

# Amendments to correct issues in the new TPM

Decision paper

Tuesday, 27 June 2023

## Executive Summary

The Electricity Authority has decided to amend the Code to correct nine of the ten issues with the new transmission pricing methodology (TPM) that were identified by Transpower during implementation and submitted to the Authority in March 2023 (all of the issues except issue 5).

The Electricity 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 Act 2010 (the Act) and therefore do not require consultation. The Authority nevertheless consulted on the ten proposed Code amendments on 17 May 2022.<sup>1</sup>

The issues these amendments address are as follows:

1. Minor changes to the TPM (such as typographical errors).
2. Resolve a workability problem with the cap recovery charge calculation.
3. Clarify that Transpower can change the Benefit Based Charge (BBC) allocation method for post-2019 Benefit Based Investments (BBIs).
4. Apply the most appropriate benefit factors to calculate starting BBC allocations for new customers.
5. Allow Transpower more flexibility in the calculation of regional Net Private Benefit (NPB) under the price-quantity method for BBC allocation.
6. Change the treatment of non-asseted commissioned assets in calculation of BBC covered costs.
7. Ensure the most relevant information about the BBC simple method allocators is published.
8. Corrections to reduction event adjustment factor formula for the residual charge
9. Apply the BBC simple method to high-value transmission investments that change classification from interconnection to connection.
10. Clarify that assessment of prudent discounts requires consideration of settlement residual rebates.

The Electricity Authority has decided to extend the consultation period for the proposed amendment with respect to issue 5. We are seeking further feedback on this issue and are providing further information to help stakeholders engage with the proposal.

In relation to issue 7 the Electricity Authority has decided on a Code amendment that requires Transpower to publish information on both simple method inputs and simple method allocations (whereas the proposal for consultation was to add the requirement to publish simple method allocations and reduce the information on inputs).

For all the 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. For a regulatory statement please also refer to the consultation paper.

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<sup>1</sup> See the Authorities consultation paper titled "Amendments to correct issues in the new TPM" published on 17 May 2023 and available at: [https://www.ea.govt.nz/documents/3026/Consultation\\_paper-Amendments\\_to\\_correct\\_issues\\_in\\_new\\_TPM.pdf](https://www.ea.govt.nz/documents/3026/Consultation_paper-Amendments_to_correct_issues_in_new_TPM.pdf)

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## 1. Introduction

- 1.1. On 17 May 2023, the Electricity Authority consulted on amendments to the TPM to correct for ten issues identified by Transpower during implementation.
- 1.2. The Electricity 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 Act 2010 (the Act), including because:
  - (a) the 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; and
  - (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 the consultation on 17 May 2023 simply proposed minor amendments to ensure that the policy that was consulted on in 2021 (and previously) was achieved.
- 1.3. The above means that 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 Electricity Authority nevertheless consulted on the amendments for feedback.

### Submissions received

- 1.5. We received three submissions in response to our consultation, from the Independent Electricity Generation Association (IEGA), Vector and Calderwood Advisory Limited, which we have published alongside this decision paper. Vector submitted feedback that expressed concern over the short timeframe for consultation making it difficult to understand the impact of all issues on individual connected parties.
- 1.6. IEGA considered issue 5 (providing Transpower more flexibility in the calculation of regional Net Private Benefit (NPB) under the price-quantity method for BBC allocation) to be more than a technical correction to the Code and suggested that a worked example would be useful to demonstrate impact on transmission customers and that further consultation on this issue is warranted.
- 1.7. In response to this feedback the Electricity Authority has decided to consult further on issue 5 to allow further time for stakeholders to understand the impact of this proposal. The Authority has decided to make all the other proposed Code amendments, on the basis that they meet the requirements in clause 12.94A of the Code and that no specific feedback on these issues sufficiently justifies or warrants further consultation against the benefit of the certainty provided by making the amendments now.
- 1.8. The IEGA and Calderwood Advisory Limited also provided other specific feedback on particular issues (other than issue 5). We discuss this feedback in Chapter 2.

