

Meeting date: 5 August 2026  
Feedback to Transpower

Victoria Parker  
**Head of Grid Pricing**  
Transpower  
By email

7 August 2026

Dear Victoria

### **Independent Work Group (IWG) - Feedback to Transpower, problem definition**

The IWG met with Transpower staff on 5 August to discuss Transpower's working draft BBC problem definition consultation. This was part of the IWG's input to Transpower's 'problem discovery' process and built on workshops in June and July, and interviews with IWG members.

The IWG received a working draft of the BBC problem definition consultation paper on 3 August. This letter summarises the IWG's feedback on Transpower's provisional assessment of problems with the BBCs. Our feedback is weighted towards the first two problems – (1) forecasting and uncertainty and (2) price signals – the most material issues.

#### **1. General comments**

The 'education sessions' in May and June and workshops in June and July have been valuable and provide a firm foundation for the IWG's feedback. However, other parties do not have this foundation and Transpower will need to account for this within its consultation materials and process.

Consultation materials should be accessible - use of Plain English, provide worked examples, diagrams and to aid understanding of the theory, technical, behavioural and commercial issues covered. We also encourage brevity, acknowledging this is easier said than done.

We note this consultation is part of a busy consultative programme for the electricity sector, including several TPM related Transpower and Electricity Authority processes. We suggest a 1-to-2-page overview explaining where this consultation fits into that bigger picture.

It was helpful to see the intended / expected outcomes from the BBCs contrasted with observed outcomes and the use of examples and case studies makes the abstract more real for readers. However, the substantive section (chapter 4) is too long and in places overly academic. We suggest breaking this chapter into two or three separate chapters – perhaps:

- Forecasting and uncertainty
- Price signals
- Other matters (regulatory process alignment, administration costs [and any other issues])

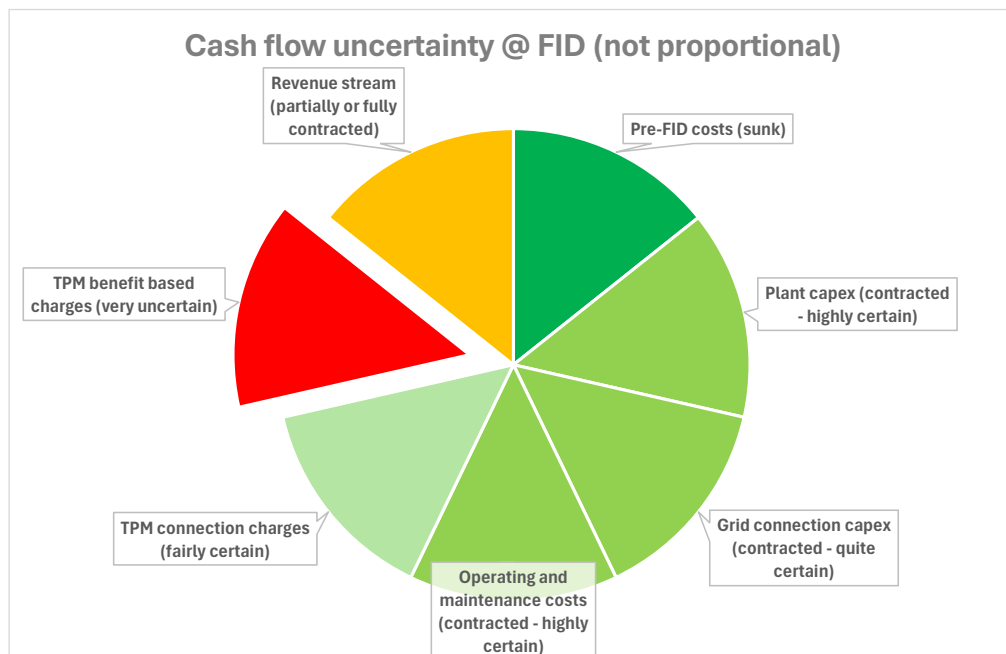
#### **2. The four problems covered by the consultation**

The consultation covers four substantive problems, some of which are multi-dimensional. We support this approach, and adopt the same format for our feedback below.

