

28 February 2022

Commerce Commission
Attention: Sue Begg, Deputy Chair

By email: Sue.Begg@comcom.govt.nz

Dear Sue

Proposed new Transmission Pricing Methodology (TPM)

As you are aware, the Electricity Authority is in the final stages of its process to develop a new TPM. The Authority is now considering whether to incorporate a proposed new TPM into the Code. We anticipate this may have implications for certain aspects of the Commerce Commission's functions or powers. So, under section 54V of the Commerce Act 1986, the Authority would now like to consult formally with the Commission on its proposed new TPM. This formal consultation on the proposed TPM continues on from:

- the engagement between Authority staff and Commission staff which has occurred at intervals throughout the development of the TPM guidelines and the proposed new TPM, including engaging with the Commission on the full proposed TPM pre-Christmas
- the Commission's recent reconsideration of Transpower's current individual price-quality path to allow for TPM development costs.

I would like to take this opportunity to express the Authority's appreciation for the valuable contributions Commission staff have made to date on this process. They are much appreciated.

The Authority's public consultation on its proposed new TPM concluded in December 2021 and work has continued on the proposed TPM following consideration of submissions and cross-submissions received. The Authority Board expects to, on 31 March 2021, make a final decision on whether to incorporate a proposed new TPM into the Code. Subject to feedback we are currently seeking from Transpower, the Authority is targeting a 1 April 2023 commencement for any new TPM.

The proposed TPM seeks (amongst other things) to:

- incentivise participants to better engage with, and provide relevant information to inform, the Commission's processes around assessment of Transpower's specific grid investment proposals, and Transpower's broader expenditure proposals that underlie the Commission's five-yearly reset of Transpower individual price-quality path
- align particular provisions of the proposed TPM with aspects of the Commission's current processes (for example, various terms in the TPM are defined by reference to terms used in the Commission's input methodologies, and work has been undertaken to align TPM provisions relating to write-downs in asset value with the Commission's processes).

We are seeking your feedback on these and any other aspects of the TPM that you consider to be relevant to the Commission's functions or powers.

To assist the Commission in considering what feedback it might provide, the 2021 TPM consultation paper, proposed TPM, and submissions received are available here (as well as earlier relevant documentation such as the 2020 TPM guidelines and decision document and 2019 Issues Paper, which addressed the thinking behind the proposed reforms). We highlight these documents for completeness noting that the Commission has already seen most if not all of the documents (bar the submissions) previously. I have also attached, for the Commission's information and in confidence, an extract from the draft minutes from the Authority Board's 18 February meeting that sets out the 'in-principle' changes that the Board has decided to make to the TPM proposed in October 2021.

Should the Commission require further context or clarification, please contact Rob Bernau at rob.bernau@ea.govt.nz or Tim Sparks at tim.sparks@ea.govt.nz.

We would appreciate your response to this letter by 17 March 2022, but please let us know if that timeframe is not workable.

Yours sincerely



Nicki Crauford
Chair

cc: Adrienne.Meikle@comcom.govt.nz (Chief Executive)
Calum.Gunn@comcom.govt.nz (Principal Adviser)

Attached:

Extract from the draft minutes from the Authority Board's 18 February meeting

IN CONFIDENCE

Extract from draft minutes from Electricity Authority 18 February 2022 special Board meeting

1.1 The Board

- (a) **agreed** in principle that, with respect to the grid asset reclassification provisions, the proposed TPM should:
 - (i) provide a discretion for Transpower to reclassify interconnection assets as connection assets, but with refinements which will limit the discretion and add explicit consultation requirements and appeal rights
 - (ii) not provide a discretion for Transpower to reclassify connection assets as interconnection assets.
- (b) **agreed** in principle that, for the connection charge, the proposed TPM should address the Type 2 first mover disadvantage (FMD) issue, where extra capacity is being built into connection assets anticipating future connections, by:
 - (i) allocating the costs of this anticipatory capacity through a combination of the previously proposed benefit-based approach (50% of the costs) and Transpower proposed 'pool and share' method (the remaining 50% of costs)
 - (ii) explicitly requiring Transpower to inform customers of the impact on their charges before deciding to make an investment in anticipatory capacity.
- (c) **agreed** in principle that, for the benefit-based charge (BBC):
 - (i) the proposed TPM should initially allocate costs under the simple method 62.5% to load customers and 37.5% to generation customers
 - (ii) subject to future consideration of TPM re-openers, there should not be a scheduled five yearly review of the BBC simple method load:generation weighting factor
 - (iii) the assumptions book that underlies the benefit-based allocations should not be binding.
- (d) **agreed** that the TPM provisions for determining the counter-factual scenario in the BBC standard method are generally appropriate and **noted** that staff are seeking further feedback from Transpower regarding whether further discretion should be allowed for determining the counter-factual scenario to allow for "edge cases".
- (e) **agreed** in principle that, for the residual charge, the proposed TPM should:
 - (i) continue to treat cogeneration the same way as other generation located behind the GXP for the purposes of residual charge allocation
 - (ii) in respect of the application of the residual charge to battery storage:

