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Dear John

Consultation on Transpower's proposed variations to the TPM

We welcome the opportunity to comment on the Authority's consultation on *Transpower's proposed variation to the Transmission Pricing Methodology*, published 21st April 2015. This consultation covers two of the five components of Transpower's 13 February 2015 submission to the Authority and the two 'supplementary' components submitted on 24 March 2015.

Separately, the Authority has 'referred back' to Transpower three of the five components from our February proposal [1]. Transpower subsequently decided to resubmit one of those components (HVDC charging) to the Authority and to withdraw the remaining two components (RCPD NZAS summer load limit and line maintenance rates). We understand the Authority is currently considering our resubmitted HVDC charging proposal and may consult on this in due course.

In this submission we comment briefly on:

1. our experience of the process to date
2. the four components being consulted on
3. Code drafting including suggesting alternative drafting in some areas.

Because the Authority is consulting on proposals we made we do not to comment in detail on its analysis; however, we remain available to the Authority should it wish to test matters raised in submissions or require additional information.

Introduction and process to date

This is the first time that clause 12.85 has been exercised which has meant Transpower and the Authority have, to an extent, been breaking new ground. We appreciate the effort and attention the Authority has given to our proposals. We have found the Authority's approach constructive and purposeful and consider this consultation paper thorough and informative.

Previously untested Code provisions and processes have been applied, for example, the Authority has utilised a combination of informal dialogue and the refer-back process to seek refinements to

[1] Transpower's proposal and related correspondence is available at http://www.ea.govt.nz/development/work-programme/transmission-distribution/transpower-tpm-operational-review/

our proposals. Although this process has generally been effective we think there may be scope to clarify the interpretation of TPM variation provisions at clause 12.85 and the refer-back process at clause 12.91. As a result, and recognising this is the first application of clause 12.85 and many lessons have been learned, we think a 'post project review' would be worthwhile.

Scope of consultation and process

This consultation covers two of the five components of Transpower's February 2015 submission to the Authority. It also covers two 'supplementary' components that Transpower submitted in March 2015, after discussions with the Authority. Collectively these comprise:

a) RCPD setting the value of N

b) RCPD capacity measurement period (CMP) change

c) RCPD quantity adjustment provision

d) Reverse flows pricing impacts

As noted above, the Authority has 'referred back' three of the five components in our original February proposal and Transpower has since resubmitted one of those components (HVDC charging) for consideration by the Authority.[2]

Comments on the four 'components' under consultation

We comment briefly on each of the four components under consideration. Our comments are mainly focused on operational matters.

RCPD setting the value of N

This proposal would be straightforward for Transpower to implement and operate.

We note the tentative nature of the assumptions for investment likelihood with which the Authority has framed its modelling findings. The approach taken by the Authority reflects a balanced view of the future that recognises the high degree of demand (and investment) uncertainty facing the sector and the implications of this uncertainty for pricing objectives. We suggest that the degree of uncertainty, coupled with the fact that the Authority is simultaneously reviewing the TPM Guidelines, points to incremental change in this review.

RCPD capacity measurement period change

The proposal to reduce the capacity measurement period (CMP) is straightforward to implement and operate and would require no operational discretion from Transpower as administrator of the TPM.

As with the selection of 'N', the selection of CMP should be monitored and adjusted if necessary to reflect changes in investment driver across the grid.

RCPD quantity adjustment provision

The proposed drafting for the quantity adjustment provision is problematic because it could be interpreted as compelling Transpower's involvement in the customer's investigative processes for valuing production changes and assessing the likelihood of these occurring.

For example, we note that, although the applicant would have to meet '*the change in offtake **will alter** the incidence of the majority of regional peak demand periods peaks*' hurdle (as NZIER did for

[2] Refer: 8 May 2015 letter, Transpower to Electricity Authority http://www.ea.govt.nz/dmsdocument/19326

NZAS), Transpower would need to undertake a pricing effects analysis to satisfy ourselves that *the change in offtake is unlikely to occur in the absence of the adjustment*. Having further reflected on this matter, we request that, with the exception of NZAS for the CMP beginning 1 September 2015[3], a three month lead time applies (in place of the 20 days proposed). This recognises the extraordinary nature of this provision, provides a more realistic timeframe to analyse the proposal, and reduces the risk of these requests interfering with the annual price-setting cycle (August is a peak workload month).

