

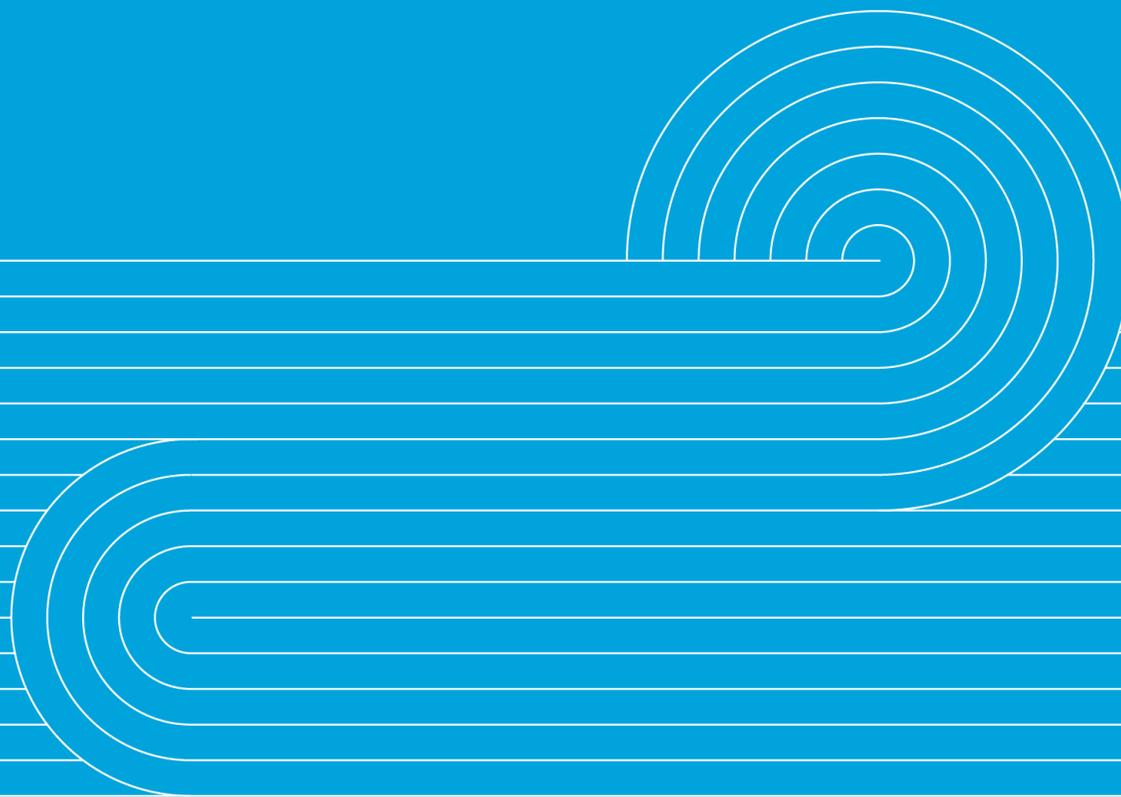


TRANSPower

# TPM Operational Review

Industry working group

18 Feb 2026



# Agenda

- Members only time – 10mins
- Review policy positions for consultation – 90 mins
  - Adjustment events
  - Emerging connection issues
  - Housekeeping
  - Other matters
- Wrap-up and IWG feedback to Transpower -15mins
- AOB / Next steps – 5 mins



# Preface

Note from Jeremy to IWG:

