

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:	15 March 2023

The proposal / preferred option

Suggested proposal name (please keep it short)	Corrections to reduction event adjustment factor (REAF) formula
State the objective of your proposal.	To further amend the transmission pricing methodology approved by the Authority on 11 April 2022 (TPM) to correct errors in the formula for calculating the reduction event adjustment factor.
Does the proposal relate to an existing Code clause? If yes, please state the full clause reference.	Yes, subclause 71(3). See the amended TPM accompanying this form.

<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 REAF is used in the formula in subclause 71(2) to scale down a customer’s lagged average total gross energy (LATGE) if there has been a reduction event affecting the customer. It is necessary to do this so that the customer’s residual charge adjustment factor (RCAF) calculated under subclause 71(1) does not cause the customer’s anytime maximum demand (residual) (AMDR) calculated under paragraph 69(1)(c) to move the wrong way initially (i.e. to increase instead of decrease) in response to the reduction event. The REAF was added to the TPM in November 2022 to correct this issue in the TPM as originally approved.</p> <p>The formula for calculating the REAF in subclause 71(3) has the following errors:</p> <ul style="list-style-type: none">) The variables $ATGE_{after\ r}$ and $ATGE_{before\ r}$ in the numerator of the formula are around the wrong way, with $ATGE_{after\ r}$ (the lower number) coming before $ATGE_{before\ r}$ (the higher value) resulting in an unintended negative value of REAF. This error means the formula results in a nonsensical value for REAF i.e. one that suggests the customer should receive a residual charge, or some other transmission charge rebate, rather than pay one. To correct this error, we have reversed the order of $ATGE_{before\ r}$ and $ATGE_{after\ r}$, so that the formula results in a positive value.) The formula produces the proportion by which ATGE has reduced rather than the proportion of ATGE remaining after the reduction. The latter is what is required for the LATGE calculation in subclause 71(2). We have amended the formula so that it calculates $1 -$ the percentage change in ATGE, therefore providing the proportion that remains after the reduction.) If there are multiple reduction events, the formula currently sums the reduction proportion of each event. This does not produce the proportion by which ATGE has reduced overall. For example, if there are multiple reduction events and in the first reduction event ATGE reduces from 1000 to 800 (i.e. 20%), then in the second reduction event ATGE reduces from 800 to 400 (i.e. 50%), the overall reduction proportion is not $20\% + 50\% = 70\%$, it is 1000 to 400 or 60%. We have removed the sum factor in the REAF formula and added into the explanation of each of the variables that it is based on ATGE change overall for the period, as opposed to the specific events. We have also updated the variables to be called $ATGE_{after}$ and $ATGE_{before}$.
<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 ensure the reduction event mechanism in the TPM makes sense and works as intended. This will support the efficiency limb of the Authority’s statutory objective, in so far as the addition of the REAF to the TPM in November 2022 also supported the efficiency limb.</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)(f): Other matter specifically referred to in the Act as a matter for inclusion in the Code (section 32(4)(b): “pricing methodologies...for Transpower”)</p>

<p>Identify whether you consider your proposed change to be urgent, providing supporting rationale.</p>	<p>Urgent. Transpower is currently calculating a reduction event adjustment for a customer.</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. Potentially material benefits by making the reduction event mechanism in the TPM sensible and workable.</p>
<p>Who is likely to be substantially affected by this proposal?</p>	<p>Customers affected by reduction events are likely to be substantially (and positively) affected by the proposed amendments.</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 amendments to be technical and non-controversial. The proposed amendments will ensure the reduction event mechanism in the TPM works as intended.</p>
<p>Why this is your proposed option?</p>	<p>The only other option is not to make the proposed amendments but this would result in the TPM not working 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.

Brief description of an alternative means of achieving the objective. Note if this is your preferred option.	The only other option is not to make the proposed amendments.
The extent to which the objective of your proposal would be promoted or achieved by this option.	This option would not achieve the objective of the proposal, which is for the TPM to work as intended.
Who is likely to be substantially affected by this option?	Customers affected by reduction events are likely to be substantially (and negatively) affected by this option. Given the formula contains errors, the proposal to fix those errors does not affect anyone relative to what was intended under the TPM.
The expected costs and benefits of this option, including direct costs to develop it, and consequential costs and benefits to all affected parties.	No material costs or benefits other than the costs of not realising the benefits noted above.

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.