

# TPM DETERMINATION: BBC Assumptions Book v1.2

## Decision paper

Date: 14 February 2024



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# 1 Introduction

1. This decision paper (**decision paper**) presents our decision on minor updates to the benefit-based charge (**BBC**) assumptions book (**assumptions book**) under the transmission pricing methodology (**TPM**).<sup>1</sup>
2. The assumptions book contains assumptions and detailed methodologies relating to the allocation and adjustment of BBCs under the TPM. We last updated the assumptions book (v1.1) in March 2023.<sup>2</sup>
3. This paper explains the updates we have made to the assumptions book, and how we have complied with the TPM in doing so.
4. We have defined some terms in this decision paper for convenience. Please also reference the glossary in the assumptions book. Other terms used in this decision paper have the meanings given to them in the TPM. All clause references are to clauses in the TPM, unless stated otherwise.

## 1.1 Consultation on the updates to the assumptions book was not required

5. The TPM requires us to consult on updates to the assumptions book subject to certain exceptions.<sup>3</sup>
6. All of the updates we have decided to make are covered by either one of the following exceptions:
  - they are technical and non-controversial,<sup>4</sup> and/or
  - they reflect customer-specific adjustment events, each of which we have consulted on at the relevant time with the relevant customer. Therefore, there has been adequate prior consultation on these updates so that all relevant views of customers have been considered.<sup>5</sup>
7. We consider the changes to the assumptions book to be very minor in the context of the assumptions book as a whole – hence the update to v1.2 instead of v2.0.

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<sup>1</sup> The TPM is Schedule 12.4 to the Electricity Industry Participation Code (the Code), [Part 12, Transport](#).

<sup>2</sup> [TPM Determination: BBC Assumptions Book v1.1](#), 16 March 2023.

<sup>3</sup> TPM clauses 38(3) and 38(4).

<sup>4</sup> TPM clause 38(4)(a).

<sup>5</sup> TPM clause 38(4)(c).

## 2 Updates to Simple Method Customer Allocation information

8. In June 2023, the Electricity Authority (**Authority**) decided to amend the TPM to ensure the most relevant information about BBC simple method allocators is published (amongst other changes made).<sup>6</sup> The Authority's decision was to:<sup>7</sup>
- “amend the TPM by adding the requirement to publish simple method allocations during the simple method period”; and
  - “remove the requirement to publish simple method allocation information in the assumptions book specifically. This will provide flexibility for Transpower to publish the information in a form and location most likely to be useful for customers (which may be – and currently is – the assumptions book)”.
9. To give effect to the Authority's TPM amendment, and because we consider it would be convenient for stakeholders if we provide a one-stop-shop for information on Benefit-Based Investment (**BBi**) allocations and covered costs, we have made the following amendments to the assumptions book:
- Added a new paragraph 6 to the assumptions book to provide clarity that all appendices, as amended from time to time, are incorporated into the assumptions book by reference (section 1.1, Background and purpose).
  - Incorporated the following appendices into the assumptions book by reference:
    - Appendix B: Simple Method Allocation Model;
    - Appendix C: Starting Simple Method IRAs, SMFs and Customer Allocations for the first simple method period<sup>8</sup>;
    - Appendix D: BBI Customer Allocation Workbook; and
    - Appendix E: BBI Covered Costs Workbook.
  - Made the following edits to section 4.3 of the assumptions book:
    - amended the section title to “Simple Method Customer Allocation”;
    - referred to the Simple BBI customer and regional allocations model (which is unchanged) as Appendix B (paragraph 443) and removed footnote 129 (no longer applicable);
    - added an explanation that from time to time, some starting Intra-regional Allocators (**IRA**), Simple Method Factors (**SMF**) and BBI Customer Allocations are corrected or updated through consultation with the relevant customers, and a reference to a new Appendix C containing them (paragraph 444). This first version of Appendix C reflects corrections and updates made through consultation with the relevant customers as we applied the TPM to set prices for the pricing year that commenced on 1 April 2023 (PY2023/24).

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<sup>6</sup> [Decision paper - Amendments to correct issues in the new TPM 2023](#), 27 June 2023, Issue 7.

<sup>7</sup> Ibid, paragraphs 2.33 and 2.35.

