

# Draft Work Plan

For consideration by TPAG

9 February 2011



## Contents

<b>1</b>	<b>Introduction</b>	<b>1</b>
1.1	Purpose	1
<b>2</b>	<b>Background</b>	<b>1</b>
2.2	Draft work plan (as provided with the call for nominations)	1
	Scope of advice	1
	Key deliverables	2
	Key deliverable 1 – Discussion paper on a preferred TPM option	2
	Key deliverable 2 – Recommendations paper on a preferred TPM option	2
<b>3</b>	<b>Timing considerations</b>	<b>2</b>
3.1	The current timeline	2
3.2	Other timing considerations	4
3.3	Implications of timing issues on work plan	6
<b>4</b>	<b>Draft work plan</b>	<b>7</b>
<b>5</b>	<b>Recommendations</b>	<b>8</b>

## Tables

Table 1	Code-prescribed processes	3
Table 2	Commerce Commission timeframe for development of Transpower's Capex IM	5
Table 3	Draft work plan	7
Table 4	Draft schedule of meetings	7

## Figures

Figure 1	Transmission pricing review, timeline	3
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## 1 Introduction

### 1.1 Purpose

- 1.1.1 This draft work plan has been prepared by the Authority for discussion with TPAG members. It develops the draft work plan<sup>1</sup> included with the call for nominations and particularly considers the timeframes for the key deliverables. The focus is on maintaining the current timeline for the transmission pricing review (Review).

## 2 Background

- 2.1.1 The TPAG is appointed to provide independent advice to the Electricity Authority (Authority) on the development of a preferred transmission pricing methodology (TPM).
- 2.1.2 The TPAG has been established in accordance with the Electricity Industry Act 2010 (Act) and the Charter about Advisory Groups (Charter).<sup>2</sup> The Charter is relevant to the work plan as it sets out how the advisory group must operate.
- 2.1.3 The TPAG terms of reference set out the role of TPAG, the scope of the advice and further details of TPAG's governance and operations. The terms of reference also describe arrangements for agreeing and undertaking the TPAG work plan.<sup>3</sup> The draft work plan provided with the call for nominations described the scope of advice and key deliverables, but did not set out timeframes for the plan.

### 2.2 Draft work plan (as provided with the call for nominations)

#### Scope of advice

- 2.2.1 The TPAG has been established to:
- (a) recommend to the Authority Board, with supporting analysis, a preferred TPM option, and associated guidelines;
  - (b) provide analysis and justification to support the rejection of options<sup>4</sup>; and
  - (c) review and comment on submissions received on:
    - (i) the Electricity Commission's 'Transmission Pricing Review: Stage 2 Options' consultation paper; and
    - (ii) the TPAG's discussion paper containing its preferred TPM option.
- 2.2.2 Certain matters considered by the TPAG may interrelate with matters considered by the Transmission Pricing Technical Group and/or by other of the Authority's Advisory Groups. The Authority will coordinate any advice from technical groups and/or other Advisory Group(s) on any such matters, and interaction between the TPAG and technical groups or Advisory Groups in regard to these matters. This interaction may include joint meetings or workshops or similar. The Authority will also facilitate the TPAG receiving timely updates of other technical groups' or Advisory Groups' activities, with an emphasis on matters that impact on the TPAG's activities.

<sup>1</sup> Appendix C of the call for nominations and available at: <http://www.ea.govt.nz/document/12746/download/our-work/advisory-working-groups/tpag/>

<sup>2</sup> Available at: <http://www.ea.govt.nz/document/12289/download/our-work/advisory-working-groups/tpag/>

<sup>3</sup> Sections 4 and 5 of the TPAG Terms of Reference.

<sup>4</sup> For clarification, the options might include an amalgam of concepts from different options.