### Summary of decisions

- 1.9. We have decided to adopt the proposals for consultation as amendments to the TPM (and the Code), except for the following:
  - (a) In relation to issue 7 the Electricity Authority has decided on a Code amendment that requires Transpower to publish information on both simple method inputs and simple method allocations (whereas the proposal for consultation was to add the requirement to publish simple method allocations and reduce the information on inputs).

(b) We are seeking further feedback on issue 5 and are providing further information to help stakeholders engage with the proposal. This will be published on our website alongside this decision paper.

1.10. In the table below we summarise our decision in relation to each issue.

**Table 1 Summary of decisions**

Issue		Decision
1	Minor changes to the TPM (such as typographical errors).	As per proposal
2	Resolve a workability problem with the cap recovery charge calculation.	As per proposal
3	Clarify that Transpower can change the Benefit Based Charge (BBC) allocation method for post-2019 Benefit Based Investments (BBIs).	As per proposal
4	Apply the most appropriate benefit factors to calculate starting BBC allocations for new customers.	As per proposal
5	Allow Transpower more flexibility in the calculation of regional Net Private Benefit (NPB) under the price-quantity method for BBC allocation.	Seek further feedback
6	Change the treatment of non-asseted commissioned assets in calculation of BBC covered costs.	As per proposal
7	Ensure the most relevant information about the BBC simple method allocators is published.	Extend information requirements
8	Corrections to reduction event adjustment factor formula for the residual charge	As per proposal
9	Apply the BBC simple method to high-value transmission investments that change classification from interconnection to connection.	As per proposal
10	Clarify that assessment of prudent discounts requires consideration of settlement residual rebates.	As per proposal

## 2. Assessment following consultation

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

### Issue 1: Minor changes to the TPM

#### Our decisions for Issue 1

- 2.2. The Electricity Authority has adopted the Code amendments to correct various minor issues with the TPM (such as typographical errors) that were proposed in the May 2023 consultation paper.<sup>2</sup>

#### What we proposed

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

#### Submitters' views and our assessment

- 2.4. We received no submissions on this issue.
- 2.5. As we had no submissions opposing our proposed amendments for issue 1, the Electricity Authority has decided to implement the amendments as proposed in our consultation paper.

### Issue 2: Workability problem with cap recovery charge calculation

#### Our decisions for Issue 2

- 2.6. The Electricity Authority has adopted the Code amendments to resolve a workability problem with the cap recovery charge calculation that were proposed in the May 2023 consultation paper.<sup>3</sup>

#### What we proposed

- 2.7. The rationale for the proposed amendments is described in the consultation paper and supporting documents.

#### Submitters' views and our assessment

- 2.8. We received no submissions on this issue.
- 2.9. As we had no submissions opposing our proposed amendments for issue 2, the Electricity Authority has decided to implement the amendments as proposed in our consultation paper.

### Issue 3: Adopt proposal and provide further information

#### Our decisions for Issue 3

- 2.10. The Electricity Authority has adopted the Code amendments to clarify what happens if Transpower's expectation changes as to whether a post-2019 BBI will be high-value or low-value that were proposed in the May 2023 consultation paper.<sup>4</sup>

#### What we proposed

- 2.11. The TPM is currently silent on what happens in situations where new information becomes available for post-2029 BBIs that are close to the maximum value for low-value investments (that is, the base capex threshold in the Transpower Capex IM – which is currently at

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<sup>2</sup> Electricity Authority, Consultation Paper, Amendments to correct issues in the new TPM, 17 May 2023 [https://www.ea.govt.nz/documents/3026/Consultation\\_paper-Amendments\\_to\\_correct\\_issues\\_in\\_new\\_TPM.pdf](https://www.ea.govt.nz/documents/3026/Consultation_paper-Amendments_to_correct_issues_in_new_TPM.pdf)

