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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:

x An amendment to an existing clause in the Electricity Industry Participation Code 2010; or
x 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)	Treatment of non-asseted commissioned assets for covered cost
State the objective of your proposal.	To further amend the transmission pricing methodology approved by the Authority on 11 April 2022 (**TPM**) to change the way assets comprised in a BBI that have been commissioned but not asseted are factored into the covered cost calculation for the BBI so that the risk of materially inaccurate asset value estimates and the administrative effort of reversing them are avoided.
Does the proposal relate to an existing Code clause? If yes, please state the full clause reference.	Yes, clauses 3, 36, 39 and 40. Also new clause 40A. See the amended TPM accompanying this form.

Describe the specific amendment(s) that you propose be made to the Code *OR* attach a draft of the proposed Code amendment (optional). Note the [Code drafting manual](#) provides guidance on drafting.	The covered cost of a BBI (the total amount of BBCs in a pricing year for the BBI) includes a capital charge, which is required to reflect the opening RAB value for the BBI in the preceding financial year (paragraph 39(2)(a)). If an asset comprised in the BBI was commissioned during that financial year, the capital charge is required to be adjusted to reflect the part year for which the asset was commissioned (paragraph 39(2)(b)). There is often a delay in the availability of information about a commissioned asset, before it is entered into Transpower's fixed asset register (**FAR**). Delays may occur where assets are commissioned near the end of a financial year and also due to the sheer number of individual assets commissioned by Transpower annually. Such delays mean it is sometimes not possible to accurately calculate covered cost because the FAR information is not available by the end of the relevant financial year. If a delay occurs for a low-value post-2019 BBI, subclause 36(2) allows Transpower to delay commencing BBCs for the BBI until a later pricing year. For low-value post-2019 BBIs, Transpower may ignore commissioned assets that do not have the necessary FAR information (subclause 36(2) refers to "locational information") until a later financial year/pricing year. There is no equivalent of subclause 36(2) for a high-value post-2019 BBI. Instead, the TPM contemplates Transpower estimating the value of the asset and its related covered cost inputs for the part-year for which the asset was commissioned, without using the FAR information (subclause 39(6)). Such estimates are likely to be inaccurate to some extent, and depending on the magnitude of the inaccuracy may necessitate a wash-up of BBCs later when verified asset information becomes available. Further, the estimates would need to be factored into BBC calculations using a manual process as Transpower would not populate the FAR with unverified asset information . To avoid this administrative effort and related cost, and the inherent risk of an additional manual process, Transpower's preferred approach is to wait until the asset's FAR information is available before incorporating it in the covered cost calculation for the BBI. A commissioned asset for which FAR information is available is referred to as being "asseted". The downside of Transpower's preferred approach is that a commissioned but non-asseted asset will not be included in the covered cost of the BBI for a period, and instead its covered cost components will fall into residual revenue to be recovered through residual charges. However, this will be time limited because it only occurs until the asset is asseted (one or two years out of a BBI's total economic life of 50 or so years). As well as being time limited, the effect on residual charges is not likely to be material for any single customer (including by comparison with the consequences of inaccurate inputs being used to calculate the BBI's covered cost). We note we have applied this approach to calculating the covered cost of CUWLP for 2023/24. Only about $300k was shifted to residual charges, compared to a total 2023/24 covered cost of $3.2m and total project value of circa $84m. We propose changing the TPM by: • adding to clause 3 a definition of "asseted"; • deleting subclause 39(6) and replacing it with new clause 40A. This new clause would require Transpower to ignore any non-asseted commissioned asset in its calculation of covered cost.

	Once the asset is asseted it will be given an appropriate opening RAB value for the next financial year in the normal way, which will be used to calculate covered cost for the relevant pricing year (and similarly for future pricing years until the end of the asset's economic life); • deleting subclause 36(2) as it is not required because new clause 40A will apply to the covered cost calculation for both low-value and high-value post-2019 BBIs; and • making consequential changes to subclause 36(1) and clauses 39 and 40.
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.	The proposed amendments will reduce the risk of estimates for non-asseted commissioned assets being materially wrong, and avoid the associated administrative effort and cost incurred in creating the estimates and subsequently reversing those estimates once the asset is asseted. This will support the efficiency limb of the Authority's statutory objective.
Which of the purposes listed in section 32(1) of the Act does your proposal most closely relate to?	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")
Identify whether you consider your proposed change to be urgent, providing supporting rationale.	Not urgent
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.	No material costs, including in relation to customers' prices. Potentially material benefits from avoiding the administrative effort and cost of estimating asset information for non-asseted commissioned assets, implementing an additional manual process to factor the estimated asset information into BBC calculations, and possibly washing up the impact of inaccurate asset information on BBCs later. There is some shifting of the costs of non-asseted commissioned assets comprised in a BBI to residual charges, but this will only happen until the asset is asseted and will be a very small part of the BBI's total covered cost over its life (generally only for part of the financial year during which the asset was commissioned).
Who is likely to be substantially affected by this proposal?	No stakeholders are likely to be substantially affected by the proposed amendments.

Identify whether you consider (providing supporting rationale): (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.	We consider the proposed amendments to be technical and non-controversial. The proposed amendments will not affect the calculation of covered cost materially, or affect BBC customer allocations at all (or, therefore, incentives for investment scrutiny).
Why this is your proposed option?	The only other option is not to make the proposed amendments.
Any other relevant information you would like the Authority to consider.	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.

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 amendment.
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 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.