



TRANSPOWER

Consultation document

Consultation on TPM Operational Review 2026 Workstream 1

3 March 2026

Submissions close: 20 March 2026



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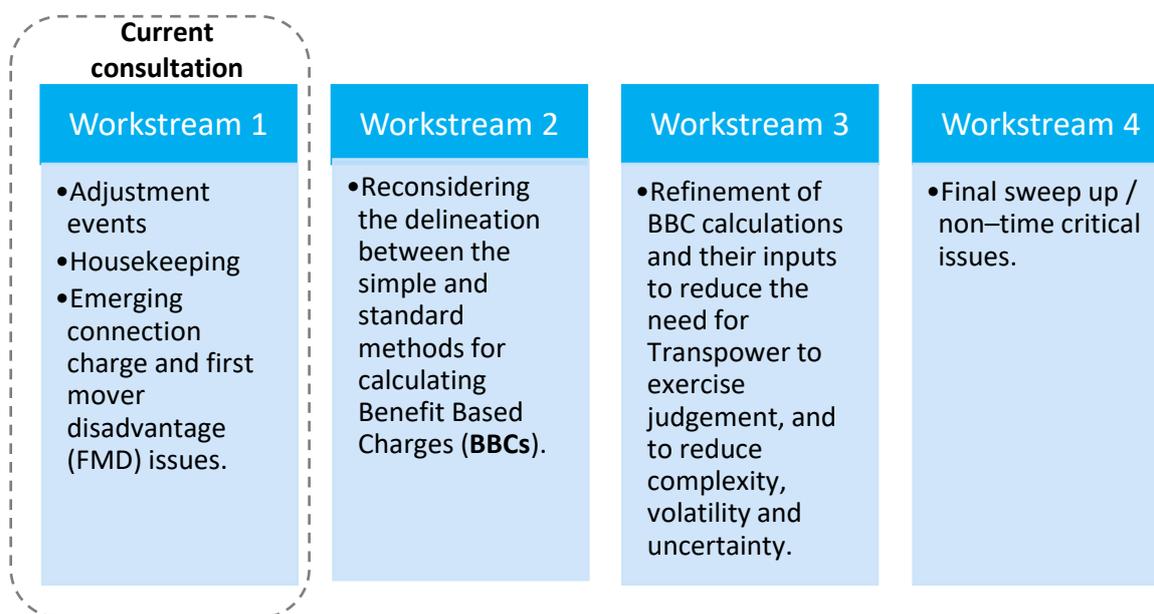
1 Summary

1.1 Purpose of this consultation

This consultation is on the first tranche of potential changes ([workstream 1](#)) we are considering as part of the [Transmission Pricing Methodology \(TPM\)](#) Operational Review.

The aim of the Operational Review is to enhance transparency and future-proof transmission charges as Aotearoa New Zealand transitions to an increasingly electrified future. The review is an opportunity to ensure the TPM continues to deliver on its intended objectives and will help existing transmission customers and new customers looking to navigate the complexities of transmission charges. We are mindful that the TPM is highly technical and complex.

We are undertaking the Operational Review under an initial four ‘workstreams’. At the end of each workstream, Transpower will form its final views on any issues identified and, where appropriate, submit TPM change proposals to the Electricity Authority (**Authority**). This consultation covers workstream 1 only.



The matters we address as part of the workstreams may evolve as the Operational Review progresses and we receive feedback from stakeholders on what they consider important. We welcome feedback from stakeholders on the proposed scope and timing of this Operational Review more generally.

The workstream approach means Transpower may submit multiple proposed variations to the TPM during the Operational Review, which will enable some changes to be introduced earlier than others. Transpower will submit all amendments under clause 12.94A of the Electricity Industry Participation Code (**the Code**).

The primary focus of workstream 1 of the Operational Review is on ‘quick wins’ that we consider 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 BBC adjustment events.

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

For any workstream 1 TPM changes to take effect from the pricing year commencing 1 April 2027, we need to deliver any change proposal/s to the Authority for consideration in early April 2026.

1.2 Limitations on changes we will propose

In undertaking the Operational Review, it is important to be mindful of the boundaries between the Authority’s roles in setting 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.

TPM amendments we propose under clause 12.94A(2) of the Code are not required to comply with the TPM Guidelines. However, in considering any proposal, the Authority must consider the extent to which the proposal is consistent with the intent of the TPM Guidelines, as set out in clauses (i) to (viii) at the start of the TPM Guidelines.

We remind stakeholders that broader policy matters such as regulation under Part 4 of the Commerce Act 1986 are outside of the scope of any TPM review initiated by Transpower or the Authority.

1.3 Feedback sought

We are seeking feedback on the first set of amendments to the TPM we think could be introduced for the pricing year commencing 1 April 2027 as part of workstream 1:

- **BBC adjustment events – timing:** batching of adjustments to treat most adjustment events as occurring on 30 June, and processing them simultaneously.

- **BBC adjustment events – triggers/thresholds:** either (i) increasing the “large” plant threshold; or (ii) introducing annual Intra-Regional Allocator (**IRA**) updates, replacing several adjustment events (large plant connected/disconnected, substantial sustained increase, changed point of connection) with a once-a-year recalculation of IRAs.
- **Remove the substantial sustained increase (SSI) adjustment events**
- **Housekeeping:** extend the current simple method period to the end of PY2029 or to the end of PY2030 if required, and generally clean up the TPM legal text to remove redundant and outdated clauses and make other minor drafting improvements.

We also want to test with stakeholders early whether and how certain issues with connection charges and FMD should be addressed. Our initial thinking is that these matters raise broader policy issues that may most appropriately be referred to the Authority for consideration. The most appropriate or efficient solutions for some of these issues may not all be consistent with the intent of the TPM Guidelines.

These matters include:

- **customer disconnection** from a shared connection location **increases connection charges** for remaining customers at that location;
- the **FMD Type 2 mechanism** does not apply to **anticipatory investments in interconnection assets**, meaning that the BBCs for such investments fall to existing customers in the investment region when the aim of the investment is to enable connections of future customers; and
- the **FMD Type 1 mechanism** is not triggered by the **connection of embedded large plant**, which causes a mismatch with grid-connected plant. There are also no financial protections for the first mover in situations where the subsequent movers do not connect.

We would welcome feedback on whether you consider these matters warrant further consideration and, if so, whether they should be dealt with through the Operational Review or separate Authority-led processes.

