

Amendments to correct issues in the TPM

Consultation paper

27 February 2024

Executive summary

This paper sets out several amendments the Authority proposes to make to the Transmission Pricing Methodology (TPM) to correct issues that have been identified during its implementation. Details of these amendments are provided in the body of this paper.

The Authority considers that these amendments meet the requirements of clause 12.94A of the Electricity Industry Participation Code 2010 (the Code) and section 39(3) of the Electricity Industry Amendment Act 2010 (the Act), including because:

- a) these amendments are technical in nature and should be non-controversial, given that they generally address minor drafting issues, correct mistakes in formulae or address small omissions, while otherwise ensuring that the TPM achieves its policy intent
- b) the policy intent of the relevant clauses was subject to consultation in 2021 on the (at the time) proposed new TPM (which in turn built on the Authority's previous consultation and decision on the TPM guidelines); and the Authority therefore considers that all relevant views should have been raised and considered, and it is now simply proposing minor amendments to ensure that the policy that was consulted on is achieved.

The above means the amendments can be made without the Authority meeting the requirements for reviewing the TPM in the Code, and the requirements in the Act to publicise a regulatory statement and consult on the statement and proposed amendment. The Authority is nevertheless consulting on the amendments for feedback. As noted above, the policy underlying the relevant aspects of the TPM has been consulted on previously, hence the Authority is focusing on the technical drafting at this stage.

The Authority intends to address the following four issues by amendment of the TPM:

1. Other corrections to the TPM (such as typographical errors)
2. Clarifying the continuing benefit-based investment (BBI) mechanism for low-value investments and anticipatory BBIs
3. Correction to the calculation of Appendix A BBI allocations for new customers
4. Correction to the funded asset component and funded rebate mechanism for connection charges

Following consideration of submissions, the Authority will decide whether to make these Code amendments.

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1. Introduction

- 1.1. The new TPM came into force on 1 April 2023.
- 1.2. The TPM is a long and technically complex piece of the Code and so it was recognised that minor issues may arise, requiring correcting amendments. In June 2022 the Authority amended the Code to clarify that certain provisions of the Act apply to amendments to the TPM just as they would to any other Code amendment, and that it can amend the TPM, for limited reasons, without needing to meet the full Code change process or the process requirements for reviewing the TPM otherwise contained in the Code.
- 1.3. Clause 12.94A of the Code clarifies that the Authority may amend the TPM where it is satisfied on reasonable grounds regarding any of the matters in section 39(3), or that section 40 of the Act applies.
- 1.4. The matters in section 39(3) are:
 - (a) the nature of the amendment is technical and non-controversial (section 39(3)(a)); or
 - (b) there is widespread support for the amendment among the people likely to be affected by it (section 39(3)(b)); or
 - (c) there has been adequate prior consultation so that all relevant views have been considered (section 39(3)(c)).
- 1.5. Section 40 provides that the Authority may amend the Code without complying with section 39(1) if the Authority considers it is necessary or desirable in the public interest that the proposed amendment be made urgently.
- 1.6. The Authority has made a number of technical amendments to the TPM. For further information on previous TPM correction amendments please refer to our website.¹
- 1.7. Some issues have now been identified that require further corrections to the TPM. All four issues in this consultation paper were notified to us by Transpower. Transpower has provided suggested drafting to correct these issues.
- 1.8. If the Authority ultimately decides to make the correction amendments proposed in this consultation paper, they would take effect as soon as the Authority makes its decision on the proposed amendments.

¹ <https://www.ea.govt.nz/projects/all/tpm/>

2. Consultation being undertaken

- 2.1. Where the requirements of section 39(3) of the Act are met, the Authority is not required to publicise a regulatory statement, or to consult on the relevant amendments or a regulatory statement.
- 2.2. The Authority nevertheless is consulting on these amendments for feedback, noting that scrutiny of the drafting may result in improvements. However, the policy underlying the relevant provisions has been sufficiently consulted on previously, with the relevant issues addressed in the Authority's final TPM decision. Hence the focus of this consultation is on the technical drafting of the particular provisions identified as potentially requiring clarification/correction. A regulatory statement has also been provided for completeness.
- 2.3. Each of the proposed amendments are set out below along with an explanation of the issue that the amendment seeks to correct.

