

## Proposal to amend the Electricity Industry Participation Code 2010


Send to [info@ea.govt.nz](mailto: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)	Calculation and application of benefit factors
State the objective of your proposal.	To further amend the transmission pricing methodology approved by the Authority on 11 April 2022 ( <b>TPM</b> ) to allow Transpower to apply the most appropriate benefit factors to calculate starting BBC allocations for new customers.

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<p>Does the proposal relate to an existing Code clause? If yes, please state the full clause reference.</p>	<p>Yes, clause 83. See the amended TPM accompanying this form.</p>
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<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 <a href="#">Code drafting manual</a> provides guidance on drafting.</p>	<p>Benefit factors are used to adjust BBC allocations for the seven historical BBIs in Appendix A of the TPM when there is an actual or notional new customer. Subclauses 83(6) to 83(9) relate to these adjustments and the benefit factors.</p> <p>Benefit factors are only calculated in respect of the customers listed in Appendix A, and they are static – they do not change even if there are adjustment events affecting the BBC allocations for the Appendix A BBIs. There are many benefit factors, one for each Appendix A customer and each connection location at which the customer is connected. We recently updated the BBC assumptions book to incorporate the benefit factors, which are published in a spreadsheet that sits alongside Chapter 5 of the assumptions book.<sup>1</sup></p> <p>When a new customer arrives, Transpower must apply the relevant benefit factor(s) for the same type of Appendix A customer (paragraph 83(6)(a)). “Type” means either a generator or a connected asset owner, the latter being either a distributor or direct consumer.</p> <p>Typically, a generator will have net injection and a connected asset owner will have net offtake at each of its connection locations. However, at some connection locations an Appendix A customer that is a generator in fact had net offtake over the period relevant to calculating benefit factors (capacity measurement period D, or CMP D), or an Appendix A customer that is a connected asset owner in fact had net injection over CMP D. There are nine connection locations and Appendix A customers for whom this is the case, which are listed at the end of this form.</p> <p>We propose to amend clause 83 by adding new subclause (7A) which provides that if certain conditions are met (i.e. paragraph (a) of variable E applies and the customer is a generator that had more offtake than injection, or a connection asset owner that had more injection than offtake, at that connection location during the relevant period), then Transpower must:</p> <ul style="list-style-type: none"> <li>• calculate the benefit factors for these customers and connection locations under subclause 83(7) as if each connected asset owner customer were a generator customer, and vice versa, because this is a truer reflection of each customer’s type at these connection locations over CMP D; and</li> <li>• apply those benefit factors under paragraph 83(6)(a) based on the deemed customer type instead of the actual customer type.</li> </ul> <p>For the purposes of calculating these benefit factors, we propose to use the greater of the relevant customer’s average annual injection or offtake over CMP D at the relevant connection location as variable E in subclause 83(7) instead of the customer’s average annual net injection or net offtake. This will ensure the magnitude of these benefit factors is not distorted by having a significantly lower denominator value relative to “normal” benefit factors, which would be an issue if offtake and injection were netted off. In addition we propose some consequential and minor clarifying changes to paragraph 83(7)(a) (definition of variable E).</p>
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<sup>1</sup> Information about this update, including the updated assumptions book and benefit factors spreadsheet, is published on our website at [TPM benefit-based investment allocations | Transpower](#).

<p>Identify how your proposal would support the Authority’s objective, as set out in section 15 of the Electricity Industry Act 2010 (Act)<sup>i</sup>, specifically addressing the competition, reliability and efficiency dimensions of the objective.</p>	<p>In Transpower’s view, the proposed amendments will help ensure the BBC allocations for the Appendix A BBIs will more accurately, though still only broadly, reflect the underlying logic of the Authority’s calculation of the BBC allocations in Appendix A after a new actual or notional customer arrives (by allowing Transpower to calculate and apply the most appropriate benefit factors for the adjustment). This will support the efficiency limb of the Authority’s statutory objective, in so far as that underlying logic supports 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)(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</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 or benefits.</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. That is the case on the bases that 1) this change is being made to clarify the manner in which we expected the TPM to operate, and 2) the proposal is consistent with the underlying logic of the Authority’s calculation of the BBC allocations in Appendix A. For completeness, we set out below a list of customers and connection locations to which this change will apply.</p>
<p>Identify whether you consider (providing supporting rationale):</p> <ul style="list-style-type: none"> <li>(i) your proposed change to be technical and non-controversial; or</li> <li>(ii) there is widespread support for your proposed change among the people likely to be affected; or</li> <li>(iii) there has been adequate prior consultation so that all relevant views have been considered.</li> </ul>	<p>On the same bases we consider no customers to be substantially affected, we consider the proposed amendments to be technical and non-controversial. The proposed amendments ensure Transpower is able to calculate and apply the most appropriate benefit factors but do not change the adjustment mechanism in subclauses 83(6) to 83(9) materially.</p> <p>In any event, we consulted on the approach when we updated the assumptions book to incorporate the benefit factors. We did not receive any submissions opposing the approach.</p>
<p>Why this is your proposed option?</p>	<p>The only other option is not to make the proposed amendments.</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. <a href="#">The Electricity Industry Participation Code Amendment (Transmission Pricing Methodology Related Amendments) 2022</a> 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 amendment.</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.</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.</p>

## Affected Appendix A customers and connection locations

Customer	Connection location	Average annual offtake (kWh)	Average annual injection (kWh)	Treated as
Alpine Energy Limited	ABY	12,456,143	12,480,561	Generator
Aurora Energy Limited	CYD	6,093,876	36,866,175	Generator
Whareroa Co-generation Limited	HWA	285,703	125,525,022	Generator
Meridian Energy Limited	TWZ	5,821,269	0	Connected asset owner

Mercury NZ Limited	SWN	416,745	0	Connected asset owner
Norske Skog Tasman Limited	KAW	9,477,595	613,816,695	Generator
Wellington Electricity Lines Limited	WIL	79,578,524	90,869,626	Generator
Unison Networks Limited	WRK	722,741	230,169,984	Generator
WEL networks Limited	TWH	87,026,993	100,188,562	Generator

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***<sup>i</sup> 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.