<sup>8</sup> The period starting on 24 July 2019 and ending at the end of the fourth pricing year after the first pricing year (being 1 April 2023 through 31 March 2024).



- Added a new section 5.2 (Adjusted BBI Customer allocations) with an explanation that BBI Customer Allocations are adjusted over time due to BBC adjustment events under Part F of the TPM, and a reference to a new Appendix D containing details of the adjustment events and adjusted allocations (paragraph 452). This first version of Appendix D reflects adjustment events under Part F of the TPM that have occurred up to the end of June 2023.
- Added a new section 5.3 (BBI covered costs) with an explanation that BBI covered costs (for all standard method and simple method BBIs) are recalculated each pricing year, and a reference to a new Appendix E containing them (paragraph 453). This first version of Appendix E reflects BBI covered costs calculated as part of setting prices for PY2023/24.

### 3 Other updates

10. We have made some other, minor technical changes to the assumptions book. These changes are summarised below.<sup>9</sup>

References to paragraphs of the assumptions book v1.2	Description of the change
Paragraphs 3, 205 and 223	Noted that the high-value/low-value test in the TPM will increase to \$30m from 1 April 2025. This is to align with the Commerce Commission's final decision on the base capex threshold in its Capex IM review. <sup>10</sup>
Paragraph 24	Noted that the discount rate will decrease to 5% p.a. from 1 April 2025. This is to align with the Commerce Commission's final decision on the discount rate in its Capex IM review. <sup>11</sup>
Paragraph 150	Removed the reference to the specific minimum weekly amount value that consumers are entitled to as compensation under an official conservation campaign. The amount of compensation is reviewed by the Electricity Authority every three years. The removal of this reference makes the paragraph more enduring.
Paragraph 151	Re-framed the sentence relating to determining the value for capacity shortages to clarify that the default scarcity pricing blocks are used as part of real-time pricing, instead of referring to real-time pricing as being implemented at a future unspecified time.

<sup>9</sup> There are also some consequential paragraph numbering changes.

<sup>10</sup> [Commerce Commission, Transpower Capital Expenditure Input Methodology \(IM Review 2023\) Amendment Determination 2023 \[2023\] NZCC 39](#), clause 1.1.5(2).

<sup>11</sup> *Ibid*, clause D6(3).

References to paragraphs of the assumptions book v1.2	Description of the change
Paragraph 315	Clarified that a binding constraint may be an AC constraint or a DC constraint. We identified the need for this edit in our work on the proposed starting customer allocations for the NZGP1.1 HVDC Reactive Support BBI, in section 8.8.1 of the Draft Record <sup>12</sup> .
Paragraph 337	Added a caveat that we may use information other than just the Stochastic Dual Dynamic Programming ( <b>SDDP</b> ) outputs (such as IRAs) to group a customer at a connection location into a supply or demand group. This reflects that some locations have embedded generation that is not modelled explicitly in SDDP and would result in them being in a different group if it were modelled. For example, refer to TPM Consultation NZGP1.1 - HVDC Reactive Support draft record, paragraph 81.
Paragraph 339(j)	Added cogeneration as a potential generation group. We typically model cogeneration with a fixed (or set) generation profile, so it should be a separate potential group than other thermal plant. Refer also to paragraph 80 in the assumptions book for more detail. The addition of cogeneration as a potential generation group was referenced in the decision paper for the determination of the starting customer allocations for the HVDC Pole 2 refurbishment BBI. <sup>13</sup>
Paragraphs 361, 376	In accordance with clause 75(4) of the TPM, clarified that if a pre-start adjustment event for post-2019 BBI has occurred, it must be treated as BBC adjustment events that occurred or will occur at the start of the relevant post-2019 BBI's start pricing year. The change in relation to paragraph 376 was mentioned in the draft record for the OTA STATCOM <sup>14</sup> (under the resiliency method).
Other	We have made various tidy-ups e.g. updating web-links, correcting duplicate definitions, updating formatting, etc.

<sup>12</sup> [TPM Consultation NZGP phase 1 starting BBI customer allocations \(Draft Record - HVDC Reactive Support\).pdf \(transpower.co.nz\)](#).

<sup>13</sup> [TPM benefit-based investment allocations | Transpower](#).

<sup>14</sup> [TPM WUNIVM1b OTASTATCOM starting allocations - Draft record.pdf \(transpower.co.nz\)](#).