**Key deliverables**

2.2.3 In providing advice in accordance with the scope outlined above, the TPAG must prepare the following deliverables in accordance with the timeline set out below:

**Key deliverable 1 – Discussion paper on a preferred TPM option**

2.2.4 A discussion paper for consultation with interested parties, which:

- (a) provides, with supporting analysis, a preferred TPM option, and associated guidelines, for each of the following areas:
  - (i) the allocation of all transmission costs including those that are currently categorised as connection, interconnection and HVDC costs;
  - (ii) providing incentives for participants to take action to defer or avoid transmission investments where there are benefits in doing so; and
  - (iii) static reactive compensation;
- (b) must provide analysis and justification to support the rejection of options, including at a minimum the options considered by the Electricity Commission in its 'Transmission Pricing Review: Stage 2 Options' consultation paper and alternatives provided by submitters;
- (c) must review and comment on submissions received on the Electricity Commission's 'Transmission Pricing Review: Stage 2 Options' consultation paper.

**Key deliverable 2 – Recommendations paper on a preferred TPM option**

2.2.5 A paper to the Board of the Authority, which:

- (a) provides, with supporting analysis, a preferred TPM option, and associated guidelines, for each of the following areas:
  - (i) the allocation of all transmission costs including those that are currently categorised as connection, interconnection and HVDC costs;
  - (ii) providing incentives for participants to take action to defer or avoid transmission investments where there are benefits in doing so; and
  - (iii) static reactive compensation;
- (b) must provide analysis and justification to support the rejection of options, including at a minimum the options considered by the Electricity Commission in its 'Transmission Pricing Review: Stage 2 Options' consultation paper and alternatives provided by submitters;
- (c) must review and comment on submissions received on the discussion paper released by TPAG for submissions by interested parties.

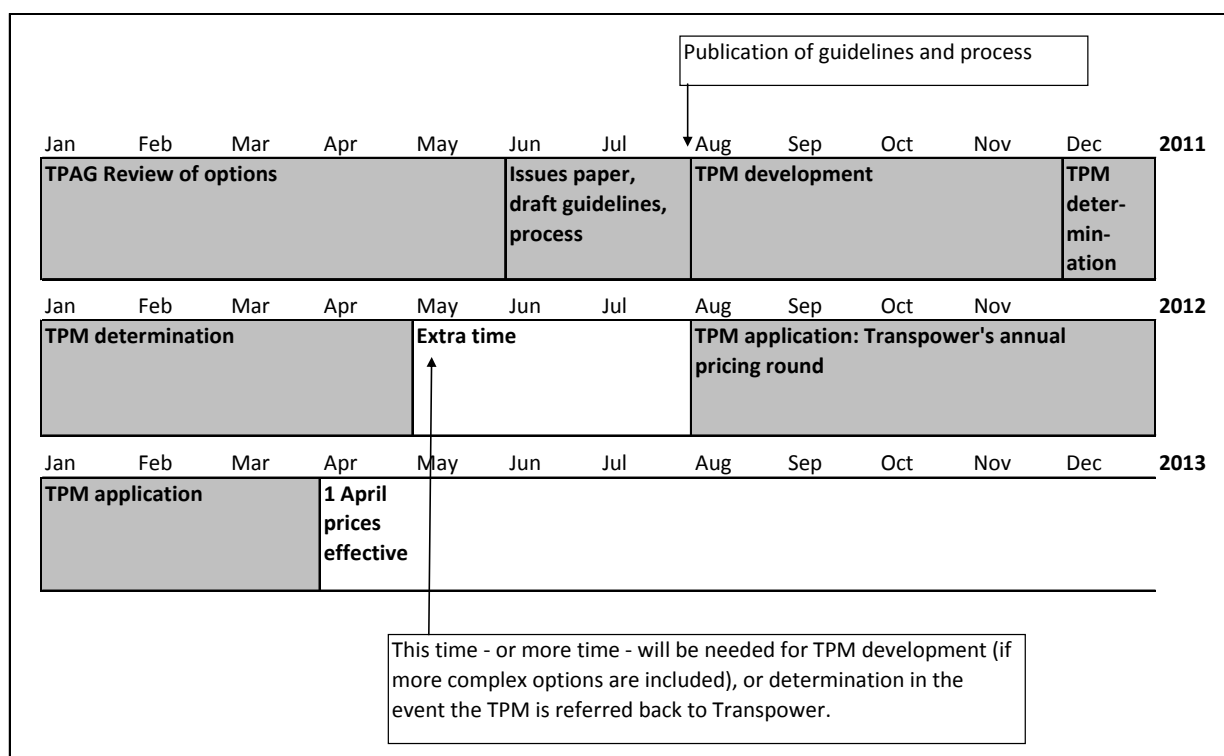
**3 Timing considerations****3.1 The current timeline**

3.1.1 The TPAG has been set up as a matter of urgency. The intention is to maintain the current timeline for the Review, which means TPAG's review of options will need to work to an extremely tight timeframe in preparing its two key deliverables.

