

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

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

The proposal / preferred option

<p>Suggested proposal name (please keep it short)</p>	<p>Transmission pricing methodology (TPM) – Historic events analogous to adjustment events</p>
<p>State the objective of your proposal.</p>	<p>To allow Transpower to apply the most appropriate adjustment event mechanism to historic events.</p>
<p>Does the proposal relate to an existing Code clause? If yes, please state the full clause reference.</p>	<p>Yes. TPM definition of “pre-commencement adjustment event”.</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 amendment is tracked in the amended TPM accompanying this form.</p> <p>Part of our implementation of the new TPM has been to consider how to deal with transmission-charge sensitive events that have happened or will happen before the start of PY 2023/24 (historic events).</p> <p>The pre-commencement adjustment event provisions in the TPM provide a basis for reflecting historic events in transmission charges. A “pre-commencement adjustment event” is an historic event that would have been an adjustment event if it happened during the life of the new TPM (i.e. on or after 1 April 2023).</p> <p>There is at least one historic event that does not sit easily with the BBC adjustment events specified in Part F of the TPM. This was Kawerau Geothermal Limited (KRGL) becoming a transmission customer in May 2021 in respect of the Kawerau Power Station. Before KRGL became a customer, the station was already grid-connected and already owned by KRGL. However, for reasons unknown, the station had historically been treated as embedded to Norske Skog Tasman Limited (SKOG) at Kawerau, including for the purposes of calculating the allocations for the historic BBIs in</p>

	<p>Schedule 1 of the TPM Guidelines. As a result, KRGL is not included in Appendix A of the TPM.¹</p> <p>Because KRGL is a Transpower connected customer, it is necessary to calculate KRGL's allocations for the Appendix A BBIs in time for PY 2023/24. One way of doing that would be to treat KRGL as a new customer (as it was in May 2021) and apply clauses 83(6) and 83(7) of the TPM. As there is no grid-connected generation at Kawerau, the benefit factors used to calculate KRGL's allocations would come from the generation connected at Matahina (the electrically closest connection location where there is grid-connected generation). This could mean KRGL receives allocations for Appendix A BBIs of which SKOG is not a beneficiary even though both KRGL and SKOG are connected at Kawerau. Further, using this method all other beneficiaries of the Appendix A BBIs for which KRGL receives an allocation would have their allocations reduced on a pro-rata basis, even though the only other beneficiary whose allocations should be affected is SKOG.</p> <p>We therefore consider that, while this historic event could fit into the new customer adjustment event, treating it that way may not produce allocations reflective of benefit and may therefore be inconsistent with the policy intent behind benefit-based charging.</p> <p>We consider a better option is to treat this historic event in the same way as a partial sale of business between SKOG as vendor and KRGL as purchaser for the purposes of adjusting the Appendix A BBI allocations, even though no sale of business actually occurred (i.e. there has been no change in ownership of the Kawerau Power Station or any business divestment by SKOG). We consider this would produce the most sensible result, namely apportioning SKOG's allocations for the Appendix A BBIs of which it is a beneficiary between SKOG and KRGL. We also consider this historic event – existing grid-connected plant becoming associated with a different customer – is closely analogous to a partial sale of business.</p> <p>Accordingly, we propose to extend the definition of “pre-commencement adjustment event” to cover events we determine are analogous to an adjustment event specified in Part F. This will allow us to process the relevant historic event as a pre-commencement adjustment event of the most appropriate type. We note that this will only apply to events that happen or have happened before 1 April 2023.</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 amendment will ensure Transpower can apply the most appropriate adjustment event mechanism to make transmission charge allocation adjustments for historic events. This will contribute to ensuring the new TPM is durable and therefore support the efficiency limb of the Authority's statutory objective.</p>

¹ In translating Schedule 1 of the TPM Guidelines into Appendix A of the TPM we did not make the adjustment of adding KRGL (as contemplated in clause 42(2) of the TPM) because at that stage we had not formed a view on how to make the adjustment.

<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 amendment qualifies to be, and should be, progressed under section 39 of the Act (being technical and non-controversial) assuming it can be made within the timeframe noted below.</p> <p>We consider the proposed amendment also qualifies to be made urgently (under section 40). That is, the proposed amendment has 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 amendment to be progressed urgently. We consider the proposed amendment should be progressed under section 40 if it would not otherwise be made within the timeframe noted below.</p> <p>The amendment 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 making the TPM more durable.</p>
<p>Who is likely to be substantially affected by this proposal?</p>	<p>Customers affected by historic events are likely to be substantially affected by the proposed amendments. At this point in time, the only confirmed scenario to which the amendment would apply is KRGL’s ownership of the Kawerau Power Station.</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 amendment to be technical and non-controversial. The proposed amendment allows Transpower to apply the most appropriate adjustment event mechanism to a small number of historic events. We expect there will likely only be one.</p>

<p>Why this is your proposed option?</p>	<p>The TPM needs to change to ensure Transpower can apply the most appropriate adjustment event mechanisms to historic events. If Transpower does not have this flexibility it is possible some anomalous historical transmission charging practices will not be able to be fully corrected under the new TPM (as would be the case for the KRGL/SKOG scenario)..</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.</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.