

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) – Type 2 FMD mechanism</p>
<p>State the objective of your proposal.</p>	<p>To clarify how the Type 2 FMD mechanism in the TPM works when only part of a connection asset is anticipatory, to ensure the capital cost of anticipatory capacity is spread as intended.</p>
<p>Does the proposal relate to an existing Code clause? If yes, please state the full clause reference.</p>	<p>Yes. TPM clauses 26(3) and 26(6).</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>Clause 26(3) contemplates a situation where Transpower designates part of a connection asset to be anticipatory for a pricing year, as opposed to the entire asset. An example of this is a new transformer with a higher capacity than currently required, as some of the capacity will be required for the pricing year, but some will not.</p> <p>Clause 26(3) says the anticipatory capacity is deemed to be comprised in a separate (notional) anticipatory connection asset (asset X) but does not say how the (actual) physical asset (asset C+X) should be treated. It is unclear whether, for the purposes of calculating the asset components of connection charges:</p> <ul style="list-style-type: none"> • only the remainder of the physical asset is applied (asset C) in addition to asset X; or • the entire physical asset is applied (asset C+X) in addition to asset X. <p>We think it is obvious the correct answer is the former, because otherwise the capital cost of X would be over-allocated to the customers connected to asset C+X, i.e. the replacement cost of C+X, instead of the replacement cost of C, would go into the calculation of the asset component under clause 26(6). This would be contrary to the intent of the Type 2 FMD mechanism which is to reduce barriers to efficient investment in anticipatory capacity and remove an incentive for customers to inefficiently delay connection.</p>

	<p>We propose a change to clause 26(3) to expressly provide for the creation of the “remainder” connection asset (i.e. asset C).</p> <p>We also propose changing clause 26(3) to be clear asset C and asset X are only created for the purposes of the clauses relating to the asset component (clauses 26 and 27). Otherwise under the TPM the relevant asset is asset C+X.</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)ⁱ, specifically addressing the competition, reliability and efficiency dimensions of the objective.</p>	<p>The proposed amendments will clarify how the Type 2 FMD mechanism in the TPM is intended to work and avoid a potential interpretation that would result in the capital cost of anticipatory capacity being over-allocated to the connection asset with the anticipatory capacity (as it is essentially being captured twice). If, based on this interpretation, the capital cost of anticipatory capacity is insufficiently spread it could defeat the purpose of the Type 2 FMD mechanism (being to reduce barriers to investment in efficient anticipatory capacity and remove an incentive for customers to inefficiently delay connection). Accordingly, while the proposed amendments are intended to clarify rather than alter the TPM, removing the ambiguity 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 first potential application of the Type 2 FMD mechanism is during pricing year 2024/25.</p> <p>However, it would be efficient to make the proposed amendments 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. To the extent the ambiguity might result in the unintended interpretation described above, the proposed amendments would provide unquantified benefits for all consumers and other stakeholders from reducing barriers to investment in efficient anticipatory capacity and removing an incentive for customers to inefficiently delay connection.</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> <p>(i) your proposed change to be technical and non-controversial; or</p> <p>(ii) there is widespread support for your proposed change among the people likely to be affected; or</p> <p>(iii) there has been adequate prior consultation so that all relevant views have been considered.</p>	<p>We consider the proposed amendments to be technical and non-controversial. The proposed amendments resolve a clarity issue 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 Type 2 FMD mechanism is works as intended.</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(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, given the amendments are clarifying in nature.</p>
<p>The extent to which the objective of your proposal would be promoted or achieved by this option.</p>	<p>N/A</p>
<p>Who is likely to be substantially affected by this option?</p>	<p>N/A</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>N/A</p>

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.