<sup>3</sup> Electricity Authority, Consultation Paper, Amendments to correct issues in the new TPM, 17 May 2023 [https://www.ea.govt.nz/documents/3026/Consultation\\_paper-Amendments\\_to\\_correct\\_issues\\_in\\_new\\_TPM.pdf](https://www.ea.govt.nz/documents/3026/Consultation_paper-Amendments_to_correct_issues_in_new_TPM.pdf)

<sup>4</sup> [https://www.ea.govt.nz/documents/3026/Consultation\\_paper-Amendments\\_to\\_correct\\_issues\\_in\\_new\\_TPM.pdf](https://www.ea.govt.nz/documents/3026/Consultation_paper-Amendments_to_correct_issues_in_new_TPM.pdf)

\$20m). In some cases, Transpower's expectation as to whether the BBI will be high-value (above \$20m) or low-value (below \$20m) when fully commissioned may change, due to receiving new information.

- 2.12. The Electricity Authority proposed an amendment that clarifies that Transpower may change the BBC allocation calculation method it applies provided the charges for the first pricing year ('start pricing year' as defined in the TPM) for that BBI have not already been notified to at least one customer, and provided this happens:
- (a) before the BBI's final investment decision date; or
  - (b) before the BBI's commissioning date, if the BBI's final investment decision date was before the start of the first pricing year (ie, before 1 April 2023).<sup>5</sup>
- 2.13. The rationale for the proposed amendments is described in the consultation paper and supporting documents.

### **Submitters' views and our assessment**

- 2.14. We received one submission, from IEGA, on this issue.
- 2.15. IEGA submitted that:
- "This issue could relate to a BBI that changes in value from being less than \$20m to being (well) over \$20m. Transpower is already consulting on the allocation of charges for any BBI. Does the proposed change in the Code require Transpower to consult again once Transpower has disclosed that the BBI has been classified as high value? We suggest this additional consultation should be required by the Code."
- 2.16. We do not consider that a change to the consultation requirements is required, as Transpower is already appropriate requirements to consult under the existing requirements. In particular, Clause 15(1) of the TPM requires Transpower to:
- (a) undertake public consultation if the proposed starting BBI customer allocations for a post-2019 BBI is expected to be high-value when fully commissioned (before the relevant transmission charges or adjustments to them are finalised); and
  - (b) undertake consultation with customers who are or will be beneficiaries of the post-2019 BBI if there is a proposed material adjustment to the BBI customer allocations for a post-2019 BBI is expected to be high-value immediately before the adjustment (before the relevant transmission charges or adjustments to them are finalised).<sup>6</sup>
- 2.17. Clauses 15(2) to (5) provide for the scope and timing of consultations.
- 2.18. The proposed amendment does not change the consultation requirements in clause 15(1). The change merely clarifies that the allocation method may change. For clarity we note that the concepts of high-value and low-value (and the related base capex threshold in the Transpower Capex IM) are based on expected costs, not actual cost.
- 2.19. The Electricity Authority has decided to implement the amendments as proposed in our consultation paper. As we noted in our TPM decision, we consider the consultation requirements provide sufficient opportunities for participants to engage on key matters and are consistent with the Guidelines.<sup>7</sup> Where the allocation method changes, we expect Transpower to tailor its consultation to that context. We consider that a change to the consultation requirements is not required in order to achieve this.

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<sup>5</sup> Commissioning date' here means the date the first investment comprised in the BBI is commissioned.