3.1.2 The current timeline is shown in Figure 1 below. There are three phases to this work:

- (a) the TPAG review of options,

- (b) the Code-prescribed processes (Publication of the Issues paper, draft guidelines and process, TPM development and TPM determination) that will follow if the Authority determines that a new TPM is justified, and
- (c) the application of a TPM (Transpower's annual pricing round)



**Figure 1** Transmission pricing review, timeline

3.1.3 The time required for the Code-prescribed processes and application places time constraints on TPAG's work plan. Table 1 gives approximate timeframes for the Code-prescribed processes for development and determination of the TPM and the time it takes to apply a TPM. It also includes timeframes for implementation – the time Transpower will require for software and process development and testing (See the description of the implementation in the table below).

**Table 1** Code-prescribed processes

Stage	Detail	Code	Approx Timeframe
<b>Issues Paper, draft guidelines and process</b>	Issues Paper and draft guidelines and process, for consultation	12.81 to 12.83	2 months
<b>TPM development</b>	Authority publishes guidelines and process and requests new TPM.  Transpower submits a TPM within 90 days of request, including indicative prices.	12.88,12.89	4 months  <i>Note: Transpower may require more time for TPM development</i>
<b>TPM determination</b>	Authority: <ul style="list-style-type: none"> <li>may decline to consider the TPM</li> </ul>	12.90 to 12.94	4 -5 months  <i>Note: More time may be needed if</i>

Stage	Detail	Code	Approx Timeframe
	<ul style="list-style-type: none"> <li>• approves or refers back or amends</li> <li>• publishes proposed TPM for consultation</li> <li>• makes determination on TPM</li> <li>• TPM gazetted, becomes a schedule to the Code</li> </ul>		<i>the TPM is referred back to Transpower</i>
<b>Transpower implementation (Not a Code-prescribed process)</b>	This is the time Transpower requires for implementing a new TPM and will depend on the complexity of the preferred option. Transpower has provided initial estimates for some options. Some examples are given.	Postage stamp HVDC, 5 months HVDC charge to MWh, 6 months Flow tracing, 18 months Bespoke pricing, 12 months	
<b>TPM application</b>	Transpower develops, audits and publishes prices.	12.96 to 12.101	Start Aug of year preceding pricing year

3.1.4 The application of the TPM is an annual process. For prices to be effective from 1 April in any given year, Transpower begins its pricing process (including calculating prices and auditing prices) by August of the preceding year. Transmission agreements require Transpower to provide prices by December 31 of the preceding year for application on 1 April. Transpower seeks to provide prices before this date to assist participants.

3.1.5 In summary:

If there are to be changes to the TPM in place for April 2013, the Authority must publish an Issues Paper with draft guidelines and process by June/July 2011. Final guidelines and process must also be published by August 2011, and the TPM must be submitted to the Authority by December 2011. However, this timeframe assumes that:

- the TPM determination is straight forward and does not require referral back to Transpower;
- any changes do not require more substantive development by Transpower than the 3 months extra time built into the timeframe; and
- Transpower is willing to undertake some implementation in parallel to other processes, or is able to reduce implementation times.

## 3.2 Other timing considerations

3.2.1 There are a number of related and parallel work streams which need to be considered: analysis for the recommendations cannot be completed until the regulatory framework for transmission is finalised; participant responses to the development of a locational hedging instrument will be affected by the identification of a preferred option and any determination on the TPM; and the outcome of the Commerce Commission's determination of the input methodology for Transpower's capital expenditure proposals may influence TPAG and the Authority's view of some transmission pricing options.



