

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:	3 October 2022

The proposal / preferred option

<p>Suggested proposal name (please keep it short)</p>	<p>Transmission pricing methodology (TPM) – Pre-commencement and pre-start adjustment events</p>
<p>State the objective of your proposal.</p>	<p>To correct omissions and a lack of clarity in the TPM relating to how adjustment events that occur before the first pricing year or before the start pricing year for a BBI are dealt with. These issues result in some avoidable arbitrariness in certain calculations, and potentially inefficient incentives as to the timing of adjustment events, which can be resolved in a way that is consistent with the intent of the TPM.</p>
<p>Does the proposal relate to an existing Code clause? If yes, please state the full clause reference.</p>	<p>Yes. TPM definitions of “cut-off date” and “pre-commencement adjustment date” and clauses 65 and 75.</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 Code drafting manual provides guidance on drafting.</p>	<p>The proposed amendments are tracked in the amended TPM accompanying this form.</p> <p>Essentially two changes are proposed:</p> <ul style="list-style-type: none"> removing the cut-off date concept for pre-commencement adjustment events; and adding the equivalent concept of a pre-start adjustment event to capture an adjustment event affecting a post-2019 BBI that occurs before the pricing year that BBCs for the BBI start (the start pricing year). This will not usually be the first pricing year and therefore the adjustment event will not usually be a pre-commencement adjustment event. <p>As well as the proposed amendments to the definitions of “cut-off date” (proposed deletion) and “pre-commencement adjustment date” and clauses 65 and 75, there are proposed new definitions of “pre-start adjustment event” and “specified pre-start adjustment event”.</p> <p><u>Pre-commencement adjustment events</u></p> <p>Current clause 75(4) does not cover pre-commencement adjustment events that occur before the cut-off date. The implication is that if an adjustment event took place prior to the cut-off date, it must be ignored, which is not consistent with the intent of the TPM. The intent is that transmission charges are as accurate as reasonably practicable from the start of the first pricing year, factoring in all pre-commencement adjustment events.</p> <p>We propose deleting clause 75(4) (and clause 75(5) relating to pre-commencement adjustment events in respect of Appendix A BBIs)</p>

and inserting new clauses 75(5) to 75(8) to better deal with pre-commencement adjustment events generally. As the defined term “cut-off date” is only used in current clause 75(4), we propose deleting that definition.

Under proposed clause 75(5), if there is a pre-commencement adjustment event (regardless of exactly when it occurs) we must either:

- factor the event into the calculation of relevant transmission charges from the start of the first pricing year; or
- if we determine that is not practicable given the stage of the regular annual pricing process we are at, process the event as an adjustment event during the first pricing year,

in each case as if the adjustment event happened, or will happen, at the start of the first pricing year. However:

- except if the adjustment event is an SSCGU, if we take the first option we are not obliged to recalculate regional NPB (to the extent BBC allocations for a post-2029 BBI are affected) (proposed clause 75(6)). This reflects the relative difficulty of recalculating regional NPB, compared to effecting adjustments through intra-regional allocators and pro-rating, and puts the first option on the same footing as the second (regional NPB is not recalculated under Part F for a BBC adjustment event unless it is an SSCGU);
- we must not carry out either option to the extent the adjustment event has already been factored into the calculation of BBC allocations for a post-2019 BBI as a specified pre-start adjustment event (see below) (proposed clause 75(7)); and
- we must not carry out either option to the extent the adjustment event has already been factored into the calculation of BBC allocations for an Appendix A BBI, or is assumed to have been (proposed clause 75(8)). This carries over current clause 75(5) without substantive change.

In our view these proposed amendments provide a more complete set of rules for dealing with pre-commencement adjustment events, which are consistent with the intent of the TPM.

Pre-start adjustment events

The rules outlined above are replicated for pre-start adjustment events, which, as noted above, will not usually be pre-commencement adjustment events (proposed clauses 75(4), 75(6) and 75(7)).

We consider this amendment is required to ensure that equivalent adjustment events (which occur before the start of a post-2019 BBI start year as opposed to the first pricing year) are treated in the same manner as adjustment events affecting the first pricing year.

In addition, we propose new clauses 65(12) and 65(13) to deal with specified pre-start adjustment events (connecting/disconnecting large plant, substantial sustained increase, new grid point of connection, being the non-SSCGU BBC adjustment events involving a pre-existing and continuing customer that may impact the customer’s grid injection or offtake) that occur during CMP B for a high-value post-2019 BBI or CMP C for a simple method period. Currently, clause 66 can result in IRA values that contain some arbitrariness based on the timing of the event.