<sup>6</sup> [Electricity Industry Participation Code 2010](#)

<sup>7</sup> Electricity Authority, Transmission Pricing Methodology 2022, Decision Paper, Para 13.5  
[www.ea.govt.nz/documents/1809/2022-TPM-Decision-paper1358263.1.pdf](http://www.ea.govt.nz/documents/1809/2022-TPM-Decision-paper1358263.1.pdf)

## Issue 4: Adopt proposal and provide further information

### Our decisions for Issue 4

- 2.20. The Electricity Authority has adopted the Code amendments, to allow Transpower to apply the most appropriate benefit factors to calculate starting BBC allocations for new customers, that were proposed in the May 2023 consultation paper.<sup>8</sup>

### What we proposed

- 2.21. The proposed amendment involves adding new subclause (7A) to clause 83, which provides that if certain conditions are met then Transpower must:
- (a) calculate the benefit factors for these customers and connection locations under subclause 83(7) as if each relevant connected asset owner customer were a generator customer, and vice versa, because this is a truer reflection of each customer's type at these connection locations over capacity measurement period (CMP) D; and
  - (b) apply those benefit factors under paragraph 83(6)(a) based on the deemed customer type instead of the actual customer type.
- 2.22. The proposal also includes consequential and minor clarifying changes for the definition of variable E (paragraph 83(7)).
- 2.23. Instead of the customer's average annual net injection or net offtake, Transpower will use as variable E whichever value is larger:
- (a) the customer's average annual injection (over CMP D) at the connection location
  - (b) the customers' offtake (over CMP D) at the connection location.
- 2.24. The rationale for the proposed amendments is described in the consultation paper and supporting documents.

### Submitters' views and our assessment

- 2.25. We received one submission, from IEGA, on this issue.
- 2.26. IEGA noted that Transpower has already published benefit factors calculated in line with the proposed changes and queried whether the customers were informed that Transpower had applied a different methodology from the Code and is it appropriate that the Code was not followed.
- 2.27. Transpower consulted stakeholders on this approach as part of its consultation on the assumptions book update in February 2023.<sup>9</sup> Transpower has informed us that it did not receive any submissions in response to this consultation.
- 2.28. As we had no submissions opposing our proposed amendments for issue 4, the Electricity Authority has decided to implement the amendments as proposed in our consultation paper.

## Issue 6: Treatment of non-asseted commissioned assets

### Our decisions for Issue 6

- 2.29. The Electricity Authority has adopted the Code amendments, to change the way assets comprised in a BBI that have been commissioned but not asseted are factored into the

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<sup>8</sup> [https://www.ea.govt.nz/documents/3026/Consultation\\_paper-Amendments\\_to\\_correct\\_issues\\_in\\_new\\_TPM.pdf](https://www.ea.govt.nz/documents/3026/Consultation_paper-Amendments_to_correct_issues_in_new_TPM.pdf)

<sup>9</sup> Transpower, TPM consultation: Proposed updates to assumptions book, Consultation paper, 1 February 2023 para 31 to 33 [https://tpow-corp-production.s3.ap-southeast-2.amazonaws.com/public/uncontrolled\\_docs/TPM%20Consultation%20BBC%20Assumptions%20Book%20v1.1%20Consultation%20Paper%2010%20Feb%20reissue.pdf?VersionId=oufEKSEC1LRsgfUJZbEgRxAnIUQLK3sV](https://tpow-corp-production.s3.ap-southeast-2.amazonaws.com/public/uncontrolled_docs/TPM%20Consultation%20BBC%20Assumptions%20Book%20v1.1%20Consultation%20Paper%2010%20Feb%20reissue.pdf?VersionId=oufEKSEC1LRsgfUJZbEgRxAnIUQLK3sV)



covered cost calculation for the BBI, that were proposed in the May 2023 consultation paper.<sup>10</sup>

### **What we proposed**

- 2.30. The rationale for the proposed amendments is described in the consultation paper and supporting documents.

### **Submitters' views and our assessment**

- 2.31. We received one submission, from IEGA, on this issue. IEGA supported our proposed amendment to address this issue.
- 2.32. The Electricity Authority has decided to implement the amendments as proposed in our consultation paper.

## **Issue 7: Publication of simple method allocators**

### **Our decisions for Issue 7**

- 2.33. The Electricity Authority has decided to:
- (a) amend the TPM by adding the requirement to publish simple method allocations during the simple method period
  - (b) not adopt its proposal to remove the requirement on Transpower to publish inputs to the simple method BBC allocations during the simple method period
  - (c) remove the requirement to publish simple method allocation information in the assumptions book specifically.