We have suggested alternative drafting to this effect and to ensure the onus is clearly on the customer to demonstrate the peak shifting and economic case before it requests us to consider applying the adjustment clause.

Reverse flows

We note that, for us to be able to analyse any adjustments, we will need information in the form of meter data for both export and import flows at the relevant GXPs. To ensure the meters operated by Transpower as grid owner are configured to provide the necessary data set, we need to know which GXPs that are being tied.

This requirement would be satisfied if the Distributor has met its obligation[4] to the System Operator (regarding having an agreement to be simultaneously connected to the grid at more than one point of connection). Further, there is an obligation on the grid owner to give one month's notice to the reconciliation manager of changes that affect reconciliation. These two conditions combined mean that a distributor needs to anticipate that a GXP tie could occur and inform Transpower as grid owner and as System Operator in sufficient time to incorporate the month's delay between agreement and our ability to analyse the effect.

Drafting

Although we provided drafting for most of the components that we submitted to the Authority, this consultation step has provided an opportunity to reflect again on Code drafting with operational implementation in mind. We have reviewed the proposed drafting for the three changes under consultation and provide comment in Appendix A. Our comments, in summary, relate to:

- Clause 3: we have proposed that the definition of GXP tie reflects the drafting used in Schedule 8.3 Technical Code A, clause 6
- Clause 16: a change to the line maintenance formula has been proposed. We presume that this is accidental (because, following our withdrawal of this component of our proposal, no changes to the formula are proposed)
- Clause 34: we propose redrafting for new sub clauses 2A, 2B and 2C to ensure the onus is on the customer to demonstrate the case for its request to have us apply the adjustment clause
- Clause 34: we propose an addition to new sub clause 12 to ensure that any reverse flow adjustment consideration by Transpower (as grid owner) is contingent on the Distributor having complied with its obligations to the System Operator in agreeing the GXP ties (described as 'simultaneous connection to the grid at more than 1 point of connection' under Schedule 8.3 Technical Code A, clause 6)

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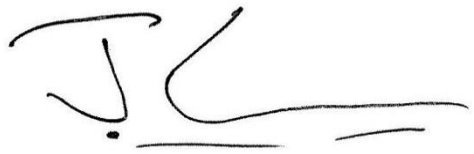
[3] Where the timing of the Code change would not permit a longer lead time (and because we are already satisfied that the NZAS summer production uplift proposal would meet the thresholds)

[4] Schedule 8.3 Technical Code A, clause 6: Specific requirements for local networks. *Each distributor must agree with the system operator any temporary or permanent connection of the distributor's assets if those assets become simultaneously connected to the grid at more than 1 point of connection*

- Appendix B: we agree with changes to the Appendix B[5] of the TPM to remove the list of connection locations and replace with a description of the regional geographical boundaries for UNI and USI. We agree that the descriptive approach will provide customers with sufficient clarity as to which region they are in for pricing purposes. We have suggested drafting for these geographical descriptions.

Please let Micky Cave (04 590 7309) or me know if you have any questions or would like to discuss any aspect of this submission. Additionally, we remain available to assist the Authority with any queries arising from this consultation



