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Head of Grid Pricing
Transpower
By email

13 July 2026

Dear Victoria

Independent Work Group (IWG) - Feedback to Transpower

The IWG met with Transpower staff on 1 July as part of Transpower's 'problem discovery' exercise for the benefit-based charge (BBC) workstream. This meeting built on the 18 June discussion where the group helped Transpower develop 'personas' to draw out perspectives on BBCs from investors in offtake and generation plant and distributors.

The 1 July meeting was a constructive, in person workshop where we went through a three-stage process to map out the possible causes of problems identified with the BBCs, prioritised then used the '5-why's' technique to investigate root causes. The IWG welcomed participation of staff from the Electricity Authority who made helpful contributions throughout the day.

This letter summarises the main insights from the exercises and whole-group discussions.

1. High-level problem hypothesis and subsidiary problem statements

The IWG has previously considered the high-level problem hypothesis and had no further comment.

The Authority's expected outcomes of the beneficiary pays policy may not materialize over time and the BBCs appear to be impeding efficient investment and operating decisions across the electricity sector.

In relation to the three subsidiary problem statements, which the group was generally comfortable with, we suggest two minor additions, shown in red below:

*Unclear price signals: participants are not receiving clear or intended price signals required to support efficient **investment and operational** decisions **over time** while pricing and expenditure processes are not well aligned.*

The additions are intended to clarify that:

- Price signals affect both *operational and investment decisions*. Price signals are an important influencer of decisions by distributors and other parties to efficiently manage peak demand, both current and future load, using existing resources and efficiently investing to preserve or enhance flexibility to contain capacity expansion investment the across the electricity system.
- At present, it appears that participants do not receive a clear transmission price signal. There is lack of clarity of purpose between ex-ante investment pricing signals and ex-post cost recovery. The IWG considers this is and will continue to result in sub-optimal operational and investment decisions and result in higher system costs over time.

- Price signals influence decision making *over time*. Price signals need to be understood and received over a period that enables responses that can achieve efficient deferral, reduction or avoidance of particular investment (accepting the need to strengthen or dilute any price signal depending on the proximity and size of expected investment).

An aim of removing the strong price signal provided by the previous regional coincident peak demand charge (RCPD) was to reduce inefficient load management and demand side flexibility i.e. when there was unutilised grid capacity.

However, 15 years on from the commencement of that review, there is less spare capacity in the core grid particularly when looking to future electrification throughout the country. It appears likely the de facto absence of an ex ante transmission price signal will result in inefficient transmission and other electricity system investment. The whole *electricity system*, not just transmission investment, is impacted because the absence of transmission price signals weakens the business case for - and therefore results in inefficiently low use of and investment in - load management and demand side flexibility.

As noted in Transpower's analysis,¹ *a system where energy demand grows faster than peak demand indicates smarter, more efficient electricity use – enabled by better load management and demand-side flexibility*. Yet we can observe the opposite, with peak demand increasing 6.5x faster than energy demand (since 2016, total demand has increased by 0.89% while peak demand has increased by 5.81%).

2. Participants not receiving clear or intended price signals

The exercises and discussion were helpful in establishing that:

- Members were not clear on *what price signals were intended to be provided* by BBCs or how these were expected to be conveyed i.e. the hypothesis that participants would be able to anticipate future BBCs and efficiently calibrate their own operational and investment decisions and engage on an informed basis on Transpower investments.
- Regardless of the lack of clarity on *intended price signals*, those signals are *not* being received by participants and *if they were received* may not elicit an efficient response. Contributing factors included:
 - A diluted and inconsistent price signal: even if participants could reliably estimate future simple and standard method BBCs an efficient response seems unlikely because, for example:
 - Parties typically cannot assess the impact of their response on the investment(s) in question i.e. whether a response makes any difference (or just impose additional costs).
 - Parties typically cannot assess their future charges if the investment progresses i.e. whether / how a response might alter future BBCs.
 - Parties typically cannot assess how other parties will interpret and respond to shadow price signals.