We also welcome any feedback on the overall process, scope, and timing for the Operational Review, outlined in section 4 of this paper.

Any change TPM proposal by Transpower will be accompanied by a cost benefit assessment (**CBA**).

1.4 Next steps

Subject to the outcome of our review of submissions, we will submit any proposed TPM amendments for workstream 1 to the Authority in early April 2026. We will also consider the best way forward in relation to the emerging connection charge issues, but they will not be part of any proposed TPM amendments at this stage.

1.5 List of Appendices

Appendix A – TPM Guidelines – 10 June 2020

Appendix B – Cost benefit analysis for adjustment event proposal

Appendix C – Proposed TPM drafting for house-keeping changes

Appendix D – List of consultation questions



2 Introduction

Transpower has initiated an [Operational Review](#) of the [Transmission Pricing Methodology \(TPM\)](#). The TPM is part of the [Electricity Industry Participation Code 2010 \(the Code\)](#).¹

Any TPM amendments we propose as part of the Operational Review will be made under clause 12.94A of 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.²

Subject to the outcome of our review of submissions, we will submit any proposed TPM amendments for workstream 1 to the Authority in early April 2026.

2.1 Why we are undertaking the review

Since implementation of the new TPM on 1 April 2023, we have been considering feedback from stakeholders about aspects of the TPM that could be improved to reduce uncertainty and volatility for existing customers and for potential new customers looking to invest in New Zealand. We have also been keeping track of issues we have encountered with our operation and administration of the TPM.

We have had widespread customer feedback, from both small and larger customers, that the TPM is a ‘black box’, can (negatively) impact generation and other investment decisions, and creates uncertainty and fear of bill shock. Transpower’s own experience is that the TPM is complex and costly to administer, a large number of adjustments to transmission charges are required, the TPM negatively impacts stakeholder input into our investment decisions, and customers are unhappy.

We engaged Concept Consulting last year to understand whether the TPM is delivering on intended outcomes and to identify issues and how these might be addressed. [The Concept Consulting review](#) concluded that a focused Operational Review would be the most effective approach to address complexity and uncertainty issues in the TPM.

Transpower will not be able to resolve all the concerns with the TPM through the Operational Review. The Operational Review will focus on near-term improvements to make the TPM simpler and more predictable for our customers.

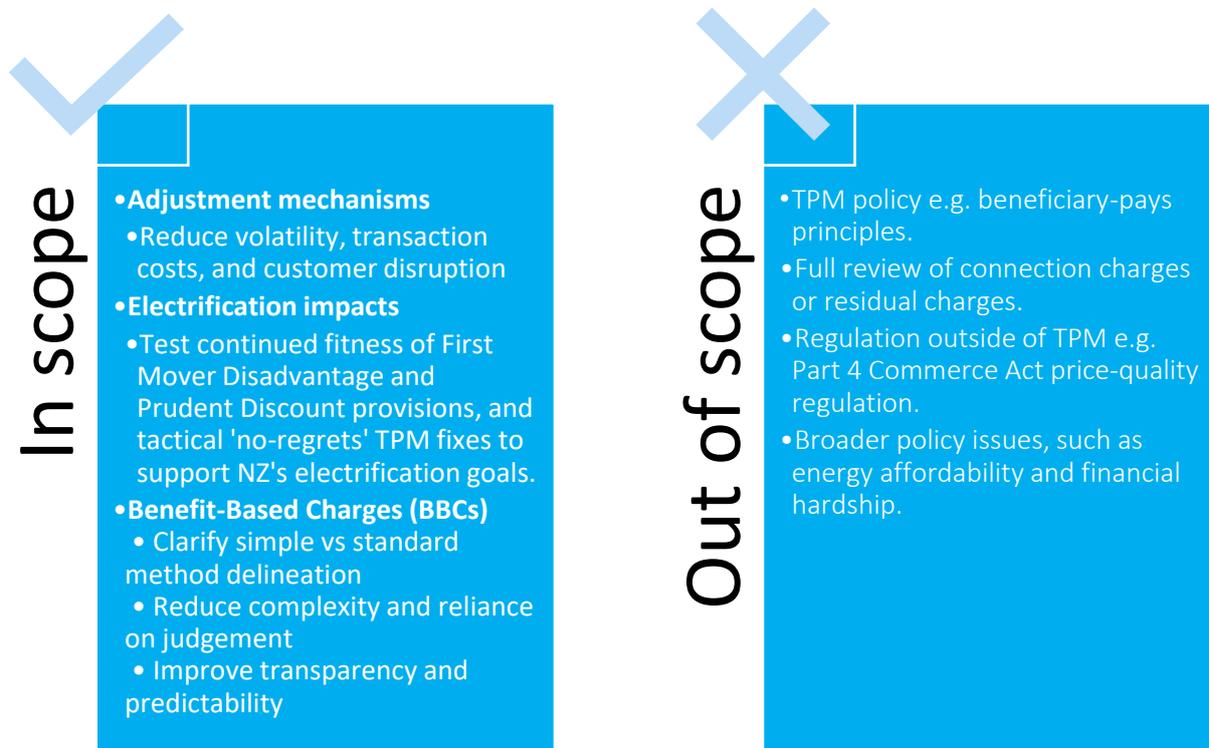
¹ Transpower announced its decision to undertake an Operational Review of the TPM on [13 November 2025](#).

² Essentially, that the consultation process requirements under section 39 of the Electricity Industry Act have been satisfied.

3 What we want to achieve through the 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**.

Some of our stakeholders have expressed views that BBCs are not working and should be replaced by a new charge. Transpower’s view is that operational issues and fixes should be explored to achieve efficient transmission pricing.



3.1 Limitations on changes we will propose

In undertaking the Operational Review, it is important to be 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.

Transpower is not considering fundamental changes as part of the Operational Review, such as replacing BBCs with another charge type. We are aware of stakeholder views on such matters, however, they are policy matters for the Authority and are therefore beyond the scope of this Review (as allowed under the Code).

We remind stakeholders that 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.

3.1.1 Relevance of TPM Guidelines

TPM amendments we propose under clause 12.94A of the Code are not required to comply with the Authority’s TPM Guidelines. However, in considering any proposal, clause 12.94A(2) specifies that the Authority must consider the extent to which the proposal is consistent with the intent of the TPM Guidelines, as set out in clauses (i) to (viii) at the start of the TPM Guidelines. If the Authority does not consider the proposal to be consistent with that intent, the Authority must provide reasons why the Authority considers the amendment to nevertheless be consistent with section 32(1) of the Electricity Industry Act 2010 (**Act**).