- (a) **Code amendment proposal for the regulatory framework for transmission pricing.** The Authority expects to shortly publish a proposed Code amendment consultation paper on the regulatory framework for transmission pricing specifically the pricing principles. TPAG could publish its discussion paper (key deliverable 1) in advance of a final decision on the proposed Code amendment, but would do so in the knowledge that the underlying analysis would need to align with the eventual regulatory framework. In the event that the analysis was based on an option from the Code amendment proposal not used in the analysis, the analysis would need to be updated to reflect the actual regulatory position. That TPAG analysis in support of its recommendations paper on a preferred TPM (key deliverable 2) would need to reflect the outcome of the Code amendment proposal process. The Authority expects to make a final decision on this Code amendment proposal in April 2011.
- (b) **The Authority's locational hedging project.** This project expects to publish a consultation paper on the Code development for the introduction of an inter-island FTR in March 2011. Participants have indicated that having an understanding of the preferred options for transmission pricing is a significant issue for understanding the implications of a locational hedging proposal. This is particularly the case for the pricing for the HVDC link.

The Act requires that the Electricity Authority addresses the locational price risk management issue by November 2011. The development of the locational price risk is also linked to the proposed introduction of scarcity pricing<sup>5</sup>.

- (c) **The Commerce Commission's Transmission Investment Input Methodology.**

The final input methodology determinations for Transpower, lines companies and other relevant sectors were published on 23 December 2010<sup>6</sup>.

In addition to these input methodologies, the Commerce Commission is also required to determine an input methodology for Transpower's capital expenditure proposals (Capex IM). This input methodology will include the grid investment approval process and as part of this the process for consideration of transmission alternatives. The Capex IM must be determined no later than 1 November 2011, but the Minister of Commerce may, on the written request of the Commission, extend the deadline once by a period of up to three months. The Commission has released its notice of intention to advise that it has begun work on the Capex IM and its initial views on Capex IM.

**Table 2 Commerce Commission timeframe for development of Transpower's Capex IM**

Process	Indicative time-frame
Transpower CapexIM Discussion Paper This paper will set out the existing treatment of Transpower's capital expenditure and the Commission's preliminary views on the Capex IM.	24 Dec 2010
Submissions on Transpower Capex IM.	18 Feb 2011
Cross Submissions on Transpower Capex IM.	4 Mar 2011

<sup>5</sup> There is an ability for the Authority to postpone addressing this issue within the timeframe outlined above. Section 42 of the Act provides that the Authority can provide a report to the Minister if any of the new matters required to be addressed (including locational price risk management) are not addressed within the prescribed timeframes. According to section 42(3), this report must identify those matters, explain why they have not been addressed, suggest alternative methods to address them and set out if, when and how the Authority proposes to address them. The Authority is however working towards meeting the timeframes set out in the Act.

<sup>6</sup> These determinations may be subject to appeal.

Process	Indicative time-frame
Commission holds a conference/workshop on content Capex IM.	Q2 2011
Draft Transpower CapexIM Determination and Draft Decisions Paper	Q2 2011
Submissions on Draft Transpower Capex IM Determination and Draft Decisions Paper	Q2/Q3 2011
Cross Submissions on Draft Transpower Capex IM Determination and Draft Decisions Paper	Q3 2011
Final Transpower Capex IM Determination and Final Decisions Paper	Oct 2011

- (d) **Expert review of TPAG discussion paper.** The Authority Board intends to appoint an expert adviser to provide independent advice on TPAG analysis and recommendations in the discussion paper. Although it is anticipated that this can be completed in parallel with consultation, TPAG will need to allow time for the Board to consider the advice and provide feedback to TPAG.