Making a submission

- 2.4. Please see Appendix A for the template for making a submission on this proposal.
- 2.5. Any feedback on the proposed amendments would be greatly appreciated. Submissions are due by 5pm, **26 March 2024**.
- 2.6. Please direct any further questions related to this consultation by email to network.pricing@ea.govt.nz.

Supporting information

- 2.7. Alongside this consultation document we have published:
 - (a) a version of the TPM marked up with proposed amendments.
 - (b) Transpower's Code amendment proposal forms for issues 1 to 4.

3. Issue 1: Other corrections to the TPM

- 3.1. This section explains the Authority's proposal to correct various minor issues with the TPM (such as typographical errors).

Issues and basis for amendment

- 3.2. In applying the TPM, Transpower has identified several minor amendments that are desirable to make to the TPM. These minor amendments are detailed in the form *Other corrections to the TPM (such as typographical errors)* submitted by Transpower to the Authority.
- 3.3. The Authority considers all the proposed amendments under issue 1 satisfy section 39(3) (technical and non-controversial and/or adequate prior consultation) as the request for amendments proposes minor changes to the TPM, to:
- (a) improve the clarity of language
 - (b) fix minor errors
 - (c) clarify the intended meaning of the TPM.

Proposed amendment

- 3.4. The proposed amendments are described in Transpower's proposal form *Other corrections to the TPM (such as typographical errors)*
- 3.5. These amendments will correct typographical errors in, and make some other minor improvements to, the new TPM.
- 3.6. Please refer to the marked-up version of the TPM and Transpower's proposal form published alongside this consultation paper for the full details of the amendments.

Q1. Do you agree with the proposed amendments for issue 1?

4. Issue 2: Clarifying the continuing BBI mechanism for low-value investments and anticipatory BBIs

- 4.1. This section explains the Authority’s proposal to clarify the continuing benefit-based investment (BBI) mechanism for low-value post-2019 BBIs under the simple method.

Issues and basis for amendment

- 4.2. The TPM provides for adjustments to benefit-based charges that apply if an existing customer exits. Where a transmission customer closes one of its plants but remains a customer, it would remain liable for benefit-based charges in respect of that plant until ten years from the relevant grid investments’ commissioning date. This is the “continuing BBI” mechanism. These provisions help ensure that benefit-based charges are fixed-like and incentivise scrutiny of proposed grid investments.
- 4.3. To ensure these adjustments can be calculated in relation to all investments treated as BBIs in the new TPM (assets commissioned after 23 July 2019, and the seven historical investments in Appendix A), the adjustments use the continuing BBI mechanism.
- 4.4. In November 2022 the Authority decided to improve the workability of the continuing BBI provisions.² These amendments allowed Transpower to:
- (a) estimate certain BBI commissioning dates; and
 - (b) impose a 12.5-year cut-off date (from the start of the relevant simple method period) in respect of continuing BBIs that are low-value BBIs under the simple method.³
- 4.5. Transpower has since identified further ambiguity in the continuing BBI provisions for low-value post-2019 BBIs under the simple method: how to measure the 12.5 year-cut-off date. Transpower also identified the need to clarify the scope of the continuing BBI mechanism in relation to anticipatory BBIs.
- 4.6. The proposal form *Clarifying the continuing BBI mechanism for low-value investments and anticipatory BBIs* explains the relevant context and basis for the amendment.

Proposed amendment

- 4.7. Our proposal is to amend TPM clauses 84(5) & (6) – which provide for adjustments to benefit-based charges if a customer exits – and 85(4) & (5) – which provide for adjustments to benefit-based charges following a large plant closure. The changes clarify that, for the purposes of applying the continuing BBI mechanism in Part F, all low-value post-2019 BBIs under the simple method within a particular investment region (excluding anticipatory BBI and high-value intervening BBI under the simple

² https://www.ea.govt.nz/documents/2889/Decision-paper-TPM-correction-amendments_chEVMsV.pdf

³ A decision was made that a reasonable proxy for the actual commissioning date of a group of low-value BBIs for each region/period to assume all the BBIs in the group were commissioned in the middle of the relevant simple method period. Based on a standard 5-year simple method period, we decided that the low-value BBIs in each group cease to be continuing BBIs 12.5 years after the start of the simple method period during which they were commissioned.

method) are to be treated as a single BBI for that investment region during the relevant simple method period.