- This is our third IWG meeting in quick succession. Prior discussions have helped inform and refine Transpower's analysis including de-prioritising some items, adjusting the definition of the problem, potential and preferred options.
- Importantly, the positions Transpower has arrived at now are for consultation. Feedback from stakeholders will be considered and shared with IWG in March before any proposals are submitted to the Electricity Authority. The Authority is then expected to evaluate Transpower proposals, this will likely include consultation, before deciding whether to adopt any or all of the proposed changes.
- As usual, there is a short members only slot at the start and end of the meeting. Transpower staff will be available to take questions and clarify as needed, but I expect there will be less presentation time than in prior sessions.
- The substantive topics are still grouped into three categories but 'other matters' captures those topics where Transpower intends to briefly note the issue and invite views but not to make any proposals.
  1. **Adjustment events:** Transpower thinks the timing (within year) is problematic and threshold (10MW) for embedded plant adjustment is too low, creating uncertainty for customers and drive excessive administrative costs. They think a higher threshold (or excluding DG from adjustments) and applying adjustments as part of the annual pricing round would significantly reduce complexity, uncertainty and transaction costs with minimal impact on precision.
  2. **Emerging connection issues:** Transpower has identified (with customer input) several current and potential issues with customer connecting (or disconnecting) and the operation of the first mover disadvantage provisions. They don't currently have firm views on how to address these, or whether these matters should be referred to the Authority to address.
  3. **Housekeeping:** Transpower thinks there are interdependencies with the scheduled updates to simple BBC charges (planned to start later this year) and this review. It wants to defer the simple BBC updates. Transpower has also identified drafting tidy-ups, such as removing provisions relating to the pre-commencement period and implementation, that will improve accessibility of the TPM.
  4. **Other matters:** topics where, on discussion with IWG, the issue was found to be either insufficiently clear, not obvious action was warranted, or, where the problem is materially addressed by other proposals (e.g. the two adjustment event related items).



# Policy positions

The following slides summarise the matters and policy positions on each that Transpower is planning to take to consultation in March.

They reflect prior discussion with the IWG on the:

- definition of the 'problem'
- identification and assessment of options

For brevity, these slides do not include all the analysis previously presented to the IWG. Rather, they provide a very brief summary of the problem, the options and the positions Transpower intends to take to consultation.



# Adjustment events problem, analysis

**Problem summary:** the **current processing** of adjustment events drives complexity and price volatility, creates uncertainty and drives significant costs on Transpower and customers while **threshold** is very low and materially increases the number of adjustment events. This problem is worsening as adjustment volumes increase.

## Analysis

**Processing:** Transpower currently calculates adjustment events when it becomes aware, sequentially and with individual customer 'wash-ups' (flow into prices 2 years hence). This process is "precise" but very impractical.

**Threshold:** BBI charges are expected to be largely fixed with adjustment only in limited circumstances including connection or change to **large** generation or offtake plant. **Large** is defined in the guidelines as (a) direct connect to grid (b) such a size it could viably connect to the grid. In preparing the TPM Transpower defined **large** as 10MW, in hindsight this is too low.

Analysis of connection queues for offtake and generation indicate:

- Minimum size for direct connect offtake of 80MW (NZ steel) with remainder >100MW, or ~8x current threshold
- 98.4% (123 of 125) > 25MW, 87% > 50MW. It appears plant smaller than 25MW will only connect to grid where an expansion of existing plant, or where no Dx network connection is available

Changes to embedded plant are the main driver of adjustment events and are predicted to increase materially (due to small-medium electrification and scale DG).



# Adjustment events: options, consultation intent

## Options

1. **Do nothing**
2. **Batching and timing:** perform any adjustments within a pricing year at a pre-defined date each year and run pricing calculations for all adjustments as of that date. This is akin to the 'pricing grid' used to set connection charges.

This option would significantly reduce calculation complexity and administrative load for Transpower and simplify pricing for EDBs and other customers. It would not materially affect customer/EDB/embedded party interaction required to gather information to perform adjustment calculations. It would provide a period (months) immediately after connection or change where the customer does not face BBI charges.

3. **Threshold adjustment:** there appears to be a strong case for adjusting the threshold, for example to 25MW for DG and potentially higher for offtake. This would better reflect the minimum viable grid connection size. This change would significantly reduce the number of adjustments, simplifying calculations and materially reducing customer/EDB/embedded part interaction required to gather information to perform adjustment calculations. It would reduce exposure to BBI charges to just plant that could viably connect to the grid.
4. **Intra-regional allocator update:** replace several adjustment events (large plant connected / disconnected, substantial sustained increase, changed point of connection) with a once-a-year recalculation of intra-regional allocators. This would on one hand increase accuracy as small changes would be reflected in recalculated allocators (may be against policy intent of fixed-like) and reduce calculation complexity as well as administrative load for Transpower, but on the other hand would not treat embedded plant as a new notional connecting customer due to the fact IRAs are calculated based on net offtake/injection at each GXP/GIP.

