Request to amend the Electricity Industry Participation Code 2010

This form is to request:

- ☒ an amendment to an existing clause or clauses in the Electricity Industry Participation Code 2010 (Code)
- ☐ the removal of an existing clause or clauses in the Code
- ☐ a new clause or clauses in the Code

Please refer to the Code amendment request guidelines [insert link] when completing this form. The Guidelines contain more information about requesting a Code amendment and the Authority's process when it receives a request.

Please complete all relevant sections of this form, with as much information as you can. The more information you include in your request, the better we will understand and be able to assess your request. If there is not enough room in this form, you can attach more pages.

Email completed forms to info@ea.govt.nz.

Proposer

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Section 1: Information to include for all requests

Complete this section for all Code amendment requests.

The proposal

1. **Objective of the proposal** What do you want the proposal to achieve? Provide supporting information on the problem or issue the proposal seeks to resolve	The objective of our proposal is to correct a workability issue that Transpower has identified with the calculation of the simple method benefit-based charge (BBC) cap (SMBC). The purpose of the SMBC was to ensure a new customer (or a customer the subject of an analogous adjustment event) does not incur disproportionately high BBCs for existing low-value (simple method) benefit-based investments (BBIs). We have identified that the calculation of SMBC is overly sensitive to the timing and order of recognition of adjustment events due to misalignment between the simple method BBI adjustment calculation for the new customer and the SMBC formula. In particular: • later arriving new customers (or customers the subject of analogous adjustment events) will tend to have a lower cap than earlier arriving ones; and • differences in when other adjustment events are recognised and reflected in simple method allocations and BBCs affect the outcome of the SMBC calculation. These sensitivities can result in arbitrary outcomes. Our proposed solution to this problem is to calculate SMBC based on the simple method allocations that applied at the start of the relevant simple method period, which are fixed. The simple method BBI adjustment calculation uses starting customer allocations, and the latest scaled allocations, to determine the new customer's allocation (CA) of simple method BBCs. The CA is multiplied by the current covered cost (CC) for the relevant simple method region to determine the new customers simple method BBCs, effective from the date of connection. The new customer's simple method BBCs are checked using the SMBC formula. If the new customers simple method BBCs are above the cap, the 'cap' becomes the customer's charge, and other customer charges are scaled accordingly. In the SMBC formula, scaled allocations are used to calculate the cap, rather than the starting allocations (which are used in the adjustment calculation). Using the scaled allocations means the cap is set lower than what it would have been, had the customer connected earlier in the simple method period. This means that, in a simple method region where a new customer has connected since the starting allocations were determined, each subsequent customers charges will be lower as they will hit the cap, which was not the intention of the cap. Aligning the inputs for the SMBC formula with the inputs for the adjustment event calculation, will remove this distortion, and ensure the same threshold is used for all customers in a given pricing year, regardless of the timing of the event. See section 12 below provides more information of the problem and proposed solution.

2. Category of request State whether you think the request is minor, medium or complex, and why (applying the criteria in the Guidelines [insert link]). For minor requests, specify whether you think the nature of the amendment is technical and non-controversial.	We consider our proposal to be in the minor category because it does not involve a substantive change to the nature of the SMBC mechanism and it is, in our view, technical and non-controversial and beneficial to customers.
3. Clause(s) to which the proposal relates If the proposal relates to existing Code clause(s), state the full clause reference/s here. If the proposal relates to a new clause, state where you think this would best fit in the Code.	Clause 83(5B) and (5C) of the TPM.
4. Description of the proposed amendment Describe the Code amendments you are proposing (or attach a draft of the proposed Code amendment when submitting this form). Note: if you are providing draft wording of the proposed Code amendment, see the Code drafting manual for guidance.	Our proposed amendments are tracked in the extract from the TPM in the Appendix to this form.
5. How the proposal supports the Authority's main objective Identify how your proposal would support the Authority's main objective of promoting competition in, reliable supply by, and/or efficient operation of the electricity industry for the long-term benefit of consumers. If the proposal is not expected to impact a limb of the main objective, use "No impact on this limb" See section 15(1) of the Act	**Competition:** No impact on this limb. **Reliability:** No impact on this limb. **Efficiency:** Our proposal will improve the workability of the TPM by correcting an issue with the calculation of the SMBC that could result in inequitable outcomes for customers, where timing of connection significantly alters charges for the projects of the same type and size.

