

Proposal to amend the Electricity Industry Participation Code 2010

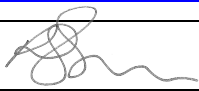
Send to info@ea.govt.nz or fax to 04 4608879

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)	Regional NPB under the price-quantity method
State the objective of your proposal.	To amend the transmission pricing methodology approved by the Authority on 11 April 2022 (TPM) to allow Transpower more flexibility in the calculation of regional NPB under the price-quantity method.
Does the proposal relate to an existing Code clause? If yes, please state the full clause reference.	Yes, clauses 44, 50 and 51. 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>There are three elements to this proposal.</p> <p>Making the calculation of market regional NPB for a market BBI discretionary</p> <p>We propose changing clause 44 (which relates to the types of regional NPB calculated under the price-quantity method) to make the calculation of market regional NPB for a market BBI discretionary, as is already the case for ancillary service, reliability and other regional NPB for the corresponding types of BBI.</p> <p>In developing the TPM, our expectation was that if a BBI is a market BBI its market regional NPB would always be significant, so calculating it would always be appropriate and worthwhile. However, based on our experience we now consider there could be a situation in which a BBI has market regional NPB but this is only a small proportion of total regional NPB considering other benefit types. For example, an enhancement to an interconnecting transformer would typically be undertaken to avoid interruptions to supply (a reliability benefit) but may also have some relatively minor market benefits due to reduced losses.</p> <p>In that case, the administrative effort of calculating market regional NPB (and potentially applying subclause 51(9) to combine it with reliability regional NPB, which is dollar-denominated) may not be justified in the context of the end goal of achieving allocations that are broadly proportionate to positive NPB.</p> <p>Specifically, we propose changing “must” to “may” in subparagraph 44(2)(b)(i) and making a consequential change to subclause 44(3) to limit Transpower’s discretion in the same way as it is limited for the other types of regional NPB, i.e. by specifying that Transpower must calculate market regional NPB if it is necessary to do so to produce BBI customer allocations for the market BBI that are broadly proportionate to positive NPB from the market BBI. The effect of these changes would be to bring the treatment of market regional NPB into line with the treatment of the other types of regional NPB in clause 44.</p> <p>Flexibility for method for combining MWh-denominated and dollar-denominated regional NPB</p> <p>We propose deleting the last part of subclause 51(9) so that, in cases where dollar and MWh-denominated values of regional NPB need to be combined, Transpower is not required to calculate market regional NPB under clause 52 based on price. The requirement to apply clause 52 could result in significant duplicated effort in cases where market regional NPB has already been calculated under clause 51 based on quantity. We consider it would be more appropriate to leave open the exact method used to convert the MWh quantities from clause 51 to dollars, noting there are other feasible and reasonable methods which result in allocations that are broadly proportionate to positive NPB, such as taking into account observed changes in price from the wholesale market. Transpower would consult on the appropriate method when undertaking consultation on the starting BBC allocations for the relevant BBI.</p> <p>Clarifying rules for determining modelled regions</p> <p>We propose clarifying paragraph 50(1)(a) by adding that Transpower must determine a market BBI’s modelled regions based on the</p>
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	<p>outcomes of the modelling under clause 49 <i>except to the extent Transpower determines basing the modelled regions on those outcomes would not support the objective in paragraph (e)</i> i.e. the objective ensuring the BBI customer allocations for the market BBI are broadly proportionate to positive NPB from the market BBI.</p> <p>Specifically, based on our experience with the BBIs we have modelled so far, it can be difficult analytically to determine modelled regions based on the change in price in the factual/counterfactual in highly meshed areas of the network (e.g. central North Island). In these areas, price changes may be very sensitive to small differences between the factual and counterfactual (e.g. a single new generator or a local minimum found by SDDP when optimising hydro operation). In such situations, we may need to use prices from only the counterfactual, and determine modelled regions by grouping connection locations into regions based on comparing them to the prices at adjacent connection locations. This correlation may provide a sounder basis for regions that result in customer allocations that are broadly proportionate to positive NPB than comparing against the factual. In this regard, it is important to note that the counterfactual (being the status quo) focuses on how prices in the actual wholesale market are observed – e.g. it is common to see how prices in regions of the grid are impacted by a transmission constraint in relation to other prices elsewhere in the grid.</p> <p>Further, the proposed approach would be simpler, and probably more reliable in terms of achieving the proportionality objective, than the time-consuming and detailed work required to moderate the model under subclause 49(6) to eliminate the sensitivities that are causing the model to indicate regions that are not supported by observation in the counterfactual.</p> <p>We consider this approach compliant under the existing TPM when paragraph 50(1)(a) is read together with paragraph (e) i.e. the modelled regions must be “based on” the outputs of the modelling under clause 49, but the extent of the relevance of those outputs is coloured by the objective to ensure customer allocations are broadly proportionate to positive NPB. However, we appreciate the drafting is not entirely clear, which is because the possibility that the outputs of the clause 49 modelling would conflict with the proportionality objective was not anticipated. Our proposed change more clearly sets out the appropriate and practical approach to this process.</p>
<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 help ensure Transpower is not bound to calculate regional NPB under the price-quantity method in ways that involve unnecessary administrative effort and to clarify how the TPM is applied to ensure its application results in allocations that are broadly proportionate to positive NPB. This will support the efficiency limb of the Authority’s statutory objective.</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>The proposed change to subclause 50(1) is relevant for Transpower’s consultation on the proposed starting allocations for the NZGP MCP. Therefore, we may need to consider the outcome of this proposed change in making our decision on the NZGP starting allocations (later in 2023).</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 from reducing Transpower’s administrative costs and more reliably achieving allocations that are broadly proportionate to positive NPB from the relevant BBI.</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, as the proposed changes are either clarifications of the TPM or do not change the TPM’s requirement for Transpower to calculate allocations that are broadly proportionate to positive NPB.</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 allow Transpower to calculate regional NPB under the price-quantity method in an efficient way that does not disrupt the underlying logic of the method or the end goal of achieving allocations that are broadly proportionate to positive NPB from the relevant BBI. The proposed amendments also make the TPM clearer.</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. 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.
Who is likely to be substantially affected by this option?	No stakeholders are likely to be substantially affected by this option.
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 of the proposed amendments 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.