



TRANSPower

Proposal Document

TPM Operational Review 2026 Workstream 1

17 April 2026

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1 Summary

1.1 Purpose of this Proposal Document

The purpose of this document is to provide an overview of Transpower's process and decisions under the first tranche (workstream 1) of the [Transmission Pricing Methodology \(TPM\) Operational Review 2026 \(Operational Review\)](#), with some of those decisions leading to the Code Amendment Requests (**CARs**) as detailed in the Appendices.

1.2 Purpose of the Operational Review

The purpose of the Operational Review is to identify targeted operational improvements to the TPM to support stable, efficient pricing and long-term consumer benefit, within existing policy intent.

We are particularly mindful, as highlighted by the [Post-Implementation Review \(PIR\)](#), our own experience and stakeholder feedback, that there are issues with the level of complexity, price volatility and uncertainty created by the TPM, and that the TPM runs the risk of negatively and inefficiently impacting investment decisions by generation and off-take customers and potential investors.

The review should help existing transmission customers and new customers looking to navigate the complexities of transmission charges. We are mindful that the current TPM is highly technical and complex.

1.3 Proposed amendments

We are undertaking the Operational Review under an initial four 'workstreams'. The primary focus of Workstream 1 has been on 'quick wins' that can be achieved in relation to adjustment events and housekeeping. We consider these quick wins:

- are technical in nature and clearly within scope of an Operational Review;
- do not result in significant value transfers between customers; and
- will provide immediate relief to customers by reducing transmission charge volatility and uncertainty caused by benefit-based charge (**BBC**) adjustment events.

Transpower is proposing that the Electricity Authority (**Authority**) make the following TPM Code amendments:

- batching of adjustments with a deemed 30 June event date;
- removing the substantial sustained increase (**SSI**) adjustment event;
- extending the first simple method period to the end of PY2028 or to the end of PY2029 if required; and
- a general tidy-up of the TPM, including removing redundant text.

Our aim is for the Workstream 1 TPM changes to take effect within the current pricing year if possible, or otherwise the pricing year commencing 1 April 2027.

While there was evidence supporting an increase in the “large” plant threshold and/or annual Intra-Regional Allocator (**IRA**) updates, we have decided to not propose changes at this stage. Stakeholder views on these options were mixed, and we agree more work and analysis is needed. These options will be considered as part of the broader simple and standard BBC methodologies review in workstreams 2 and 3.

1.4 Emerging connection charge issues

We also tested with stakeholders whether and how certain issues with connection charges and first mover disadvantage (**FMD**) should be addressed. This included issues with disconnection from a shared connection location, anticipatory investment in interconnection assets, and the FMD Type 1 mechanism for connection assets that benefit embedded large plants. Our initial thinking was that these matters raise broader policy issues that may most appropriately be referred to the Authority for consideration.

There were mixed views amongst stakeholders on whether these issues should be dealt with as part of the Operational Review or should be passed to the Authority to consider.

We will liaise with the Authority on the best way forward on these matters.

1.5 Wider concerns with the TPM

Some submissions highlighted more substantial issues with the design of the TPM and raised concerns that are likely beyond the scope of the Operational Review.

This included concerns that while the incremental changes proposed as part of Operational Review process may be beneficial, they cannot address what submitters suggest are more substantive problems with the TPM. These concerns include the view that “... the TPM is fundamentally

flawed” (Contact Energy), concerns about benefit-based charging and concerns about the absence of peak-usage charges. We have documented these concerns in the [Summary of Submissions](#). We agree that any changes proposed through the Operational Review should not add further complexity to the TPM, and that inefficient transmission pricing signals should be addressed through this review. We will continue to explore the extent to which issues can be resolved through the next stage of our Operational Review and continue to engage with the Authority should more fundamental changes need consideration.

1.6 Code Amendment Requests & drafting changes: Appendices A - H

The following Code Amendment Requests are attached to this paper:

- Appendix A – Code Amendment Request: Adjustment Events, Batching, April 2026
 - Attachment A.1 – Cost-benefit analysis
 - Attachment A.2 – Deferral costs
 - Attachment A.3 – How batching would change the timing of charges and wash-ups for the ‘causing customer’ and other affected parties
- Appendix B – Code Amendment Request: Removal of SSI Adjustment Events, April 2026
 - Attachment B.1 – Worked examples of SSI adjustment events
- Appendix C – Code Amendment Request: Simple Method Period Extension, April 2026
 - Attachment C.1 – Analysis of power flows in simple method regions
- Appendix D – Code Amendment Request: Legal Drafting Tidy-Ups, April 2026

The following proposed drafting changes are also attached:

- Appendix E – Proposed drafting changes: Adjustment Events, Batching
- Appendix F – Proposed drafting changes: Removal of SSI Adjustment Events
- Appendix G – Proposed drafting changes: Simple Method Period Extension
- Appendix H – Proposed drafting changes: Legal Drafting Tidy-Ups

2 Introduction

Transpower initiated an [Operational Review](#) of the [Transmission Pricing Methodology \(TPM\)](#) in [November last year](#).