### **What we proposed**

- 2.34. The TPM currently requires Transpower to publish inputs to the simple method BBC allocations (modelled regions, regional NPB, simple method factors and any new or re-calculated simple method factors) but there is no obligation to publish the actual BBC allocation that results from the use of these inputs.
- 2.35. The Electricity Authority proposed amendments to:
- (a) require the publication of the BBC allocations themselves and any changes to them during the simple method period (and remove the requirements to publish the simple method factors and any changes to them during the simple method period, noting that full information about the inputs to the starting BBC allocations calculated at the start of each simple method period will be made available to customers through the consultation required under clause 15(1)). This proposed change reflected customer feedback to Transpower that they are more likely to be interested in their allocations than their simple method factors (which are merely an input to the allocations); and
  - (b) remove the requirements to publish the simple method allocation information in the assumptions book specifically. This will provide flexibility for Transpower to publish the information in a form and location most likely to be useful for customers (which may be – and currently is – the assumptions book).
- 2.36. As an alternative option, the Electricity Authority also considered whether it should require publication of BBC allocations in addition to the current requirements to publish changes to inputs during the simple method period. We noted that some customers may find information on changes to inputs during a period useful while also valuing the additional information on allocations themselves. This was not our preferred option – our view was that it is unnecessary to keep the current requirements, given that full information about the inputs to the starting BBC allocations calculated at the start of each simple method period will be made available to customers through the consultation required under clause 15(1)).

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<sup>10</sup> [https://www.ea.govt.nz/documents/3026/Consultation\\_paper-Amendments\\_to\\_correct\\_issues\\_in\\_new\\_TPM.pdf](https://www.ea.govt.nz/documents/3026/Consultation_paper-Amendments_to_correct_issues_in_new_TPM.pdf)

## **Submitters' views and our assessment**

2.37. We received two submissions, from the IEGA and Calderwood Advisory Limited, on this issue.

2.38. IEGA submitted:

"We support Transpower continuing to publish the information that is currently available as well as publishing the resulting allocators. All of this information should be publicly available for all transmission customers. We support the information continuing to be available in the Assumptions Book – it is easier to know that one document will provide all the information that might be needed. The Authority refers to the opportunity to see the allocation calculations during the consultation process – this does not mean that the final allocations (post consultation) will be the same."

2.39. Calderwood Advisory Limited also did not support the removal of the requirements to publish the simple method factors and any changes to them during the simple method period. Calderwood Advisory Limited submitted:

"I understand and agree that the final allocators are what customers are most interested in. However, it is important, that new entrants, who may not be customers, can assess the application of the simple method, (and other BBI) allocators that may be applied to any new investments. This is particularly relevant to new renewable generation. I have been asked to advise clients in relation to the allocation of BBI charges as a result of new renewable generation investments. By being able to provide the best possible advice in relation to all costs in relation to a new investment including the allocation of BBI charges must be economically efficient. In order to do this updated information should be available to enable assessment of the adjustment events under the TPM in relation to new injection or offtake. To do end this I recommend that all inputs needed to calculate adjustment events are published, not just the final allocators. In relation to the simple method the most important variable that may change during a simple method period is the IRA. I recommend that at a minimum that any changes to IRAs are published, but ideally any changes to any other inputs that affect final allocators. Transpower has recently published updated simple method IRAs for the current pricing year which is sufficient and has also published updated Appendix A allocators with the 'E' factor which is also useful. Transpower should be required to update this sort of information over time."

2.40. In view of submissions that information on inputs is useful, we have decided to adopt our alternative proposal (to add the requirement to publish information on simple method allocations). We consider it is important that stakeholders have sufficient information available to them.

2.41. We remain of the view that it is appropriate for Transpower to have flexibility to publish the information in a form and location most likely to be useful for stakeholders and have removed the requirement to specifically publish simple method allocation information in the assumptions book. We expect Transpower to consider stakeholders' feedback on such matters.