- 4.8. As further explained in Transpower's proposal form, using the alternative approach to measuring the 12.5-year cut-off date in respect of each individual asset/project within an investment region would be administratively burdensome. In addition, the ambiguity in the TPM exposes Transpower to a risk of legal challenge if a customer interprets the TPM differently in respect of adjusted charges following an adjustment event.
- 4.9. Transpower also identified the need to clarify the scope of the continuing BBI mechanism in relation to anticipatory BBIs. The Authority proposes an amendment to clarify that anticipatory BBIs are excluded from the scope of the continuing BBI mechanism.⁴ Anticipatory BBIs do not relate to interconnection assets and allocations for these are only determined under the simple method in order to recover the portion of their covered cost which is not recoverable through connection charges.
- 4.10. The Authority considers the proposed amendments satisfy section 39(3)(a) (technical and non-controversial).
- 4.11. Please refer to the marked-up version of the TPM and Transpower's proposal form published alongside this consultation paper for the full details of the amendments.

Q2. Do you agree with the proposed amendments for issue 2?

⁴ The TPM contains a mechanism (the Type 2 FMD mechanism) to spread the capital cost of an anticipatory connection asset over a larger set of customers than just the first movers. The anticipatory BBI is the vehicle for recovering half of the capital cost of the asset through benefit-based charges (BBCs) for a notional benefit-based investment.

5. Issue 3: Correction to the calculation of Appendix A BBI allocations for new customers

- 5.1. This section explains the Authority's proposal to address an unintended result that may arise when Transpower calculates a new customer's BBI customer allocation for an Appendix A BBI. The unintended result may arise where a comparator Appendix A customer is not a suitable comparator despite being the same type (generator or connected asset owner) as the new customer.⁵

Issues and basis for amendment

- 5.2. When calculating a new customer's BBI customer allocation for an Appendix A BBI,⁶ Transpower is required to use the benefit factors of Appendix A customers of the same type (generator or connected asset owner) as the new customer, either at the new customer's connection location or the connection location electrically closest to the new customer's connection location at which there is at least one Appendix A customer of the same type (subclause 83(6)).
- 5.3. Selecting comparator Appendix A customers based on their type alone (generator or connected asset owner) may not always be appropriate or produce BBI customer allocations that are broadly proportionate to expected positive net private benefits. For example, where there is a new baseload generation customer and the electrically closest Appendix A generation plant is a high short-run marginal cost (SRMC) generator. High-SRMC generators are designed to operate rarely, as a peaker is dispatched typically only against very high prices and has high benefit factors. If used, the benefit factors would produce Appendix A allocations for the new customer that are also very high and not reflective of expected benefits for a low-SRMC baseload generation investment.
- 5.4. The proposal form *Correction to the calculation of Appendix A BBI allocations for new customers* explains the relevant context and basis for the amendment.

Proposed amendment

- 5.5. Our proposal provides Transpower discretion to exclude the benefit factors of the non-comparable Appendix A customer(s) from the calculation under subclause 83(6) and instead identify a comparable customer at the electrically closest connection location.
- 5.6. The proposed amendment will fix an issue in the TPM that could otherwise result in new customers receiving BBI customer allocations that are not broadly proportionate to expected positive net private benefit.

⁵ Under the TPM, Appendix A customer means a person specified in Appendix A (even if the person is not a current customer at the time the definition is applied). Appendix A of the TPM sets out BBIs and starting BBI customer allocations in relation to seven historical investments.

⁶ Appendix A BBIs (also referred to as 'historic BBIs'). These are seven pre-July 2019 interconnection investments for which the Authority calculated the starting BBI customer allocations and specified these in Appendix A of the TPM.