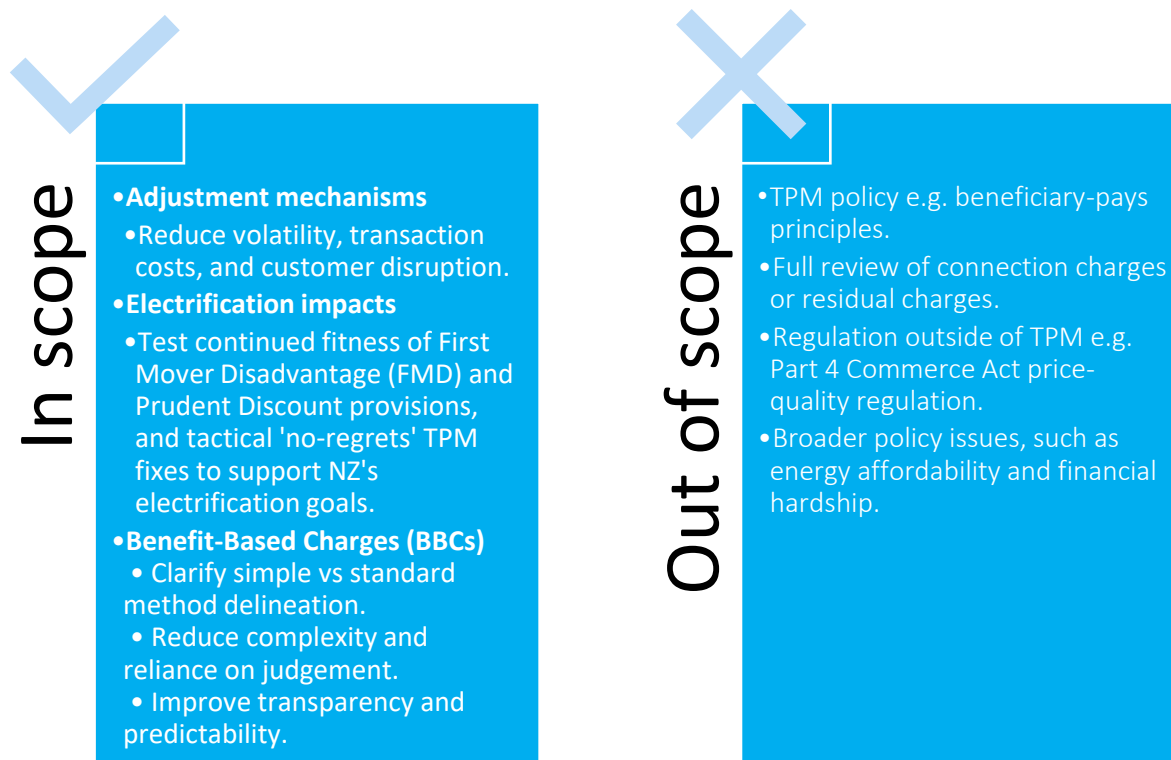
The TPM amendments we are proposing are made under clause 12.94A of the [Electricity Industry Participation Code \(the Code\)](#). Clause 12.94A allows the Electricity Authority (**Authority**) to amend

the TPM, despite anything else in the Code, as long as certain consultation requirements have been satisfied.¹

3 What we want to achieve through the review

In undertaking the Operational Review, we are mindful of the boundaries between the Authority's roles in setting the TPM policy, including through the [TPM Guidelines](#), and approving the TPM, and Transpower's roles in developing and proposing the TPM and administering the operation of the TPM.

The purpose of the Operational Review is to identify targeted **operational improvements** to the TPM to support **stable, efficient pricing** and long-term consumer benefit, **within existing policy intent**.



¹ Essentially, that the consultation process requirements under section 39 of the Electricity Industry Act have been satisfied.

With the benefit of submissions and several in-depth discussions with the TPM Industry Working Group (**IWG**) it is possible to elaborate on the general objectives set out in the statement above.²

Specifically:

- remove unnecessary complexity to enhance transparency and reduce compliance/transaction costs and opportunity costs for all affected parties;
- reduce volatility and ensuing price shocks; and
- enable stakeholders to reasonably estimate and forecast TPM charges.

Some of our stakeholders have expressed views that there are substantive problems with the design of the TPM and a more fundamental review is needed. Transpower's view is that the Operational Review should be pursued in the first instance, given the need to enact change at the pace needed to address the problems identified and encourage much needed investment in the energy sector. If it is not possible to address these broader concerns, including through the Operational Review, and meet the review's objectives then a more fundamental review may be necessary. A fundamental review would be a matter for the Authority's consideration.

Broader policy matters such as price-quality regulation and investment approval under Part 4 of the Commerce Act 1986 are outside of the scope of any TPM review initiated by Transpower or the Authority.

4 Assessment criteria for the Operational Review

Each option we consider as part of the Operational Review will be assessed against the other identified options and the status quo. The assessment has qualitative and quantitative dimensions. To do this we need to define relevant assessment criteria Transpower will apply:

- the Authority's statutory objective – which provides the three main criteria; and
- the general matters section of the TPM Guidelines – which provide three additional criteria.³

The three limbs of the statutory objective are described as the main criteria because the Authority is required to demonstrate that changes to the Code are consistent with the statutory objective.

Our assessment of options against these assessment criteria is set out in Chapter 10 of this paper.

² Refer to section 5 of this proposal for information on the IWG.

³ Additionally, where an option is not consistent with one or more clauses in General Matters section of the TPM Guidelines the inconsistency should be justified.

4.1 Main assessment criteria: the Authority's statutory objective

The three limbs of the Authority's section 15 statutory objective provide the main criteria. The Authority's main statutory objective is to:

... promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers.

Therefore, the *main assessment criteria* are the extent to which outcomes likely under different options promote:

1. **competition:** for example, by providing a level playing field for generators regardless of location and enhancing competition between grid and non-grid alternatives;
2. **reliability:** for example, by giving consumers better signals of the cost and benefits of investments that increase the security and reliability of grid-supplied energy; and
3. **efficient operation:** for example, by removing charges that inefficiently suppress electricity consumption at peak times and distort choices between transmission infrastructure, demand-response, or generation options.

