

21 December 2022

Alison Andrew
Chief Executive
Transpower New Zealand
Wellington

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

Dear Alison

FUNDING FOR NEW SETTLEMENT RESIDUAL ALLOCATION METHODOLOGY

I am writing with respect to the Authority's intended approach to funding the costs Transpower is expected to incur to implement the new Settlement Residual Allocation Methodology (SRAM). The purpose of providing you with information on our intended approach is to provide you assurance that the Authority will work to ensure Transpower is compensated for its efficiently incurred costs, so that it can confidently proceed with SRAM implementation.

On 15 November 2022 the Authority published its decision to amend the Code to provide for the development of a new SRAM, with some allocations to be based on the simple method for the benefit-based charge in the Transmission Pricing Methodology (TPM). The amendment also introduces requirements on Transpower to pay settlement residual rebates to its customers in accordance with the SRAM (from May 2023).

In its submission on the SRAM Code amendment proposal, Transpower provided a preliminary estimate of approximately \$1.15 million for investigating and developing an automated solution for SRAM implementation. However, in a letter to the Authority dated 14 November 2022 (attached), the Commerce Commission informed the Authority that:

- the costs of administering the SRAM are not costs incurred in the supply of electricity lines services
- any revenue received by Transpower or EDBs for administering the SRAM would be unregulated revenue under Part 4 of the Commerce Act 1986 (Part 4).

It follows that Transpower cannot be reimbursed for such costs through the Part 4 regime.

The Authority's firm intention is to ensure that Transpower will be able to recover its efficiently incurred costs of administering the SRAM. Our preferred option for achieving this is to consult on an amendment to the benchmark agreement to include a new default term which would require transmission agreements to include a term that provides for transmission customers to pay Transpower a SRAM processing/administration charge. However, if this proves not to be feasible, we will pursue alternative arrangements to ensure that funding is available.

Authority and Transpower staff have discussed the benchmark agreement option and agreed that is likely to be a workable solution. Transpower staff have also flagged that there are a number of other matters in the benchmark agreement that should be updated. Authority staff will consider these other matters and determine the appropriate timing for consultation on proposed changes.

Proposed amendments to the benchmark agreement on at least some of these other matters could be consulted on alongside the proposed SRAM funding changes.

In the new year, Transpower and Authority staff will work together to finalise requirements for successful implementation of the SRAM, consistent with the proper roles and responsibilities of the two organisations (that is, the Authority is responsible for the policy intent and Transpower is responsible for implementation). This will include arranging for the provision of assurance that the SRAM is implemented in accordance with the policy intent, and that SRAM implementation costs are efficient. The Authority envisages that this assurance process would be designed to be fit-for-purpose, such that the costs of providing assurance are not disproportionate.

I would like to take this opportunity to thank you and your team for the ongoing collaborative work that Transpower staff are continuing to carry out in partnership with Authority staff across a range of matters of common interest. I understand that our teams have worked together constructively this year to ensure the successful implementation of the new transmission pricing methodology. I am confident that this collaborative approach will continue with the implementation of the SRAM.

Yours sincerely



Sarah Gillies
Chief Executive (Acting)
Electricity Authority

cc: Rebecca Osborne, Head of Grid Pricing (rebecca.osborne@transpower.co.nz)