

Transmission pricing methodology technical amendments

Decision paper

Implementing regulatory asset base indexation and clarifying
the simple method benefit-based charge cap

11 November 2025

Executive summary

On 1 August 2025, the Electricity Authority Te Mana Hiko (Authority) published the consultation paper *Transmission pricing methodology technical amendments: Implementing regulatory asset base indexation and clarifying the simple method benefit-based charge cap* (consultation paper).¹

We received four submissions in response to the consultation paper, three of which broadly support the proposed changes, and one which did not address the specific changes in substantive detail but which set out wider concerns about electricity prices.

The Authority has decided to amend the transmission pricing methodology (TPM) to ensure it continues to function as intended and that it contributes to ongoing benefits to consumers. These amendments include:

- **Implementing indexation:** Consequential changes to the TPM which the Authority considers are necessary due to the Commerce Commission's (Commission) decision to index Transpower's regulatory asset base (RAB) as part of Transpower's regulation under Part 4 of the Commerce Act 1986 (Commerce Act). These changes aim to ensure that the TPM remains consistent with Commerce Act regulation and works as intended.
- **Clarifying the simple method benefit-based charges cap:** Standardising the allocators used in the simple method benefit-based charge cap (SMBC) formula to ensure a consistent calculation of the SMBC in any pricing period to ensure new customers do not incur disproportionately high benefit-based charges (BBCs).

The Authority is committed to ensuring that we continue to improve the functionality of the TPM, by providing clearer transmission pricing signals to support timely and well-placed investment. These decisions will help to ensure an efficient and competitive electricity market that works for the long-term benefit of consumers.

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1. Introduction

- 1.1. On 1 August 2025, the Authority consulted on amendments to the TPM to:
 - (a) Align the cost inputs for transmission charges with Transpower's regulation under Part 4 of the Commerce Act so that the approach to valuation and depreciation of assets in the TPM is consistent with the approach used for the annual cost recovery profile under Transpower's individual price-quality path, as determined by the Commission under Part 4 of the Commerce Act.
 - (b) Standardise the allocators used in the simple method BBC cap (SMBC) formula to ensure a consistent calculation of the cap in any pricing period.
- 1.2. We have decided to proceed with the amendments. The amendments to the allocators used in the simple method will come into force on 15 December 2025. The amendments to implement indexation will come into force on 1 April 2027.

2. Implementing indexation

Our decision

- 2.1. The Authority has decided to amend Schedule 12.4 of the Electricity Industry Participation Code 2010 (Code) to incorporate RAB indexation in the TPM, as proposed in the consultation paper.
- 2.2. The amendment incorporating RAB indexation in the TPM will apply from 1 April 2027, which is the first pricing year when BBCs and connection charges would reflect revaluations consistent with the Commission's indexation decision.
- 2.3. In response to Transpower's submission, we have decided to keep the abbreviation for connection charges as (CC) and to change the abbreviation for covered cost from (CC) to (COVC).
- 2.4. We have also decided to amend the abbreviation for a capped customer's capped charges (CC) in clause 110 to (CAPC).
- 2.5. The amendment changing the abbreviations and correcting the typographical error in clause 27(2)(d) of Schedule 12.4 will come into force on 15 December 2025.

The issue

- 2.6. Transpower is subject to the regulation of electricity lines services under Part 4 of the Commerce Act. Transpower's allowable revenues are determined by the Commission in five-yearly terms known as regulatory control periods (RCPs). Transpower's Regulatory Control Period 4 (RCP4) began on 1 April 2025.
- 2.7. For RCP4 onwards, the Commission has decided to set the maximum allowable revenue to reflect revaluations of Transpower's regulatory asset base (RAB) based on Consumer Price Index inflation (rather than the RAB being fixed in nominal terms). This new approach is known as RAB indexation. The change was made in the Commission's 2023 Input Methodologies review and took effect when RCP4 began on 1 April 2025.
- 2.8. Due to the Commission's introduction of RAB indexation, without amendment, the TPM would no longer be consistent with the cost recovery profile used by the Commission in setting maximum allowable revenues. This would be contrary to the original policy intent.
- 2.9. In addition, if the Authority did not make this consequential change, inflation would be double counted in TPM charges. The nominal Weighted Average Cost of Capital (WACC), which is used in calculating charges under the TPM, already includes an inflation allowance. The asset revaluation for indexation would introduce a second, overlapping inflation allowance, resulting in a double counting of inflation. The impact on transmission pricing could lead to inefficient decisions made by transmission customers relating to investment and use of the grid.

What we proposed

- 2.10. The Authority proposed to amend the TPM to incorporate RAB indexation, with the intention that the costs recovered through the TPM remain broadly aligned with the way costs are calculated under Part 4 of the Commerce Act.

- 2.11. Additionally, we proposed an amendment to the drafting for connection charges to change the abbreviation used (CC) to 'CONC' to avoid confusion with the abbreviation used in the covered cost calculations (which is also 'CC'). We also proposed to rectify a typographical error in clause 27(2)(d) (which says 'cand' instead of 'and').