Based on Authority guidance, the Authority's *additional consumer protection objective* is not relevant to the analysis.

4.2 Additional criteria: consistency with the TPM Guidelines

The TPM Guidelines' *general matters*⁴ set out principles that Transpower was required to follow in developing the TPM. These have some relevance for the evaluation of potential changes, specifically the principles of:

1. **beneficiary pays:** reflects the share of positive net private benefits those designated transmission customers are expected to derive;
2. **balancing precision and practicality:** balances the economic benefits and costs of precision of the TPM with the economic benefits and costs of practical considerations including:
 - i. robustness;
 - ii. simplicity;
 - iii. certainty, including through limiting the need for Transpower to exercise discretion; and
 - iv. costs associated with developing, administering and complying with the TPM;
3. **avoid creating incentives** for existing and potential designated transmission customers to avoid transmission charges in ways that cause economic inefficiency.

⁴ [26850TPM-2020-guidelines-10-June-2020.pdf](#) Clause 1

5 We established an Industry Working Group

Transpower engaged an Industry Working Group (IWG) with an Independent Chair to support the Operational Review.⁵ The Authority attends all IWG meetings as an observer.

The IWG's role is to provide input, views and feedback to Transpower based on members' own experience in the electricity industry, as a current or future electricity generator or consumer or member of another relevant group or body.⁶

The IWG members were appointed as subject matter experts for the part of the electricity industry each member represented. IWG members were expected to contribute their own expertise and views, not those of the organisation they work for or otherwise normally represent.

We appreciate the contribution the IWG and each of the IWG members has made to the Operational Review. For this Workstream 1 consultation, that contribution was made through three in-depth discussions with Transpower's Grid Pricing team, testing Transpower's analysis and understanding of potential effects of the proposals. A sub-group of the IWG also volunteered to test the assessment framework in section 4 above.

6 We split the Operational Review into four workstreams

Transpower agreed a process with the Authority to manage the Operational Review under an initial four 'workstreams'. The matters we address as part of the workstreams may evolve as the Operational Review progresses and we receive feedback from stakeholders and the IWG on what they consider important.

The workstream approach means Transpower may submit multiple proposed changes to the TPM during the Operational Review, which will enable some changes to be introduced earlier than others.

⁵ <https://www.transpower.co.nz/tpm-operational-review>

⁶ Refer IWG terms of reference [TPM Review ToR](#)

Workstream	Focus area	Timing
One	Refinement of adjustment mechanisms. For example, reducing/removing in-year adjustments to reduce volatility and customer disruption.	Proposal to Authority: April 2026
	Housekeeping – tidy up of TPM drafting and an extension to the first simple method period.	Authority decision by Nov 2026. Effective from 1 April 2027.
	Ensuring connection charges and FMD provisions are appropriate for evolving electrification scenarios.	TBC
Two	Reconsidering the delineation between the simple and standard methods for calculating BBCs.	Proposal to Authority: February 2027
	Refinements to simple method BBC calculations to reduce the need for Transpower to exercise judgement, to reduce complexity, volatility and uncertainty.	Authority decision TBC. Earliest effective date: 1 April 2028.
Three	Refinement of standard method BBC calculations to reduce the need for Transpower to exercise judgement, to reduce complexity, volatility and uncertainty.	Proposal to Authority: February 2027 Authority decision TBC. Earliest effective date: 1 April 2028.
Four	Sweep up/non-time critical issues	Work to commence early 2027

Transpower will consult with stakeholders through each workstream. Any feedback will be considered before Transpower finalises its proposal(s) to the Authority.

Any TPM change proposals will be drafted with appropriate legal advice and, when appropriate, supported with an evaluation of the costs and benefits.

6.1 Workstream 1 overview

Workstream 1 addresses three broad areas: (i) adjustment events, (ii) housekeeping changes, and (iii) early feedback on emerging connection charge and first mover disadvantage (**FMD**) issues.

It is our view that ‘quick wins’ can be made in relation to adjustment events and housekeeping because they:

- are technical in nature and clearly within scope of an Operational Review;
- do not result in significant value transfers between customers; and
- will provide immediate relief to customers by reducing transmission charge volatility and uncertainty caused by BBC adjustment events.

We also tested with stakeholders whether and how certain issues with connection charges and FMD should be addressed, either through the Operational Review or separate Authority-led processes.

6.2 Workstream 1 consultation

The consultation period ran from Tuesday 3 March 2026, until Friday 20 March 2026. Transpower received feedback from 13 stakeholder organisations, which are available on our [website](#). We appreciate the feedback we received. The stakeholder input has been valuable and helped inform our proposals to the Authority.

There was no cross-submission stage due to the technical nature of the workstream 1 amendments, as well as the timing constraints for the changes to be implemented for the next pricing year (1 April 2027 – 31 March 2028).

7 Adjustment events

Transpower consulted on concerns that the number and specification of adjustments provisions in the TPM were causing customers and itself problems.

Customers face transmission charge uncertainty due to frequent intra-year BBC adjustment events.⁷ This price uncertainty and intra-year volatility may be affecting efficient decision making and, over time, adjusted charges may become less reflective of benefits from the relevant investments. This comes at a high cost to both Transpower and its customers. As a result, our view is that there is an imbalance between “the economic benefits and costs of precision with the economic benefits and costs of practical considerations” (as per clause 1b of the TPM Guidelines).

We broke the adjustment event problem down further, considering timing, triggers/thresholds, and workability issues.

⁷ We refer to BBC adjustment events as just “adjustment events” in this paper. There are also connection charge and residual charge adjustment events, but changes to those are beyond the scope of the matters covered in workstream 1 of the Operational Review.

