

TPM amendment to correct adjustment for entry of a new customer

Decision paper

27 February 2024

Executive summary

The Electricity Authority Te Mana Hiko has decided to amend the Code to correct an issue that has been identified with the TPM adjustment provision that provides for how benefit-based charges are to be set for new customers. In particular, the issue is with the simple method adjustment calculation for new customers greater than 10MW who are joining certain regional customer groups.

We have decided to make the amendment as proposed in the consultation paper: *TPM amendment to correct adjustment for entry of a new customer*.¹ The Authority received one submission which supported this amendment.

The Authority considers that this amendment meets the requirements of clause 12.94A of the Electricity Industry Participation Code 2010 (the Code) and section 39(3)(a) of the Electricity Industry Amendment Act 2010 (the Act).

The Authority considers that the proposed amendment is technical and non-controversial in nature, given that it corrects an unintended issue by changing an adjustment formula, to ensure that the TPM achieves its policy intent, which has already been extensively consulted on during the development of the TPM.

The amendment will apply from 10 April 2024.

¹ Refer to: [TPM amendment to correct adjustment for entry of a new customer \(ea.govt.nz\)](https://www.ea.govt.nz/consultation/tpm-amendment-to-correct-adjustment-for-entry-of-a-new-customer/)

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1. Introduction

- 1.1. On 9 January 2023, the Authority consulted on a proposed amendment to the TPM to correct an issue that had been identified with the simple method adjustment provision that sets transmission charges for new customers.²
- 1.2. The Authority was notified of an issue that may arise in some regional customer groups relating to the calculation of benefit-based charges for post-2019 benefit-based investments (BBI) under the simple method where a new customer (or notional new customer) adjustment event occurs.
- 1.3. Transpower informed the Authority that, in the scenario in question, where the new customer is expected to have a significant amount of generation, and where the existing customers in the regional customer group have a low intra-regional allocator (IRA) value (this is the mean historical annual injection and offtake values for injection and load customers respectively), the new customer may receive a high individual benefit and high BBI customer allocation. This results in a BBC that is high in comparison to many existing customers on a dollar per MWh basis.
- 1.4. The Authority assessed this issue and found that, in line with Transpower's assessment, in certain circumstances (for example where a supply group's injection is dominated by embedded generation) the current simple method adjustment provisions can lead to new generators being allocated very high charges that are not proportional to the benefits they receive from the relevant investments (as interpreted by the simple method). This risks discouraging efficient new entry and investment in the electricity industry.

² Refer to: [TPM amendment to correct adjustment for entry of a new customer \(ea.govt.nz\)](https://www.ea.govt.nz/consultations/2023/tpm-amendment-to-correct-adjustment-for-entry-of-a-new-customer/)

2. Amendment to correct issue with the simple method adjustment provision

Our decision

- 2.1. The Authority has decided to adopt the Code amendments that were proposed to correct the issue with the simple method adjustment provision that sets transmission charges for new customers.

What we proposed

- 2.2. The proposed amendments address the identified issue by applying a dollar per MWh cap based on charges received by an identified comparator customer (or customers). The proposed method involves:
- (a) applying the status quo adjustment allocation
 - (b) comparing the status quo allocation (in dollars per MWh) to that of the comparator(s) that is electrically closest to the new connection location
 - (c) adopting the lower of the status quo or the comparator allocation as the final adjustment.

Our assessment under 12.94A of the Code

- 2.3. The Electricity Authority considers that the proposed amendment meets the requirements of clause 12.94A of the Electricity Industry Participation Code 2010 (the Code) and section 39(3) of the Electricity Industry Act 2010 (the Act), including because:
- (a) it is a workable solution to the identified technical problem with the formula for the simple method adjustment for new customers
 - (b) it assists in providing certainty to future customers on the benefit-based charges that they would expect to pay when they connect and would improve the consistency of those charges with the benefits the customer would be expected to receive from the relevant transmission investments
 - (c) it corrects an unintended outcome in the TPM drafting, to ensure the drafting of the TPM better reflects the policy underlying it as consulted on (including that the TPM accounts properly for adjustment events). The amendment is therefore non-controversial, and the underlying policy intent has undergone adequate prior consultation.

Submitter views

- 2.4. The Authority received one submission, from Meridian Energy, supporting the Authority's proposed amendment. Meridian stated that:

Meridian supports the proposed correction, and we agree that it will produce allocations and benefit-based charges for post-2019 investments under the simple method that more closely align with the net private benefits that customers are expected to receive from those investments.

- 2.5. Meridian's submission is attached alongside this decision paper.