6. Application of the Authority's additional objective Identify whether your proposal relates to the dealings of industry participants with domestic consumers and small business consumers. If it does, identify how your proposal will protect the interests of domestic and small business consumers in relation to the supply of electricity to those consumers. See sections 15(2)-(3) of the Act	Not applicable.

7. How the proposal complies with section 32 of the Act
 	
The Code may only contain provisions which are necessary or desirable to promote specific matters listed in section 32(1) of the Act which are:
 	
  a) competition in the electricity industry
  b) the reliable supply of electricity to consumers
  c) the efficient operation of the electricity industry
  d) the protection of the interests of domestic consumers and small business consumers in relation to the supply of electricity to those consumers
  e) the performance by the Authority of its functions
  f) any other matter specifically referred to in the Act as a matter for inclusion in the Code.
 	
Identify which of the section 32(1) matters listed in the adjacent column your proposal relates to.
	Our proposal promotes the following matters listed in section 32(1) of the Act:
	
	• (c) the efficient operation of the electricity industry;
	
	• (f) pricing methodologies for Transpower (section 32(4)(b) of the Act).

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8. Affected parties Who is likely to be substantially affected by the proposal? Thei could include other participants (such as generators, distributors metering equipment providers, intermittent generation owners), consumers, market operation service providers.	The affected parties are all beneficiaries of low-value benefit-based investments (**BBIs**).
9. Urgency Identify whether you consider your proposal to be urgent (providing supporting rationale). Section 40 of the Act	Not urgent. However, it would be best if the proposed amendments were made at the same time as the amendments proposed in our Code amendment request relating to adjustment event timing.
10. Support for the proposal Do you consider there is widespread support for your proposal among the people likely to be affected? If so, provide supporting rationale.	We do not know if there is widespread support for our proposal among the people likely to be affected by it. However, given that our proposal is to correct a workability issue in the TPM, we do not expect our proposal to be controversial.
11. Prior consultation Do you consider there has been adequate prior consultation on the proposal so that all relevant views have been considered? If so, provide supporting rationale.	There has been no prior consultation on our proposal.

12. Other relevant information Is there any other relevant information you would like the Authority to consider?	Under subclause 83(5B) of the TPM, the SMBC is calculated as follows: $$SMBC = E \times \frac{1}{J} \sum_{j} \frac{BBC_{j\,total}}{E_j}$$

E is **Transpower's** estimate of the value of the new **customer's intra-regional allocator** for the relevant **regional customer group** under paragraph 83(3)(a)

J is the number of **customers** of the same type as the new **customer** (**generator** or **connected asset owner**)—

    (a) at the new **customer's connection location**; or

    (b) if there are no such **customers** at the new **customer's connection location**, at the **connection location** electrically closest to the new **customer's connection location** at which there is 1 or more such **customers**, as determined by **Transpower**,

each such **customer** being **customer** j

$BBC_{j\,total}$ is **customer** j's total **annual benefit-based charges** for **BBIs** under the **simple method** for the current **pricing year** and **regional customer group** in which **customer** j's **connection location** is located

E_j is the value of **customer** j's **intra-regional allocator** for the current **simple method period** and **regional customer group** in which **customer** j's **connection location** is located.

Currently, the TPM is silent on the date at which the variable $BBC_{j\,total}$ is required to be calculated. In the absence of an express date requirement in the TPM, in our view the most logical interpretation is that $BBC_{j\,total}$, and therefore the SMBC, must be calculated as at the date of the relevant adjustment event (**$BBC_{j\,total}$ Calculation Date**), whatever date Transpower decides that is.

This leads to two issues:
- If a regional customer group is growing, later entrants to the group will have a lower SMBC than earlier entrants. For example, if there is one existing customer in the group (customer j), the value of the

right hand side of the SMBC formula (ignoring variable E) will be the customer's BBC divided by its IRA value for the group. If there were another existing customer of the same size in the group, the value of that part of the formula would be lower by a factor of one half.

- Other BBC adjustment events impacting customer j's allocations may have occurred before the $BBC_{j\,total}$ Calculation Date but may not be reflected in customer j's BBCs at the time of the SMBC calculation because of the adjustment timing rules in the TPM. For example, in the case of customer exit (or an analogous event), Transpower is not permitted to increase the remaining beneficiaries' BBCs until the start of the next pricing year (paragraph 84(3)(b)). This has the potential to result in arbitrary (and possibly material) differences to the inputs to different customers' SMBC calculations and inequitable outcomes.