7.1 Timing

7.1.1 Problem with current TPM settings

The **point in time** when an adjustment is required to be calculated and applied is creating complexity and uncertainty in price setting for Transpower’s customers and driving significant administrative cost.

At present adjustment events are calculated as soon as practicable after Transpower becomes aware of and with reference to the precise date of that event.

The quantity of adjustment events is greater than anticipated and is projected to increase further. Each adjustment results in:

- for the causing customer, price changes during the year of the change; and
- for other customers, price changes from the start of the next pricing year.

In addition, for a benefit-based investment (**BBI**) with over-recovery from its covered cost, revenue recovered from charges to the causing customer in the year the event occurs is ‘washed-up’ together with charges from other adjustment events, and returned to all beneficiary customers at a later date (typically two years after the event in question). To operate these wash-ups, which are often for very small sums, Transpower must create a wash-up calculation for each event for each customer per location and BBI. Because each adjustment is affected by each prior adjustment (often only to a very small degree) the degree of complexity to calculate and administer wash-ups, and assure adjustment events, increases with the number of sequentially applied adjustments.

While Transpower bears the main compliance burden, Transpower’s customers are also affected, in particular Transpower’s Electricity Distribution Business (**EDB**) customers who are required to account for, set prices on and complete various pricing and disclosure requirements under Commerce Act 1986 regulation.

7.1.2 Submitter feedback

All submitters that responded on this matter supported batching of adjustment events, although several did so on a qualified basis: Contact, ENA (with design caveats), Genesis (qualified⁸), IEGA, Lodestone (noting, however, the limited benefits for Distributed Generation (**DG**)), MEUG, Orion, Unison and Centralines, Vector and Westpower.

ENA, for example, “... sees merit in batching adjustment events where this improves predictability of transmission charges and reduces administrative burden for both Transpower and customers.

⁸ “Transpower should consider how the proposal to batch adjustment events may have unintended consequences. Specifically, the proposal would seem to mean customers who connect early in a pricing year will not pay increased (adjusted) benefit-based charges for up to a year i.e. until the new pricing year takes effect with the adjusted benefit-based charges.”

Frequent in-year adjustments create practical challenges for EDBs when forecasting costs and communicating transmission charges to downstream customers.”

Unison and Centralines submitted that “Under the current framework, adjustment events may occur multiple times within a pricing year. This can create administrative complexity and make it difficult for distributors to incorporate transmission charges into annual pricing.”

Westpower stated that Transpower’s description of costs “completely understates costs for smaller EDBs, including management time, forecasting effort, retailer engagement and customer communication.”

7.1.3 Transpower’s Code amendment proposal

Our proposal is unchanged from the Workstream 1 consultation that adjustments with a deemed 30 June event date should be batched.

Our view is that this would best balance “the economic benefits and costs of precision with the economic benefits and costs of practical considerations” (as per clause 1b of the TPM Guidelines).

7.1.4 IWG feedback

The IWG agrees with Transpower’s decision on progressing with the batching of the adjustment events.

7.2 Triggers/threshold sensitivity

7.2.1 Problem with current TPM settings

There is transmission charge uncertainty due to the number and frequency of BBC adjustment events. These adjustments impose significant administrative and indirect costs on Transpower and our customers.

7.2.2 Submitter views

There were mixed views about whether the “large” plant threshold should be increased, or the IRA should be updated annually:

- The option to increase the “large” plant threshold was supported by IEGA, Lodestone (“in principle”), Vector (qualified) and Westpower. Contact did not support the proposal, and Genesis raised a number of concerns.
- The option for annual IRA updates was supported by EA Networks, ENA (with caveats), Meridian (“tentatively”), Orion, and Vector (“in principle” support only). Genesis and Meridian both raised concerns about annual IRA updates.

Concerns were raised about the potential pricing distortions that could result from either of these changes.

Contact, for example, “... oppose the proposal to increase the ‘large plant’ threshold” on the basis that “This change would cause boundary issues, and subsequent distortions to arise from the TPM, likely encouraging inefficient embedding of generation. The issue arises because (predominantly embedded) generation that is below the threshold is treated differently to other generation (net versus gross) for charge calculations.”

ENA submitted that the “large” plant “threshold should be calibrated carefully to ensure it does not weaken locational signals or create incentives for inefficient plant sizing or location decisions.” Unison and Centralines cautioned that “Adjustments to threshold settings should be designed to preserve effective pricing signals and avoid creating incentives for embedded generation or load to connect at the distribution level primarily to circumvent transmission charges.”

ENA was concerned that the consultation paper did not provide sufficient detail on the relative costs and benefits of the two options.

Genesis and Meridian raised concerns about the IRA adjustment proposal.

Genesis considered that both the threshold and IRA adjustment options were likely to be distortionary and inefficient. Meridian considered that changing the annual IRA “would be a bolder change with more pervasive implications” and questioned “whether such a change should be progressed through an Operational Review.”

7.2.3 IWG feedback

The IWG encouraged Transpower to ensure the next stage of work is planned to allow necessary analysis of large plant thresholds and/or use of IRAs to amend BBCs, particularly as the issues under consideration are expected to be more impactful than for Workstream 1.

The IWG considers that the inability to reliably forecast charges is having a material impact on both generation and off-take investment decision making. While the economic cost of this uncertainty is not transparent and may be difficult to quantify, the IWG considers those costs to be very material. The IWG suggests that TPM-related complexity, volatility, and uncertainty (**CVU**) has a disproportionate impact on entrant generators who have less or no ability to horizontally diversify TPM risk against a wider portfolio. The IWG suggests this impact is under-appreciated and should be given explicit consideration as part of the analysis for Workstreams 2 and 3.