Where we consider any proposed TPM changes are not consistent with the intent of the TPM Guidelines, we will include an explanation of why the change has been proposed and how it complies with section 32(1) of the Act. This is the same as we did when developing the current TPM and seeking Authority approval for it (although that was a different process under the Code which required consistency with the letter of the TPM Guidelines)³.

4 We have split the Operational Review into four workstreams

Transpower has 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 Industry Working Group (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.

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

³ The Authority has confirmed this approach for this Operational Review.

Workstream	Focus area	Timing
	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. Refinements to simple method BBC calculations to reduce the need for Transpower to exercise judgement, to reduce complexity, volatility and uncertainty.	Proposal to Authority: December 2026 Authority decision by September 2027. 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: December 2026 Authority decision by September 2027. Earliest effective date: 1 April 2028.
Four	Sweep up/non-time critical issues	TBC

Transpower will consult with stakeholders on 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 cost-benefit analysis (**CBA**) as outputs from the workstream. We describe the proposed approach to CBA for adjustment events as an example in Appendix B.

Question 1	Do you have any comments on the process, timing and/or prioritisation of each of the Operational Review workstreams?
Question 2	Are there any other matters we should consider as part of the Operational Review?
Question 3	Are there any matters we should specifically exclude from the Operational Review?

5 We have established an Industry Working Group

Transpower agreed with the Authority to engage a TPM Industry Working Group (**IWG**) with an Independent Chair to support the Operational Review.⁴ 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.

The IWG members were appointed as subject matter experts. IWG members are 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 consultation, that contribution included three in-depth discussions as Transpower's analysis progressed.

6 Consultation process and next steps

We will hold two online briefing sessions for stakeholders:

- Monday 9 March 2026, and
- Monday 16 March 2026.

Stakeholders are welcome to attend one or both sessions. If you would like to attend, please register by e-mailing tpmreview@transpower.co.nz.

The consultation period will run for three weeks, commencing Tuesday 3 March 2026. Submissions are due by **5pm on Friday 20 March 2026**. There will be no cross-submission period due to the timing constraints for the changes to be implemented for the pricing year commencing 1 April 2027.

Please send all submissions to tpmreview@transpower.co.nz. We will acknowledge receipt of each submission. All submissions will be published on the [TPM Operational Review page of Transpower's website](#).

If your submission contains confidential material, please ensure this is clearly identified and provide a version of your submission that can be published.

⁴ <https://www.transpower.co.nz/tpm-operational-review>

Please note that all information provided to Transpower is subject to potential disclosure under the Official Information Act 1982.

If you have any questions about this consultation, please send them to tpmreview@transpower.co.nz. Your questions and our responses to them will be published on our website for reference by other submitters and stakeholders.

6.1 Feedback sought

We welcome any feedback on:

1. the scope and timing of the four workstreams;
2. the issues we have identified and options to address these within the TPM;
3. whether there are any other TPM changes we should be proposing at this stage or for future consideration; and
4. how and whether the matters relating to connection charges and FMD should be progressed.

This consultation paper includes some specific questions we would welcome responses to. The questions are also included in a separate word document for the convenience of submitters.

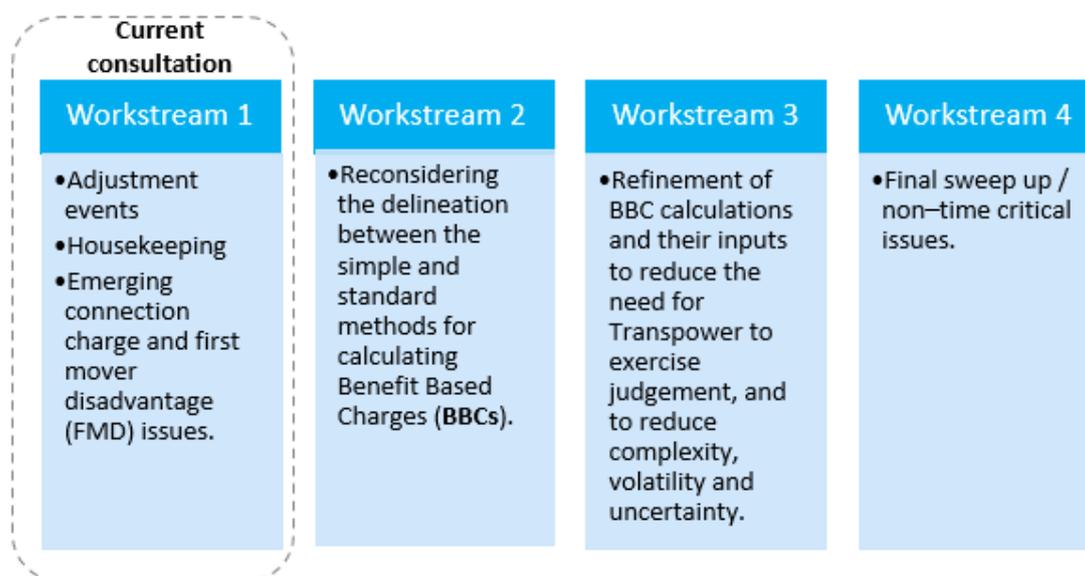
6.2 Next steps

Subject to the outcome of our review of submissions, we will submit any proposed TPM amendments for workstream 1 to the Authority in early April 2026. We will also consider the best way forward in relation to the emerging connection charge issues, but they will not be part of any proposed TPM amendments at this stage.

Feedback from stakeholders will be considered and shared with the TPM Industry Working Group in March before any proposals are submitted to the Authority. The Authority is then expected to evaluate Transpower proposals, which may include further consultation, before deciding whether to adopt any or all of the proposed changes.

Papers presented to, and feedback received from the IWG are published on the [TPM Operational Review page of Transpower's website](#).

7 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 want to test with stakeholders early whether and how certain issues with connection charges and FMD should be addressed, either through the Operational Review or separate Authority-led processes.

We welcome feedback on additional 'quick wins' that could be included in this workstream. While the timeframe for implementation in prices from 1 April 2027 is tight, we are interested in stakeholders' views and will consider the workability of suggested changes.

8 Adjustment events

Customers face transmission charge uncertainty due to frequent intra-year BBC adjustment events.⁵ 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).