## **Issue 8: Corrections to reduction event adjustment factor formula**

### **Our decisions for Issue 8**

2.42. The Electricity Authority has adopted the Code amendments to correct errors in the formula for calculating the reduction event adjustment factor that we proposed in the May 2023 consultation paper.<sup>11</sup>

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<sup>11</sup> [https://www.ea.govt.nz/documents/3026/Consultation\\_paper-Amendments\\_to\\_correct\\_issues\\_in\\_new\\_TPM.pdf](https://www.ea.govt.nz/documents/3026/Consultation_paper-Amendments_to_correct_issues_in_new_TPM.pdf)

### **What we proposed**

- 2.43. The rationale for the proposed amendments is described in the consultation paper and supporting documents.

### **Submitters' views and our assessment**

- 2.44. We received no submissions on this issue.
- 2.45. As we had no submissions opposing our proposed amendments for issue 8, the Electricity Authority has decided to implement the amendments as proposed in our consultation paper.
- 2.46. We note that this amendment makes permanent an earlier amendment that was made urgently (in order to commence at the same time as the new TPM).<sup>12</sup>

## **Issue 9: Allocations of high-value investments that are expected to change from interconnection to connection**

### **Our decisions for Issue 9**

- 2.47. The Electricity Authority has adopted the Code amendments to apply the BBC simple method to high-value transmission investments that change classification from interconnection to connection shortly after commissioning that we proposed in the May 2023 consultation paper.<sup>13</sup>

### **What we proposed**

- 2.48. The Electricity Authority proposed amendments to clause 43 by adding, as a further exception to subclause 43(2), new subclause 43(4A) which requires Transpower to apply the simple method to a high-value post-2019 BBI if:
- (a) interconnection investments comprised in the BBI are expected to change to connection investments within three years of the BBI's full commissioning date. We have proposed a period of three years as we consider this will be an appropriately small part of any BBI's total economic life and is a forecasting window within which we are likely to have a reasonably high level of confidence as to future changes in grid configuration; and
  - (b) the BBI would be low value if those interconnection investments were disregarded in assessing the expected value of the BBI when fully commissioned.

### **Submitters' views and our assessment**

- 2.49. We received one submission, from IEGA, on this issue.
- 2.50. IEGA submitted that:

The proposed Code amendment does not cover what happens if the interconnection asset remains an interconnection asset – that is, the other assets are not decommissioned in the following 3 years (or a decision is made during those three years that the proposed decommissioned assets are still required) due to a change in demand or other unknown factors. If the assets remain interconnection assets – will Transpower be required to redo the allocation of the cost of this high value investment using the Standard Method?

- 2.51. Having considered the IEGA's submission, the Electricity Authority considers that Transpower should not be required to redo the allocation of the cost of a high-value investment using the standard method in the scenario contemplated by the IEGA and that the IEGA's submission does not constitute a reason not to proceed with the Code amendment proposed in May 2023 to address issue 9.

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<sup>12</sup> [https://www.ea.govt.nz/documents/2508/Residual\\_Charge\\_Adjustment\\_Factor\\_2023\\_amendment\\_-\\_Certified\\_instrument.pdf](https://www.ea.govt.nz/documents/2508/Residual_Charge_Adjustment_Factor_2023_amendment_-_Certified_instrument.pdf)

<sup>13</sup> [https://www.ea.govt.nz/documents/3026/Consultation\\_paper-Amendments\\_to\\_correct\\_issues\\_in\\_new\\_TPM.pdf](https://www.ea.govt.nz/documents/3026/Consultation_paper-Amendments_to_correct_issues_in_new_TPM.pdf)