- 5.7. The Authority considers the proposed amendments satisfy section 39(3)(a) (technical and non-controversial), and section 39(3)(c) (there has been adequate prior consultation so that all relevant views have been considered).
- 5.8. Please refer to the marked-up version of the TPM and Transpower's proposal form published alongside this consultation paper for the full details of the amendments.

Q3. Do you agree with the proposed amendments for issue 3?

6. Issue 4: Correction to the funded asset component and rebate mechanism

- 6.1. This section explains the Authority's proposal to address an unintended consequence in the funded asset component (FA component) and funded asset rebate (FA rebate) mechanism in the calculation of connection charges. The issue arises where the customer who funds a funded asset is not itself connected to the funded asset. This could result in Transpower collecting connection charges relating to an FA component from another customer who connects to the funded asset, but the TPM prevents Transpower from paying the FA component rebate to any other customer.

Issues and basis for amendment

- 6.2. One component of a customer's annual connection charge is a customer's FA component. The FA component mechanism (clauses 28 and 29 of the TPM) is a feature of the TPM designed to address what is referred to as type 1 first mover disadvantage for connection assets.⁷
- 6.3. The FA component mechanism relates to a connection asset for which all or part of the capital cost is funded by a customer under an investment agreement. (Funding of new connection assets other than the FA component is subject to investment agreements between Transpower and the customer and is outside the scope of the TPM.)
- 6.4. When a subsequent customer connects to the funded asset, an FA component is calculated in relation to the funded asset and the subsequent customer. The part of a FA component paid by a subsequent connecting customer is rebated by Transpower to all prior existing connected customers (referred to as an FA rebate). All existing connected customers at the connection location receive an FA rebate as a contribution to their funding of the capital cost of the relevant funded asset.
- 6.5. Transpower has advised us that a situation has arisen where the customer who funds a funded asset, is not itself connected to the funded asset. Therefore, while the customer will be a "contributing customer" for the funded asset, it will not be a "prior contributing customer" (as defined below) to whom a FA rebate is payable.
- 6.6. Under the definition in clause 3, a prior contributing customer must be "connected to the funded asset before the non-contributing customer became connected to the funded asset" to receive an FA rebate.
- 6.7. Therefore, under the current TPM, Transpower would receive an FA component from the connecting customer, but would be unable to rebate this amount to the original contributing customer under Clause 29 of the TPM. This may result in revenue over-recovery by Transpower.
- 6.8. The proposal form *Correction to the funded asset component and funded rebate mechanism for connection charges* explains the relevant context and basis for the amendment.

⁷ More information about the "Funded Asset Component" mechanism under clause 28 is available in Transpower's "Information sheet on connection charges: FAC mechanism to address Type 1 FMD v2" at [About the TPM | Transpower](#)

Proposed amendment

- 6.9. The Authority is proposing to amend Clause 28(2) of the TPM to ensure that where a customer funds a funded asset it will not be connecting to, the FA component contribution and FA rebate mechanism is not triggered. This will avoid any potential revenue over-recovery by Transpower and allow the proper operation of the FA component and FA rebate mechanism for its intended purpose.
- 6.10. The Authority considers the proposed amendments satisfy section 39(3)(a) (technical and non-controversial).
- 6.11. Please refer to the marked-up version of the TPM and Transpower's proposal form published alongside this consultation paper for the full details of the amendments.

Q4. Do you agree with the proposed amendments for issue 4?

7. Regulatory statement for the proposed amendments

Objectives of the proposed amendments

- 7.1. The objectives of the proposed amendments are described against each of the issues set out in this paper.

Q5. Do you agree with the objectives of the proposed amendment? If not, why not?

The proposed amendments

- 7.2. The proposed amendments are described against each of the issues set out in this paper and shown as tracked changes in a marked-up version of the TPM attached alongside this paper.

The proposed amendments' benefits are expected to outweigh the costs

- 7.3. The Authority has assessed the benefits and costs of the proposed Code amendments against a counterfactual of no Code amendment and considered whether there were any feasible alternative means of addressing the identified issues.
- 7.4. The changes are expected to have low administrative and technical costs associated with the changes to the Code, the benefits are expected to outweigh the costs as the technical clarifications will enhance the effectiveness of the TPM, promote clarity in the law, and ensure alignment with the policy's original intent.
- 7.5. The Authority concludes that the benefits of the proposed Code amendments outweigh the costs of making no Code amendment or choosing an alternative means of addressing any of the issues.