If those objectives cannot be achieved through the Operational Review, then the problem will persist and will need to be addressed through a broader review. The IWG does not welcome another TPM review but equally does not see the current level of CVU created by the TPM as tenable.

7.2.4 Transpower's latest thinking on this matter

Transpower considers that the concerns raised about large plant thresholds and/or use of the IRAs to amend BBCs warrant further consideration and analysis which is not possible within the timeframe for Workstream 1 proposals and Code amendments to come into effect for the 2027/28 pricing year.

The issues are within the scope of matters Transpower had to consider and make recommendations on as part of the development of the TPM. We are comfortable this matter fits well within the purview of future Operational Review workstreams, noting that the Authority is the ultimate decision-maker on whether changes to the TPM will be adopted.

7.2.5 Transpower's decision on way forward

Transpower's view is that there is still merit in considering either raising the "large" plant threshold OR shifting to annual IRA updates for adjustments. However, we are not proposing a Code amendment at this time. We consider that more work is needed on the matter. The issues raised as part of the problem definition are part of the wider issues with benefit-based charges that will be considered in Workstreams 2 and 3.

7.3 Workability

7.3.1 Problem with current TPM settings

The substantial sustained increase (SSI) adjustment event is unworkable due to lack of data.

Transpower does not have robust access to adequate data to detect whether there has been an SSI adjustment event – an increase in a large plant's expected annual electricity consumption or generation of 25% or more which is likely to persist for at least five years. We cannot validate unreported cases, creating potentially inequitable outcomes. We are reliant on customer self-reporting.

Even if more rules were created to compel parties that hold relevant data to provide it to us, this data would still be "ex-ante" and require Transpower to speculate whether data showing a 25% increase (a step-change) in the present day, would persist for five years.

7.3.2 Submitter feedback

All the submitters that responded on this matter supported the proposed amendment to remove SSI adjustment events, being ENA, IEGA, Lodestone, MEUG, Orion, Unison and Centralines, Vector and Westpower.

ENA "... sees potential merit in removing SSI adjustment events if other mechanisms adequately capture material changes in grid use over time."

In a joint submission, Unison and Centralines made the same point: “We support Transpower’s proposal to remove SSI adjustment events. In practice, these adjustment events appear difficult to implement due to limited access to reliable consumption and generation data, reliance on customer self-reporting, and the need for subjective judgement. Removing these adjustments should improve the workability and transparency of the TPM while reducing unnecessary administrative complexity.”

7.3.3 Transpower’s Code amendment proposal

Transpower has decided to propose that the TPM be amended to remove the SSI adjustment event.

We consider that this proposal would not harm the robustness of transmission charges (particularly as current settings rely on incomplete and imperfect information) and would have the advantages of reducing Transpower discretion, improving certainty, and reducing administrative costs.

7.3.4 IWG feedback

The IWG agrees with Transpower’s decision on the removal of the SSI adjustment event.

8 Housekeeping

8.1 Second simple method period

The simple method is used to calculate expected positive net private benefit (**EPNPB**) and starting allocations for post-2019 benefit-based investments (**BBIs**) that are expected to cost \$30m or less when fully commissioned (low-value post-2019 BBIs).⁹

8.1.1 Problem with current TPM settings

The second simple method period is currently scheduled to begin on 1 April 2028, drawing on data collected from 1 September 2021 to 31 August 2026. We expect the calculations for the reset to take around six months, and system changes can take six months to 18 months, depending on complexity.

The task of resetting the simple method allocations draws on many of the same staff working on the Operational Review and there are likely to be interdependencies between the outcomes of

⁹ For more information on the simple method refer to the [TPM information sheet, Benefit-based charges: Simple method](#).

Workstreams 2 and 3 of the Operational Review and requirements for the second simple method period.

To address this problem, our proposal was to extend the first simple method period to the end of PY2028 (i.e. 1 April 2028 – 31 March 2029) or to the end of PY2029 (1 April 2029 – 31 March 2030) if required.

8.1.2 Submitter feedback

This proposal was supported by ENA, IEGA, MEUG, Orion, Unison and Centralines, Vector and Westpower.

Meridian was the only submitter that objected to the proposal. Meridian submitted that “... this is a resourcing issue rather than an issue with the TPM. Maintaining a regular update cycle for recalculating the net private benefits (NPBs) to determine simple method allocations is an important part of maintaining TPM charges which reflect the NPBs of individual payers. We encourage Transpower to stick to the current codified schedule for the second simple method period.”

8.1.3 Transpower’s latest thinking on this matter

We do not agree that this is simply a resourcing issue for Transpower. Our proposal would help reduce administrative burden (improving efficiency) for customers and Transpower by removing a risk of needing to calculate and consult twice in quick succession on the simple method allocations for the second simple method period using two different methodologies. It would also help reduce workload, and potential confusion, for stakeholders, who would otherwise be submitting at the same time on simple method allocations for the second simple method period as well as potential changes to the simple method.

8.1.4 Transpower’s Code amendment proposal

Transpower considers that it would be pragmatic to extend the first (current) simple method period and defer preparations for the second simple method period until the Operational Review process is complete and any changes to the simple method arising from Workstreams 2 and 3 are in the TPM. We propose that clause 60(1)(a) of the TPM be amended to extend the current simple method period to the end of PY2028 or to the end of PY2029 if required.

The proposal is unchanged from the consultation.

8.1.5 IWG feedback

The IWG agrees with Transpower’s decision on extending the simple method period.

