

Amendments to correct issues in the new TPM

Decision

22 November 2022



Executive summary

The Authority has decided to amend the Code to correct ten issues with the new Transmission Pricing methodology (TPM) that have been identified during its implementation.

The Authority considers that these amendments meet the requirements of clause 12.94A of the Electricity Industry Participation Code 2010 (the Code) and section 39(3) of the Electricity Industry Amendment Act 2010 (the Act) and therefore do not require consultation.

The Authority nevertheless consulted on proposed amendments in October 2022.¹

The issues these amendments address are as follows:

1. correcting various minor issues with the TPM (such as typographical errors)
2. correcting the formula for calculating rebates under the Type 1 First Mover Disadvantage (FMD) mechanism
3. ensuring that grid injection points (GIPs) are treated the same as grid exit points (GXPs) for benefit-based charge (BBC) adjustment events
4. ensuring new customers in some regions will receive BBC simple method allocations in relation to investments made during a certain period
5. correcting omissions and providing greater clarity that the timing of an adjustment event should not affect whether relevant transmission charges are adjusted
6. improving the workability of the continuing benefit-based investment (BBI) mechanism
7. clarifying how the Type 2 FMD mechanism works when only part of a connection asset is anticipatory, to ensure the capital cost of anticipatory capacity is spread as intended
8. providing Transpower with the ability to apply the most appropriate adjustment mechanism to historical events
9. correctly identifying a generator, that was treated as grid-connected for the purpose of calculating the allocations in Schedule 1 of the TPM guidelines (which are reflected in Appendix A of the TPM), as embedded, make the necessary corresponding adjustments to Appendix A, and also make minor corrections to the allocations in Appendix A to address two further issues (an administrative issue and an incorrectly applied adjustment)²
10. correcting the formula for calculating residual charge reduction events to ensure that reduction events are correctly assessed.

We have decided to implement an amendment for issue 10 that achieves the same policy intent as, but differs in certain technical details from, that proposed in our consultation paper. The

¹ See the Authority's consultation paper titled *TPM correction amendments*, published on 18 October 2022 and available at: <https://www.ea.govt.nz/assets/dms-assets/30/0-Consultation-paper-TPM-correction-amendments.pdf>.

² In addition to an administrative issue where a pivot table was not refreshed (as explained in our consultation paper), as explained in a note in the TPM with tracked changes and the spreadsheet model published alongside the consultation paper, when re-performing the adjustments to translate schedule 1 to Appendix A, we identified a minor adjustment that had been incorrectly applied to Trustpower's Matahina connection. We have removed this adjustment.

amendment we have decided to implement for issue 10 improves the accuracy of the solution and was prompted by consideration of Northpower's submission to our consultation.

For all other issues the amendments we decided to make are the same as those we proposed for consultation, as detailed in the consultation paper and supporting documents.³ For a regulatory statement please also refer to the consultation paper.

³ <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/transmission-pricing-review/consultations/#c19264>

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1 Introduction

- 1.1 In October 2022 the Authority consulted on amendments to the TPM to correct for ten issues identified by Transpower, Northpower, and Electra.
- 1.2 The Authority considers that these proposed amendments met the requirements of clause 12.94A of the Electricity Industry Participation Code 2010 (the Code) and section 39(3) of the Electricity Industry Amendment Act 2010 (the Act), including because:
 - (a) these amendments are technical in nature and non-controversial, given that they generally address minor drafting issues, correct mistakes in formulae or address small omissions, while otherwise ensuring that the TPM achieves its policy intent
 - (b) the policy intent of the relevant clauses was subject to consultation in 2021 on the proposed TPM (which in turn built on the Authority's previous consultation and decision on the TPM guidelines); and the Authority therefore considers that there has been sufficient opportunity for all relevant views to be raised and considered, and it is now simply proposing minor amendments to ensure that the policy that was consulted on is achieved.
- 1.3 The above means the amendments can be made without the Authority meeting the requirements for reviewing the TPM in the Code, and the requirements in the Act to publicise a regulatory statement and consult on the statement and proposed amendment.
- 1.4 The Authority nevertheless consulted on the amendments for feedback.