Proposed clause 65(13) requires the relevant customer to be treated as a recent customer and therefore have its IRA value estimated

	<p>instead of calculated. This means the customer’s IRA value will not be artificially “dragged up” or “dragged down” by the customer’s activity before the event but will in our view remain consistent with the original intent of the clause.</p> <p>By way of example, if embedded large plant connected at the start of year 3 of a CMP, the offtake/injection profile of the relevant customer might look like this:</p> <table border="1" data-bbox="603 474 1428 584"> <thead> <tr> <th>CMP Y1</th> <th>CMP Y2</th> <th>CMP Y3</th> <th>CMP Y4</th> <th>CMP Y5</th> </tr> </thead> <tbody> <tr> <td>5</td> <td>5</td> <td>9</td> <td>12</td> <td>15</td> </tr> </tbody> </table> <p>Without the proposed amendment, we would calculate the customer’s offtake/injection IRA value as $(5+5+9+12+15)/5 = 9.2$. With the amendment, we would estimate the customer’s IRA as if it were a recent customer, “taking into account the full impact of the specified pre-start adjustment event”. This would result in an IRA value of 15 (assuming 15 reflects full operation of the new plant). The customer’s IRA value will not be “artificially” low just because of the timing of the new connection.</p>	CMP Y1	CMP Y2	CMP Y3	CMP Y4	CMP Y5	5	5	9	12	15
CMP Y1	CMP Y2	CMP Y3	CMP Y4	CMP Y5							
5	5	9	12	15							
<p>Identify how your proposal would support the Authority’s objective, as set out in section 15 of the Electricity Industry Act 2010 (Act)ⁱ, specifically addressing the competition, reliability and efficiency dimensions of the objective.</p>	<p>The proposed amendments will correct omissions and a lack of clarity in the TPM that could result in some adjustment events not being factored, or fully factored, into transmission charges based only on when they occur, which has the potential to create inefficient incentives as to the timing of adjustment events (including large plant connections and disconnections). 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>We consider the proposed amendments qualify to be, and should be, progressed under section 39 of the Act (being technical and non-controversial) assuming they can be made within the timeframe noted below.</p> <p>We consider the proposed amendments also qualify to be made urgently (under section 40). That is, the proposed amendments have potential implications for the calculation of transmission charges for pricing year 2023/24, and as a result, it is necessary and desirable in the public interest for the proposed amendments to be progressed urgently. We consider the proposed amendments should be progressed under section 40 if they would not otherwise be made within the timeframe noted below.</p> <p>The amendments would need to be confirmed by the end of October at the latest to be considered in our assurance process for transmission charges for pricing year 2023/24, which will be notified to customers in December. The amendment would need to take effect on 1 April 2023 to be part of the TPM when it comes into force.</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 consumers and other stakeholders from avoiding potential inefficient incentives as to the timing of adjustment events.</p>
<p>Who is likely to be substantially affected by this proposal?</p>	<p>All customers are likely to be substantially affected by the proposed amendments, to the extent their transmission charges are impacted by pre-commencement or pre-start adjustment events.</p>
<p>Identify whether you consider (providing supporting rationale):</p> <ul style="list-style-type: none"> (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 consider the proposed amendments to be technical and non-controversial. The proposed amendments are consistent with the intent of the TPM.</p> <p>The changes fix an omission in the TPM by adding a new concept of a pre-start adjustment event, and additional detail on dealing with pre-commencement events. They are being proposed to ensure that equivalent situations are treated in a similar manner, consistent with the intent of the TPM.</p>
<p>Why this is your proposed option?</p>	<p>The TPM needs to change to reliably achieve its intent that all adjustment events are factored into transmission charges regardless of when they occur. We consider the proposed amendments will achieve this in a way that does not create potentially inefficient incentives as to the timing of adjustment events.</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. The Electricity Industry Participation Code Amendment (Transmission Pricing Methodology Related Amendments) 2022 was made with this in mind. Clause 12.94A(b) of the Code allows the Authority to make urgent 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.

Brief description of an alternative means of achieving the objective. Note if this is your preferred option.	While different TPM drafting approaches are possible, we have not identified any substantive alternative means of achieving the objective of the proposed amendments.
The extent to which the objective of your proposal would be promoted or achieved by this option.	N/A
Who is likely to be substantially affected by this option?	N/A
The expected costs and benefits of this option, including direct costs to develop it, and consequential costs and benefits to all affected parties.	N/A

ⁱ 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.