



To: James Stevenson-Wallace, Chief Executive, NZ Electricity Authority
From: Neil Simmonds
Date: 18 August 2022
Subject: Mechanisms in the TPM to correct an error

Dear James

Thank you for your call yesterday. As discussed, we have a problem that is major to us but not material to others. We knew the new TPM was going to increase our costs significantly. However, an error in the initial baseline model has caused it to be even bigger than necessary. We would like to get the issue resolved with as little fuss as possible.

Key points

- an error has been identified in the calculation of Electra's indicative prices
- the Authority has incorrectly treated Mangahao as grid-connected when it is embedded in the Electra distribution network. The error was extremely difficult to find for most reviewers
- the error is estimated to be \$520k per annum
- there does not appear to be a mechanism in the TPM for Electra to easily correct errors
- the Code is unclear as to how the Authority can address errors
- the error might be addressed as an adjustment under Part F of the TPM

Error identified in the calculation of Electra's indicative prices

An error in calculating Electra's indicative prices under the new transmission pricing methodology (TPM) has been found.

Peter Calderwood, Calderwood Advisory, on behalf of King Country Energy (KCE), using a bottom-up approach, has recalculated KCE and Electra's benefit-based charges (BBC) under the TPM.

Peter identified that Mangahao's embedded generation had been incorrectly treated as a grid-connected generation when it has been embedded in the Electra distribution network since 2010.

Error is estimated to be \$520k per annum

The error has resulted in the over-allocation of benefit-based charges (BBC) of approximately \$520k per annum. Though split between KCE and Electra, the over-allocation is material to both parties.

There is no obvious mechanism in the TPM to correct errors

We have been unable to find any obvious mechanism in the TPM for Electra to correct errors discovered after the finalisation of the TPM in April 2022. Electra does not intend to wait for an operational review (five or more years) to have the error corrected.

The Code is unclear on how the Authority can correct errors

The Authority has acknowledged the Code's ambiguity to correct errors discovered in the TPM. To resolve the issue, it has proposed to amend the Code.¹

In late April 2022, the Authority released its *Code amendments to support the implementation of the new transmission pricing methodology*, Consultation Paper. In the Consultation Paper, the Authority proposed amendments to the Code, including —

'...enabling errors and workability problems with the new TPM identified during its implementation to be addressed in a timely manner (and therefore leading to the TPM delivering on its expected benefits quicker than waiting for an operational review to resolve any issues).'²

The Authority has yet to release its decision on the Consultation paper. Accordingly, it is uncertain if a Code amendment is an effective avenue that Electra can pursue to address this issue.

Part F—Adjustments of the TPM could be the answer

Part F, clause 75 of the TPM provides for 'adjustment events', including benefit-based charge adjustment events.

Clause 88 provides for a *benefit-based charge adjustment event: changed point of connection*. The Authority has incorrectly treated Mangahao as a grid-connected generation, which it was until 2010 when it became embedded in the Electra distribution network. A pragmatic solution could be for Transpower to treat Mangahao as a changed connection point from grid connected to embedded before the TPM takes effect on 1 April 2023.

Taking this approach would meet allow the Authority to meet its statutory obligation by —

- treating Mangahao correctly as an embedded generator,
- ensuring the BBCs are correct for KCE and Electra; and
- recalculates the BBI customer allocations per clause 88(2) of the TPM, correctly allocating customer costs and keeping Transpower whole.

Closing comments

In the scheme of things, this is a minor issue for the overall industry. An error due to the complexity of the TPM has only now been identified. While \$520k per annum is material to both parties, it is immaterial to the market as a whole and unlikely to result in any other party being disadvantaged by applying Part F in this instance.

For further information on the issue, your staff should contact Dylan Andrews, Electra's GM Lines Business, via dylan.andrews@electra.co.nz or 027 443 2227.

Best regards
Neil Simmonds
Chief Executive

¹ Electricity Authority, Transmission Pricing Methodology 2022, Decision paper, 12 April 2022, Paragraph 15.11(1)(iv).

² Paragraph 5.4(a)(iii) of the Authority's Consultation Paper.