

Status of existing prudent discount agreements and notional embedding contract under new TPM

Transpower's submission to the Electricity Authority's consultation

22 June 2022

1. Transpower welcomes the Electricity Authority's (**Authority's**) consultation on Code amendments to support the implementation of the new transmission pricing methodology (**TPM**).
2. We agree with the issues outlined in the Authority's consultation paper and the importance of resolving the status of the existing notional embedding contract (**NEC**) and prudent discount agreements (**PDA**s) under the new TPM as soon as possible. We appreciate the extra clarity the Authority's paper affords, including its confirmation that the basis on which the previous discounts were granted is or will become "obsolete" under the new TPM, and that continuing to apply the previous discounts would be inconsistent with the new TPM settings. We are required by clause 12.95 of the Code to apply the TPM as approved, which does not afford any ongoing status to "previous discounts" in calculating transmission charges.
3. Transpower supports **option 2** in the consultation paper, and the proposed amendment to clause 12.95 of the Code. Under option 2, clause 12.95 would be amended to remove the reference to the NEC as well as legacy references to "input connection contracts" and "new investment agreement contracts". This means transmission charges will no longer be subject to those contracts. We support this change, because:
 - 3.1. the nature and effect of the NEC in the current transmission pricing regime is substantively the same as the nature and effect of the PDAs. There is no reason the NEC should have any special status under the Code relative to the PDAs, as the substantive difference between the two types of agreement is due only to when they were entered into;
 - 3.2. we do not calculate transmission charges under any input connection contract currently; and
 - 3.3. a new investment agreement contract is a type of "investment agreement" under the new TPM, the impact of which on transmission charges is provided for in the new TPM itself.
4. In relation to the two existing PDAs, consistent with the Authority's view, Transpower considers the previous discounts would be inconsistent with the new TPM settings and will cease to apply from 1 April 2023.
5. In order to progress implementation activities ahead of new TPM commencement on 1 April 2023, we are carrying out pricing processes on the basis the previous discounts will cease to have effect. This is consistent with indicative prices released by the Authority and Transpower to date. We intend to calculate prices for pricing year 2023/24 on the same basis.