2 Assessment following consultation

2.1 This section summarises the submissions we received on our consultation and the rationale for our subsequent decisions.

Issues 1-9

Our decisions for Issues 1-9

2.2 The Authority has adopted the Code amendments to correct issues 1-9 that were proposed in the October 2022 consultation paper.⁴

What we proposed

2.3 The rationale for the proposed amendments are described in the consultation paper and supporting documents.

Submitters' views and our assessment

2.4 We received no submissions on issues 1-8.

2.5 Electra supported our proposed amendment to address issue 9.

2.6 As we had no submissions opposing our proposed amendments for issues 1-9, the Authority has decided to implement the amendments as proposed in our consultation paper.

Issue 10: Residual charge reduction event

2.7 As described in our consultation paper, the TPM provides for a customer's initial residual charge (when the TPM first takes effect) to be adjusted, to accommodate circumstances where the customer has experienced a substantial reduction in anytime maximum demand prior to the TPM coming into effect. This carried over the intent reflected in clause 29 of the TPM guidelines.

2.8 The relevant clause in the TPM (clause 72), however, does not properly capture this intent as there is no requirement on Transpower to reduce a customer's lagged average total gross energy (LATGE) when it reduces that customer's anytime maximum demand (residual) (AMDR) baseline (under clause 72(1)). This is because the TPM correctly complied with the exact wording of the TPM guidelines, but the TPM guidelines themselves contained this same error, meaning its intent is not properly achieved if the error is not corrected.

2.9 The correct approach is that lagged average total gross energy should be reduced, as has already been provided for in respect of average total gross energy baseline (ATGE_baseline) in clause 72(2). If it is not reduced, then the equations for working out the appropriate residual charge adjustment factor (in clause 71(1)), anytime maximum demand (residual) (in clause 69(1)), and therefore a load customer's annual residual charge (in clause 68(2)) could produce unintended results. For example a reduction event could actually result initially (although not permanently, all other things equal), in an increase in residual charges.

Our decision for Issue 10

2.10 The Authority has decided to correct an issue with the formula for calculating residual charge reduction events to ensure that reduction events are correctly assessed.

⁴ See chapters 2-10 of the October 2022 consultation paper: *TPM correction amendments*

- 2.11 We have decided to amend clauses 71(2) and 72(3). These amendments:
- (a) reduce, by the same proportion ATGE_baseline is reduced, the historical energy data inputs to LATGE for financial years prior to the financial year in which a reduction event occurred;
 - (b) phase out the LATGE reduction as measured LATGE catches up, using the simplifying assumption that the historical total gross energy usage for the financial year in which the reduction event occurred is equal to the reduced ATGE_baseline;⁵
 - (c) accommodate the possibility of multiple reduction events for the same customer.
- 2.12 The amendments we have decided to make are an improvement on the proposal that we consulted on. As further discussed below, under that proposal, residual charges would not have been fully adjusted for a reduction event, due to certain simplifying assumptions.⁶ The amendment we have decided on improves the accuracy of the solution, in a simple and pragmatic way.

What we proposed

- 2.13 To correct for this issue, we proposed amendments to reduce LATGE for the initial period before the customer's LATGE is calculated using only post-reduction event energy data.
- 2.14 The proposed amendments were to:
- (a) reduce LATGE by the same proportion by which ATGE is reduced, to maintain a stable residual charge adjustment factor (RCAF);⁷
 - (b) phase out the LATGE reduction as measured LATGE catches up, using the simplifying assumption that the reduction event occurred exactly in the middle of a financial year; and
 - (c) accommodate the possibility of multiple reduction events for the same customer.
- 2.15 The rationale for the proposed amendments is described in the consultation paper.⁸

Submitters' views and our assessment

- 2.16 We received one submission, from Northpower, on this issue. Northpower stated that it supported the decision to address this issue but did not support our proposed solution.
- 2.17 In this section we will cover two elements of this amendment where we have reassessed our proposal in light of submissions, namely: how RCAF based on pre reduction event data should change due to reduction event; and how the phase out of LATGE reductions should be applied.