Our customers have indicated changes to their transmission charges within a pricing year are challenging to process and communicate effectively to their own customers. Several customers – including Top Energy, North Power, Contact Energy, Powernet, Horizon, Meridian, and Vector – have experienced multiple adjustment events, some occurring within the same pricing year, resulting in repeated changes to their charges.

Such a high volume of adjustments was not anticipated, and it has become increasingly frustrating for customers and time-consuming for Transpower to manage these events, particularly when also considering indicative requests for anticipated future adjustments.

Contributing drivers to transmission charge uncertainty include: the processing of adjustments within a pricing year (**timing**) and the increasing volume of adjustment events due to electrification (the **trigger**).

In the process of implementing the current TPM, several **workability** issues have also been identified.

Further detail on each of these drivers is set out below.

8.1 Timing

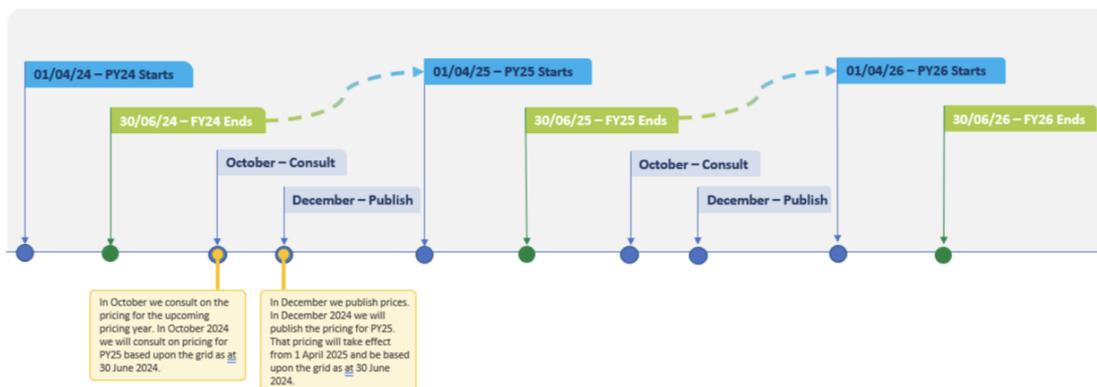
8.1.1 Problem with current TPM settings

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.

⁵ 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 this consultation.

Adjustment events alter the allocations for all beneficiaries of the affected investments, but Transpower only updates the monthly BBCs within year for the directly affected customer (from the date of the event). All other customers' monthly BBCs are updated in the following pricing year (with BBC wash-ups applied to invoices up to two years later) creating uneven timing and compounding uncertainty. This is illustrated by the stylised example below.⁶

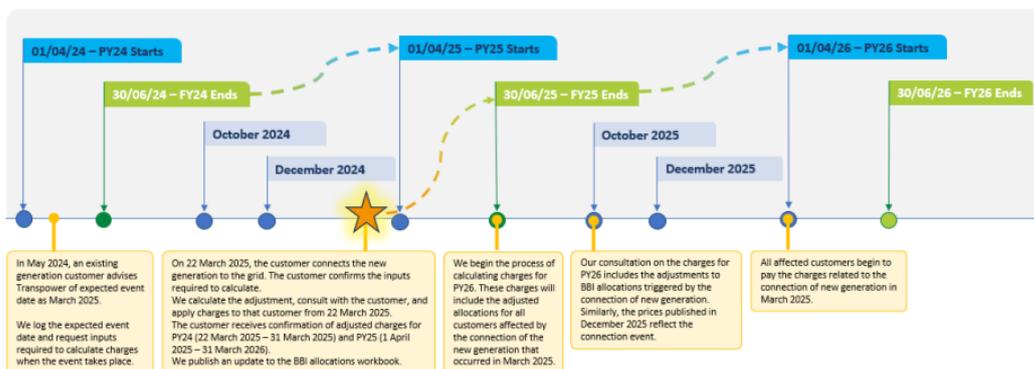
The transmission charges for a pricing year are based on the configuration of the grid at the end of the immediately preceding financial year. For example, the pricing for PY2025/26 (starting 1 April 2025) is based on the configuration of the grid at the end of FY2023/24 (30 June 2024). This is shown in the diagram below.



Example

An existing customer (customer A) connects new plant to the grid on 22 March 2025. Customer A pays adjusted (increased) BBCs from that date (i.e., for the period 22 March 2025 – 31 March 2025 in PY2024/25 and for PY2025/26 and later pricing years). Other beneficiaries' adjusted (decreased) BBC allocations are reflected in pricing from the start of PY2026/27 (1 April 2026), as the adjustment event took place in FY2025/26. Transpower's over-recovery between 22 March 2025 and 1 April 2026 is rebated to the other beneficiaries.

Customer A's adjusted BBCs are not reflected in customer A's PY2025/26 transmission charges consulted on in October 2024 nor notified in December 2024 because the adjustment event had not occurred at the time of that consultation or notice.⁹ Customer A can estimate what its adjusted BBCs will be for PY2024/25 and PY2025/26 using the indicative pricing information published on Transpower's website.



⁹ Events occurring after 30 June and before October may be reflected in the October consultation and December notification only if Transpower has confirmed the relevant adjustment event in writing prior to commencing consultation.

Within-year adjustment events create misalignment with distributors' and retailers' pricing cycles. Customers have experienced multiple adjustments within the same pricing year, compounding volatility. Repeated within year changes are hard to predict and pass through, and indicative BBCs become less accurate when many subsequent within-year events occur.

⁶ Source: [BBC Adjustment Event Information Sheet](#).

Adjustments are costly to calculate and administer for both Transpower and its customers. This cost escalates with volume as multiple adjustments compound, increasing complexity and assurance costs. Some degree of automation may be possible and is assumed in the CBA in Appendix B, however:

- automation is unlikely to fully mitigate impacts, e.g. It can only mitigate Transpower's TP costs, not those of our customers or operators of embedded plant;
- full automation is unlikely - some manual processing will likely always be required; and
- automation will likely to be costly to implement (note, the CBA captures automation benefits but not costs).

8.1.2 Identified options

Transpower has identified two options to address the timing issues. Both options use a batching approach:

1. Treat most adjustment events as occurring on 30 June (one exception being exiting customer), process the adjustments simultaneously, and apply changes only in the following pricing year (no backdating of charges or wash-ups).
2. Calculate adjustments using actual event dates but process all events together as part of the annual pricing review, with wash-ups applied.

