7 August 2026.

Submission on - Transmission Pricing Methodology amendments 2026

Proposal 2: Anticipatory Capacity

Thank for the opportunity to submit on the proposed amendment.

The discussion is not just about anticipatory capacity. It is also about anticipated benefits, anticipated beneficiaries, and the lack of effective scrutiny that can be applied to proposed projects.

Q7 Has the Authority correctly described the nature and root cause of the cost-allocation issues for anticipatory connection assets? Please provide your reasons.

No.

The paper has clearly set out issues with, and anomalies created through application of the Simple Method.

The paper has not identified the much deeper issues around anticipatory capacity, anticipatory benefits, and who pays.

a. A NZ Inc approach of 'building larger' when an investment is being made makes sense when increased requirements can be reasonably expected, and the incremental cost is materially lower than what step-by-step build would be[1].
b. The question is who carries the risk (for anticipated capacity and the timing) and the cost of the additional investment until that capacity is required?
c. The deeper issues relate to the regulatory settings.
    a. The Commerce Commission approves anticipatory investment and includes those asset values in the Transpower Maximum Allowable Revenue (MAR) calculation. There is no reference to 'who pays'.
    b. Transpower practice is to set pricing to recover the full MAR.
    c. The TPM is the allocation formula, including that for anticipatory capacity, to anticipatory beneficiaries[2].
d. The expected additional load or injection may never occur[3] and the benefits may never materialise. In the meantime, much of this cost is placed on load[4] raising affordability and equity issues. In addition, there are potential consumer inter-generational issues.

In short, deficiencies with application of the Simple Method are but a symptom of much deeper issues with the regulatory settings. In particular the TPM. This applies for both

[1] Para 5.3
[2] Executive summary point 2.
[3] Para 5.4
[4] Para 5.5

anticipatory investment for Connection Assets and for inter-connection assets priced under the Benefits Based regime.

Q8 Do you agree with the proposal to require the use of the standard method to allocate the 50% share of capital cost of anticipatory connection assets that is to be recovered through benefit-based charges? Please give your reasons.

The paper sets out issues with the Simple Method and that this does result in incorrect pricing[5]. The paper also acknowledges deficiencies with the Standard Method[6]. This includes the complexity and difficulties placed on Transpower to manage the regime including being able to provide timely expected pricing outcomes from proposed transmission investment[7].

Input from Transpower on this proposed change is important as to whether moving to the current Standard Method is feasible, and whether a less poor outcome would result over continuing with the Simple Method[8].

Q9 Do you agree with the proposal that the requirement to use the standard method for allocating the cost of anticipatory capacity should progress ahead of Transpower's operational review of the benefit-based charging methods? Please state your reasons.

Refer to response to Q8.

Q10 Do you agree that the cost of anticipatory interconnection assets should be met by beneficiaries through the normal BBC allocation approach? Please explain your reasons.

No. Refer response to Q7 for context.

The anticipatory factor is an important part of the consideration. The question is not just anticipatory assets, it is <u>anticipated</u> beneficiaries. Through the BBC approach most of the cost and risk is placed on load. There are holding costs - including funding, depreciation, maintenance – and the need for the asset may be some years out, or never arise. In the meantime, the customer base who has paid for those costs may have endured hardship or moved on.

A major rationale in the paper for a benefit-based approach relates to 'encouragement' to participate in scrutinising proposed investments and alternatives[9]. There are a number of issues:

a. The investment proposals are usually lengthy with a degree industry/market knowledge required to engage meaningfully in the financial detail.

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[5] Para 5.7, 5.19, 5.20
[6] Para 5.26
[7] Para 5.26(b)
[8] Para 5.53
[9] Para 5.6(a), 5.46

b. The technical detail is a further level of complexity which is based on the expertise of Transpower.
c. Engagement is resource intensive and not all who may be implicated have the resources to engage in a meaningful way.
d. Who may be impacted and to what extent is difficult to ascertain[10].
e. The justification for an investment to proceed is even more challenging for a potential submitter when a Section 52 price-quality project is involved[11].
f. The Commerce commission process for full or part approval for an investment is not linked to who pays.
g. For those who do engage, there is no identified link to the decision to proceed or not. This does not seem to be a democratic process. It is not known what would be the outcome if all existing connections vote against a proposal?

In short, the rationale for encouraging those impacted to be part of better decision making as to projects, is a myth. It is understandable that what submissions are received, are based on self-interest as to likely future costs.

Q11 Can you identify better options than those proposed by the Authority to allocate the cost of anticipatory assets? Why would your option be better?

Refer responses to Q7 & 10 for context.

The Authority TPM processes are part of a larger flawed methodology that has not kept pace with the realities of the NZ electricity system and drivers for the future. This includes investment in anticipatory capacity.

Change is called for. This will require MBIE to lead a process of methodology review and reform with the Commerce Commission and the Electricity Authority.

At the macro level a beneficiary pays model sounds good in theory, but coupled with other structural issues, has resulted in sub-optimal outcomes[12]. In real-world economics, the producer of goods pays to get those goods to the customer, and generators should pay the back-bone cost of transmission.

With regard to specifics for anticipatory capacity within the current framework:

a. The Commerce Commission should separate these investments from the Transpower MAR. These anticipatory investments and associated risks and costs should be carried by Transpower if and until required, at which time they become part of the MAR calculations.
b. I agree with the Authority that just spreading costs is far from ideal[13]. However, If the Commerce Commission is unable or unwilling to adjust the MAR, then a

[10] https://www.comcom.govt.nz/regulated-industries/electricity-lines/projects/western-bay-of-plenty-region/?section=documents&date=2025-05-07
[11] Para 5.26(C)
[12] https://www.transpower.co.nz/tpm-operational-review
[13] Para 5.28(d)

postage stamp approach may be the best of a bad lot of options ie spread the cost of anticipatory investment across all kWh's brought and sold on the market.

Q12 Do you have any comment on the drafting of the amendment to the treatment of anticipatory connection assets in Appendix C?

Nothing further to add to the comments above

I will be pleased to engage further if that will assist in reenforcing the points above.

Regards
Alan Eyes
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