¹ Refer page 18, Energy Transition Framework 'smart system' report. [PowerPoint Presentation](#)

In discussion, it became evident for different expenditure types, their classification and the recovery vehicle for each was a complicating factor and was not well understood and served to further muddy intended and actual price signals.

Taken together, these factors mean that the response to any price signal is moderated, likely well below the efficient level.

3. Parties do not understand and cannot forecast BBC charges

The exercises and discussion were helpful in establishing, in addition to participants not understanding or receiving the intended price signal, they – and Transpower - are unable to reliably estimate or forecast future BBC charges (simple and standard methods) over a time horizon that supports efficient investment in either:

- Demand management and flexibility resources that can efficiently defer, reduce or avoid transmission investment.
- Generation and offtake plant, for which BBCs represent a key (and increasing) uncertainty.

In discussion, the following points were made:

- The expressed intent within the BBC mechanism design was current and new participants potentially impacted by a proposed grid investment would be able to evaluate the value to them of that investment and influence the investment decision. The reality has been something quite different for a variety of reasons.
- The inability to forecast BBCs is due to a combination of methodological complexity, the number of assumptions and the sensitivity of outcomes to those assumptions (for both BBC methods).
- The inability to forecast is unlikely to ease over time, rather it is likely to grow because:
 - The scale of changes expected on the system – with significant numbers of large new loads and generation sites – which can materially change flows and therefore BBCs. The granularity of the simple method exacerbates localised volatility.
 - The intentional shift of Transpower revenue recovery from the residual charge to BBC charges over time compounds the scale of uncertainty over the longer term (i.e. investment horizons).
- The impact of forecast uncertainty on investment efficiency is likely to grow broadly in proportion to BBC revenue growth. That is because the uncertainty premium scales in proportion to BBC costs i.e. a 50% uncertainty premium on BBCs of \$1m equals \$.5m, if BBC revenue increases to \$2m the uncertainty premium increases to \$1m.

4. Predictability and clear signals are essential enablers

The electricity system is undergoing significant change; that change is pervasive, affecting virtually every part of the system.

If BBCs are understood, are predictable and provide clear, actionable price signals they have the potential to support efficient operational and investment decisions by participants and by Transpower and to reduce whole of system cost and therefore prices for consumers.

However, if BBCs are not predictable and do not provide clear, actionable price signals, we will likely see:

1. too much and/or the wrong transmission investment
2. little investment in and use of load management and flexibility resources
3. too little (or too late) investment in generation and in electrification of offtake.

With each IWG discussion the problems with implementation of the beneficiary pays policy through BBC charges and the consequences of those problems become clearer.

The IWG recognises that ‘fixing’ problems identified with the BBCs will not provide absolute certainty over transmission charges as there are non-TPM factors that affect transmission charges. However, for BBCs to operate as intended and to avoid the unintended consequences outlined above, they need to be able to be reliably forecast, and any price signal needs to be understood, clear and actionable.

5. Other matters

During IWG-only time members discussed the recent Upper South Island major capex proposal from Transpower to the Commerce Commission. This appeared to highlight issues with the standard method BBC and the alignment (or lack thereof) of pricing and investment approval processes. The IWG offered to work with Transpower to ensure lessons from that process can be considered for future projects and in this operational review.

The meeting identified segmenting expenditure categories such as replacement and refurbishment may warrant different treatment from growth and enhancement investments. This coupled with further consideration of the issues arising from localised granularity are to be part of the IWG and Transpower further considerations.

Next steps

The IWG trusts that this feedback is useful to Transpower. IWG will meet again on 29th July and, at that meeting expects to consider:

- further development of the problem definitions ahead of consultation
- evidence gathered to prove or disprove particular aspects of the problem definition.

In the interim, the IWG notes and is open to participating in interviews to support Transpower’s analysis and evidence base.

Yours sincerely

A handwritten signature in black ink, appearing to be 'JC' followed by a stylized horizontal line.

Jeremy Cain – on behalf of the TPM industry working group