8.2 Drafting hygiene

8.2.1 Problem with current TPM settings

The TPM legal drafting could do with a general clean up. The TPM legal text contains redundant provisions, for example those provisions relating to “pre-commencement events”. These provisions no longer have functional relevance and now could create confusion for stakeholders interpreting the TPM. There are also other changes that could be made for clarity and to correct typographical errors.

8.2.2 Submitter feedback

The submitters that responded to the question on this matter all supported the proposal: ENA (qualified¹⁰), IEGA, Lodestone, Meridian, MEUG, Orion, Unison and Centralines, Vector and Westpower.

MEUG submitted, for example, that “We fully support Transpower undertaking a general clean-up of the TPM legal text to remove redundant and outdated clauses and make some changes for clarity and to correct typographical errors.” Unison and Centralines submitted “These changes should help improve the clarity, consistency, and usability of the TPM.”

There were no submissions in response to the consultation question about whether there are any other opportunities to clean up the TPM legal text.

8.2.3 Transpower’s Code amendment proposal

Transpower proposes a general clean-up of the TPM to remove redundant and outdated clauses and to make some other changes for clarity and to correct typographical errors.

Transpower considers the benefits of tidying up the TPM include that it would make the TPM clearer, reduce interpretative uncertainty, and lower the risk of misapplication of the TPM. The tidy-ups would also help make future audits and system adjustments more straightforward.

The proposal is unchanged from the consultation.

9 Emerging connection charge and FMD issues

The consultation paper sought early feedback on whether and how certain issues relating to connection charges and FMD should be addressed. Our view in the consultation was that these matters raise broader policy issues that may be better referred to the Authority, and some

¹⁰ “ENA agrees in principle but has not had time to review the specific proposed changes.”

potential solutions may not be fully consistent with the TPM Guidelines. We sought feedback from respondents as to how best to approach these issues:

These issues included:

- increases in connection charges for remaining customers when a customer disconnects from a shared connection location;
- the FMD Type 2 mechanism not applying to anticipatory investment in interconnection assets, resulting in existing customers funding investments intended to enable future connections; and
- limitations in the FMD Type 1 mechanism, including its non-application to embedded large plant and the absence of protection for first movers where subsequent connections do not occur.

While many submitters agreed that the emerging connection charge and FMD issues identified by Transpower are real and potentially material, views were mixed on whether these matters should be addressed through the Operational Review or instead referred to the Authority for broader policy consideration.

9.1.1 Transpower's latest thinking on these matters

The submissions we received indicate that the matters raised in the consultation may be genuine problems that are likely to get worse if nothing is done to address them. In our view, further consideration is warranted, either as part of future workstreams of the Operational Review or by the Authority.

9.1.2 Transpower's decision on way forward

We will liaise with the Authority on the best way forward on these matters.

9.2 Disconnection from a shared connection location

9.2.1 Potential problem with current TPM settings

Where customers share connection assets at a connection location, a significant disconnection or load reduction by one customer shifts that customer's allocations for the shared (or previously shared) connection assets onto the remaining customer(s). This can cause sharp and unexpected increases in connection charges.

9.2.2 Submitter feedback

There were mixed views about whether this matter should be dealt with through the Operational Review.

Genesis, Lodestone, Orion and Westpower all submitted that this matter should be addressed through the Operational Review.

ENA, Meridian and MEUG alternatively suggested that this was a matter more appropriately dealt with by the Authority.

9.3 FMD Type 2: Anticipatory investment in assets

9.3.1 Potential problem with current TPM settings

In regions likely to see future generation, transmission upgrades are sometimes needed ahead of new connections. This could be connection or interconnection investments. Under the current TPM, existing load customers mostly pay for these upgrades until the new generators connect, meaning the existing load customers fund benefits ultimately received by future generation customers (or, potentially, vice versa).

It is Transpower's view that anticipatory investment protections for existing customers in the TPM could go further, and that the costs of anticipatory investment in interconnection assets should be more widely socialised until the future beneficiaries connect.

9.3.2 Submitter feedback

ENA (qualified¹¹), Lodestone, Orion and Westpower all submitted that this is a matter that should be addressed through the Operational Review.

Meridian had an opposing view, raising the concern that the “emerging issues identified are substantive” and thought the issue is “best referred to the Electricity Authority for consideration.”

9.4 FMD Type 1 Issues

9.4.1 Problem with current TPM settings

The FMD Type 1 mechanism in the TPM addresses a ‘free rider’ problem where a first mover customer pays for a connection asset under an investment agreement (typically a Transpower Works Agreement (**TWA**)) and continues to bear the full capital cost under that agreement even after other customers (second movers) connect to the connection asset. The second mover(s)

¹¹ “Potentially, but it is important to stay connected to existing workstreams in the sector that are also considering this problem.”

reimburse part of these costs through the funded asset component (**FAC**) of their connection charges and a rebate by Transpower to the first mover.¹²

A concern has been raised that first movers may be exposed to financial risk if subsequent customers do not connect or delay their connection. This has prompted broader questions about which party is best placed to manage this risk, including whether it should sit with the first mover, or be spread more widely across transmission customers (via Transpower).

Concerns have also been raised by stakeholders that the FMD Type 1 mechanism is not functioning as intended for connection assets that benefit embedded large plants. For example, where a generator funds an upgrade at a grid exit point already shared with a distributor, future embedded generators (not Transpower customers) do not pay the FAC despite benefiting from the funded asset.

9.4.2 Submitter feedback

Lodestone thought this matter should be addressed through the Operational Review.

IEGA, MEUG, Meridian and Vector alternatively considered this to be a matter which should be addressed by the Authority.

¹² For more information on the FMD Type 1 mechanism refer to the [TPM information sheet: Connection charges: the funded asset component mechanism to address Type 1 FMD](#).