## Transpower's intention is to invite views on all three options:

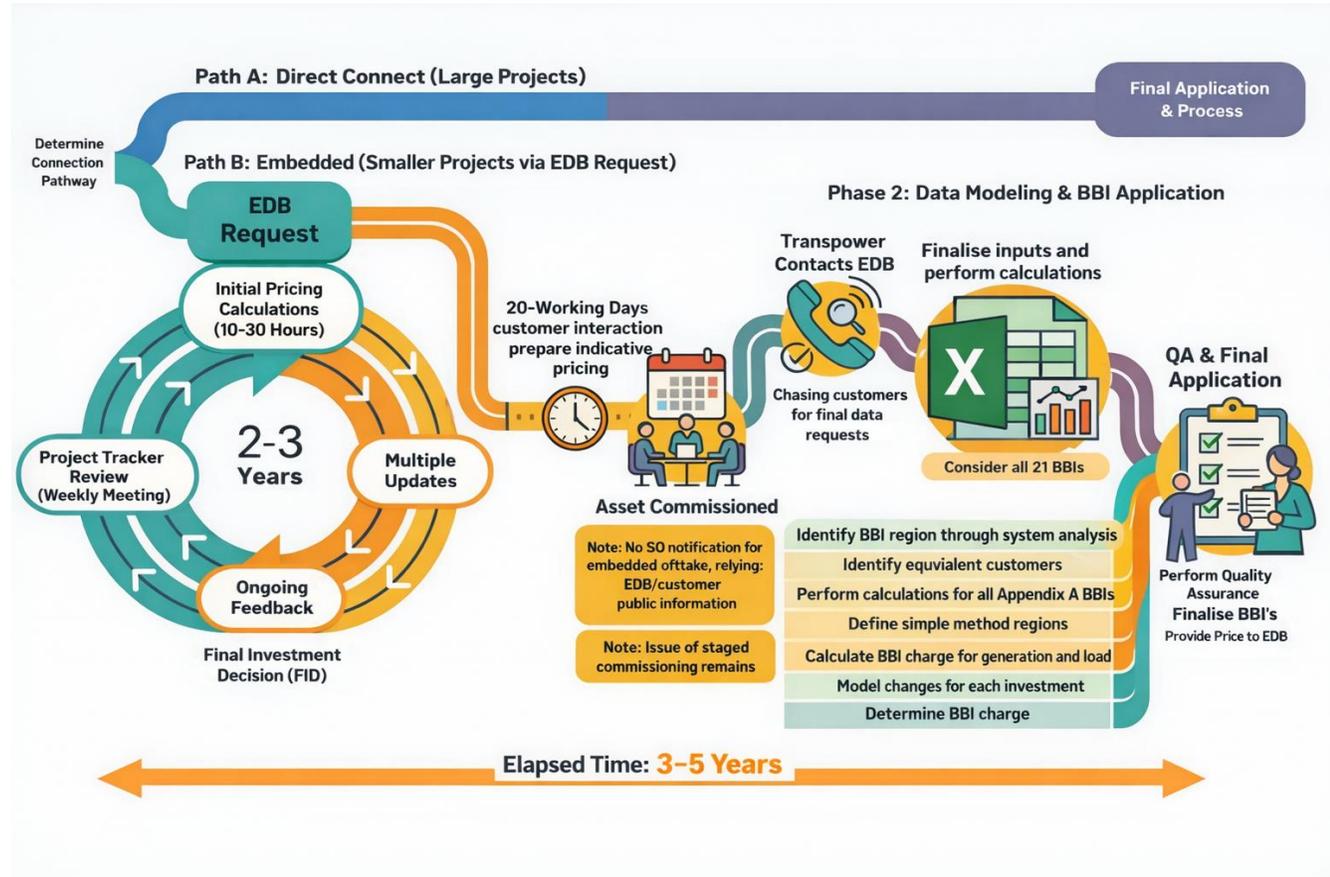
- Option 2 as a firm proposal. (unanimous support from IWG)
- Option 3 as a proposal with invitation for views on thresholds and implications. (recognition of issue by IWG, concern about new boundary issues)
- Option 4 as a possibility not currently proposed with invitation for views. (note: not discussed in depth with IWG)