- 2.52. We have asked Transpower to provide its view on the likelihood of this scenario arising. Transpower has responded as follows:
- (a) Transpower does not consider IEGA's scenario is likely.
  - (b) The proposed amendment is expected to mostly capture investments where there are significant benefits from decommissioning redundant assets after the investment is commissioned.
  - (c) Something major and not signalled in the investment approval consultation would need to happen before it would make sense for Transpower to forgo those benefits.
  - (d) Transpower expects this new rule to apply very infrequently, and when it does apply, the customers who end up with higher or lower allocations will depend entirely on what and where the relevant investment is.
- 2.53. Once Transpower has applied a method to calculate BBC allocations, Transpower is not required – and following the Code amendment will not be required – to recalculate the allocations under a different method later if something unanticipated happens. This is in keeping with the underlying logic of BBC allocations – these allocations are fixed at the outset based on forecasts for the life of the BBI (unless there is an adjustment event).
- 2.54. Transpower has informed the Authority that there would be increased administrative effort and cost if Transpower were required to apply a different method later, and that doing so would be inefficient if, for example, the anticipated change to connection did not occur within three years but was expected to occur within the 12 months after that.
- 2.55. The Electricity Authority considers that the situation described by IEGA would only rarely be expected to happen (noting that it would involve Transpower not considering or having access to key information in its major capex proposal and pricing consultation). We have therefore decided to adopt our proposal. The new rule is expected to apply very infrequently (noting that it is expected to apply to the BOB-OTA grid investment).<sup>14</sup>

## **Issue 10: Consideration of settlement residue payments in prudent discounts**

### **Our decisions for Issue 10**

- 2.56. The Electricity Authority has adopted the Code amendments to clarify that assessment of prudent discounts requires consideration of settlement residue payments that were proposed in the May 2023 consultation paper.<sup>15</sup>

### **What we proposed**

- 2.57. The Electricity Authority proposed amendments to the Code to replace the definition and references to 'avoided transmission charges' in the TPM with a new definition of "avoided charges" to make it clear that the transmission charges if the alternative project did not go ahead must be net of settlement residue payments.

### **Submitters' views and our assessment**

- 2.58. We received one submission, from IEGA, on this issue.
- 2.59. IEGA agreed with the proposed change but requested that there be a way for the prudent discount applicant and Transpower to agree a fair value for settlement residual rebates and wanted to ensure that a conflicting view on this would not stall or disqualify a prudent discount application.
- 2.60. The Electricity Authority's view is that the assessment of prudent discount applications is not a matter of agreement between Transpower and the applicant (in relation to expected

<sup>14</sup> Electricity Authority, Consultation Paper, Amendments to correct issues in the new TPM, 17 May 2023 [www.ea.govt.nz/documents/3026/Consultation\\_paper-Amendments\\_to\\_correct\\_issues\\_in\\_new\\_TPM.pdf](https://www.ea.govt.nz/documents/3026/Consultation_paper-Amendments_to_correct_issues_in_new_TPM.pdf)

<sup>15</sup> [https://www.ea.govt.nz/documents/3026/Consultation\\_paper-Amendments\\_to\\_correct\\_issues\\_in\\_new\\_TPM.pdf](https://www.ea.govt.nz/documents/3026/Consultation_paper-Amendments_to_correct_issues_in_new_TPM.pdf)

settlement residue amounts or any other expected cost or benefit of the alternative project). The applicant proposes a prudent discount in its application, and it is then for Transpower to decide, based on its assessment of the information in the application, whether the tests in the TPM for granting the prudent discount are met. Transpower's assessment will be informed by stakeholder views contributed during consultation on Transpower's draft decision.

- 2.61. If the applicant disagrees with Transpower's assessment of the application, then it has access to the binding independent expert review process.
- 2.62. We consider that the process provided for in the TPM is appropriate and no separate process is required for determining expected settlement residue payment amounts. The Electricity Authority has decided to implement the amendments as proposed in our consultation paper.

Appendix A Submissions received

Submitter	Category
Independent Electricity Generation Association (IEGA),	Association
Vector	Electricity distribution
Calderwood Advisory Limited	Consultancy