## A. Forecasting and uncertainty

The IWG has previously discussed and communicated to Transpower the inability to reliably forecast BBCs and, broadly, the impact this has on planning and investment decision-making. Having reviewed the draft consultation, we make the following observations:

- Uncertainty and the risk this creates for planning and investment decision-making are real. Where risk cannot be managed through contract or other mechanisms, as is the case for BBCs, then a risk premium will be applied to the project valuation, and this **will** be reflected in prices required to make the project economic.
- One can diminish the impact of BBC uncertainty as “small in the scheme of things” but this is a mistake. By the time a project is approaching financial close, most of the major cashflow risks will be either sunk (consenting, design), contracted (build, fuel, O&M, revenue) or, where that is not possible, actively managed. In this context, BBC uncertainty will remain one of key risks for investors at financial close. This is illustrated below:



- BBC uncertainty is cumulative over time. This is particularly relevant for new load or generation investments that often have lifespans greater than 15 years. BBC uncertainty represents a ‘wedge’ of risk that may change at a very different rate to any changes in fuel, O&M or PPA contracts. Regardless of how the BBC costs evolve in reality, consumers pay a premium because investors need to add a risk premium for the BBC uncertainty over the investment horizon.
- The use of case studies for generation and offtake are helpful and on point. These could be complemented with examples where BBCs have affected, or are, affecting investment decisions for generation, offtake and decarbonisation. IWG members have offered their assistance.
- The charts, while illustrative, are useful in helping the reader see how “a few dollars” of uncertainty can translate into multi-billion-dollar impacts on electricity consumers.

Specifically, different uncertainties have cumulative and compounding effects over an investment horizon:

- the allocation between regions, between offtake and generation, between grid users in each region
  - the amount recovered through BBCs (total Transpower revenues + pace of transition from residual to BBCs).
- The commentary on uncertainty impacting investors differently is correct. Those using project finance face strict finance conditions and the combination of historical volatility and prospective uncertainty in BBCs makes good projects less viable and potentially increases funding costs.
- Uncertainty is a feature of competitive markets and brings discipline to investors. There are some inherent uncertainties affecting transmission costs – but a regulated pricing methodology need not and should not be one of those.
- Uncertainty is presented in \$/MWh. This is fine and is a tangible metric – but, it should be noted that BBCs are fixed not variable, so changes in plant operation will not automatically flow through into pricing, i.e. a reduction in output may / will result in a higher \$/MWh rate, introducing an additional energy volume / cost risk.
- On presentational issues, we suggest that informational and case study text can be ‘boxed’ to differentiate from surrounding text and break up the long sequences of text.

## **B. Unclear / unintended price signals**

As noted in our feedback from the 1 July workshop there is little understanding of the signals that were intended to be transmitted through the BBCs. This section of the consultation paper, while dense and theory-heavy, was helpful. We suggest tightening up the section to improve flow and shorten while retaining the substantive information. Having reviewed the draft consultation paper our observations are:

- At a macro level, BBCs (and therefore BBC uncertainty) would be higher for generation remote from load, by virtue of the amount of transmission between the generation and load that could potentially be upgraded over the 25-year generation project life. The paper does not fully explore the effect of the incentive that this creates:

As an example, BBCs encourages more wind in the lower North Island, closer to load compared to, say, the lower South Island (as this reduces the BBCs and the impact of BBC uncertainty). However, locating more wind in the lower North Island concentrates risk by reducing diversity. That will increase the impact of localised “dunkelflaute” and, in turn, increasing reliance on more expensive firm generation. This is a complex area, but we see a credible risk that this incentive created by the BBCs may cause higher delivered energy costs.

- For signals to be effective they need to be:
  - clear, predictable, actionable and monetisable

- in an enduring *form* (accepting the need to moderate signal strength) commensurate with transmission investment horizons.
- Shadow price signals do not meet those requirements; they unclear, unpredictable, unactionable and cannot be monetised for most grid users.

For example, approximately 85% of demand is served via distributors. While distributors may foresee future grid-expansion and opportunities to efficiently defer, alter or avoid that grid expansion, they:

- **are encouraged** to treat transmission costs as fixed in pricing, in turn not signalling the forward-looking cost of grid expansion to end-users
- **are unable** to recoup the costs of operating or investing in demand management / flexibility (and may be penalised via Part 4 incentive mechanisms), or, to reward customers for helping avoid future costs of transmission. That would require:
  - inclusion of a peak price signal (or similar), in conflict with guidance on pass through of transmission charges, or
  - quantify a procured value, without an underlying transmission LRMC price signal to base it on (or a means to recover the cost).

...but **can pass-through** the eventual transmission costs to consumers.

- In this context, end users and investors in flexibility services / DER that can or could contribute to the efficient deferral, alteration or avoidance of grid investment have little incentive to do so.