⁵ We note that in this section the term 'phase-out' refers to the four year period during which the LATGE values are calculated based on both pre and post reduction event total gross energy data.

⁶ We note that the drafting for our proposed amendments for Issue 10, which is highly technical, was not provided alongside the consultation paper. However, we consider that the description of the issue in the consultation paper was sufficient and note that Northpower provided a submission that demonstrated a good understanding of our proposal. While the exact detail of our phase out mechanism was not provided in the consultation paper, we note that nevertheless we have improved on this mechanism after considering Northpower's submission.

⁷ As per clause 71(1), RCAF equals LATGE divided by ATGE_baseline.

⁸ See chapter 11 of the October 2022 consultation paper: *TPM correction amendments*

RCAF based on pre reduction event data

- 2.18 Northpower submitted as follows: *The proposal ... carries over the RCAF from prior to the change event (which is now irrelevant), and therefore we consider it doesn't meet the consulted policy intent.*
- 2.19 Northpower proposed *"that the underlying data is adjusted as if the reduction event had already taken place by the baseline period, resulting in the change flowing through the formulas."*
- 2.20 The Authority would observe that variation in RCAF is a general feature of the residual charge allocations. The Authority considers that the aim of a reduction event under cl 72 is not to remove all variation, and that it is appropriate for historical variation in load to contribute to a transmission customer's RCAF (and to its residual charge).
- 2.21 So, the Authority has not adopted Northpower's submission in this respect. Under the amendment we consulted on (and the amendment we have decided on), historical variation in load does contribute to a transmission customer's RCAF (and to its residual charge). This is achieved using simplifying assumptions that balance considerations of simplicity and precision.
- 2.22 In our view, under the Code amendment we have decided to make, the customer's allocation of the residual charge reflects a reasonable approximation of the historical variation in its load that is not directly related to the reduction event.

LATGE during phase out period

- 2.23 Northpower further proposed: *"that the underlying data is adjusted as if the reduction event had already taken place by the baseline period, resulting in the change flowing through the formulas."*
- 2.24 Having considered Northpower's submission and further analysed how our proposed amendment would apply to the data Northpower provided, we have adopted Northpower's suggestion of adjusting the underlying data for calculating LATGE.⁹
- 2.25 Analysis of LATGE values under our proposed amendment, prompted by Northpower's submission, demonstrated an unintended overstatement of RCAF during the phase out period. We consider that a method that adjusts the underlying data will lead to appropriate LATGE (and hence RCAF) values.
- 2.26 The method we have decided to implement reduces the total gross energy values for the financial year in which the reduction event occurred and each prior year that is relevant to the calculation of LATGE, as follows:
- (a) For financial years prior to the year in which the reduction event occurs, the annual total gross energy values are reduced by the same proportion as ATGE_baseline.
 - (b) For the financial year in which the reduction event occurs, the total gross energy value is replaced by the ATGE_baseline value that Transpower determines after adjusting for all reduction events applying to that customer.¹⁰
- 2.27 The Authority considers that the method it has decided on is simple and practical to implement and appropriately balances considerations of accuracy and practicality.

⁹ However, as discussed above, we do not agree with Northpower's method of adjusting the underlying data.

¹⁰ Using the same factor as is applied to the prior years would overstate the reduction.

Appendix A Submissions received

2.28 The Authority received submissions on our consultation paper from the two parties listed in Table 1. Submissions are available on the Authority's website.¹¹

Table 1: List of submitters

<i>Submitter</i>	<i>Category</i>
Electra Energy	Electricity distribution
Northpower	Electricity distribution

Source: Electricity Authority

¹¹ <https://www.ea.govt.nz/development/work-programme/pricing-cost-allocation/transmission-pricing-review/consultations/#c19264>