Transpower does not intend to progress with two other 'issues' that would mostly be addressed by batching and or threshold changes:

- Low-materiality processing
- Staged connections

# Simplified view of adjustment process

- Transpower's estimate of \$10,000 per event likely a low-side view
- Changes may be very small (<\$100 per month), take 2 years to flow into prices for non-causer but create pricing / regulatory headaches for EDBs
- Batching and timing materially reduces activity required in 'data modelling and BBI application'
- Lifting the threshold reduces the quantity of events, reducing activity in the preceding stages
- Changing the intraregional allocator removes the need to calculate adjustment events altogether (any change on the grid or at GXP/GIPs are captured on a yearly basis)



# Substantial sustained increase

- Problem is lack information, very low trigger given it is 25% of 'large' plant which is currently defined as 10MW i.e. an increase of 2.5MW would trigger an adjustment. Further, Transpower lacks access to meter or other data to reliably monitor SSIs.
- In practice, Transpower will usually be notified via the System Operator (for generation) or via customers directly for actual 'large' changes in plant use – in this sense 'large' is changes ~25MW+.
- Options
  1. No change - not preferred as current provisions are unworkable, very low threshold of 2.5MW (tied to current 10MW definition of large plant)
  2. Change so SSI adjustment only occurs when change is equivalent to adjustment event threshold (not 25% of plant size). In some cases this could lower the threshold e.g. for plant > 40MW under current 'large' definition
  3. Remove SSI provision altogether – in practice this could be done, as any significant change in plant use is likely to trigger a large plant adjustment event (so the SSI provision is redundant).

**Transpower's intention is to consult this matter, with three options and preferred option (option 3):**



# Emerging connection issues – disconnection from shared location

**Problem summary:** when a customer(s) disconnects from a shared connection location the entire cost of the connection location is reallocated to the remaining customer(s) at that location. This is problematic as the remaining customers bear costs for assets that may be very materially in excess of their initial, current or future requirements. This is viewed as inequitable and could trigger further disconnection (death spiral) and functional stranding.

## Analysis

**A legacy issue:** Transpower does not think this is intentional, rather it is an artefact of drafting in the 'original' TPM (this was not altered by the new TPM) that has never arisen in practice until recently when industrial exit resulted in a very large uplift to Kiwirail's connection charges at the location.

**Likely to result in inefficient disconnection or competitive disadvantage:** charging connected parties for assets that are significantly larger (and more expensive) than the customer contracted for or requires may lead:

- that party to disconnect from the location, resulting in function stranding of Transpower and customer plant (and loss of economic activity)
- place that customer at a competitive disadvantage, affecting competition in downstream markets



# Disconnection from shared location: options, consultation intent

## Options

- 1) **“Do nothing”** - the remaining customer will bear the costs of shared connection assets when the departing customer sharing the assets disconnects. This option perpetuates inequity and misaligned investment incentives. Not preferred.
- 2) **Tactical fixes with no code changes:**
  - a) For disconnection scenarios, a temporary tactical fix is possible by applying TPM clause 32(1) over clause 78(2)(b) when calculating charges. This alleviates impacts but expires once the disconnecting customer’s AMDC reaches zero. Not preferred.
- 3) **Code Change Options**
  - a) **Prudent Discount Policy adaptation:** allow prudent discounts where disconnection from a shared connection location causes a connection charge increase, until a new customer connects. Partially addresses, does not address inequity or competitive disadvantage. Not preferred.
  - b) **Expand reassignment** to connection assets: apply reassignment factors to replacement costs of shared connection assets. Addresses issue indirectly. not preferred.
  - c) **Introduce a new clause** for connection customer allocations: specifically address the recalculation of allocations for previously shared connection assets until they are replaced or shared again. e.g.,– insert a sub-clause (like clause 32(3) for mixed connection assets where total AMDIC before disconnection is the 'notional capacity'). Addresses issue directly. Preferred