### 3.3 Implications of timing issues on work plan

- 3.3.1 To meet the current timeline TPAG's second key deliverable, the recommendations on a preferred option for the TPM with draft guidelines, must be completed by 20 May 2011 to enable the recommendation to be put to the Board in early June 2011. A draft timeframe for deliverables 1 and 2 is set out in Table 3.
- 3.3.2 In preparing deliverable 1, the discussion paper, TPAG will need to consider the implementation timeframes for different options and the relative priority of possible improvements to the TPM. For this reason, the table below notes that as part of the analysis for the discussion paper, TPAG will need to consider the feasibility of addressing all elements of the Review for implementation by April 2013. These considerations will need to be included in the discussion paper. For example, TPAG may decide to:
- Focus on changes that could be implemented by 2013 and plan to consider others at a later stage, or to hand these to the Transmission Advisory Group<sup>7</sup> for consideration.
  - Focus on changes on a net benefit basis, noting that this may delay the possible implementation of simpler options.
- 3.3.3 TPAG will need to weigh the conflicting priorities of different participants and market developments in order to agree its approach. However, any decision to separate out the development of possible options must be consistent with the Authority's statutory objective and Code amendment principles and set-out in the discussion paper.

<sup>7</sup> The Transmission Advisory Group is one of three standing advisory groups that are being set up by the Authority.

## 4 Draft work plan

**Table 3 Draft work plan**

Activity	Dates
TPAG agrees work plan	16 Feb
<b>Key deliverable 1</b>	
TPAG considers TPM options and prepares a discussion paper containing a preferred TPM option (6 weeks):	
<ul style="list-style-type: none"> <li>• Agree high-level analysis framework</li> </ul>	16 Feb
<ul style="list-style-type: none"> <li>• Review and comment on outline of discussion paper</li> </ul>	16 Feb
<ul style="list-style-type: none"> <li>• Prepare draft of discussion paper</li> </ul>	14 Mar
<ul style="list-style-type: none"> <li>• Publish discussion paper</li> </ul>	28 Mar
Authority appoints expert to provide independent advice on the analysis and recommendations in TPAG's discussion paper	
TPAG consults on discussion paper (4 weeks)	28 Mar – 21 April
Expert reviews TPAG's discussion paper and provides advice to Authority Board (3 weeks)	28 Mar – 15 April
Board decides on possible Code amendment for regulatory framework for transmission pricing	6 April
Closing date for submissions on TPAG's discussion paper	21 April
Board considers independent advice from expert on the analysis and recommendations in TPAG's discussion paper	Special Board meeting
<b>Key deliverable 2</b>	
TPAG considers submissions and prepares final recommendations to Board on preferred TPM option (4 weeks excluding Easter)	26 April – 20 May
Board considers TPAG recommendations	Special Board meeting or 8 June
Draft issues paper prepared for consideration by the Board (7+ weeks)	9 – 30 June
Board considers the draft issues paper required under Part 12	6 Jul 2011

4.1.1 Table 4 proposes a meeting schedule with key decisions that will need to be made at the meetings in order to meet the challenging timeframe.

**Table 4 Draft schedule of meetings**

Meet	When	Activities	Decisions required
1	16 Feb	<ul style="list-style-type: none"> <li>• Build understanding of regulatory framework</li> <li>• Build understanding of background and context of TPAG's work.</li> <li>• Review draft work plan</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of work plan</li> <li>• Approval of analysis framework for application in draft discussion paper (to be reviewed at draft discussion)</li> </ul>

Meet	When	Activities	Decisions required
		<ul style="list-style-type: none"> <li>Review draft analysis framework</li> <li>Review outline of discussion paper</li> <li>Review overview of options</li> </ul>	paper stage)
2	14 Mar	<ul style="list-style-type: none"> <li>Comments and review of draft discussion paper</li> </ul>	
3	25 Mar	<ul style="list-style-type: none"> <li>Review final discussion paper</li> </ul>	<ul style="list-style-type: none"> <li>Approval of final discussion paper</li> </ul>
4	End April	<ul style="list-style-type: none"> <li>Review of possible advice from Board following discussion paper and independent expert views on discussion paper.</li> <li>Review of submissions for discussion paper</li> <li>Review of initial draft of preferred option and CBA supporting preferred option</li> </ul>	
5	Week 3 May	<ul style="list-style-type: none"> <li>Review of recommendations to Board including description of preferred option, CBA, and draft guidelines and process.</li> </ul>	<ul style="list-style-type: none"> <li>Approval of recommendations to Board</li> </ul>

## 5 Recommendations

5.1.1 It is recommended that TPAG agree:

- (a) the activities and dates for the work plan as set out in Table 3.
- (b) the schedule of meetings and decisions required set out in Table 4