10 Assessment of options against assessment criteria

Criteria descriptions are sourced from:

- For the Authority’s statutory objective “*promote competition in, reliable supply by, and efficient operation of the electricity industry for the long-term benefit of consumers*” these criteria are as described by the Authority’s foundation document, its interpretation of the statutory objective(s).¹³
- For the remaining criteria *beneficiary pays, balance precision and practicality, and incentives to avoid transmission charges* these descriptions are from the TPM Guidelines 2020.¹⁴

Competition: the Authority interprets the phrase *promoting competition in the electricity industry for the long-term benefit of consumers* to mean: exercising its functions in ways that facilitate or encourage increased competition in the markets for electricity and electricity-related services, taking into account long-term opportunities and incentives for efficient entry, exit, investment and innovation in those markets.

Efficient operation: the Authority interprets the phrase *promoting efficient operation of the electricity industry for the long-term benefit of consumers* to mean: Exercising its functions in ways that increase the efficiency of the electricity industry, taking into account the transaction costs of market arrangements and the administration and compliance costs of regulation, and taking into account Commerce Act implications for the non-competitive parts of the electricity industry, particularly in regard to preserving efficient incentives for investment and innovation. For Workstream 1 our options are intended to *promote efficient operation*.

Reliability: the Authority interprets *promoting reliable supply* to mean exercising its functions to encourage efficient reliable supply. Promoting reliable supply does not mean achieving a prescribed level of reliable supply. This criterion is considered holistically across the whole TPM (rather than through each option) such that TPM CVU that is adversely impacting investment decision making will reduce reliability vs the economically optimal level. This criterion does not appear further in the options assessment tables.

Long-term benefits to consumers in regard to long-term benefit, the Authority considers that its primary focus is to promote dynamic efficiency in the electricity industry, which includes: (a) taking into account long-term opportunities and incentives for efficient entry, exit, investment and innovation in the electricity industry, by both suppliers and consumers; and (b) taking into account the durability of the industry and regulatory arrangements in the face of high impact, low probability events [we consider this is also met through the “promote competition” limb].

¹³ [Revised Interpretation of the Authority's statutory objective - with explanatory note](#)

¹⁴ [26850TPM-2020-guidelines-10-June-2020](#)

Beneficiary pays. Reflects the cost of providing Designated Transmission Customers (DTC) for new grid investment, grid access and grid use, and reflects share of positive net private benefits for those matters [clause 1a].

Balancing precision and practicality. Balance the economic benefits and costs of precision of the TPM with the economic benefits and costs of practical considerations including robustness, simplicity, certainty and administration costs [clause 1b].

We note *precision* is not the same as *accuracy* (i.e. seeking accuracy in benefits assessments being used for cost allocation). Precision is about how repeatable or consistent results are; accuracy is about closeness to the truth. Reducing precision doesn't necessarily mean that the benefit estimates are any less accurate.

Incentives to avoid transmission charges. Avoid creating incentives for existing and potential designated transmission customers to avoid transmission charges in ways that cause economic inefficiency [clause 1c].

Assessment approach: gauge the *outcomes* from each option, for each criterion, using qualitative descriptors. This is an ordinal scale, with words implying a relative order that is commonly understood.

- Assign colour to words to *visualise* an overall assessment *very poor* / *poor* / *neutral* / *good* / *very good*.
- Each criterion carries equal weight.
- Describe the status quo for each issue, using the same descriptors.
- The preferred option is the one with the most positive (i.e. good / very good) descriptors.

10.1 Adjustment events: timing and volumes

	Competition	Efficient operation	Beneficiary pays	Balancing precision and practicality	Incentives to avoid transmission charges
Status Quo: current approach to adjustment events.	Poor. Contributes to complexity, volatility and uncertainty (CVU) which impedes investment decision making (and disproportionately impacts new/prospective entrants).	Poor. Adjustments, and their wash-ups, cause within-year price changes that are administratively complex to process and communicate, driving disproportionate engagement effort and assurance cost.	Neutral. Changes to charges maintain a similar cost/private benefit for each Customer.	Poor. Modest increase in precision requires large increase in complexity (and cost) which is problematic for Transpower and affected parties.	Good.
Option A: a deemed date for all adjustments, no change to capacity for “large plant” threshold.	Neutral. Marginal reduction in CVU supports marginal reduction in impediment to investment decision making.	Good. Increases productive and allocative efficiency (Transpower and customers) by reducing administrative costs and enabling better allocation of expert staff. Marginal improvement in dynamic efficiency (by slightly reducing uncertainty).	Neutral. Changes to charges maintain a similar cost/private benefit for each Customer.	Good. Improves balance towards practicality.	Good. Economic analysis (in the CAR) concludes no incentive for generators to delay commissioning, if charges are only changed once a year.
Option B: a deemed date for all adjustments, and raise capacity for “large plant” to 25MW.	Neutral / Good. As above but entirely removes TPM CVU as factor for all plant <25MW (i.e. too small to viably connect to the grid).	Good / Very good. As with Option A but accentuated by removing TPM CVU as factor for all plant <25MW.	Neutral. Changes to charges maintain a similar cost/private benefit for each Customer	Very good. Improves balance towards practicality plus <i>greatest reduction</i> in transaction costs that is more likely to outweigh costs of loss of precision.	Neutral. Potential incentive to inefficiently alter plant size (below 25MW) to avoid all transmission charges; and reduction in locational signal provided by BBCs.
Option C Deemed event date but still apply wash-ups.	Poor. Wash-up processes cause CVU.	Poor. Adjustments, and their wash-ups, cause within-year price changes that are administratively complex to process and communicate, driving disproportionate engagement effort and assurance cost.	Neutral. Changes to charges maintain a similar cost/private benefit for each Customer.	Poor. Modest increase in precision requires large increase in complexity (and cost) which is problematic for Transpower and affected parties.	Good.

