

**24 November 2010**

**Transmission pricing review: revised process**

The Electricity Authority is undertaking a review of the allocation of transmission costs. Background to the review and the two previous Commission consultation papers are available at: <http://www.ea.govt.nz/our-work/programmes/priority-projects/transmission-pricing-review/>

Following the establishment of the Authority and in light of submissions from the second consultation paper the Authority has developed a revised plan which includes additional consideration and consultations on:

- the decision framework, including the pricing principles; and
- the transmission pricing options currently under investigation.

**The rationale for a revised plan**

In considering whether to continue as planned or to revise the process the Authority has considered a number of factors:

- **The tight timeframe for existing plans** - A delay to a possible Issues Paper is unlikely to impact on the implementation of a TPM as even working within the existing plan it is unlikely a TPM could be implemented to be effective from April 2012.
- **The need to review and consult on the new decision framework with respect to transmission pricing** - In order to progress analysis of the options for transmission pricing, both stakeholders and the Authority need a clear understanding of the interpretation of the Authority's new statutory objective, of its application to transmission pricing and in particular to the pricing principles. The process will include a review of the ongoing relevance of the pricing principles. This may result in the Authority proposing a Code amendment.
- **Priorities and integration with other workstreams** - Transmission pricing is not one of the Authority's priority matters set out in the Act, but there are linkages with some of the priority matters, in particular, locational hedges and scarcity pricing. The transmission pricing review will continue to coordinate with these projects in order to ensure that decisions are made in a coordinated and timely manner.
- **More detailed analysis of some options is required** - More detailed analysis – and likely further consultation - of some options is required. This is important to ensure the most efficient options are selected and that participants get adequate opportunity to understand and to respond to proposals.



## **The revised plan**

The plan can be divided into two phases:

- (a) Completing the transmission pricing review, which includes:
  - (i) reviewing the decision framework, including a review of the ongoing relevance of the pricing principles. This may result in a Code amendment process;
  - (ii) completing the Authority's analysis of the transmission pricing options; and
- (b) Completing the Code-prescribed processes for publishing an Issues Paper, and developing, determining and applying a TPM.

These two phases are described below but it is important to note that even with the proposed revisions, the timeframe for both phases remains tight. The Authority will be discussing the timeframes for the second phase – completing the Code-prescribed processes – with Transpower as the transmission pricing options are further developed.

## **Completion of the review**

Both parts of this work will initially progress in parallel.

### **(i) Review of the regulatory framework and pricing principles**

The review of the decision framework includes considering the ongoing relevance of the existing pricing principles under the Authority's statutory objective. The timeframe for completing this work is dependent to some extent on when the Authority finalises its interpretation of its statutory objective.

The review of pricing principles will consider:

- (c) revising the pricing principles;
- (d) dispensing with the pricing principles; or
- (e) continuing with the existing pricing principles.

A review of pricing principles will result in a Code amendment if either option (c) or (d) is selected. The Authority will follow the requirements for Code amendments set out in section 39 of the Electricity Industry Act 2010 and where applicable, the processes described in the draft Consultation Charter.

### **(ii) Analysis of options**

The review of transmission pricing options will continue the analysis of the more far-reaching transmission pricing options, such as bespoke pricing and capacity rights. This work will involve responding to submitters' comments on the consultation paper released in July 2010, further developing transmission pricing options and undertaking preliminary cost-benefit analysis of transmission pricing options. This workstream is likely to include further consultation of the options.

Once the Authority has completed its review of the decision framework and pricing principles and made any resulting amendments to the Code, it will then proceed to complete its analysis of the transmission pricing options against the (potentially amended) regulatory settings.

## Processes and timing for completing the transmission pricing review

The processes for the completion of the review are shown Table 1:

Table 1 Completion of the review

<b>(i) Review of regulatory framework and pricing principles</b>	<b>Approx timeframe</b>	<b>(ii) Analysis of options</b>	<b>Approx timeframe</b>
1. Confirm interpretation of statutory objective.	Planned for 16 Dec 2010	Continued analysis of transmission pricing options including: <ul style="list-style-type: none"> <li>- HVDC options - including submitter options such as capacity rights</li> <li>- Flow-tracing</li> <li>- Bespoke pricing</li> <li>- But-for</li> <li>- Transmission alternatives recommendations</li> <li>- Static reactive options</li> </ul>	On-going analysis and discussion with the Transmission Pricing Technical Group
2. Prepare a consultation paper on the ongoing relevance of the pricing principles for the TPM. This may include a Code amendment proposal. (Completion of this will depend on the timing of the confirmation of the interpretation of the statutory objective.)	End Dec 2010		
3. Review and discussion with TPTG (to be confirmed following December TPTG meeting)	Late Jan 2011 or early Feb 2011		
4. Consultation on the proposal.	Feb 2011	Likely consultation on further refined options (could coincide with consultation on regulatory framework and review of pricing principles proposal.)	Feb 2011/Mar 2011
5. Consideration of submissions.	Mar 2011	Consideration of submissions.	Mar 2011/Apr 2011
6. Decision on possible Code amendment to reflect potential changes to pricing principles.	April 2011	Analysis of options against regulatory settings	May 2011