Option 1, batch processing with a deemed 30 June event date, would address the administration problem, significantly reducing complexity and transaction cost for Transpower and our customers. These calculations would be performed using a new 'pricing grid' that reflects the culmination of all (or almost all) of the adjustment events within the preceding financial year and be used to set BBCs for the following pricing year. This would align with how changes to allocators for other transmission charges are accounted for in the TPM.

The downside of this approach is the adjustment calculations could lose precision – customers with connections or disconnections closer to 30 June may be better or worse off than they would be had the calculation reflected the actual event date. However, in practice, we are reliant on customers notifying us of event dates, and there may be an existing ability for customers to game this.

Option 2, batch processing with actual event dates, would not reduce the administrative burden, only delay it to the annual pricing review period. However, it would reduce within-year volatility for customers.

8.1.3 IWG feedback

The IWG considers option 1 to be the most straightforward and proportionate reform and an obvious candidate for early implementation. Option 1 is a low-cost, low-risk option that would reduce a significant proportion of the administrative cost and complexity faced by Transpower, and to some extent, our customers. However, it would not reduce the number of adjustment events or materially alter transaction and other costs associated with:

- creating or obtaining information required to perform adjustment events; or
- providing, updating, and incorporating indicative prices from Transpower into investment decision-making.

8.1.4 Transpower’s preliminary proposal

Transpower’s initial view is that batching of adjustments and treating most adjustments as occurring on 30 June (option 1 above) is the preferred option. Our initial 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).

Question 4 Do you agree with the proposed amendment - batching of adjustments with a deemed 30 June event date?

Question 5 Are there any other options to simplify adjustment events timing that we should consider?

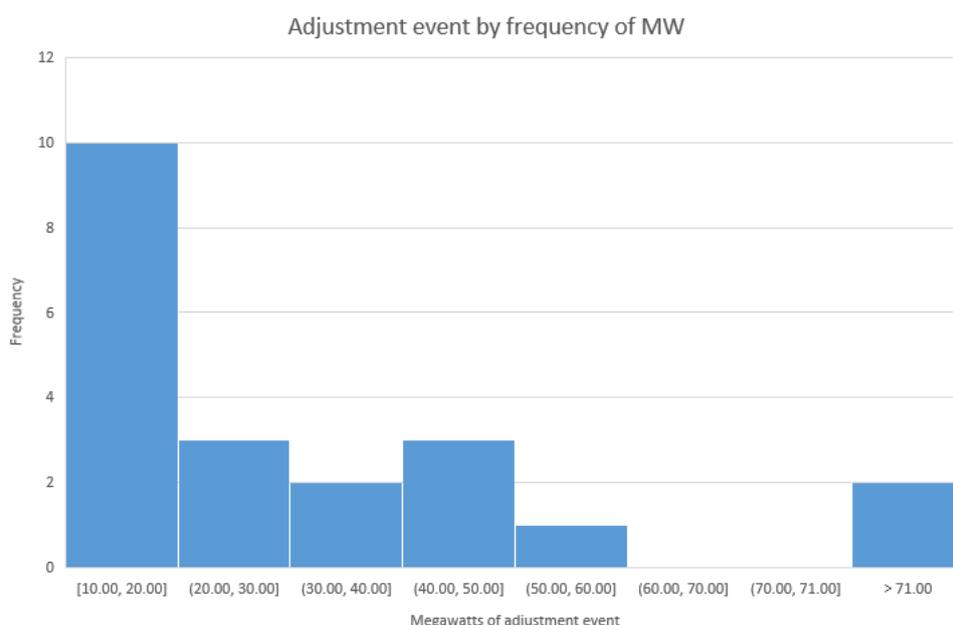
8.2 Triggers/threshold sensitivity

8.2.1 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.

The volume of adjustment events is a lot higher than was anticipated by Transpower and the Authority when the current TPM was being developed, and is increasing year-on-year.⁷

⁷ From April 2023 (when the current TPM started) to December 2025, 29 adjustment events were processed: five pre-commencement, 10 in PY2023/24, seven in PY2024/25, and six so far in PY2025/26. About 24 more are expected by the end of PY2025/26. Transpower does not have reliable data on future volumes but, anecdotally, expects a significant increase as electrification drives new connections and augmentation of existing connections within distribution networks.



In the last few years, there has been a big increase in the number of electricity generation developers with projects they want to connect to the national grid. We are also seeing an increase in projects from electricity distribution networks and others to deliver more power to homes and businesses.

Key drivers for the high volume of adjustments are:

- the requirement to adjust BBCs for large embedded dis/connection, upgrade and de-rating events; and
- the 10 MW threshold for what constitutes a "large" plant or upgrade.

Analysis by Transpower indicates that plant smaller than 25MW is unlikely to connect to the grid. Transpower's connection pipelines show:

- only 1.6% (2) of the 125 projects in Transpower's generation queue are <25MW; and
- the two named non-EDB offtake projects are for 120MW and 80MW respectively while the three data centre projects listed have capacities of 300MW, 150MW and 200MW.

This suggests 10MW may not genuinely represent "large" plant.

Over 50% of all adjustment events relate to changes to plant embedded within distribution networks and over 95% of those are for plant larger than 10MW but smaller than 50MW.

Each adjustment has direct costs of approximately \$10,000 for Transpower and consumes time for Transpower's key staff and management.

Each adjustment affects many customers (immediately or at the next pricing round). Customers have told Transpower that the large number of adjustments creates uncertainty, increases administrative costs, complicates pricing, reduces confidence, and affects customer investment decision making.

8.2.2 Identified options

Options we have identified to address these issues are:

- 1. Remove all embedded plant adjustment events:** This would limit adjustment events to only changes arising from plant connected to the grid. This would reduce transaction cost and complexity for Transpower (and customers) but would create an incentive to embed new plant versus connecting it to the grid.
- 2. Increase the threshold for adjustment events:** Adjustments are triggered by “large” plant connections, disconnections, upgrades and de-ratings, defined as any plant connected to the grid or embedded plant ≥ 10 MW. Transpower considers this threshold is too low, based on real applications in its connection queues.
- 3. Replace BBC adjustment events with an annual Intra-Regional Allocator (IRA) and customer allocation update:** The adjustment events based on plant connection, disconnection, upgrade or de-rating, the substantial sustained increase (SSI) adjustment events, and the adjustment events based on new or changed points of connection and sale of business would be replaced with a once-a-year recalculation of IRAs for each customer location.