Submitters' views and our assessment

- 2.12. The Authority received three submissions relating to implementing indexation in the TPM. All submissions (from Transpower, Vector and Gallagher & Co Consultants Ltd) agree with the Authority's proposal to align the TPM with the Commission's decision to index Transpower's RAB. The Authority has decided to implement the amendments as proposed in our consultation paper.
- 2.13. Transpower has further proposed retaining the abbreviation used for connection charges as (CC) and to change the abbreviation for covered cost as (COVC). Its rationale is based on consistency of usage of terms for its customers.
- 2.14. The Authority supports this change, noting that the abbreviation CC is already widely recognised as referring to connection charges, and maintaining this usage helps ensure clarity and consistency within the TPM.
- 2.15. The Authority has also identified that the abbreviation "CC" is also used in Clause 110 to refer to a capped customer's capped charges for the pricing year. To avoid confusion caused by multiple definitions using the same abbreviation, we have decided to change the abbreviation for a capped customer's capped charges from (CC) to (CAPC).

3. Clarifying simple method benefit-based charge cap

Our decision

- 3.1. The Authority has decided to adopt the amendment related to the SMBC as proposed in the consultation paper.
- 3.2. The amendment will come into force on 15 December 2025.

The issue

- 3.3. Transpower identified that the calculation of the SMBC is overly sensitive to the timing and order of recognition of adjustment events, due to the differences in inputs between the simple method benefit-based investment (BBI) adjustment calculation for the new customer and the SMBC formula.
- 3.4. This timing sensitivity arises from the way the variable 'BBCj total' is defined in the SMBC formula. Transpower uses BBCj total as at the date of the relevant adjustment event, which it refers to as the 'BBCj total Calculation Date'. The date of the 'relevant adjustment event' may occur at different times eg, for some events at the start of the pricing year, rather than the actual event date.
- 3.5. Two key issues arise from this:
 - (a) When a regional customer group is growing, later entrants connecting similar plant may face a lower SMBC than earlier ones.
 - (b) Other adjustment events affecting a customer's BBC may occur before the BBCj total Calculation Date but not be reflected in the BBCs due to the inconsistency in timing rules for adjustment events. For example, after a customer exit, Transpower is not required to increase the remaining customers' BBCs until the next pricing year.
- 3.6. This issue could result in two otherwise similar customers connecting similar plants in the same region receiving different SMBCs due to differences in timing of the connection. Transpower proposed an amendment to the Code to address this issue.

What we proposed

- 3.7. Consistent with Transpower's proposal, the Authority proposed to amend the SMBC calculation by standardising the reference point for customer allocations used in determining BBCj total. Instead of assessing the calculation by reference to the timing of individual adjustment events, customer allocations would be determined according to the values that applied at the start of the relevant simple method period (or 1 April 2023 in respect of the first simple method period, which started on 24 July 2019).
- 3.8. Additionally, we proposed to clarify that the SMBC calculation should use current covered cost rather than historic costs to calculate BBCj total. We considered that using historic covered cost values in the BBCj total calculation would be inconsistent with the SMBC condition in clause 83(5A), as it would mix old and current cost figures.

Submitters' views and our assessment

- 3.9. The submissions from Gallagher & Co Consultants Ltd and Transpower support the proposed amendments to the SMBC.
- 3.10. Vector's submission proposes that further changes related to adjustment events are needed to manage:
 - (a) the timing of transmission charges and the impact of multiple adjustment events in a single pricing year; and
 - (b) the provision of information needed to calculate adjustment events.
- 3.11. These broader issues raised by Vector cannot be progressed immediately, as they have not been assessed and consulted on as part of this process. However, we recognise their relevance and will look to consider them in future.
- 3.12. There were no submissions opposing our proposed amendments. The Authority has decided to implement the amendments as proposed in the consultation paper.

4. Other points raised by submitters

- 4.1. An additional submission was received from a private individual that, although not in favour of the proposals, did not directly or substantively address the technical matters outlined in the consultation paper. While the Authority considers that this submission does not contain sufficient detail to be addressed in this decision paper, we acknowledge the views expressed about electricity prices and will take them into consideration in our ongoing work.

5. The amendments comply with section 32(1) of the Act

- 5.1. 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. 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, and is not relevant to the proposed amendment.
- 5.2. 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).
- 5.3. The Authority considers that the proposed amendment falls within section 32(1)(c) in that it is necessary or desirable to promote the efficient operation of the electricity industry for the reasons set out in our consultation paper.
- 5.4. For completeness, the amendment is permitted by section 32(4)(b) of the Act as it relates to the setting of a pricing methodology for Transpower, which section 32(4)(b) provides may be contained in the Code.

6. Next steps

- 6.1. The amendments to the allocators used in the simple method will come into force on 15 December 2025. The amendments to implement indexation will come into force on 1 April 2027.
- 6.2. Transpower will need to take the steps necessary to implement the changes in its systems to implement indexation for the first pricing year it will take effect, beginning in April 2027.

Appendix A Submissions

Submitter	Attachments
Transpower	https://www.ea.govt.nz/documents/8282/Transpower - Implementing indexation in the TPM submission.pdf
Gallagher & Co Consultants Ltd	https://www.ea.govt.nz/documents/8362/Gallagher and co Consultants Ltd ADOE - Implementing indexation in the TPM submission.pdf
Tui Williams	https://www.ea.govt.nz/documents/8364/Tui Williams - Implementing indexation in the TPM submission.pdf
Vector	https://www.ea.govt.nz/documents/8363/Vector submission - TPM technical amendments consultation.pdf