

Proposal to amend the Electricity Industry Participation Code 2010

Please complete as many sections of this form as possible and email to info@ea.govt.nz.

The more information you include, the faster your proposal will be able to be assessed and progressed.

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.

Proposer's details

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| Signature: |  |
| Date: | 20/12/2023 |

The proposal / preferred option

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| Suggested proposal name (please keep it short) | New customer adjustment events for benefit-based charges for post-2019 BBIs under the simple method |
| State the objective of your proposal | To address an unintended result that may arise when Transpower calculates a new customer's benefit-based investment (BBI) customer allocation for post-2019 BBIs under the simple method, where the new customer is joining a regional customer group with low existing intra-regional allocator (IRA) values. Specifically, to avoid the new customer receiving very high allocations and benefit-based charges (BBCs) that are not broadly proportionate to expected positive net private benefits (NPB). |
| Does the proposal relate to an existing Code clause? If yes, please state the full clause reference. | Yes, clause 83. We propose to insert new subclauses 83(5A), (5B) and (5C), and make some consequential changes as described below. |

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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). See guidance in the Code drafting manual on our website.</p> | <p>Issue and context</p> <p>Transpower has become aware of an issue that may arise in some regional customer groups relating to the calculation of BBCs for post-2019 BBIs under the simple method where a new customer or notional new customer adjustment event occurs.</p> <p>Note that where we refer to customers in this form this includes notional customers, such as embedded generators, who will not be a designated transmission customer at the connection location they connect behind. References to a new customer mean a customer joining a region that they are not currently connected in.</p> <p>When calculating a new customer’s BBI customer allocations for post-2019 BBIs under the simple method, Transpower is required to treat new embedded plant as if grid connected, using estimated generation (MWh) to estimate the value of the new customer’s IRA for the customer’s regional customer group and the customer’s individual NPBs for the BBIs (subclause 83(3)).¹</p> <p>In a situation we have become aware of, based on the new customer’s (generator’s) estimated generation being large relative to the low IRA value² of the existing customers in the regional supply customer group, the generator receives disproportionately high individual NPBs and BBI customer allocations for the BBIs, and therefore disproportionately high BBCs on a dollar per MWh basis, relative to existing customers.</p> <p>A new customer’s IRA value and the total IRA values for a regional customer group are the inputs to derive the customer’s simple method factor (SMF). SMFs calculated for existing customers in advance of a simple method period are never more than 1. A new customer may have an SMF of more than 1, potentially very significantly more, depending on its size relative to existing customers. Transpower has observed that in certain circumstances, the simple method adjustment can result in a generation customer receiving more than the combined allocations to all the other generation supplying the relevant regions, even though they supply only a small percentage of the demand in the relevant regions. The root cause of this issue is that IRAs are set at the start of a simple method period based on net injection, whereas when a new generator connects in the region, their IRA is set on a gross injection basis (which will inevitably be quite a bit higher).</p> <p>In the situation we are aware of, using the existing calculation methods in clause 83(3), the generator has an SMF of over 74,000 (the next highest customer’s SMF is 1). As a result of having such a high SMF, the indicative allocations and BBCs for the generator are much higher than expected.</p> <p>By comparison, if the generator’s regional customer group had no existing members, the generator would end up with much lower allocations and BBCs through the calculation under subclause 83(13).</p> <p>The very high allocations and BBCs attributed to the generator seem to be an unintended result that arises due to the existing customers in the regional supply customer group having a low IRA value. We consider this issue is likely to be confined to post-2019 BBIs under the simple method, where the regional customer groups are a lot smaller than the regional customer groups under the standard method.</p> |
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¹ More information about the simple method is contained in Transpower’s information sheet on “Benefit-based charges: Simple method v2” available at [About the TPM | Transpower](#)

² Simple method IRA values for existing customers are calculated using net kWh injection.

Where there are situations like this, whether relating to new generation or (probably less commonly) new load, we consider Transpower should be able to apply a cap to the new customer's initial BBCs for post-2019 BBIs under the simple method.

Explanation of proposed changes

We have proposed a new definition of "simple method BBC cap" to be inserted into clause 3 and some new subclauses to be inserted into clause 83 to allow Transpower to apply a dollar per MWh cap based on a comparator customer's BBCs (where the comparator customer is chosen in the same way as a comparator customer for calculating new customers' BBCs for Appendix A BBIs under subclause 83(6)).