### Phase 2: Code-prescribed processes

The second phase of work follows the processes prescribed in Subpart 4 of Part 12 of the Code. The timeframes in the table below assume a standard one month period for consultation and assume the process is not subject to delays or reiterations, such as when cross submissions are

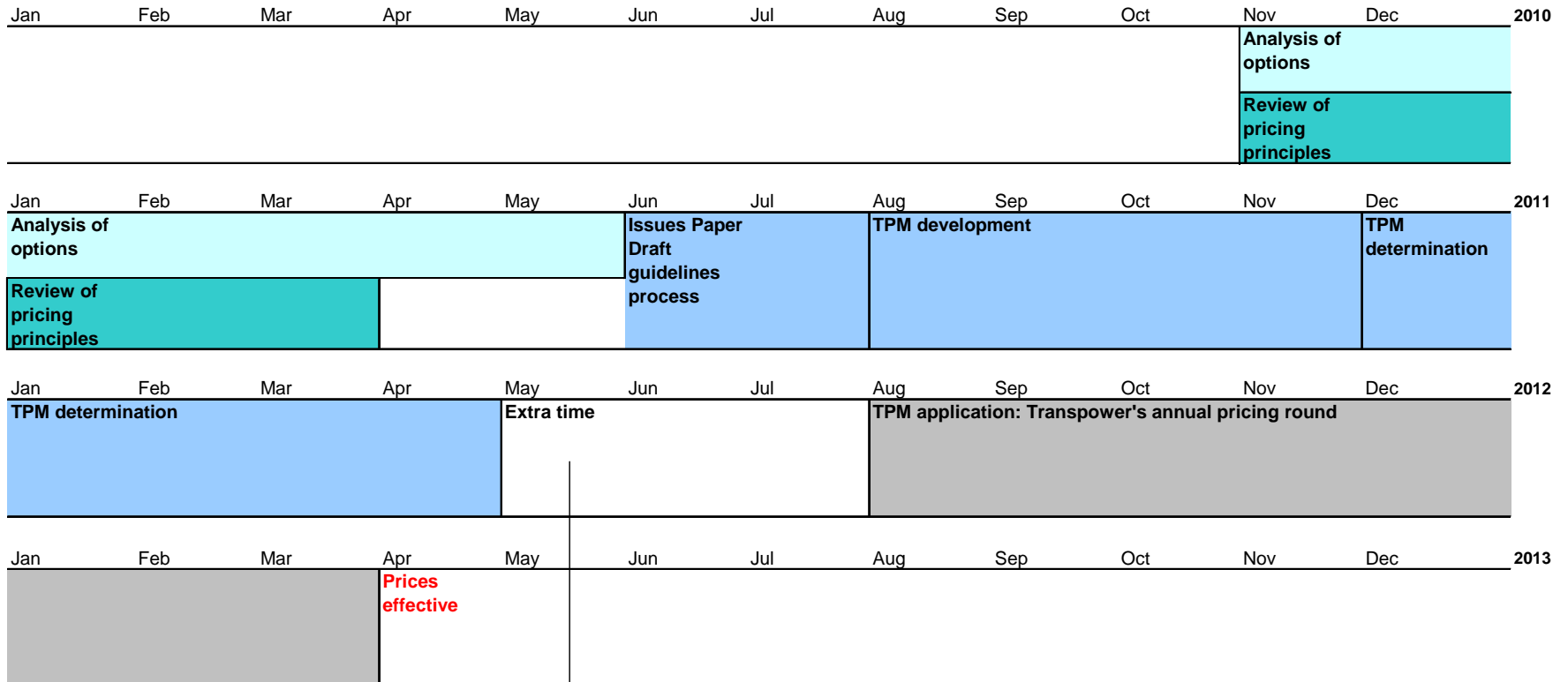
deemed to be necessary. The Authority will work closely with Transpower as the timeframes will likely depend on the complexity of the options provided.

Table 2: Code-prescribed processes

Stage	Detail	Code	Approx Timeframe
<b>Issues Paper, draft guidelines and process</b>	Issues Paper and draft guidelines and process, for consultation	12.81 to 12.83	2 months
<b>TPM development</b>	<p>Authority publishes guidelines and requests new TPM.</p> <p>Transpower submits a TPM within 90 days of request, including indicative prices.</p>	12.88,12.89	<p>4 months</p> <p><i>Note: Transpower may require more time for TPM development</i></p>
<b>TPM determination</b>	<p>Authority:</p> <ul style="list-style-type: none"> <li>- approves or refers back</li> <li>-publishes proposed TPM for consultation</li> <li>-makes determination on TPM</li> <li>- TPM gazetted, becomes a schedule to the Code</li> </ul>	12.90 to 12.94	<p>4 -5 months</p> <p><i>Note: More time may be needed if the TPM is referred back to Transpower</i></p>
<b>TPM application</b>	Transpower applies TPM and develops prices , audit	12.96 to 12.101	Start Aug of year preceding pricing year

An approximate timeline for the two phases of work is given below.

**Transmission Pricing Review timeline**



This time - or more time - will be needed for TPM development (if more complex options are included), or determination in the event the TPM is referred back to Transpower.