- On the assessment in the table above, option A is marginally the preferred option, although option B has the better effect on practicality.
- Note Option A and B are options that in Transpower’s view, meet the proposal’s objective (to reduce CVU and transaction costs associated with the precision sought from constantly tracking and communicating charge changes due to adjustments events, such that the net benefits of reducing CVU and transaction costs are larger than any economic cost arising from loss of precision). “Option C” is a generic option that combines batching but still with wash-ups processes.

10.2 Remove adjustment event “substantial sustained increase”

	Competition	Efficient operation	Beneficiary pays	Balancing precision and practicality	Incentives to avoid transmission charges
Status Quo: retain SSI adjustment event in the TPM.	Poor. Advantages larger scale parties. For example, <ul style="list-style-type: none"> a 10MW generator or offtake party will incur higher BBCs if increasing by 2.5MW a 200MW generator or offtake party would only incur higher BBCs if increasing by 50MW. 	Very Poor. Relies on self-reporting to Transpower to identify an SSI or potential SSI and on judgement by reporting party (and Transpower as to the persistence of the increase). Low threshold for ‘large plant’ means trigger is as low as 2.5MW. These factors and inability for Transpower to validate unreported cases, results in inconsistent application. Uncertainty over exposure to BBC increases is (anecdotally) disincentivising plant capacity / output increases.	Poor. No ability to even-handedly (for all customers) assess an SSI event and therefore apply consistently. Consider other adjustment events (e.g. large plant connecting) or pricing processes (simple method updates) as superior means of capturing substantial increases in consumption or generation.	Poor. Very impractical to comply with due to reliance on self-reporting and judgement of both reporting party and Transpower.	Poor. The presence of the SSI adjustment event creates an incentive to manage operations and investment to avoid potential increase in transmission charges (when that action would otherwise be economically efficient). Uncertainty over the impact of an SSI adjustment (anecdotally) results in ‘worst case’ assumption, likely significantly overstating BBC increases – with corresponding impact on investment decisions.
Option A: Remove SSI adjustment event.	Neutral.	Very good. Customers are not inefficiently managing operations/investment to avoid the adjustment event.	Neutral. Does not alter principal of beneficiary pays.	Good. Removes an inoperable provision that Transpower is unable to apply in a robust or consistent manner.	Good. Removes an incentive to inefficiently manage operations and investment to avoid increasing transmission charge.
Option B: Compel more data / information provision.	Poor. Advantages larger scale parties. For example, <ul style="list-style-type: none"> a 10MW generator or offtake party will incur higher BBCs if increasing by 2.5MW A 200MW generator or offtake party would only incur higher BBCs if increasing by 50MW. 	Poor. Adds compliance cost, likely to alter and delay investment cases. High degree of judgement means likelihood of non-compliance (intentional or unintentional) while robustness and consistency problems would persist.	Poor. Customer reporting to Transpower is compelled but Transpower is still unable to robustly or consistently apply the adjustment.	Very Poor. Drives more compliance work for affected party and Transpower but likely still impractical for Transpower to robustly assess the “persistence” of any increase.	Poor. Mandating data provision likely to worsen current disincentive to increase plant output.

- On the assessment in the table above, option A is the preferred option. We consider option B could be highly undesirable for efficient operation and incentives to avoid transmission charges.

10.3 Simple method period: extend by at least one year

	Competition	Efficient operation	Beneficiary pays	Balancing precision and practicality	Incentives to avoid transmission charges
Status Quo: Undertake analysis for Simple Method Period 2 from September 2026, with Simple Method Period 2 commencing 1 April 2028.	Neutral. Potential for <i>changes</i> to a DTC's allocations (hence charges to their own load and generation customers) under the Simple Method, but consider those changes do not alter Customer decisions (as fixed charges).	Poor. Confusion for Customers if consultation on simple method allocations occurs when operational review considering changes to the simple method. Also waste of resource if a second consultation on simple method allocations had to be run to reflect any changes made following the Operational Review.	Good. Benefits assessments updated for changes on the grid from investments over five years but does not reflect changes made through Operational Review (so subject to change).	Poor. The precision sought from updating allocations for the second simple method that may all get revised if changes are made following the Operational Review.	N/A
Option A: Extend first simple method period by one year.	Neutral. Benefit-based charges under the Simple Method retains existing allocations.	Good. Better utilisation of resources both for Transpower and Customers (avoids rework for multiple parties).	Good. Benefits not updated as soon, but when updated will reflect changes made through Operational Review (so more accurate and enduring).	Good. Reduction in transaction cost for Transpower Customers and potentially wider participants, outweighs a potential loss of precision under the year's extension. However, assuming any changes to the simple method approach have been incorporated, the next (single) update results in better precision and while avoiding cost and confusion arising from successive updates.	N/A
Option B: Extend first simple method period by two years.	Neutral. Benefit-based charges under the Simple Method retains existing allocations.	Good. Better utilisation of resources both for Transpower and Customers (avoids rework for multiple parties).	Good. Benefits not updated as soon, but when updated will reflect changes made through Operational Review (so more accurate and enduring).	Neutral. Reduction in transaction cost for Transpower, its Customers and potentially wider participants; <i>should</i> still outweigh a potentially larger loss of precision under a two-year extension.	N/A

- On the assessment in the table above, option A is the preferred option. We also consider a two-year extension should be allowed for too, to be certain that Authority decisions under the CAR processes and any consultation are made with time for those decisions to be implemented in pricing.

