



Factsheet:

# TRANSMISSION PRICING METHODOLOGY (TPM) 2020 GUIDELINES

## A new approach to transmission pricing for the long-term benefit of consumers

The Electricity Authority has decided on new guidelines for transmission pricing.

The TPM 2020 guidelines reflect the Authority's focus on promoting a more efficient electricity industry. Our decision and the new guidelines have been informed by comprehensive input from industry and interested parties. The result is TPM guidelines which will better serve New Zealand consumers, particularly as we transition to a low carbon economy.

## What is TPM and why does it matter

Transmission pricing matters – transmission costs pay for the national grid and make up approximately 10 per cent of the average consumer's total power bill.

The transmission grid is a central and crucial part of the electricity system that provides households and businesses with safe and reliable access to electricity all day, every day.

## Making the most of our national grid

The development and maintenance of our national grid are critical - now and in the future as we move to more renewable generation to support increased electrification of transport and industrial processes.

Making the most of our national grid means:

- More use at peak times – when New Zealanders value electricity the most (for example, heating at night) – with more targeted signals to manage congestion.
- Supporting businesses with stable, predictable electricity transmission pricing (rather than the volatile current grid pricing).
- Better use of the grid to help NZ electrify at the least cost to consumers, make the right investments in renewable generation and lower long-term electricity prices leading to more electric vehicles and increased electrification of process heat.
- Better investment in transmission – at the right time and in the right place.

The transmission grid is owned and operated by Transpower. The maximum revenue Transpower can recover is set by the Commerce Commission. The Authority sets the guidelines for how Transpower can set its charges to recover the approximately \$800m annual cost of building and running the national transmission grid from electricity generators, distributors and direct consumers. This cost is expected to rise to over \$1 billion in the next ten years.



## **A new TPM to support New Zealand's transition to a low carbon future at the least cost to consumers**

Investment in new generation will be crucial to support the projected increased electrification of transport and industrial processes.

The new TPM will help unlock investment potential, give greater investor certainty and support the right investments, in the right place at the right time.

The guidelines will ensure transmission pricing is technology neutral – promoting investment in distributed generation and grid alternatives for the right reasons – where that benefits consumers.

## **A benefit-based approach – paying for what you get**

At the heart of the new TPM guidelines is a benefit-based approach to transmission pricing. Those who benefit from transmission investments will pay for them. The current approach spreads the cost of all transmission assets across the country regardless of benefit.

Under the new guidelines consumers who benefit from a transmission investment will pay for it. Benefits include better energy prices and a more reliable supply of electricity.

This is a significant change from the current TPM which allocates the costs of regional transmission investments across all consumers, regardless of where they live or the benefits they get.

The benefit-based charge applies to all new investments and the remaining costs of seven recent major investments.

A residual charge will recover any remaining transmission costs such as overheads and unallocated costs. The residual charge will also recover any remaining costs of all other historical transmission investments.

## **and not paying twice...**

The Authority wants to make sure consumers do not end up paying for new investments and for recent major investments they don't benefit from. That's why we've decided to apply benefit-based charges to seven historical investments.

Including the seven historic investments solves what we call the 'Islington problem' – people in Christchurch having to pay for all the Islington upgrade while still paying for some of the North Island Grid Upgrade.

## **From a peak charge to a benefit-based charge**

The benefit-based approach replaces the two main charges under the current TPM:

a peak charge called the regional coincident peak demand (RCPD) charge and the high voltage direct current (HVDC) charge for the line that transports electricity between the South and North Islands.

The RCPD charge allocates the cost of existing transmission assets based on how much people consume at peak times the year before, regardless of whether there is congestion on the grid.

People are paying a premium for transmission when power is most valuable to them – even then there is plenty of transmission capacity available. Some people avoid paying current charges by investing in alternative generation to use at peak times. This behaviour shifts the costs of transmission to others and means some customers are using diesel generation instead, which means more carbon emissions.



## What does it mean for power bills?

The new guidelines rebalance transmission charges, they will not increase charges overall. There will be no immediate impact – it takes time for Transpower to develop a new transmission pricing methodology based on the guidelines.

Any changes to consumer electricity bills in the future will be modest. The Authority’s decision protects consumers – and directly connected businesses – from big price increases.

The new guidelines include a price cap to give consumers certainty their total electricity bill will not need to increase by more than 3.5 percent as a direct result of the new guidelines.

## TPM reform – over 10 years in the making

There has been consistent and long-term pressure for TPM reform.

The TPM review has been a long and contentious process and the decision reflects years of review, analysis and valuable input from interested parties.

There is no single option that will please everyone, but many stakeholders agree a decision is necessary and urgent.

Over the past year, we’ve published consultation and information papers, held workshops and meetings and considered submissions. We appreciate the time and contribution of all interested parties. The Authority’s decision has benefited from divergent opinions, expert commentary and analysis.

## What happens next

Transpower will now develop a proposed new Transmission Pricing Methodology in keeping with the revised guidelines and relevant sections of the Electricity Industry Participation Code 2010.

A revised Transmission Pricing Methodology is expected to be in place by April 2023.

## Key features of the 2020 guidelines

<b>CONNECTION CHARGE</b>	This charge recovers the cost of connection assets. This component is essentially the same as the existing TPM guidelines.
<b>BENEFIT-BASED CHARGE</b>	The cost of grid investments, including the remaining costs of seven recent major grid investments, will be charged to transmission customers who benefit from them.
<b>RESIDUAL CHARGE</b>	This annual charge recovers unallocated costs up to Transpower’s maximum revenue and allows for the allocation to be updated regularly based on changes in usage with a lag.
<b>PRUDENT DISCOUNT POLICY</b>	The 2020 guidelines provide for a discount on transmission charges of designated transmission customers who would find it beneficial to inefficiently bypass or disconnect from the grid. The policy also allows a customer to apply for a discount if charges exceed efficient standalone costs.
<b>TRANSITIONAL CAP ON CHARGES</b>	The cap is intended to assure households and businesses they will not face an electricity bill shock as result of a new TPM and to allow them time to adjust to new charges.
<b>ADDITIONAL COMPONENTS</b>	An additional component must be included in the TPM where that would, in Transpower’s reasonable opinion, better meet the Authority’s statutory objective.  There are seven additional components.
<b>TRANSITIONAL CONGESTION CHARGE</b>	To apply when and where grid demand would not be adequately controlled by other means such as nodal pricing and load control.