These issues mean it is possible that two customers connecting plant of the same type and size in the same connection region will end up with different SMBCs based solely on differences in the timing of their connections.

Although it is not possible to quantify this impact in the abstract, Transpower considers this to be a material issue given the frequency of new customer type adjustment events (including large plant connection adjustment events). See our latest connection pipeline data at: [What's the latest with grid connections? | Transpower](#).

We note that simple method allocations persist for BBIs commissioned during each simple method period (see clause 61(4) of the TPM). Accordingly, the impact of arbitrary differences in customers' SMBCs will persist until all BBIs commissioned during a simple method period depreciate to zero.

To fix the above issues, we propose pegging the customer j allocations used in the $BBC_{j\,total}$ calculation to those that applied at the start of the relevant simple method period (or at 1 April 2023 for the first simple method period, which started on 24 July 2019). As part of this proposal, the group of comparator customers (J) needs to be limited to those customers who existed at the start of the simple method period (or 1 April 2023) and their intra-regional allocator values at that time (E_j) also need to be used.

It would not be appropriate to use historic covered cost values in the $BBC_{j\,total}$ calculation because that would distort the SMBC condition in subclause 83(5A) – ie SMBC would be calculated from historic covered cost while $BBC_{(3)\,total}$ would be calculated from current covered cost. To avoid this, we propose using current covered cost (together with historic allocations, as explained above) to calculate $BBC_{j\,total}$ and therefore SMBC.

Our proposed approach to calculating the SMBC is similar to the approach to calculating benefit factors for adjustments affecting Appendix A BBIs, where the TPM effectively pegs the calculation of benefit factors to 1 April 2023. This reduces the administrative burden of the TPM somewhat, along with the potential for challenges to the way benefit factors are calculated. We consider our proposed approach to the SMBC calculation will have the same advantages.

	Other proposed changes are:
	• clarifying in the definition of variable $CC_{region\ total}$ in paragraph (5C)(b) that the relevant time is the time the new customer connected (which is consistent with the proposed definition of variable $CC_{i\ total}$ in subclause (5B)); and
	• changing "BBIs" to "post-2019 BBIs" in the definition of variable $BBC_{(3)\ total}$ in paragraph (5C)(a) for consistency with other provisions in clause 83.

Section 2: Standard Code amendment requests

This section should be completed for all standard Code amendment requests. A request will be treated as a standard Code amendment request unless the Authority is satisfied that one of the following applies:

- the nature of the amendment is technical and non-controversial (question 2)
- the proposed amendment should be made urgently (question 9)
- there is widespread support for the amendment among the people likely to be affected by it (question 10), or
- there has been adequate prior consultation so that all relevant views have been considered (question 11).

You do not need to complete this section of the form if any of these apply. However, if the Authority does not agree with your assessment and decides to treat the request as a standard Code amendment request, we may come back to you and ask you to complete this section.

Provide a summary of the costs and benefits in the table below. Benefits can be qualitative and/or quantitative.

Costs and benefits of the proposal

13. Costs of the proposal Identify the expected costs of the proposal, including: • your assessment of the direct cost to develop and implement the proposed Code amendment, and • the consequential costs as a result of the amendments.	We do not consider there are any material costs of our proposal.
14. Benefits of the proposal Identify the expected benefits of the proposal	We consider our proposal will have the following benefits: • Correct a workability issue with the calculation of the SMBC that could result in inequities for customers. • Contribute positively to the Authority's achievement of the efficiency limb of its statutory objective . • Allow for a fair and equitable application of the TPM to all customers.

13. Costs of the proposal Identify the expected costs of the proposal, including: • your assessment of the direct cost to develop and implement the proposed Code amendment, and • the consequential costs as a result of the amendments.	We do not consider there are any material costs of our proposal.
15. Net benefit of the proposal State whether you consider the proposal has a positive net benefit, and why.	We consider our proposal has positive net benefit because the benefits outlined in our answer to question 14 above are not offset by any material costs for Transpower.

Assessment of alternative options

	Alternative means of achieving proposal's objective *(repeat column as necessary)*
16. Describe alternative option Include a brief description of any alternative means identified of achieving your objective	Status quo
17. Identify extent to which the alternative would achieve your objective	Continuing the status quo would not achieve the objective of our proposal.
18. Affected parties Who is likely to be substantially affected by the alternative?	All beneficiaries of low-value BBIs.
19. Expected costs and benefits Please include direct costs to develop the alternative and consequential costs and benefits to all affected parties	Zero
20. Why do you prefer the proposal over this alternative?	We consider our proposal has positive net benefit.