Counterfactual

- 7.6. Making no Code amendment has no benefit and comes at the cost of the TPM not fully achieving its intended policy intent as consulted on. The proposed amendments are all to correct issues in the TPM where the consulted policy intent is not fully achieved due to minor drafting issues and lack of clarity.

Efficiency

- 7.7. The Authority agrees with Transpower's view that all of the proposed amendments support the efficiency limb of the Authority's statutory objective by correcting issues to bring the TPM drafting in line with the consulted policy intent of the TPM. The amendments achieve that policy intent which itself the Authority determined was necessary or desirable to promote the efficient operation of the electricity industry. The Authority considers that it further promotes efficiency by providing greater clarity in the TPM thereby supporting its successful implementation.

Competition

- 7.8. The proposed amendments are not expected to have a material impact on competition in the electricity market.

Reliability

- 7.9. The proposed amendments are not expected to have a material impact on the reliable supply of electricity to consumers.

Q6. Do you agree the benefits of the proposed amendments outweigh its costs?

The Authority has not identified other means for addressing the objectives

- 7.10. The Authority has considered whether there are readily available alternatives to the TPM amendments it has proposed but considers that there generally are not. This is because the amendments are generally in the nature of corrections to things like existing formulae or addressing a minor point which has been omitted. There are therefore no clear alternatives to address the issues without getting back into substantive policy issues which have already been consulted on and addressed.

The proposed amendment complies with section 32(1) of the Act

- 7.11. The Authority's main objective under section 15(1) of the Act is to promote competition in, reliable supply by, and efficient operation of, the electricity industry for the long-term benefit of consumers.
- 7.12. The Authority's additional objective under section 15(2) of the Act is to protect the interests of domestic and small business consumers in relation to their supply of electricity. The additional objective only applies to the Authority's activities in relation to the direct dealings between participants and these consumers. The proposal in this consultation paper does not relate to such direct dealings. So, this proposal is being progressed under the Authority's main statutory objective.
- 7.13. Section 32(1) of the Act says that the Code may contain any provisions that are consistent with the Authority's objectives and are necessary or desirable to promote any or all of the matters listed in section 32(1).
- 7.14. The Authority considers that the proposed amendment is necessary or desirable to promote the efficient operation of the electricity industry for the reasons set out above.

Q7. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?

The Authority has given regard to the Code amendment principles

- 7.15. When considering amendments to the Code, the Authority is required by its Consultation Charter to have regard to the following Code amendment principles, to the extent that the Authority considers that they are applicable. Table 1 (below) describes the Authority's regard for the Code amendment principles in the preparation of the proposal.

Table 1: Regard for Code amendment principles

Principle	
Lawful	The proposal is lawful and is consistent with the Authority's statutory objectives and with the requirements set out in section 32(1) of the Act.
Provides clearly identified efficiency gains or addresses market or regulatory failure	The efficiency gains are set out in the evaluation of the costs and benefits above.
Net benefits are quantified	Net benefits are not able to be accurately quantified, so the Authority's assessment is qualitative
Preference for small-scale 'trial and error' options	Not applicable
Preference for greater competition	Not applicable
Preference for market solutions	Not applicable
Preference for flexibility to allow innovation	Not applicable
Preference for non-prescriptive options	Not applicable
Risk reporting	Not applicable

Appendix A Format for submissions

Submitter	
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Questions	Comments
Q1. Do you agree with the proposed amendments for issue 1?	
Q2. Do you agree with the proposed amendments for issue 2?	
Q3. Do you agree with the proposed amendments for issue 3?	
Q4. Do you agree with the proposed amendments for issue 4?	
Q5. Do you agree with the objectives of the proposed amendment? If not, why not?	
Q6. Do you agree the benefits of the proposed amendment outweigh its costs?	
Q7. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?	