Jeremy Cain
Regulatory Affairs and Pricing Manager

[5] Not the same as the Appendix B of the consultation paper

Appendix A – Code drafting comment

	Drafting	Comment and suggested drafting
Clause 3	**GXP tie** means a situation in which 2 or more GXPs are electrically connected by 1 or more lines that do not form part of the grid	**GXP tie** means a situation in which ~~2 or more~~ GXPs are ~~electrically~~ simultaneously connected ~~by 1 or more lines that do not form part of the grid connected~~ to the grid at more than 1 point of connection.
Clause 16	$MRR_{\text{conn line type}} = \frac{+\sum_{n=1}^{4} MC_{\text{conn line type}}}{4 \quad TL_{\text{conn line type}}}$	Following the refer-back by the Authority, we withdrew our proposal for changes to the line rate methodology. This formula change is in error as it is not the formula under the current rules.
Clause 34	(2A) Sub clause (2C) applies if (a) a **customer** has given notice to **Transpower**, no later than 20 **business days** before the start of a **capacity measurement period** for a **pricing year**, that the **customer** proposes to change the amount or timing (or both) of the **customer's offtake** in the **capacity measurement period** compared with the **customer's** previous **offtake**; and (b) the **customer** requests that **Transpower** applies the adjustment provided for under sub clause (2C) in respect of the **customers** change in **offtake**; and (c) **Transpower** is satisfied that— (i) the change in **offtake** will alter the incidence of the majority of **regional peak demand periods** in the **region** in which the change in **offtake** will occur~~;~~ and (ii) the change in **offtake** is unlikely to occur in the absence of the adjustment provided for in sub clause (2C); and (iii) the change in **offtake** is unlikely to give rise to a need for investment in the **grid**; and (d) **Transpower** has notified the **customer,** before the commencement of the **capacity measurement period,** that it intends to apply the adjustment provided for in sub clause (2C) in respect of the **customer**'s change in **offtake**. (2B) **Transpower** must **publish** on its website the notice referred to in sub clause (2A) (d). (2C) When this clause applies in respect of a **customer's** change in **offtake**, **Transpower** must disregard the change for the purposes of identifying **regional peak demand periods** in the **region** in which the change occurs.	(2A) If: (a) a **customer** has given notice to **Transpower**, no later than 20 **business days** before the start of a **capacity measurement period** for a **pricing year**, that the **customer**— (i) proposes to change the amount or timing (or both) of the **customer's offtake** in the **capacity measurement period** compared with the **customer's** previous **offtake**; and (ii) requests that **Transpower** applies the adjustment provided for under sub clause (2C) in respect of the change in **offtake**; and (b) the **customer** provides with its notice sufficient supporting information to demonstrate that— (i) the change in **offtake** will alter the incidence of the majority of **regional peak demand periods** in the **region** in which the change in **offtake** will occur; and (ii) the change in **offtake** will not occur in the absence of the adjustment provided for in sub clause (2C); and (c) **Transpower** is satisfied that— (i) on the basis of the supporting information provided by the **customer**, and such other information or analysis as **Transpower** may choose to take into account, that the things referred to in sub clauses (b)(i) and (ii) are true; and (i) the change in **offtake** is unlikely to give rise to a need for investment in

		the **grid**, then: (d) sub clause (2C) will apply; and (e) **Transpower** must notify the **customer** before the commencement of the **capacity measurement period**, that it intends to apply the adjustment provided for in sub clause (2C) in respect of the **customer**'s change in **offtake**. (2B) **Transpower** must **publish** on its website the notice referred to in sub clause (2A) (e). (2C) When this sub clause applies in respect of a **customer's** change in **offtake**, **Transpower** must disregard the change for the purposes of identifying **regional peak demand periods** in the **region** in which the change occurs
Clause 34	(12) Transpower must adjust a customer's **AMD, AMI, HAMI**, or **RCPD** at a **connection location** to minimise the impact of **reverse flow** at the **connection location** if— (a) the **customer** has notified **Transpower** that there is **reverse flow** at the **connection location**; and (b) **Transpower** agrees that there is **reverse flow** at the **connection location**.	(12) Transpower must adjust a customer's **AMD, AMI, HAMI**, or **RCPD** at a **connection location** to minimise the impact of **reverse flow** at the **connection location** if— <u>(a) the **customer** has an agreement with the System Operator under Schedule 8.3 Technical Code A clause 6; and</u> (b) the **customer** has notified **Transpower** that there is **reverse flow** at the **connection location**; and (c) **Transpower** agrees that there is **reverse flow** at the **connection location**
Appendix B	The Upper North Island (UNI) is all of the **connection locations** in "the geographical area north of Huntly, including Glenbrook, Takanini, Auckland and the Northern Isthmus". The Upper South Island (USI) is all of the **connection locations** in the geographical area that includes all **GXPs** supplied from the major concentration of generation in the Waitaki Valley and south of the Waitaki Valley. These GXPs are supplied by the 220kV system from Tekapo B, Twizel and Livingstone	The Upper North Island (UNI) is all of the **connection locations** in "the geographical area north of (but not including) Hamilton, and including Huntly, Te Kowhai and Bombay". The Upper South Island (USI) is all **connection locations** in the geographical area that includes all **GXPs** northwards of Timaru and Albury, inclusive.