

Proposal to amend the Electricity Industry Participation Code 2010


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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)	High-value post-2019 BBIs changing to connection investments
State the objective of your proposal.	To further amend the transmission pricing methodology approved by the Authority on 11 April 2022 (TPM) to allow Transpower to apply the simple method to high-value post-2019 BBIs with constituent interconnection investments expected to change to connection investments within a short time, making the BBI low-value.
Does the proposal relate to an existing Code clause? If yes,	Yes, clause 43. See the amended TPM accompanying this form.

<p>please state the full clause reference.</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>While considering BBI customer allocations for the Bombay-Otahuhu Regional Major Capex Project (the BOB-OTA project) we have identified the need for this TPM amendment to allow application of the simple method where all or a material part of a high-value post-2019 BBI will change to a connection investment shortly after commissioning.</p> <p>The BOB-OTA project was approved by the Commerce Commission in March 2021. The Commission approved an amendment to the outputs of the project in September 2021.</p> <p>At a high level, the BOB-OTA project comprises the following investments:</p> <ul style="list-style-type: none"> • Reconductoring the Otahuhu-Wiri section of the Bombay-Otahuhu A 110kV transmission line (~\$7m capex) • Linking the Bombay GXP to the Huntly-Otahuhu A 220kV transmission line via two interconnecting transformers (~\$23m capex). <p>While not forming part of the BOB-OTA project, a significant driver for and benefit of the project arises from the decommissioning of the 110kV lines connecting Bombay to points north and south, which would otherwise need to be reconducted.</p> <p>The line connecting to Bombay from the north will be permanently disconnected from Bombay in financial year 2022/23. The result of this will be that the remaining Otahuhu-Wiri section to the north will be a connection link, and the assets comprised in it will be connection assets and not part of the BBI for the BOB-OTA project (the BOB-OTA BBI), from pricing year 2024/25 (the BBI's start pricing year).</p> <p>As signalled in the investment proposal for the BOB-OTA project, we expect the 110kV lines connecting to Bombay from the south will all be decommissioned (permanently disconnected from Bombay) or sold within two years, as the lines have little value to the transmission system and are expensive to retain. When that occurs the new 220kV interconnecting transformers at Bombay will also become connection. This will mean there will be only a few interconnection assets left in the BOB-OTA BBI. If only those assets are considered, the BBI is easily low-value.</p> <p>In these circumstances we do not consider the administrative effort and cost of applying a standard method to the BBI, or other BBIs with the same characteristics, is justified as any benefits arising from a more "accurate" assessment of NPB through using a standard method instead of the simple method is unlikely to outweigh the additional costs of applying the standard method. We therefore propose to amend clause 43 by adding, as a further exception to subclause 43(2), new subclause 43(4A) which requires Transpower to apply the simple method to a high-value post-2019 BBI if:</p> <ul style="list-style-type: none"> • interconnection investments comprised in the BBI are expected to change to connection investments within three years of the BBI's full commissioning date. We have proposed a period of three years as we consider this will be an appropriately small part of any BBI's total economic life and is a forecasting window within which we are likely to have a reasonably high level of confidence as to future changes in grid configuration; and

	<ul style="list-style-type: none"> the BBI would be low-value if those interconnection investments were disregarded in assessing the expected value of the BBI when fully commissioned. <p>This would capture the BOB-OTA BBI and any future BBIs that meet the criteria (of which there are likely to be very few, if any, because asset decommissioning or divestment with significant asset reclassification consequences is rare). We do not expect that there will be any unintended effects arising from this change.</p> <p>We propose to make this treatment mandatory to limit Transpower's discretion in the TPM.</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 amendment will ensure Transpower and stakeholders avoid the administrative effort and cost of applying a standard method to a high-value post-2019 BBI that is low-value in substance due to interconnection investments comprised in it changing to connection in the short-term. 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>Not urgent, but the sooner the better because, if the proposed amendment is not made, Transpower resource will need to be dedicated soon to the standard method modelling for the BOB-OTA BBI, as well as industry resource in responding to Transpower's consultation on the allocations calculated using the standard method. Required before the start of pricing year 2024/25 (the start pricing year for the BBI for the BOB-OTA project)</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 avoiding the administrative effort and cost of applying a standard method to a high-value post-2019 BBI that is low-value in substance.</p> <p>For the BOB-OTA BBI we estimate the covered cost associated with the interconnecting transformers to be less than \$3m p.a., which is the lowest of the high-value BBIs we have modelled so far (CUWLP is ~\$7m p.a., Pole 2 is ~\$4m p.a., and the Hamilton STATCOM is ~\$5m p.a.). Therefore, the cost allocated to beneficiaries of the BOB-OTA BBI is not expected to be substantial.</p>
<p>Who is likely to be substantially affected by this proposal?</p>	<p>We do not consider that any customers will be substantially affected by the proposed amendment.</p> <p>For example, even at full value, the BOB-OTA BBI's covered cost will be relatively low compared to other BBIs (see above). Once the connection assets have been reclassified, this will decrease to the extent that the BOB-OTA BBI would have otherwise been low-value and, therefore, the simple method would have been applied.</p> <p>At this stage we are unable to determine which customers will be affected, or to what extent. We would need to complete the modelling work this proposed amendment would avoid for the BOB-OTA BBI, and any as yet unknown future BBIs, in order to determine customer impacts quantitatively.</p>

	<p>However, in Transpower's view this treatment (for the BOB-OTA BBI and any future BBI) will align with the intent of the TPM (since the BBI will be assigned to the category to which it more appropriately belongs on a longer term view). As a result, customers will not be substantially affected relative to the intent of the TPM.</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 amendment to be technical and non-controversial. The proposed amendment will allow Transpower to apply the most appropriate method in the TPM for calculating the BBC allocations for high-value post-209 BBIs that are low-value in substance.</p>
<p>Why this is your proposed option?</p>	<p>We also considered whether the same result could be achieved through applying for an exemption. However, our preference is for the TPM to achieve the correct outcome, instead of having to apply for exemptions to it. Furthermore, while no other instances are currently envisaged, the situation is not conceptually unique, and the same treatment would be appropriate for any similar scenarios that arise in the future. Therefore, it is most appropriate to deal with the issue in the TPM itself.</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.

<p>Brief description of an alternative means of achieving the objective. Note if this is your preferred option.</p>	<p>We also considered applying for an exemption to applying the standard method to the BOB-OTA BBI.</p>
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The extent to which the objective of your proposal would be promoted or achieved by this option.	This option would achieve the objective of the proposal insofar as it would result in the desired outcome in this instance. However, our preference is not to rely on exemptions and to ensure that the TPM reflects our practice as much as possible.
Who is likely to be substantially affected by this option?	The impact on customers under either of these approaches would be the same.
The expected costs and benefits of this option, including direct costs to develop it, and consequential costs and benefits to all affected parties.	The costs and benefits of either option are expected to be the same. There are expected to be 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.