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Genesis submission on TPM Operational Review Workstream 1

Genesis Energy Limited **(Genesis)** welcomes the opportunity to comment on Transpower's **(Transpower)** *Consultation on TPM Operational Review 2026 Workstream 1*. We agree generally with the findings of the Post-Implementation Review that there are issues with the TPM and that these create complexity, lack of transparency and unpredictability, and add costs for participants. Given the very long life of grid connection investments, the difficulty forecasting TPM charges beyond the next 5-10 years creates significant risk for new connections. We also agree that first mover disadvantage remains a material issue requiring additional reform to solve. We therefore support Transpower (and the Electricity Authority) undertaking this operational review and progressing operational changes to TPM where these are aligned to the TPM policy intent.

Please find below our comments on each of Transpower's proposed changes under Workstream 1. Where appropriate, we encourage Transpower and the Authority to ensure any changes are robustly and demonstrably net-beneficial and do not result in inefficient (or unfair) distributional impacts that are inconsistent with the TPM policy intent.

Adjustment Events

Timing

In principle, we agree with the problem Transpower is attempting to solve. In theory, batching adjustment events based on a fixed adjustment date should create more predictability for participants, allowing OPEX budgets to be forecast against a fixed BBI rate for each financial year. We see merits in the preferred solution.

However, Transpower should consider how the proposal to batch adjustment events may have unintended consequences. Specifically, the proposal would seem to mean customers who connect early in a pricing year will not pay increased (adjusted) benefit-based charges for up to a year i.e. until the new pricing year takes effect with the adjusted benefit-based charges. We therefore agree implementation of option 1 could be accompanied by a wash-up or rebate mechanism to ensure fairness and efficiency.

Trigger

We agree with comments by the IWG to the effect that option 1 would likely incentivise embedded generation, and that this could likely be distortionary and inefficient. However, we think option 2 could still have the same impact i.e. it would still incentivise embedded generation over grid-tied generation.

While Transpower states the number of connections <25 MW is small based on historical data, we would expect this number to increase as the cost of renewables continues to decrease, particularly if this threshold exempts embedded generation from paying transmission costs. Therefore, we do see a risk from adopting an approach in which new generation <25 MW is exempt from TPM cost recovery, as this could adversely impact other parties who will pay disproportionately more.

We note the proposal would result in the pricing framework using a different threshold to that in the Assumptions Book (which would remain 10 MW), creating an inconsistency. There appear to be two issues that flow from this: incumbent customers keep paying for past investments well into the future until the relevant assets fully depreciate, and there could exist a perverse incentive for a subset of customers that could distort customer behaviours. Existing customers will pay for both past and future investments for many years, while a specific subset of future customers, who will benefit equally or even more, may be able to strategically avoid cost exposure.

The Assumptions book is a core input to Transpower's investment modelling, defining thresholds (such as the 10 MW definition of "large plant") that drive how benefits are assessed and allocated for new investments. These assumptions flow directly into the Benefits-Based Charges (BBC) standard method. Transpower's proposal therefore appears to create an inconsistency with the Assumptions Book. Under such a mismatch:

- Embedded generators between 10 MW and 25 MW would continue to be included in the benefits modelling (meaning they contribute to the investment decision),
- but they would be excluded from the pricing calculation (meaning they would not be allocated BBCs from *past* investments).

Note that this issue considers only adjustment events, which only apply to investments or customer starting allocations already finalised. We understand recent adjustment events published by Transpower include multiple embedded generators between 10 MW and 25 MW, so the issue is particularly relevant. If the trigger is raised to 25 MW, these generators would no longer trigger adjustment events and would therefore avoid transmission costs. Consequently, we are concerned that existing connected customers—who continue to pay for their allocated share of the relevant investments—would end up subsidising new entrants.

Similarly, new connecting generators sized between 10 MW and 25 MW would be exempt from paying BBC for *past* investments whose allocations are already set. While these generators will be included in future modelling (as they will already be connected), the immediate effect would be a cross-subsidy from current beneficiaries to newly connecting embedded generators (assuming they are also beneficiaries).

