



Sarah Gillies
Chief Executive
Electricity Authority
By email: sarah.gillies@ea.govt.nz

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Dear Sarah

TPM Operational Review – Workstream One change proposals

Transpower has completed the first stage of its Operational Review of the Transmission Pricing Methodology (TPM). We would like to thank the Authority staff for their constructive engagement as we've moved at pace to identify options to relieve some of the price volatility and administrative burden issues for our customers.

Our initial proposals aim to lower costs and simplify processes related to 'adjustment events' for our customers, while also dealing with certain administrative issues before the next pricing year. This first stage has also allowed us to establish and test review processes, including between our organisations and with the TPM industry working group (IWG) and our customers.

Review context and objectives

Our work so far with this review has highlighted how critical it is that the TPM continues to meet its intended objectives so that customers and potential investors in New Zealand can easily understand and forecast their transmission charges to drive their decision making. If we don't get this right as New Zealand electrifies, the electricity sector will be an obstacle to economic growth rather than an enabler.

Since we operationalised the TPM in 2023, we've listened to feedback from customers and investors about how it could work better, particularly around reducing complexity, volatility and uncertainty. These concerns were confirmed through our 2025 TPM post implementation review (PIR). Specifically, the PIR found that the level of complexity, volatility and uncertainty in the TPM means affected parties are:

1. not receiving intended price signals, preventing realisation of expected benefits

2. unable to reliably estimate or reasonably forecast transmission charges, inhibiting investment decisions by generation and offtake customers affected by the TPM.

These concerns were repeated by IWG members and by submitters on our Workstream One consultation.

I have been clear with my team that the review *must cut any unnecessary complexity, remove volatility and allow affected parties to reliably estimate, and reasonably forecast, transmission charges.*

Our respective teams have been working well together, and this will need to continue to meet the aims above.

Operational Review approach

The review is being done in stages to allow rapid progress where possible while allowing time to get to grips with more challenging issues. Transpower has committed to a transparent and consultative review process, taking advantage of sector experts to test and aid our thinking, and working with the Authority from the outset.

I am pleased, having completed the first ‘workstream’, that this approach is working well. The IWG has proven very valuable, as have interactions with Authority staff. We had good stakeholder engagement on our first consultation – on our process and analysis as well as the substantive issues.

Workstream One

‘Workstream One’, the first stage of work, focused on adjustment events and several administrative matters that were realistic to address ahead of the next pricing year.

The accompanying documents detail the four TPM amendments we propose:

1. **batching** of adjustment events, substantially reducing within-year price volatility and administrative burdens for Transpower and its customers
2. **removing** the substantial and sustained increase adjustment event, which requires significant judgement by Transpower and its customers, and is not practical to apply
3. **deferring** calculation of benefits for the second simple method period, allowing completion of the Operational Review
4. **‘housekeeping’** to do a general tidy-up of legal text and remove redundant provisions.

While these proposals are quite modest, they do provide tangible benefits and serve as a test case.

Next steps

Our teams are in regular contact on the Workstream One proposals, but I am also available should you or the Authority Board wish to discuss this work directly.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'JKilty', written over a light blue horizontal line.

James Kilty

Chief Executive