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Victoria Parker
Head of Grid Pricing
Transpower New Zealand Ltd
Waikoukou
22 Boulcott Street
Wellington

By email to: pricingteam@transpower.co.nz

Dear Victoria

TPM Consultation: Updated CNI & HVDC Reactive Support starting customer allocations

Introduction

Thank you for the opportunity to provide feedback on the updated consultation on the proposed starting allocations for the CNI and HVDC Reactive Support BBIs. This submission is focused on the HVDC Reactive Support BBI but covers some issues common to both projects.

Impact to South Island load customers

The proposed change in allocations have a large negative impact on allocations to Orion and other South Island load customers and a large positive impact to South Island generators. In fact, under the original allocation South Island load customers received zero allocation.

Given that the original allocations were consistent with the major capital investment proposal to the Commerce Commission, it may be that the original project would no longer meet the investment test, meaning that South Island load customers have negative benefits if required to pay for the upgrade.

Review of Starting Allocations under the TPM

The TPM does not envisage re-calculation of starting allocations apart from events deemed Adjustment Events covered under clause 81 of the TPM. None of the clause 81 events have occurred. Therefore, Orion contends that there is no mechanism under the TPM for the allocations for either the CNI or the HVDC Reactive Support BBI to be recalculated based on the change in the Tiwai status. Changes to allocations would require an amendment to the TPM by the Electricity Authority.

The intention of the TPM is very clear in the TPM guidelines. The guidelines state in clause 24 that BBI allocations under the TPM cannot change except as where the Guidelines permit otherwise.

24. The TPM must provide that, once a designated transmission customer's share of the annual benefit-based charge has been allocated, that share will not change, save where these Guidelines permit otherwise.

The Guidelines further detail where changing customer's allocations can be made in clauses 31 to 33. There is no provision in the Guidelines that supports a revision of the allocations where an incorrect assumption was made in the original modelling, in this case the exit of the Tiwai smelter load. Changing customers allocations for the specific events is covered by clause 81 of the TPM¹.

Initiating a review of starting allocations once they have been set under the TPM sets a difficult precedent for Transpower and asks a number of questions.

- What future changes to major loads or generators will trigger future reassessment of starting allocations and what trigger points are needed?
- Should all existing BBIs that included assumptions around Tiwai exit be re-evaluated?
- How are the re-evaluations supported by the actual TPM?

Transpower's rationale for adopting clause 52

Even if Transpower is entitled to remodel the allocations Orion does not agree that the test is met to apply clause 52. Transpower has relied on paragraphs 301 to 303 of the assumptions book to reach this decision.

64. Having considered the matters in paragraphs 301 to 303 of the assumptions book, we have determined clause 51 would not produce starting allocations that are broadly proportionate to EPNPB from the HVDC Reactive Support BBI. This is because:
- deficit and the cost of self-supply have a significant impact on prices downstream of the constrained HVDC link in the counterfactual; and
 - we expect the change in price between the factual and counterfactual to be of a significantly greater magnitude for one group of beneficiaries compared to another.

Box 1 - Paragraph 64 of the Draft record for the HVDC Reactive Support BBI

This relies on the assumption that the market will not react to the remaining Tiwai load by advancing additional generation investment in the South Island. We are already seeing this with multiple wind farms and solar generation being developed in the South Island.

¹ CI 81 of Schedule 12.4 of the Electricity Industry Participation Code

300. When neither of the above circumstances applies, we will use clause 51 unless we consider it will not produce starting BBI customer allocations that are broadly proportionate to EPNPB (clauses 51(1)(b) and 52(1)(b)(ii)). It is appropriate for clause 51 to be the “default” method because it:
- a. removes risks related to false precision
 - b. reduces the impact of Transpower discretion
 - c. is simpler to understand and therefore provides greater transparency to stakeholders.
301. In general, clause 51 will produce starting BBI customer allocations that are consistent with an assumption that the magnitude of price changes due to a BBI are the same for supply and demand customers, and is the same over time and between market scenarios. Clause 51 will not be appropriate for BBIs where:
- a. we expect the change in price between the factual and counterfactual to be of a significantly greater magnitude for one group of beneficiaries compared to another
 - b. this expectation is not sensitive to uncertain input assumptions across a reasonable range.

Box 2 - Extract from Assumptions Book v1.1

Orion argues that the test in paragraph 301 of the Assumptions book v1.1 is not met, in fact that paragraph 300 is more appropriate.

In section 5.2 of the consultation paper Transpower states that it has used version 1.1 of the assumptions book but has changed assumptions relating to Tiwai, but not for committed generation. This is inconsistent. If Transpower was to remodel the allocations it is more appropriate to update the generation pipeline to include additional South Island generation which is the obvious outcome of the Tiwai remaining scenario, and is what is being seen in practice with accelerated investment in South Island wind and solar generation.

There is no clear evidence to support the high level of southward flowing constraint conditions without including realistic South Island generation investment.

Questions

We have answered the questions posed by Transpower in a submission table in Appendix A.

Summary

Although Orion is supportive of a changing allocation of BBI charges over time it does not support a piecemeal retrospective application of the TPM which is not covered by a mechanism under the TPM as it currently stands.

We recommend that changes such as this should be part of the operational review of the TPM, not a one-off reaction to a change in circumstances.

Concluding Remarks

Thank you for the opportunity to provide feedback. We do not consider any part of this feedback is confidential.

If you have any questions or queries or aspects of the submission which you would like to discuss, please contact us on 03 363 9898.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'DP', with a long horizontal flourish extending to the right.

Dayle Parris

Head of Revenue and Regulation

Appendix – Answers to Questions

| Question | Comments |
|---|---|
| <p>Q1. Do you support our proposal to update the proposed starting allocations for the CNI and HVDC Reactive Support BBIs rather than use the proposed starting allocations in the April 2023 consultation?</p> | <p>No – the TPM does not appear to give the ability for Transpower to update starting allocations once they have been set. The changes as a result of Tiwai entering a long-term supply arrangement does not constitute an adjustment event under the TPM.</p> |
| <p>Q2. Do you support the revision of the assumptions as to the timing of the closure of the smelter from December 2024 and December 2034 to remaining in operation throughout the entire standard method calculation period for both BBIs?</p> | <p>No – as with the answer to question 1 the TPM does not give Transpower the ability to change starting allocations because the timing of the closure of smelter is not an adjustment event under the TPM. Transpower made an assessment of the timing of closure when it applied to the Commerce Commission for approval of the project and used the same consistent information to calculate the starting allocations based on this assessment.</p> <p>The long-term supply agreement does not guarantee that the smelter will remain indefinitely, just that it has a supply arrangement for electricity.</p> |
| <p>Q3. Do you agree we should use the Assumptions Book (1.1) assumptions used at the time of the April 2023 consultation for both BBIs?</p> | <p>No – Implicit in the Assumptions Book (1.1) was the probability that the smelter could exit in 2024 or 2034 with the associated generation investment nationally to support that assumption.</p> <p>If that assumption is changed then the generation build scenarios in the South Island in particular should be reviewed because South Island generation and potentially BESS will reduce considerably constraints for southward flow.</p> |
| <p>Q4. Do you agree we need to update the IRA values for the period 1 September 2018 to 31 August 2023 for both BBIs?</p> | <p>The original IRA period appears to be an error in applying the TPM where a prescriptive time period is in the TPM, so updating to the correct period appears sensible.</p> |