- continue to take a final consumption approach to allocating the residual charge, i.e., only count battery losses
 - treat energy injected by a behind-the-meter system to a distribution network as embedded electricity, where information is unavailable on whether the energy was injected by a battery or by a generator
 - count the losses of embedded batteries (as well as grid-connected batteries) towards anytime maximum demand (AMD), for the purpose of initial allocation of the residual charge
- (iii) in respect of the measurement of gross energy:
- provide Transpower with what Transpower refers to as a “safe harbour” if it uses listed data sources to calculate allocation data, which includes gross energy, i.e., it is not required to use any other data sources
 - amend Transpower’s suggested drafting to provide that Transpower may use the listed data sources except where the Code, rather than just other provisions of the TPM, provides otherwise (therefore future-proofing to allow for any future Code amendment that provides for more information disclosure to also require Transpower to use that information)
 - include a wash-up provision if necessary which requires Transpower to recalculate charges after the first year (for example if particular criteria are met or if the Authority requires it), but for the avoidance of doubt should avoid a wash-up where possible.
- (f) **agreed** that staff will undertake a separate Code amendment workstream to provide for more information about behind-the-meter generation and consumption to inform ongoing calculation of and adjustments to the residual charge, which would likely involve:
- (i) requirements on participants to measure, retain, and provide such information for future periods
 - (ii) requirements on some participants to provide historical information (2014-2017 onwards) for calculating allocations during the initial years under the new TPM.
- (g) **discussed** and provided feedback on the issue presented by staff with respect to the allocation of the residual charge where a customer has multiple points of connection in the same location and **noted** that staff are seeking further feedback from Transpower regarding whether a possible exception would be workable.
- (h) **agreed** in principle that, with respect to the adjustments provisions, the proposed TPM should be changed, to:
- (i) better align the amended write-down provisions proposed by Transpower with the Commerce Commission’s regime, while ensuring that those

provisions are limited such that the incentive for scrutiny of new transmission investments is preserved

- (ii) allow an adjustment to the distributor's connection charge when a distribution-connected load customer's large plant is derated, subject to certain criteria (e.g., that the connection investment is more than 10 years old)
- (iii) permit the adjustment of the residual charge with the standard 5-8 year lag when a party disconnects or de-rates a plant (but remains a customer) as well as in other circumstances.
- (i) **agreed** in principle that no changes are required to the proposed TPM to address submitter concerns that the transitional price cap does not provide customers with enough protection from price shocks.
- (j) **agreed** in principle that, with respect to the prudent discount policy (PDP), the proposed TPM should provide that:
 - (i) connection assets and connection charges should be included in a standalone cost prudent discount assessment
 - (ii) Transpower must publish the following aspects of a (non-binding) prudent discount practice manual (PD practice manual) by 1 December 2022: (A) application requirements for prudent discounts, (B) the application fee for prudent discounts and (C) information on how Transpower intends to assess prudent discount applications with an effective date of 1 April 2023, **noting** that staff are seeking further feedback from Transpower regarding whether this publication requirement is reasonably practicable within the time specified
 - (iii) customers cannot jointly apply for a standalone cost prudent discount
 - (iv) the alternative project under a standalone cost prudent discount should provide the same level of service to the customer as is being provided by Transpower currently (as required by the Guidelines)
 - (v) customers can terminate a prudent discount agreement (PDA) before the end date of the agreement
 - (vi) all existing PDAs and notional embedding contracts (NECs) come to an end at the commencement of any new TPM
 - (vii) PDAs agreed soon after the commencement of any new TPM should be backdated to the beginning of year 1 of the new TPM (provided the transmission customer meets specific notification and application deadlines).
- (k) **agreed** in principle that the proposed TPM should not provide for a transitional congestion charge (TCC).
- (l) **noted** staff's view that stakeholder concerns on the following matters can be addressed:
 - (i) uncertainty over future charges under the proposed new TPM

- (ii) the Authority's cost-benefit analysis (CBA) of the proposed TPM
 - (iii) legal process concerns about the Authority's consultation on the proposed TPM.
- (m) **agreed** that a technical drafting consultation on the proposed TPM is not required, noting other drafting assurance that will be provided to the Board.
 - (n) **agreed** to extend to 31 May 2022 the time allowed under clause 12.93 of the Code for the Authority to complete its consideration of all submissions received on the proposed TPM and consider whether to include the TPM in a schedule to Part 12 of the Code and, if so, the date that the TPM will take effect.
 - (o) **agreed** in principle to a new TPM taking effect from 1 April 2023.
 - (p) **delegated** authority to the Chief Executive or the Chair (or the Chair on behalf of the Chief Executive) to write to Transpower to consult with it under clause 12.94 of the Code regarding the date on which any new TPM will take effect.
 - (q) **delegated** authority to the Chair to write to the Commerce Commission to consult with it under section 54V of the Commerce Act 1986.