### Transpower’s intention is to consult on a proposal:

- Implement option 3(c)
- Present options 1, 2 and 3(a) and (b) with an assessment of pros and cons



# Anticipatory investment - interconnection

**Problem summary:** In regions likely to see future generation, transmission upgrades are sometimes needed ahead of new connections. Under the current TPM, existing offtake customers in that region pay most benefit-based charges until new generators connect, meaning they fund benefits ultimately received by future generation customers (and all offtake customers).

## Analysis

It is unclear whether the outcome described in the problem summary is intentional. Regardless, it is perceived as inequitable for a regional group of offtake to bear costs associated with benefits accruing primarily to other parties. Those customers can reasonably be expected to oppose such investments on the basis of cost allocation, regardless of the efficiency of the investment itself.

The IWG's supported addressing this issue and inviting views on options presented by Transpower. However, considers steps should be taken to mitigate the risk of this situation arising in the first place. For example, by requiring Transpower to secure firm commitments from prospective generators before committing to the investment.

## Options

1. **Do nothing**
2. **Reallocate cost** of anticipatory investment from beneficiaries to residual customers
3. **Option 2**, with 'claw-back' provision whereby costs pre-paid by offtake customers are recouped from future generation connected to the assets over the life of those assets.

**Consultation:** Consult on the problem and steps to mitigate risk. We note this issue may be considered a policy issue the Authority might wish to lead, but can ask stakeholders for feedback and relay. We note unanimous support for this approach from the IWG.

## **Transpower's intention is to:**

- consult on the issue identified and test views on this and how it might be addressed, briefly set out options.

# Policy position 3. Housekeeping

## Second simple benefit based investment (BBI) method period

- The second simple method period is currently scheduled to begin on 1 April 2028, drawing on data collected from 1 September 2020 to 31 August 2025. The simple method allocation setting typically requires six months, and system changes can take 6 months to 18 months, depending on complexity.
- The task of updating simple method draws on many of the same staff working on this operational review and there are likely to be interdependencies between the outcomes of the operational review and requirements for the second simple period setting.
- Transpower thinks it pragmatic to extend the current simple method period and defer preparations for the start of the second period until the operational process is complete (and the Authority has had sufficient time to consider, consult and decide on any changes to the simple method). Required changes to the simple method BBI would then be managed through TPM Operational Review Work Packages 2 (simple method BBCs) or 3 (standard method BBCs) as needed.

## Drafting tidy up

- In addition to extending the period, Transpower suggests a general clean up of TPM legal text to remove redundant and outdated clauses, especially those relating to “pre-commencement events”, which applied only prior to TPM’s go-live and now create unnecessary complexity and interpretive noise.

### **Transpower’s intention is to consult on proposals to:**

- Defer calculation of the 2<sup>nd</sup> simple method BBI period
- Undertake drafting ‘hygiene’



## Policy position 4. Other matters

Following discussions with the IWG, further analysis and consideration of how other proposals flow through, Transpower does not intend to make any proposals in relation to:

- Adjustment events (workability)
  - Low materiality
  - staged connections
- First mover risk
  - connection charges
  - First mover disadvantage Type 1 and embedded plant

These issues will be covered briefly in the consultation paper. If feedback indicates the problems are more material than assessed Transpower will reconsider.



## Wrap-up on policy positions

- Capture feedback to Transpower
- Comments on each policy position
- Option to support and or endorse positions



## AOB / Next steps

- AOB
- Next steps
  - Transpower prepare consultation materials
  - Transpower prepare draft cost benefit analysis
  - Consult
  - IWG meeting 4 – consider submissions
  - Transpower finalise proposals, prepare / submit Code change proposals

