncertainty over future charges under the proposed new TPM
  - (ii) the Authority's cost-benefit analysis (CBA) of the proposed TPM
  - (iii) legal process concerns about the Authority's consultation on the proposed TPM.
- (m) **agreed** that a technical drafting consultation on the proposed TPM is not required, noting other drafting assurance that will be provided to the Board.
- (n) **agreed** to extend to 31 May 2022 the time allowed under clause 12.93 of the Code for the Authority to complete its consideration of all submissions received on the proposed TPM and consider whether to include the TPM in a schedule to Part 12 of the Code and, if so, the date that the TPM will take effect.
- (o) **agreed** in principle to a new TPM taking effect from 1 April 2023.
- (p) **delegated** authority to the Chief Executive or the Chair (or the Chair on behalf of the Chief Executive) to write to Transpower to consult with it under clause 12.94 of the Code regarding the date on which any new TPM will take effect.
- (q) **delegated** authority to the Chair to write to the Commerce Commission to consult with it under section 54V of the Commerce Act 1986.