

12 April 2022

Adrienne Meikle
Chief Executive
Commerce Commission
Wellington

By email: adrienne.meikle@comcom.govt.nz

Dear Adrienne

A new Transmission Pricing Methodology

I am pleased to advise you that today the Electricity Authority has publicly released a new transmission pricing methodology (TPM). Transpower is now required to implement the new TPM, with a commencement date of 1 April 2023.

Authority staff have been discussing TPM reform with, and getting feedback from, Commission staff for some time, and we recently formally consulted the Commission ahead of our final TPM decision (letter to Deputy Chair Sue Begg dated 28 February 2022, which was responded to by Associate Commissioner Vhari McWha on 17 March 2022).

We are now formally advising you under section 54V(2) and (3) of the Commerce Act 1986 that the Authority:

- Has incorporated the new TPM into the Electricity Industry Participation code 2010, and that this is likely to be relevant to the powers or functions of the Commission
- That this change to the Code will result in increased costs to Transpower.

The new TPM and the Authority's decision paper are available on the Authority's website at [Transmission Pricing Methodology — Electricity Authority \(ea.govt.nz\)](https://www.ea.govt.nz/transmission-pricing-methodology).

The Authority also now requests that the Commerce Commission reconsider a section 52P determination (re-open Transpower's Individual Price-Quality Path), under s54V(5) of the Commerce Act, so that Transpower can recover the costs of TPM implementation.

Information on upcoming investments in anticipatory capacity

A key aspect of the new TPM is addressing the first mover disadvantage in relation to new grid connections,¹ including by ensuring first movers do not pay for extra connection capacity that is built in anticipation of other future connections. Instead, the TPM allocates 50% of costs relating to anticipatory capacity to identified regional beneficiaries (through benefit-based charges) while 50% are "pooled and shared" across all transmission customers.

By allocating half of these costs to regional beneficiaries the Authority considers that the identified parties will be incentivised to scrutinise the investment, evaluate the merits of anticipatory capacity, and provide information that will inform Transpower's and/or the Commission's consideration of a potential investment. This is an important safeguard against oversizing of connection assets, which ultimately costs New Zealand consumers.

¹ This arises where the first customers to connect to the grid either bears a relatively greater share of connection charges than customers that connect later, and so is put at a cost disadvantage to second-movers, or has to pay for extra capacity that they do not want. First mover disadvantage may discourage the first mover from, or delay, investing.

The Authority expects that Transpower will facilitate this process of customer scrutiny by making relevant information available to stakeholders – particularly regional benefiting customers – in advance of making the investment. As the Commission is ultimately the regulator whose process benefits from this increased scrutiny, we would like to engage with the you, initially at a staff level, on how the Commission and Authority can work together to facilitate provision of such information by Transpower, and greater engagement by stakeholders.

Should the Commission require further context or clarification, please contact Rob Bernau at rob.bernau@ea.govt.nz or Tim Sparks at tim.sparks@ea.govt.nz.

Finally, I would like to thank the Commission and its staff for their valuable support and assistance over the last two years as we worked with Transpower to develop a new TPM. The final TPM reflects the various improvements and clarifications suggested by Commission staff.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Stevenson-Wallace', with a stylized flourish at the end.

James Stevenson-Wallace
Chief Executive

cc: Calum Gfdunn, Principal Adviser (calum.gunn@comcom.govt.nz)