### C. Process alignment / engagement

The analysis of engagement on grid investment proposals suggests grid users are more focused on the allocation of costs than the prudence and efficiency (i.e. merit) of the investment. Moreover, the prudence and efficiency of the investment is affected by how grid users respond to the prospect of cost allocation – yet these are not known until after the investment is approved. Having reviewed the draft consultation paper our observations are:

- The role of BBCs in encouraging efficient grid investment is doubtful. It is true that grid users are incentivised to advocate in their own interest. However, useful price information is not available until after the investment is approved - whether recovered through simple or standard method BBIs.
- There is a drive by regulators, including the Electricity Authority, Commerce Commission and EECA to encourage utilisation of non-network solutions where efficient. This is very sensible given the growing potential of DER/flexibility to avoid costly capacity expansion.
- However, for the transmission grid, it appears the regulators assume the shadow price provides an efficient forward-looking signal which, as outlined above, it does not.
- Procured non transmission solutions (NTS), provided for via the Capex IM, should complement – not substitute for - efficient price signals. In regards to the efficacy of Transpower NTS:

- an 'allowance' for NTS expenditure is not available until *after* a major investment is approved. This would be fine, if the NTS worked alongside an enduring price signal but it does not.
- the 12-month limit on contracting NTS (we understand this is a regulatory restriction) materially reduces NTS providers ability / willingness to participate to their fullest extent. For example, it may be efficient to locate battery systems in a specific location yet the incremental cost of doing so might require three or more years of NTS payments.
- There is ambiguity over how BBCs / transmission costs are passed through by distributors to distributed generators, as there is no ongoing calculation of charges for DG / DER by Transpower after the first adjustment event. This is a further source of uncertainty and friction for distributors and their generation customers. We note that this had been under consideration by the Electricity Authority, but work on the DGPP consultation appears to have stopped.

#### **D. Administrative cost**

It is certainly true that the current TPM imposes significantly higher administrative costs for grid users than the preceding TPM. The characterisation of these costs in the consultation paper is fair – i.e. both the direct cost of time and the opportunity cost of technical experts and management.

Higher costs are not a problem necessarily, if those costs led to clarity and predictability and better decisions by grid users and/or Transpower. However, this just does not appear to be the case.

We should be honest that precision does not equate to reliability or accuracy in the estimation of benefits and prices. It is a fact that such estimates are:

- made at a point in time based on assumptions and judgements
- those assumptions and judgements will invariably be wrong, potentially wildly wrong
- the pace of change on the electricity system further reduces their reliability.

Yet it appears that a large part of those costs, much of the complexity and uncertainty driven by BBCs is incurred in pursuit of *precision*. Trading off the benefits of predictability / certainty and availability of information for false precision is an expensive and profitless endeavour.

#### **3. Accessibility and consultation questions**

Consultation window – 3 weeks is too short. We suggest a minimum of 4 weeks. We also suggest holding a briefing / workshop to support stakeholders' understanding of the issues and improve the value of their responses (and the IWG offers assistance with preparation of a workshop).

We suggest that stakeholders should be given the opportunity to engage directly with Transpower alongside or instead of the formal submission process. This may lift engagement and reveal information and insights that submitters may not convey in a formal submission.

The IWG stresses the importances of:

- helping stakeholders understand where this consultation ‘fits in’ with the various other processes underway.
- avoiding unnecessarily technical / theoretical language.
- using practical examples, case studies, tables and diagrams in support of / in place of long passages of text.

We suggest:

- removing the diagram from the PIR (page 29) which implies there are no problems with the residual charge.
- setting out the limitations – such that they exist – on the scope of the operational review.

#### **4. Representation of the IWG’s position views**

The IWG is comfortable that the consultation quotes passages from its written feedback, provided these are used in the appropriate context.

#### **5. Other matters**

A price signal issue we touched on in this letter, but not yet discussed in depth with Transpower, is the effect of locational signals provided by BBCs – specifically, on the geographic diversity of intermittent generation (particularly wind). This signal, which we do not think is intentional, is amplified by BBC uncertainty and is likely to further increase the delivered cost of energy in a more intermittent system. These and some of the other points raised above go to the heart of transmission and energy pricing and warrant further discussion with Transpower experts.

#### **Next steps**

The IWG trusts that this feedback is useful to Transpower. Should you wish to discuss any of the matters raised then the IWG or relevant members would be happy to do so.

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