A related issue is whether the changes will incentivise embedded generators within the 10–25 MW range to delay connecting until Transpower finalises the starting customer allocations for future investments. That is, embedded generators may rationally choose to delay connecting until after the starting customer allocations for major capex are fixed to avoid being allocated costs.

Transpower states in the consultation document that the purpose of raising the trigger is to reduce the number of adjustment events expected in the future. While we acknowledge the administrative burden associated with frequent adjustments, to an extent this may be a necessary function of TPM design. The methodology is inherently complex, and its integrity depends on applying its principles consistently. Changing thresholds to ease administrative pressures risks distorting cost allocation, undermining the beneficiary pays principle, and weakening confidence in the TPM's fairness.

Finally, clarification on the scope of upgrades or works that trigger BBI adjustment events would also be welcome. First movers may need to fund protection upgrades and works that benefit the grid (either up front or through BBI allocation). Clarification on whether protection upgrades trigger BBI adjustment events would be helpful.

Emerging TPM issues

Disconnection from a shared connection location

We agree with Transpower and the IWG that 'lumping' the entirety of costs onto remaining customers at a shared location is inefficient and inconsistent with cost-reflective pricing principles and there may be merit in Transpower and the Authority considering this issue via the Operational Review. Applying a Prudent Discount Policy adaptation to allow prudent discounts where disconnection from a shared location causes connection charges to increase until a new customer connects could be an effective solution. We agree that in principle this should be done via the least distortionary mechanism, e.g. via residual charges and/or connection charges.

Allocation of costs for extra capacity (whether as a result of new connections or disconnections) can lead to inefficient outcomes that do not appear to be consistent with the TPM policy intent. That is, where the allocation of costs for extra capacity leads to remaining customers paying more than the standalone cost, we understand this to be inefficient and inconsistent with the principles underpinning the TPM. The structure of the TPM is that connection charges and BBC are, generally, designed to allocate costs above incremental cost but not to exceed standalone. We understand that costs not able to be recovered in this war are then recovered through residual charges which applies similar principles to taxation in that it tries to apply the charges in the least distortionary way practicable i.e. charges are intended to be applied to those deemed to be least sensitive to the charges and in a way that makes the charges as close as practicable to a fixed cost. Note this point applies also to our comment on FMD Type 2 below.

FMD Type 2: Anticipatory investment in assets
We agree first-mover disadvantage issues generally are highly material and warrant further consideration as a priority by Transpower and the Electricity Authority, particularly given the need for ongoing and rapid new generation investment at scale across the system. Genesis has directly experienced first-mover disadvantage and the "free-rider" problem. This can have a material impact on new generation connections, and it is therefore critical for Transpower and the Authority to address it. We also note a key source of uncertainty is the lack of visibility regarding future connections or disconnections.

Regarding the problem identified in the paper, we would be in principle supportive of "no-regrets tactical fixes" that afford protection to existing regional load customers for anticipatory investments, provided these are net-beneficial, and align with the TPM policy intent. Given the sensitivity of new generation investment to transmission charges, it is critical that transmission pricing is efficient and consistent with TPM pricing principles i.e. charges should be above the incremental cost but below the standalone cost (as noted above).

We agree with the feedback by the IWG that it is inappropriate for only regional load customers to bear interconnection investment costs expected to be shared by connecting generators. We also agree that any mechanism to address this issue should not have the effect of deterring future connection by generators. This is obviously a critical point, given the potential sensitivity of new generation investment to transmission charges, and the need to accelerate deployment of new renewable generation to support New Zealand's energy security, affordability and sustainability. As noted in the paper, residual charges are one option for socialising anticipatory interconnection investment costs and we agree this may be the appropriate mechanism where costs exceed the standalone cost (based on our understanding of TPM principles noted above).

Yours sincerely,

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