8.2.3 IWG feedback

The IWG recognises and is sympathetic to the situation customers and Transpower are in because of the growing number of adjustment events and the process for applying these adjustments. The IWG discussed several options and suggested the options of excluding embedded plant adjustment events and batching of adjustments.⁸

The IWG raised a potential risk that excluding embedded plant is likely to increase incentives to embed plant to avoid transmission costs.

The IWG considers adjusting the definition of “large” as complementary to batching, subject to a robust assessment of costs and benefits including incentive effects of increasing from 10MW to 25MW or an alternative boundary/threshold.

The IWG considers the option to recalculate IRAs to be a bolder change with more pervasive implications. The change would, amongst other things, reduce BBCs for distributors where embedded generation reduced peak demand and offtake at the GXP.

The IWG is open to this option, noting it represents a more fundamental change to the TPM and would require robust evidence before implementation.

⁸ The IWG also discussed: (i) a variant on batching adjustments whereby adjustments would be batch-processed but in a sequence that captured the precise date the event occurred. This would allow a ‘wash-up’ into the subsequent year’s prices. However, the IWG was concerned this option would concentrate the analytical task for Transpower (worsening rather than alleviating its problem); and (ii) a hybrid option combining raising thresholds combined with batched adjustments. The IWG did not prefer this option due to what it considered to be the downsides of raising the threshold.

8.2.4 Transpower’s preliminary proposal

Transpower’s initial view is that there is merit in either raising the “large” plant threshold OR shifting to annual IRA updates for adjustments. We consider that the options are substitutes and would welcome feedback on which (if either) should be preferred. We have not reached an initial view on which option would be best, but our view is that one of the two options should be adopted.

The TPM Guidelines apply the “large” threshold to “avoid creating incentives for existing and potential designated transmission customers to avoid transmission charges in ways that cause economic inefficiency” (clause 1(c)).⁹

Our view is that the threshold for “large” plant is too low (if annual IRA updates for adjustments is not adopted), and that whatever value is chosen, a ‘boundary issue’ will exist. We consider factors such as capacity, timing and whole of life costs are more likely to drive customer decisions than transmission charges.

Our initial view is that if the threshold for “large” plant is raised it should be at least to 25MW, complemented by batching of adjustments. There appears to be a strong case for increasing the threshold, for example to 25MW for distributed generation and potentially higher for offtake. This would better reflect the minimum viable grid connection size. This change would significantly reduce the number of adjustments, simplify calculations and materially reduce the impact on customers of Transpower having to gather information to perform adjustment calculations. We consider the potential for transmission charge avoidance behaviour is likely lower with a 25MW threshold than a 10MW one, as it is generally more challenging for distributors to accommodate plant below 25MW than below 10MW.

As noted above, our analysis indicates that plant smaller than 25MW is unlikely to connect to the grid. However, it may still be viable for smaller plant to connect to the grid, for example:

- If the connection relates to expansion of capacity at an existing site that is already connected to the grid; and
- Where there is no distribution network in the area to connect to (or that network lacks capacity).

In these instances, network connection decisions are unlikely to be altered for transmission charge avoidance reasons.

⁹ In developing the TPM, Transpower proposed 10MW as the “large” threshold. We [consulted](#) on this issue:

89. Our initial thinking is a capacity threshold of 10MW would be appropriate to define “large” for new plant or an upgrade. This is based on the thresholds for generator offers in clauses 8.25(5) and 13.25(1) of the Code. We think the same threshold should apply to consumer and generation plant.

Submitters generally agreed with this rationale, though proportionality to network size was also raised and a higher threshold (25MW or \$50,000) was suggested. Submitters gave limited attention to this threshold, perhaps due to the breadth of issues under consideration. Responses to Transpower’s consultation are [here](#).

Our initial view is that increasing the “large” threshold to 25MW would appropriately 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). We are interested in feedback as to whether, if the threshold is raised, it should be raised to 25MW or some other level.

The issues with the 10MW “large” threshold could also be addressed by introducing annual IRA updates. All changes, large and small, would be reflected in recalculated allocators. This would end the methodology of treating new embedded plant as a new notional grid-connected customer. The complexity and administrative load of the adjustment process on customers and Transpower would be significantly reduced.

Question 6 Do you support (i) increasing the “large” plant threshold, or (ii) annual IRA updates? Which option, if either, do you prefer and why?

Question 7 If Transpower proposed raising the threshold for “large plant”, what threshold(s) do you consider would be appropriate?

Question 8 Are there any other options to address trigger/threshold sensitivity we should consider?

8.3 Workability

8.3.1 Problem with current TPM settings

Some BBC adjustment events are 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.¹⁰ We are reliant on customer self-reporting.

An increase in annual consumption or generation of 25% or more is likely to be reflected in a separate event, such as new plant connecting, upgrades and changes to points of connection.

Transpower is required to make subjective judgements under the TPM, which can have a material impact on affected customers, when determining whether a plant, or an upgrade or de-rating of a plant, is “large”. This includes a discretion to make that assessment by combining two or more units of plant that are:

- of the same type (consuming plant or generating plant); and

¹⁰ Even if Transpower were able to access the data directly, similar administrative cost and low-materiality issues would arise as described in the threshold section. There would be significant IT related costs to systemise monitoring and alerting.

- owned by the same person or related parties.

There is also discretion for Transpower in determining whether a large plant adjustment should be treated as staged. For each event, there are inevitable nuances in project commissioning and funding arrangements that influence this discretion.

Large-scale projects are constructed over several years. If these are considered as a single event, customers are charged for total capacity starting from the first commissioning date, which may not reflect their actual grid usage or benefit. The 'full TPM charge' may significantly exceed what the charge would be based on connected capacity.

We have received numerous enquiries from customers regarding when large plant adjustment events would and would not occur.

8.3.2 IWG feedback

The IWG recognises the practical issues Transpower has raised, and that electricity distributors can also have difficulty establishing accurate and reliable data, e.g. in relation to data centre load.

The IWG endorses Transpower's proposal to remove the SSI adjustment events. The IWG considers these adjustment events, while well-intended, target a minor issue and are unworkable in practice.

8.3.3 Transpower's preliminary proposal

Transpower's initial view is that the TPM should be amended to:

- remove the SSI adjustment events;
- clarify how Transpower should treat staged projects by adding time and certainty constraints;
- remove all embedded adjustment events; and/or
- switch to annual review of IRAs and remove most of the adjustment events.¹¹

We consider that these proposals 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.