Under this proposal, in the first instance, Transpower will calculate the new customer's allocations and BBCs under clause 83(3). Transpower will then compare the new customer's BBCs (calculated under clause 83(3)) to a cap calculated from the comparator customer's dollars per MWh for post-2019 BBIs under the simple method. If the new customer's BBCs are higher than the cap, Transpower will use the cap as the basis for the new customer's BBCs. First Transpower will attribute the cap to each investment region in respect of which the new customer's regional customer group has positive regional NPB. Transpower will then calculate the new customer's allocations, scale all beneficiaries' allocations, and calculate or recalculate all beneficiaries' BBCs (the last two steps are the same under clause 83(3)).

We consider this proposed method will produce allocations and BBCs for post-2019 BBIs under the simple method that more closely align with customers' expected positive NPB from those investments than would be achieved by just applying clause 83(3). The proposed \$/MWh cap would ensure that the connecting customer would not pay more on a \$/MWh basis than the customer electrically closest to it.

Transpower has proposed this method because it retains or repurposes existing mechanisms in the TPM for calculating new customer type adjustments, specifically the IRA-based approach for the underlying calculation and the benefit factor type approach for the cap.

Proposed new subclauses

We attach a version of Part 12 of the Code (including the TPM) containing our proposed updates to clause 83(3), including new subclauses 83(5A), (5B) and (5C).

As part of making these changes, we have made some consequential changes as follows:

- In paragraph 83(3)(a) we have changed the reference from beneficiaries to customers. This is because, in estimating a new customer's IRA value, it may be relevant to compare against other customers who may not be beneficiaries of the relevant BBIs, but are nonetheless useful for comparison purposes.
- We have clarified in subclause 83(5) that the tables relate to post-2019 BBIs under the price quantity method specifically (and not necessarily the simple method, given the proposed new subclauses).
- In recent code amendment form 3.3, we proposed a new clause 83(6A). The concept previously proposed in subclause 83(6A) is also relevant to the calculations under proposed subclause 83(5B). We have therefore moved subclause 83(6A) to a subclause 83(9A) and applied it to both situations.
- We have included a definition of "simple method BBC cap" in clause 3.

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| | This version of the TPM also contains tracked changes showing the other recent changes we have proposed to the Authority. |
| 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>The proposed amendments will fix an issue in the TPM that:</p> <ul style="list-style-type: none"> could otherwise result in new customers receiving allocations and BBCs for post-2019 BBIs under the simple method that are not broadly proportionate to the positive NPB the customers are expected to receive from the BBIs; and may result in inefficient investment decisions being made/not made by potential investors. <p>This will support the efficiency limb of the Authority's statutory objective.</p> |
| Which of the purposes listed in section 32(1) of the Act does your proposal most closely relate to? | 32(1)(c): The efficient operation of the electricity industry. |
| Identify any timing requirements for this Code change, providing supporting rationale. | Transpower needs to resolve this issue as soon as possible because customers need to understand potential charges applicable in order to evaluate investment decisions. |
| 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>Costs</p> <p>No direct material costs for Transpower to develop and implement the change.</p> <p>Benefits</p> <p>As stated below, without this change, the current TPM may, at times, produce BBI customer allocations that are not broadly proportionate to the positive NPB that new customers are expected to receive from certain BBIs (as described above). The change will therefore remove an unintentional distortion to investment incentives.</p> |
| Who is likely to be substantially affected by this proposal? | No existing customers are likely to be substantially affected by the proposed amendment given it is limited to resolving an unintended consequence. However, it is material for potential new generation and load investment decisions. |
| 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 amendment to be technical and non-controversial as the amendment is correcting a situation where an unintended result arises. The proposed amendment addresses the issue in a way that is consistent with the intent of the TPM. |

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| Why is this your proposed option? | The TPM needs to change to ensure that new customers' allocations and BBCs for post-2019 BBIs under the simple method are broadly proportionate to the positive NPB the new customers are expected to receive from the BBIs. |
| Any other relevant information you would like the Authority to consider? | No. |

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 (ie, repeat this table below for each alternative). The list of alternatives should include both regulatory (ie, Code amendments) and non-regulatory options (eg, education, information, voluntary compliance). If you have a preferred option, please identify and explain why it is your preferred option.

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| Brief description of an alternative means of achieving the objective. Note if this is your preferred option. | We have not identified any alternative means of achieving the objective of the proposed amendment. |
| The extent to which the objective of your proposal would be promoted or achieved by this option. | N/A. |
| Who is likely to be substantially affected by this option? | N/A. |
| The expected costs and benefits of this option, including direct costs to develop it, and consequential costs and benefits to all affected parties. | N/A. |

Section 15: Objectives of the Electricity Authority

1. The main 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.
2. The additional objective of the Authority is to protect the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers.
3. The additional objective applies only to the Authority's activities in relation to the dealings of industry participants with domestic consumers and small business consumers.