

Proposal to amend the Electricity Industry Participation Code 2010

Send to info@ea.govt.nz or fax to 04 4608879

This form is to propose:

- ☒ An amendment to an existing clause in the Electricity Industry Participation Code 2010; or
☐ A new clause in the Electricity Industry Participation Code 2010.

Please complete as many sections of this form as possible and email or fax it to the above number/email address. The more information you include in your proposal, the faster your proposal will be able to be assessed/progressed.

Proposer's details

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Signature:	
Date:	5/9/2022

The proposal / preferred option

Suggested proposal name (please keep it short)	Amend TPM Residual Charges Reduction Event Calculation
State the objective of your proposal.	Urgent correction to the wording of Schedule 12.4 Clause 72(2) due to come into effect on 1 April 2023. The current wording of this reduction event clause gives an increase in charges, whereas the intended outcome is a reduction in charges.

<p>Does the proposal relate to an existing Code clause? If yes, please state the full clause reference.</p>	<p>Yes:</p> <p><i>Part 12 Schedule 12.4 Clause 72(2) effective from 1 April 2023</i></p> <p>Although outside the scope of a Code change, the Authority should also amend Clause 30 of the <i>TPM-2020-guidelines-10-June-2020.pdf</i> to reflect what we understand was their intended wording, and to align with this proposed Code change.</p>
<p>Describe the specific amendment(s) that you propose be made to the Code OR attach a draft of the proposed Code amendment (optional). Note the Code drafting manual provides guidance on drafting.</p>	<p>Amend Clause 72(2) by inserting the highlighted wording in italics:</p> <p>If Transpower reduces a pre-existing load customer's AMDR baseline under subclause (1), Transpower must also reduce <i>both the pre-existing load customer's average total gross energy baseline and the pre-existing load customer's lagged average total gross energy</i> to the extent necessary to be consistent with the reduction in the pre-existing customer's AMDR baseline, as determined by Transpower.</p>
<p>Identify how your proposal would support the Authority's objective, as set out in section 15 of the Electricity Industry Act 2010 (Act), specifically addressing the competition, reliability and efficiency dimensions of the objective.</p>	<p>The current clause wording results in an increase in the customer's historical anytime maximum demand (AHAMD_t in Clause 30 of the Guideline) where a customer de-rates, which is counter-intuitive and does not meet the purpose of the de-rating clause.</p> <p>Amending the wording of this Code clause as proposed will reflect the intent of the Authority (as we understand from the Authority) in drafting the relevant section of the TPM guidelines, and prevent the perverse outcome where a customer has a permanent reduction in load that their AMDR baseline will increase rather than decrease.</p>
<p>Which of the purposes listed in section 32(1) of the Act does your proposal most closely relate to?</p>	<p>Our proposed amendment to the wording of Clause 72(2) relates to both the performance by the Authority of its function and also other matters specifically referred to in this Act, notably section 15 regarding the long-term benefit of consumers.</p>
<p>Identify whether you consider your proposed change to be urgent, providing supporting rationale.</p>	<p><u>This correction to the Code is urgent.</u></p> <p>The Residual Charges under the new TPM are being calculated now for the pricing year commencing on 1 April 2023 when the new Schedule 12.4 becomes effective.</p> <p>The Code has obligations on a Distributor regarding consultation and notification of price changes prior to these becoming effective, including a minimum 40 working days notice to retailers. In order to consult, calculate, and communicate our 2023-2024 pricing we need finalised transmission pricing as soon as possible.</p>
<p>Please set out the expected costs and benefits of your proposal. These should include your assessment of the direct cost to develop and implement the proposed Code amendment, and the consequential costs and benefits as a result of the amendments, to all affected parties.</p>	<p>There should be no major costs involved in correcting the wording of Schedule 12.4 Clause 72(2), as this is only a minor technical correction.</p> <p>The change will benefit all customers who have, or will, reduce their load permanently either prior to 1 April 2023 or post April 2023.</p> <p>Without the Code correction each of these customers will face an increase in their Residual Charge if they apply for a de-rating, when the expectation of the De-Rating clause 72 was a reduction in the Residual Charge to reflect the permanent reduction in the customer's load. If the customer does not apply for a de-rating, they will continue to be charged as if they did not de-rate for up to 8 years.</p>

Who is likely to be substantially affected by this proposal?	Large industrial customers who connect via an EDB, who reduce load permanently, and whose contracts have a “pass-through” of the Transpower charges.
Identify whether you consider (providing supporting rationale): (i) your proposed change to be technical and non-controversial; or (ii) there is widespread support for your proposed change among the people likely to be affected; or (iii) there has been adequate prior consultation so that all relevant views have been considered.	<p>We believe the proposed correction to the wording of this sub-clause to be both minor and non-controversial. In fact leaving the Code wording unchanged would be more controversial.</p> <p>There will be wide-spread support for the Code sub-clause wording to be corrected amongst those customer who would, or will in future, be affected if this correction is not made.</p> <p>Northpower has raised the unintended result in the Residual Charge calculation with Transpower, and as such we expect they will support the correction to both the Code and the TPM 2020 Guideline document.</p>
Why this is your proposed option?	The only option is to correct this error in the wording of the Code, if the correct outcome envisaged by the Code is to be achieved.
Any other relevant information you would like the Authority to consider.	<p>Illustrative Examples:</p> <p><i>As the Code and Guideline is currently written:-</i></p> <ul style="list-style-type: none"> The formula from the Guideline and as described by Clause 72(2) is broadly: $\text{Billable AMDR} = \text{Baseline AMDR} \times (\text{Lagged Total Consumption} / \text{Baseline Total Consumption}).$ In Clause 72(2) if a reduction event occurs, the <i>Baseline AMDR</i> and the <i>Baseline Total Consumption</i> are adjusted by the amount of the reduction event, but not the <i>Lagged Total Consumption</i>. You would expect both the numerator and denominator to decrease, but under this clause only the denominator decreases. The effect of this is that the <i>Billable AMDR increases rather than decreases as intended</i>. <p><i>Example – Billable AMDR prior to De-Rating:</i> $34,000 \times (320,000,000 / 300,000,000) = 36,267$</p> <p><i>Example – Billable AMDR post De-Rating per the current Code:</i> $6,000 \times (320,000,000 / 30,000,000) = 64,000$</p> <p><i>Example – Billable AMDR post De-Rating with Code Corrected:</i> $6,000 \times (30,000,000 / 30,000,000) = 6,000$</p>

Assessment of alternative options

Please list and describe any alternative means of achieving the objective you have described for your proposal. For each alternative, please provide the information in the table below (i.e. repeat this table below for each alternative). The list of alternatives should include both regulatory (i.e. Code amendments) and non-regulatory options (e.g. education, information, voluntary compliance). If you have a preferred option please identify it and explain why it is your preferred option.

Brief description of an alternative means of achieving the objective. Note if this is your preferred option.	There are no alternative options as the current wording of the Code produces the incorrect outcome. For large customers affected by a permanent reduction in load under the TPM becoming effective on 1 April 2023 there are four parties involved – the Distributor, Transpower, the customer, and the trader - all would need to agree to ignore the Code as currently written.
The extent to which the objective of your proposal would be promoted or achieved by this option.	There are no alternative options as the current wording of the Code produces the incorrect outcome.
Who is likely to be substantially affected by this option?	There are no alternative options as the current wording of the Code produces the incorrect outcome.
The expected costs and benefits of this option, including direct costs to develop it, and consequential costs and benefits to all affected parties.	There are no alternative options as the current wording of the Code produces the incorrect outcome.

Section 15: Objective of Authority

The objective of the Authority is to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.