83 Benefit-based Charge Adjustment Event: New Customer

…

(5A) Subclause (5C) applies to the new **customer's benefit-based charges** for **post-2019 BBIs** under the **simple method** if—

$$BBC_{(3)\,total} > SMBC$$

where

BBC$_{(3)\,total}$ is the new **customer's** total **benefit-based charges** for relevant **post-2019 BBIs** under the **simple method** calculated under subclause (3)

SMBC is the new **customer's simple method BBC cap**.

(5B) Subject to subclause (9A), the new **customer's simple method BBC cap** (SMBC) is calculated as follows:

$$SMBC = E \times \frac{1}{J} \sum_j \frac{BBC_{j\,total}}{E_j}$$

where

E is **Transpower's** estimate of the value of the new **customer's intra-regional allocator** for the relevant **regional customer group** under paragraph 83(3)(a)

J is the number of **customers** of the same type as the new **customer** (**generator** or **connected asset owner**) as at the later of 1 April 2023 and the start of the relevant **simple method period**—

 (a) at the new **customer's connection location**; or

 (b) if there are no such **customers** at the new **customer's connection location**, at the **connection location** electrically closest to the new **customer's connection location** at which there is or was 1 or more such **customers**, as determined by **Transpower**,

 each such **customer** being **customer** j

BBC$_{j\,total}$ is:

$$\sum_i CA_{ij} CC_{i\,total}$$

 where

 CA$_{ij}$ is **customer** j's **BBI customer allocation**, as at the later of 1 April 2023 and the start of the relevant **simple method period**, for **post-2019 BBIs** under the **simple method** for the **regional customer group** in which **customer** j's **connection location** is located and in respect of **investment region** i

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CC_{i total}   is the total **covered cost** of all **post-2019 BBIs** under the **simple method** in **investment region** i at the time the new **customer** connected to the **grid**

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E_j   is the value of **customer** j's **intra-regional allocator**, as at the later of 1 April 2023 and the start of the relevant **simple method period**, for the **regional customer group** in which **customer** j's **connection location** is located.

(5C) If this subclause applies under subclause (5A), **Transpower** must, instead of applying the new **customer's benefit-based charges** for the relevant **post-2019 BBIs** under the **simple method** calculated under subclause (3)—

(a) attribute part of the new **customer's simple method BBC cap** to each **investment region** in respect of which the relevant **regional customer group** has positive **regional NPB** as follows:

$$SMBC_{region} = SMBC \times \frac{BBC_{(3)}}{BBC_{(3)\ total}}$$

where

SMBC_{region}   is the **part** of the new **customer's simple method BBC cap** attributed to the **investment region**

SMBC   is the new **customer's simple method BBC cap**

BBC₍₃₎   is the part of the new **customer's annual benefit-based charges** for the relevant **post-2019 BBIs** under the **simple method** attributed to the **investment region** calculated under paragraph 83(3)(e)

BBC_{(3) total}   is the new **customer's** total **annual benefit-based charges** for the relevant **post-2019 BBIs** under the **simple method** calculated under paragraph 83(3)(e); and

(b) calculate the new **customer's BBI customer allocation** for each relevant **post-2019 BBI** (CA) as follows:

$$CA = \frac{SMBC_{region}}{CC_{region\ total}}$$

where

SMBC_{region}   is the part of the new **customer's simple method benefit cap** attributed to the **investment region** in which the relevant **post-2019 BBI** is located under paragraph (a)

CC_{region total}   is the total **covered cost** of all relevant **post-2019 BBIs** under the **simple method** located in the **investment region** at the time the new **customer** connected to the **grid**; and

(c) scale down all **beneficiaries'** (including the new **customer's**) **BBI customer allocations** for each relevant **post-2019 BBI** by a factor (F) calculated as follows:

$$F = \frac{1}{1 + CA}$$

where CA is the new **customer's BBI customer allocation** for the relevant **post-2019 BBI** calculated under paragraph (b); and

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(d)   calculate or re-calculate (as the case may be) all **beneficiaries' benefit-based charges** for each relevant **post-2019 BBI** based on the **beneficiaries' BBI customer allocations** calculated under paragraph (c).