Question 9 Do you agree with our initial view that the TPM should be amended to:

- remove the SSI adjustment events;

¹¹ This option is an alternative to the other three proposed amendments .

- clarify how Transpower should treat staged projects by adding time and certainty constraints;
- remove all embedded adjustment events and SSI; and/or
- switch to annual review of IRAs and remove most of the adjustment events?

Question 10 Are there any other options that we should consider to improve adjustment event workability?

Question 11 While we invite all feedback more generally on the CBA for adjustment event proposals (Appendix B) we are particularly interested in views on the following questions:

- a) What is your view on our approach to the CBA, including its inputs and underlying assumptions. Specifically:
 - I. do you agree that \$5k roughly captures the engagement cost with Transpower leading up to and following an adjustment event?
 - II. when planning to connect to a distribution network, what are your costs to interact with your EDB to provide the information Transpower requires and to obtain/update price estimates for benefit-based investments?
- b) Does the effect adjustment events have on businesses:
 - I. alter or delay investment commitment for embedded generation or offtake plant and, if so, how?
 - II. affect plant design and location decisions for embedded generation or offtake plant and, if so, how?
- c) How does the current threshold of 10MW affect plant design and location decisions and how would this change if the threshold were raised to, say, 25MW?

9 Housekeeping

9.1 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).¹²

Like the standard methods, the simple method uses modelled regions and regional customer groups with regional net private benefit (**NPB**). A key difference is the regional customer groups and regional NPBs are static; they apply to all low-value post-2019 BBIs commissioned during a (usually) five-year “simple method period”, after which the regions, regional customer groups and regional NPBs are reset. The allocations for previously commissioned low-value post-2019 BBIs do not change with the reset.

The regions and regional NPBs are determined and calculated based on historic power flows before the start of the simple method period. Under the simple method, as under the standard methods, individual NPBs for the customers in a regional customer group are calculated based on the customers’ historic grid use (mean historic offtake or mean historic injection), and the individual NPBs with positive values (being EPNPB) are then used to calculate the starting allocations.

9.1.1 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 2020 to 31 August 2025. 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 workstreams 2 and 3 of the Operational Review and requirements for the second simple method period.

9.1.2 IWG feedback

The IWG understands why Transpower would like more time before the start of the second simple method period – the calculations are complex and unpredictable, may be affected by the outcomes of the Operational Review, and draw on the same resources within Transpower. The IWG supports Transpower’s intention to consult on deferring the start of the second simple method period until completion of the Operational Review.

¹² For more information on the simple method refer to the [TPM information sheet, Benefit-based charges: Simple method](#).

9.1.3 Transpower's preliminary 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 PY2029 or to the end of PY2030 if required.

We consider that this change would help reduce administrative burden (improving efficiency) 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. The proposal 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.

The drafting of the proposed amendment is shown in the track-change version of the TPM included as part of this consultation.

Question 12 Do you agree with the proposal to extend the first simple method period to the end of PY2029 or to the end of PY2030 if required?

Question 13 Are there any other options we should consider for the second simple method period work?

9.2 Drafting hygiene

9.2.1 Problem with current TPM settings

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.

9.2.2 IWG feedback

The IWG agrees that, as part of the Operational Review, non-consequential drafting hygiene to remove time-bound/obsolete text from the TPM is desirable.

9.2.3 Transpower's preliminary proposal

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

Transpower considers the benefits of tidying up the TPM legal text 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 drafting of the proposed amendment is shown in the track-change version of the TPM included as part of this consultation. The rationale for the individual changes are included in embedded comments.

Question 14 Do you agree with the proposal to clean up the TPM legal text?

Question 15 Are there any other opportunities to clean up the TPM legal text we have not identified?

10 Early feedback on emerging TPM issues

We want to test early with stakeholders whether and how certain issues with connection charges and FMD should be addressed through the Operational Review.

10.1 Disconnection from a shared connection location

10.1.1 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.

While this is strictly compliant with the TPM, we are unsure whether it is intentional. The relevant provisions were not changed from the legacy TPM and this issue had not arisen until recent industrial exits.

We do not consider it is efficient for a subset of connection customers to bear this disconnection risk. We consider this risk would be more efficiently managed over a larger group of customers. We consider the current arrangements to be inconsistent with desirable outcomes in a workably competitive market.

We also consider it is inherently unfair to require a customer to pay for connection assets designed for a materially higher capacity than was ever required by that customer alone. This could undermine the durability of the TPM.

A question has also been raised by a stakeholder about whether it is efficient for a customer to seek to reduce its share of connection costs by reducing its own anytime maximum demand or injection (**AMDIC**).

10.1.2 Options considered

Transpower has considered the following options to address this situation:

- **Status quo ('do nothing')**: the remaining customer(s) will bear the costs of shared connection assets when the exiting customer disconnects.
- **Prudent Discount Policy adaptation**: allow prudent discounts where disconnection from a shared connection location causes a connection charge increase until a new customer connects (or some other threshold is crossed).

- **Expand reassignment to connection assets:** apply reassignment factors to replacement costs of shared connection assets.
- **Introduce a new clause for connection customer allocations:** specifically address recalculation of allocations for previously shared connection assets until they are shared again (or some other threshold is crossed). This could involve adding a clause (similar to clause 32(3) (which is for mixed connection assets) where total AMDIC before disconnection is the 'notional capacity'.

The 'do something' options could recover the unrecovered connection charge from all payers of residual charges or all payers of connection charges. This is similar to an Inefficient Bypass Prudent Discount where the discount on connection charges is recovered through residual charges.

10.1.3 IWG feedback

As a matter of principle, the IWG considers 'lumping' remaining customers at a shared location (when one or more parties disconnects) with the entirety of costs for that location economically inefficient and inconsistent with cost-reflective pricing principles. The situation is analogous to 'first mover disadvantage' scenarios, though worse in the sense the remaining customer(s) do not have the option not to connect prior to committing their investment.

The IWG understands this is not a 'new TPM' issue, rather an artefact of initial drafting for connection charges. However, the IWG considers there is a clear need to change the relevant provisions in the TPM so that costs at a shared connection location are not by default attributed to the remaining customer(s) at that location following an exit. Regulations set under the Commerce Act 1986 and Electricity Industry Act 2010 mean Transpower is not required to absorb these costs. Given that, the costs should be recovered in a non-distortionary manner, likely from the widest possible base via residual charges or all connection charges.

