

10 June 2020

Pip Dunphy  
Chair  
Transpower New Zealand Limited  
Wellington

Dear Pip

**Development of a proposed new TPM consistent with the 2020 guidelines**

1. I am pleased to confirm that the Electricity Authority's Board has published its transmission pricing methodology (TPM) guidelines and process decision paper and new TPM guidelines (2020 guidelines).
2. Thank you for Transpower's recent assistance testing the workability of draft guidelines. The final guidelines reflect wording improvements suggested by Transpower's staff and advisors. Thank you also for the commitment of Transpower's staff to discussions with the Authority's TPM team on options for TPM development and implementation. The free and frank nature of the discussions was welcome and appreciated. I particularly acknowledge and appreciate the commitment and availability of Transpower staff to engage in the discussion at a time Transpower was dealing with significant COVID-19 related operational pressures. Consistent with the feedback relayed to my Chief Executive that you have received from Transpower staff, Authority staff have also confirmed that the recent staff engagement on guidelines and the development process has been constructive and valuable. The Authority looks forward to continuing this collaborative approach.
3. I am writing to request that Transpower develop a proposed new TPM, in accordance with the process for TPM development set out in the TPM guidelines and process decision paper (at Chapter 17 Box 1 and enclosed with this letter). As required by Clause 12.89 of the Electricity Industry Participation Code 2010 (the Code), such a proposed TPM must be consistent with the 2020 guidelines and the Authority's statutory objective. Submission of Transpower's proposed new TPM to the Authority is required before or on 30 June 2021. An earlier submission will be welcome.
4. The process published by the Authority includes two checkpoints for formal engagement between Transpower and the Authority. These will ensure Transpower's proposal is well-aligned with the 2020 guidelines and so is more likely to elicit the Authority's approval.
5. The checkpoints are to be timed so that Transpower receives the Authority's feedback on its emerging plans for the proposed TPM and is able to make any consequent amendments to those plans before engagement with stakeholders. The timing of the two checkpoints therefore contains some flexibility to best fit Transpower's process.

6. The Authority considers that only the Authority is required by clause 12.92 of the Code to publish and formally consult on the proposed TPM and that further formal consultation during development is unnecessary. Nevertheless, submitters commented on, and generally supported, the desirability of Transpower also engaging as it develops the proposed TPM. The published process includes that Transpower design the scope and duration of any engagement with stakeholders to ensure that the deadline for proposal of a TPM is achievable.
7. I can confirm that the Authority will also immediately advise the Commerce Commission that the 2020 guidelines have been published and ask the Commerce Commission to reconsider its section 52P determination (re-open Transpower's Individual Price-Quality Path) to cover the costs of TPM development and implementation.
8. The Authority is committed to assisting Transpower during the proposed TPM development stage, as appropriate. The focus for the next staff engagements will be:
  - (a) to agree a process for engagement between Transpower and Authority staff prior to and at the checkpoints during the development phase
  - (b) to agree an approach for proposed workshops. Authority staff will be available to support Transpower with an industry workshop on the design for a transitional congestion charge and also any workshop to be held on the design of the benefit-based charge, with details to be worked out across the Transpower and Authority staff teams.
9. I look forward to continued progress as our two organisations move towards the introduction of new transmission pricing.

Yours sincerely



Brent Layton  
**Chair, Electricity Authority Board**

Encl: The Authority's decision on process and timeframe for Transpower's development of a proposed new TPM. (Source: TPM guidelines and process decision paper chapter 17.)

cc: Alison Andrew, Chief Executive, Transpower New Zealand Limited  
James Stevenson-Wallace, Chief Executive, Electricity Authority

# The Authority's decision on process and timeframe for Transpower's development of a proposed new TPM

## The process

Transpower's development of the proposed new TPM must include the following steps:

- identify options for a method for setting each required new charge
- assess which of the additional components better meet the Authority's statutory objective and should therefore be included in the proposed TPM
- identify options for a method for any additional components that will be included
- select and develop a preferred option for each charge proposed to be introduced
- calculate indicative prices to show the impact of the proposed TPM on transmission customers
- show how the proposed TPM meets the requirements in Clause 12.89(1)
- confirm the proposed TPM is workable, and scope the implementation, ongoing operational costs, and timeline for implementation.

The proposed TPM must include indicative prices to allow its impacts to be understood.

Transpower must share its up-to-date project timeline (an overview of planned project steps and timings) for the development of a proposed TPM with the Authority before or on 1 August 2020 and at the commencement of each of the two checkpoints. The Authority may provide feedback on Transpower's project timeline.

## Checkpoints

There will be two checkpoints with requirements for both Transpower and the Authority. Some flexibility is allowed on the timing of each checkpoint to enable Transpower to follow its own preferred internal processes. The checkpoints are:

### ***Checkpoint 1: initial analysis for benefit-based charge and any transitional congestion charge***

Between 1 September and 1 October 2020, so two to three months after 1 July 2020 and at least 7 weeks before releasing any written paper on options to stakeholders, Transpower must provide the Authority with a written summary describing its initial analysis towards a proposed TPM, focussing on key design choices (under consideration and currently preferred) for allocation methods for the benefit-based charge and any transitional congestion charge.

- By three weeks later, the Authority will provide any feedback on Transpower's summary and may advise whether it is likely to approve a proposed TPM based on the currently preferred options, if these are submitted within a proposed new TPM, or whether it would be likely to seek any revisions.
- If requested by the Authority, by six weeks later, Transpower would provide a revised written summary, incorporating the Authority's comments.
- If a revised summary is provided, the Authority may, by three weeks later, provide feedback on whether it supports the revised proposed approach.

Once Transpower has made any consequent changes to take into account the Authority's feedback, it will be able to proceed with any stakeholder engagement it is planning.

***Checkpoint 2: a preliminary draft of a proposed new TPM***

Between 1 February and 1 March 2021, so seven to eight months after 1 July 2020 and at least 6 weeks prior to any second stakeholder engagement on a proposed new TPM Transpower plans to undertake, Transpower must provide the Authority with a preliminary draft of the proposed TPM, including a detailed outline of its approach with respect to the allocation of the benefit-based charge and any transitional congestion charge.

- By three weeks later, the Authority may provide feedback on Transpower's preliminary draft.
- If requested by the Authority, by six weeks later, Transpower would provide a revised draft, incorporating the Authority's comments.
- If a revised draft is provided, the Authority may, by three weeks later, provide feedback on whether it supports the revised draft or whether it seeks any further revisions.

Once Transpower has made any consequent changes in response to feedback from the Authority, it will be able to proceed with any further stakeholder engagement it wishes to undertake.

***Stakeholder engagement***

Transpower is not to engage with stakeholders on policy matters that have already been covered in the Authority's consultation on its proposed guidelines; rather, its engagement should concern detailed matters of TPM development within the guidelines set by the Authority.

Transpower must design the scope and duration of any engagement with stakeholders to ensure that the deadline for submission of a proposed TPM is achievable.

***The timeframe***

The date by which Transpower must submit its proposed TPM to the Authority is 30 June 2021. An earlier submission will be welcomed.