

## 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>Continuing BBIs</b></p>
<p>State the objective of your proposal.</p>	<p>To address workability problems for the continuing BBI mechanism whereby:</p> <ul style="list-style-type: none"> <li>• the commissioning dates for the Appendix A BBIs, CUWLP, and potentially other high-value intervening BBIs are difficult or impossible to determine precisely: and</li> <li>• applying the continuing BBI mechanism to low-value post-2019 BBIs would involve a cumbersome asset-by-asset approach.</li> </ul>
<p>Does the proposal relate to an existing Code clause? If yes, please state the full clause reference.</p>	<p>Yes. TPM clauses 81, 84(5) and (6), and 85(4) and (5).</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 amendments are tracked in the amended TPM accompanying this form.</p> <p>Whether a BBI is a continuing BBI under clauses 84(5) and 85(4) depends on the BBI's commissioning date, i.e. the date the first grid asset or transmission alternative comprised in the BBI was commissioned.</p> <p>Transpower has, or may have, difficulty determining specific commissioning dates for some BBIs. Also, applying the continuing BBI mechanism to each individual low-value post-2019 BBI would involve a cumbersome asset-by-asset approach.</p> <p>It is therefore necessary to make some commissioning date assumptions so the continuing BBI mechanism is workable.</p> <p><u>Appendix A BBIs</u></p> <p>It is difficult to determine from Transpower's FMIS a specific commissioning date for the (historic) Appendix A BBIs. This is because, historically, individual assets were not tagged to BBIs in Transpower's FMIS as BBIs did not exist as a transmission pricing construct.</p> <p>Clearly the commissioning date of the HVDC Appendix A BBI was more than 10 years ago, and clearly it has not yet been 10 years since the commissioning date of the Bunnythorpe Haywards Appendix A BBI, but the situation is not clear for the other Appendix A BBIs.</p> <p>We propose to make an assumption that the commissioning date for each Appendix A BBI was exactly one year after investment approval. We consider this is a reasonable rule of thumb for when</p>

	<p>the first asset or transmission alternative in a BBI would likely be commissioned following investment approval. Under this assumption, the only Appendix A BBI that is a continuing BBI is Bunnythorpe Haywards (which has a deemed commissioning date of 9 May 2015), and it will remain so until 9 May 2025.</p> <p>We note that the intent of the continuing BBI mechanism (to encourage investment scrutiny) is not apposite to the Appendix A BBIs. We considered excluding the Appendix A BBIs from the continuing BBI mechanism entirely, but that would require a new departure from the TPM Guidelines which we think is best avoided at this stage.</p> <p><u>CUWLP and other high-value intervening BBIs</u></p> <p>For the same reason, a specific commissioning date for CUWLP is difficult to determine. This may prove to be the case for other high-value intervening BBIs as well, depending on how recent their commissioning dates were.</p> <p>For the purposes of the continuing BBI mechanism, we propose to deem CUWLP's commissioning date to be 1 January 2021. We know the first asset for CUWLP was commissioned at some point during FY 2020/21 and 1 January 2021 is the midpoint. This means the maximum "error" in the deemed commissioning date is +/- 6 months.</p> <p>We also propose introducing an ability for Transpower to determine the commissioning date for any other high-value intervening BBI whose commissioning date is not known, for the purposes of the continuing BBI mechanism.</p> <p>High-value intervening BBIs are high-value post-2019 BBIs (i.e. commissioned after 23 July 2019) with:</p> <ul style="list-style-type: none"> <li>• a final investment decision date prior to 1 April 2023; and</li> <li>• a commissioning date prior to 30 June 2023.</li> </ul> <p>Therefore, this could include past and future BBIs. Transpower expects it would be able to record a specific commissioning date for any BBIs commissioned in the future (i.e. between now and 30 June 2023). However, there may have been BBIs commissioned earlier in this period (i.e. since 23 July 2019) for which specific commissioning dates will be difficult or impossible to discern. Therefore, Transpower has proposed this change to allow it to set an appropriate commissioning date for such BBIs. We expect to do this, if necessary, using the same approach as proposed for the deemed commissioning date for CUWLP, meaning the maximum "error" would be +/- 6 months.</p> <p><u>Low-value post-2019 BBIs</u></p> <p>Transpower's FMIS tracks low-value post-2019 BBIs at an asset level. Each asset is assigned to an investment region and simple method period at the time it is commissioned. Assets, each a separate low-value BBI as far as Transpower's FMIS is concerned, are grouped together in this way, by region and period, for administrative workability (there will be many thousands of low-value BBIs commissioned each simple method period – some 10,000 in FY 2021/22). This presents a workability challenge to precisely apply the continuing BBI mechanism (disaggregation to low-value BBI level would be required).</p> <p>We consider it is a reasonable proxy for the actual commissioning date of a group of low-value BBIs for each region/period to assume</p>
--	--

	<p>all the BBIs in the group were commissioned in the middle of the relevant simple method period.</p> <p>Based on a standard 5-year simple method period, we propose that the low-value BBIs in each group cease to be continuing BBIs 12.5 years after the start of the simple method period during which they were commissioned. We consider this approach provides a sufficient “no change” period to achieve the intent of the continuing BBI mechanism, including for BBIs commissioned in the later part of a simple method period. The maximum error in the assumed commissioning date is +/- 2.5 years (for a standard 5-year simple method period). However, the effect of errors in the assumed commissioning dates for individual low-value BBIs in a group will offset towards a maximum error for the group in aggregate that is considerably smaller.</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 amendments will fix workability issues in the TPM that could otherwise make the continuing BBI mechanism difficult or impossible to apply, potentially defeating the purpose of the continuing BBI mechanism (being to incentivise investment scrutiny). 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 incentivising investment scrutiny.</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.</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 amendments to be technical and non-controversial. The proposed amendments address workability issues in a way that is consistent with the intent of the TPM.</p>
<p>Why this is your proposed option?</p>	<p>The TPM needs to change to ensure the continuing BBI mechanism is workable for all BBIs.</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>We have not identified any alternative means of achieving the objective of the proposed amendments.</p>
---	--

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

---

***<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.