

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:	5 May 2023

The proposal / preferred option

Suggested proposal name (please keep it short)	Cap recovery charge calculation
State the objective of your proposal.	<p>To:</p> <ul style="list-style-type: none"> resolve an intractable workability problem in the transmission pricing methodology approved by the Authority on 11 April 2022, as subsequently amended (TPM) relating to the calculation of cap recovery charges; and <p>better achieve the intent of the transitional price cap in the TPM by ensuring capped customers receive the full benefit of any cap reduction.</p>

<p>Does the proposal relate to an existing Code clause? If yes, please state the full clause reference.</p>	<p>Yes, clause 112 of the TPM and definition of “capped charges”. See the amended TPM accompanying this form.</p>
<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 definition of “capped charges” in clause 3 includes cap recovery charges in paragraph (c). A cap recovery charge is a transmission charge that recovers part of the total cap reduction for a pricing year arising from the application of the transitional price cap in Part H.</p> <p>As the TPM is drafted currently there is a circularity problem:</p> <ul style="list-style-type: none"> • a capped customer’s cap reduction is a function of its capped charges (i.e. a cap reduction is calculated using the customer’s capped charges as an input); • a capped customer’s capped charges are a function of its cap recovery charge; and • a capped customer’s cap recovery charge is a function of its cap reduction. <p>This circularity makes the calculation of cap reductions and cap recovery charges infeasible if there are any capped customers who qualify for a cap.</p> <p>A related issue is that the payment of a cap recovery charge by capped customers who receive a cap reduction effectively reduces the size of their cap reduction. This does not appear to be what was intended.</p> <p>We propose the following amendments to resolve these issues:</p> <ul style="list-style-type: none"> • Delete paragraph (c) of the definition of “capped charges” in clause 3 (the reference to the cap recovery charge). • Delete subclause 110(4) (which seeks to alleviate a perceived calculation problem where cap recovery charges are included as a component of capped charges) on the basis that cap recovery charges will no longer be part of the capped charges definition. • Add a new subclause to clause 112 saying that cap recovery charges are only paid by customers who do not receive a cap reduction for the relevant pricing year. • Make a consequential change to current subclause 112(1) so that the formula fully allocates the total cap reduction for a pricing year. <p>For 2023/24 prices we were able to resolve the infeasibility by not assigning a cap recovery charge to the four capped customers who received a cap reduction (there were no capped customers for whom the capped recovery charge would have caused the customer to flip from not receiving a cap reduction to receiving one). We determined the effect of this was immaterial. If we assumed cap recovery charges for the four capped customers at 0.4% of their total charges (which we considered a conservative, high estimate of a possible outcome could the mathematical infeasibility be resolved):</p> <ul style="list-style-type: none"> • cap recovery charges for the four capped customers would result in their collective charges being around \$0.01m higher, and • in aggregate, all other customers charges would reduce by the same amount, or on average by perhaps 0.001%.

<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:</p> <ul style="list-style-type: none"> • resolve an intractable workability issue in the TPM (in a way that is consistent with how Transpower has in fact calculated cap recovery charges for pricing year 2023/24); and • better achieve the intent of the transitional price cap by allowing capped customers to receive the full benefit of the cap reductions they are entitled to. <p>This will support the efficiency limb of the Authority’s statutory objective, in so far as the transitional price cap supports that 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)(e): Other matter specifically referred to in the Act as a matter for inclusion in the Code (section 32(2)(b): “pricing methodologies...for Transpower”)</p>
<p>Identify whether you consider your proposed change to be urgent, providing supporting rationale.</p>	<p>Not urgent. Ideally the amendments would be in place by September 2023, i.e. the start of the assurance cycle for transmission charges for pricing year 2024/25.</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. Material benefits from having a workable TPM (greater certainty).</p>
<p>Who is likely to be substantially affected by this proposal?</p>	<p>No stakeholders are likely to be substantially affected by the proposed amendments. There will likely be a small increase in cap recovery charges for customers who do not receive a cap reduction. However, as only four customers currently receive cap reductions (noting that this number will not increase) the impact of cap recovery charges on individual customers is relatively immaterial.</p>
<p>Identify whether you consider (providing supporting rationale):</p> <p>(i) your proposed change to be technical and non-controversial; or</p> <p>(ii) there is widespread support for your proposed change among the people likely to be affected; or</p> <p>(iii) there has been adequate prior consultation so that all relevant views have been considered.</p>	<p>We consider the proposed amendments to be technical and non-controversial. The proposed amendments make the TPM workable in a way that is consistent with the intent of the TPM and will not have a substantial effect on any stakeholders.</p>
<p>Why this is your proposed option?</p>	<p>The only other option is not to make the proposed amendments which would mean Transpower’s (and any) approach to dealing with capped charges would remain unclear for stakeholders.</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>
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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.

<p>Brief description of an alternative means of achieving the objective. Note if this is your preferred option.</p>	<p>The only other option is not to make the proposed amendments, which would mean Transpower's approach to the transitional cap calculations would remain unclear for stakeholders (at least in the TPM).</p>
<p>The extent to which the objective of your proposal would be promoted or achieved by this option.</p>	<p>This option would not achieve the objective of the proposal.</p>
<p>Who is likely to be substantially affected by this option?</p>	<p>No stakeholders are likely to be substantially affected by this option (unless Transpower decided not to calculate cap reductions and cap recovery charges for future pricing years owing to the workability problem and to avoid a technical non-compliance with the TPM).</p>
<p>The expected costs and benefits of this option, including direct costs to develop it, and consequential costs and benefits to all affected parties.</p>	<p>No material costs or benefits other than the cost of not realising the material benefits of the proposed amendments noted above.</p>

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.