

## Proposal to amend the Electricity Industry Participation Code 2010


Send to [info@ea.govt.nz](mailto: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

Name:	Rebecca Osborne
Position in company:	Head of Grid Pricing
Company:	Transpower New Zealand Limited
Telephone:	04 590 8638
Email address:	<a href="mailto:rebecca.osborne@transpower.co.nz">rebecca.osborne@transpower.co.nz</a>
Signature:	
Date:	3 October 2022

## The proposal / preferred option

<p>Suggested proposal name (please keep it short)</p>	<p>Transmission pricing methodology (TPM) – <b>FAC rebate (rebate calculation for Type 1 FMD mechanism)</b></p>
<p>State the objective of your proposal.</p>	<p>To correct an error in the formula for calculating rebates under the Type 1 FMD mechanism.</p>
<p>Does the proposal relate to an existing Code clause? If yes, please state the full clause reference.</p>	<p>Yes. TPM clause 29(3).</p>

<p>Describe the specific amendment(s) that you propose be made to the Code <i>OR</i> attach a draft of the proposed Code amendment (optional). Note the <a href="#">Code drafting manual</a> provides guidance on drafting.</p>	<p>The proposed amendment is tracked in the amended TPM accompanying this form.</p> <p>The formula in clause 29(3) is for the calculation of the rebate a prior contributing customer receives in respect of a funded asset component (FAC) amount paid by a non-contributing customer. The purpose of the FAC is to ensure that customers who would otherwise not contribute to the capital cost of a connection asset pay the “first mover” customer(s) who have contributed, or are contributing, an equitable contribution to that cost.</p> <p>The intent of the formula is that the entire FAC amount is rebated by Transpower, so that (a) the prior contributing customers receive the full benefit of the non-contributing customer’s FAC amount, and (b) Transpower does not “over-recover” the asset component of connection charges for the relevant connection asset.</p> <p>However, the formula does not achieve this because the variable <math>AMDIC_{total}</math> in the denominator captures total AMDIC which includes the AMDICs of subsequent customers as well as the AMDICs of prior contributing customers. While the denominator removes the AMDIC of non-contributing customer <i>i</i>, future calculations may include the AMDICs of customers who join after customer <i>i</i> (subsequent customers). This means, if there is a subsequent customer in respect of a non-contributing customer, the sum of the rebates to all prior contributing customers is less than the FAC amount paid by the non-contributing customer. The amount not rebated reduces residual revenue and therefore load customers’ residual charges (which, as noted, is not the intent).</p> <p>We also consider the formula would be more intuitive, and easier for stakeholders to understand, if the AMDIC ratio were a ratio of customer allocations instead. After the AMDIC values have been used to calculate customer allocations, the allocations themselves are sufficient for the other connection charge calculations, and mathematically equivalent to AMDIC in the clause 29(3) formula.</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)<sup>i</sup>, specifically addressing the competition, reliability and efficiency dimensions of the objective.</p>	<p>The proposed amendment will correct an error in the TPM that could result in some connection charges being higher, and residual charges being lower, than they should be, and also improve clarity of the TPM. This will support the efficiency limb of the Authority’s statutory objective.</p>
<p>Which of the purposes listed in section 32(1) of the Act does your proposal most closely relate to?</p>	<p>32(1)(c): Efficient operation of the electricity industry  32(1)(e): Other matter specifically referred to in the Act as a matter for inclusion in the Code (section 32(2)(b): “pricing methodologies...for Transpower”)</p>
<p>Identify whether you consider your proposed change to be urgent, providing supporting rationale.</p>	<p>Not urgent as the Type 1 FMD mechanism only applies to connection assets commissioned after 1 April 2023, and only when a non-contributing customer arrives.</p> <p>However, it would be efficient to make the proposed amendment at the same time as the other technical and non-controversial proposed amendments that do need to be made in time for pricing year 2023/24.</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>No material costs. Unquantified benefits for all stakeholders from having “right-sized” connection charges and residual charges and some improvement in clarity.</p>
<p>Who is likely to be substantially affected by this proposal?</p>	<p>Prior contributing customers connected to funded assets are likely to be substantially affected by the proposed amendment. They will be guaranteed to receive a full rather than partial rebate of the FAC amount paid by a non-contributing customer.</p>
<p>Identify whether you consider (providing supporting rationale):</p> <ul style="list-style-type: none"> <li>(i) your proposed change to be technical and non-controversial; or</li> <li>(ii) there is widespread support for your proposed change among the people likely to be affected; or</li> <li>(iii) there has been adequate prior consultation so that all relevant views have been considered.</li> </ul>	<p>We consider the proposed amendment to be technical and non-controversial. The proposed amendment is consistent with the intent of the TPM.</p>
<p>Why this is your proposed option?</p>	<p>The clause 29(3) formula needs to change to achieve its intent. An option is to retain the AMDIC ratio, but we favour an approach that will improve clarity at the same time as fixing the substantive problem.</p>
<p>Any other relevant information you would like the Authority to consider.</p>	<p>The TPM is a complicated document and was drafted in a short amount of time. It was anticipated that some early changes to the drafting may be required. <a href="#">The Electricity Industry Participation Code Amendment (Transmission Pricing Methodology Related Amendments) 2022</a> was made with this in mind. Clause 12.94A(a) of the Code allows the Authority to make technical and non-controversial changes to the TPM outside the normal TPM review and amendment process.</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.

<p>Brief description of an alternative means of achieving the objective. Note if this is your preferred option.</p>	<p>Fix the substantive problem with the clause 29(3) formula and retain the AMDIC ratio.</p>
<p>The extent to which the objective of your proposal would be promoted or achieved by this option.</p>	<p>This option would achieve the objective of the proposed amendment.</p>
<p>Who is likely to be substantially affected by this option?</p>	<p>Prior contributing customers connected to funded assets are likely to be substantially affected by this option. They will be guaranteed to receive a full rather than partial rebate of the FAC amount paid by a non-contributing customer.</p>
<p>The expected costs and benefits of this option, including direct costs to develop it, and consequential costs and benefits to all affected parties.</p>	<p>No material costs. Unquantified benefits for all stakeholders from having “right-sized” connection charges and residual charges.</p>

---

***<sup>i</sup> 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.