The IWG considers that Transpower should assess whether there are other circumstances where customers are forced to bear the cost of assets well in excess of their actual requirements (whether historical, current or future). This situation may arise from historical investment choices by Transpower or for other reasons. Transpower will need to evaluate the basis on which the remaining customer should pay for the capacity it continues to use (for example on a usage (kWh) basis or peak MW divided by total line capacity).

10.1.4 Transpower's preliminary views

Transpower considers these matters raise broader policy issues that may most appropriately be referred to the Authority for consideration. There are a wide range of options, not all of which may be consistent with the intent of the TPM Guidelines.

The status quo option would perpetuate inequity and misaligned investment incentives and is **not preferred** by Transpower.

Question 16 Do you agree that disconnection from a shared connection location creates a problem for remaining customers at that location? Do you think this is or could become a material problem?

Question 17 What other options do you think should be considered? Are these options consistent with the intent of the TPM Guidelines?

Question 18 Do you think that this is a matter that could/should be addressed through the Operational Review?

10.2 FMD Type 2: Anticipatory investment in assets

10.2.1 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.

The TPM has a mechanism called the FMD Type 2 mechanism¹³ which spreads the cost of anticipatory investment in connection assets across a wider customer base (50% to connection charges paid by all customers, and 50% to beneficiaries under the simple method). The mechanism offers some protection to first movers, but only in relation to anticipatory investments in connection assets.

Based on feedback from industry, we think there is cause for the Authority to review its policy around pricing for anticipatory investment in interconnection assets. While more detailed consideration of this issue is required, we consider there may be no-regrets tactical fixes that could be implemented as part of the Operational Review and that may align with the TPM policy intent.

To be clear, this is not about subsidising generators, it is about ensuring that regional load customers do not disproportionately bear transmission charges in the short term for investments that have wider regional or national benefits in the longer term.

¹³ For more information on the Type 2 FMD mechanism refer to the [TPM information sheet on connection charges: Anticipatory investment and Type 2 FMD](#)

10.2.2 IWG feedback

The IWG understands the current state is a side-effect of the design of BBCs rather than reflective of TPM policy intent.

The IWG considers it is inappropriate for only load customers in the relevant region to bear interconnection investment costs expected to be shared by connecting generators in the longer term. The IWG supports, in principle, ‘washing-up’ costs from the future generators when (or if) they connect. However, whether and how this is done should be subject to a careful assessment of the costs and benefits. For example, the mechanism should not have the effect of deterring future connection by generators (leading to functional stranding of the assets in question).

Transpower’s preliminary views

Transpower considers these matters raise broader policy issues that may most appropriately be referred to the Authority for consideration.

There are a wide range of options to socialise anticipatory interconnection investment costs, including recovery through residual charges, not all of which may be consistent with the intent of the TPM Guidelines.

Question 19 Do you agree that anticipatory investment in interconnection assets can create first mover disadvantage problems? Do you think this is or could become a material problem?

Question 20 What options do you think should be considered? Are these options consistent with the intent of the TPM Guidelines?

Question 21 Do you agree that this is a matter that could/should be addressed through the Operational Review?

10.3 FMD Type 1 Issues

10.3.1 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) reimburse part of these costs through the funded asset component (**FAC**) of their connection charges and a rebate by Transpower to the first mover.¹⁴

¹⁴ 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](#).

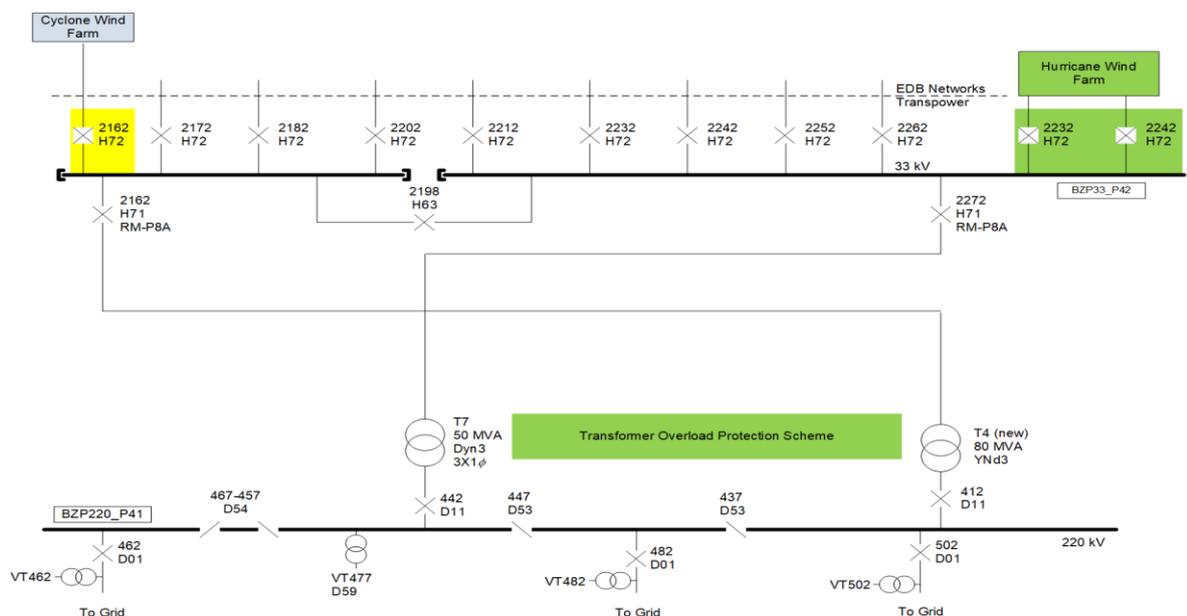
A concern has been raised that first movers may be exposed to financial risk if subsequent customers do not connect, or delay their connection. This has prompted broader questions about which party is best placed to manage this risk, including whether it should sit with the first mover, or be spread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

Below is an example that illustrates this issue. At present, EDB Networks is the sole customer at this substation. Hurricane Wind Farm has applied to connect to the grid and signed a TWA for its plant connection. The assets marked in green are those that will be funded by Hurricane Wind Farm. For Hurricane Wind Farm’s connection, Transpower requires a Transformer Overload Protection Scheme (TOPS) for transformers T7 and T4.

Later, EDB Networks also enters into a TWA for a feeder at circuit breaker 2162 to connect an embedded plant, Cyclone Wind Farm. Cyclone Wind Farm would benefit from the TOPS that was funded by Hurricane Wind Farm – EDB Networks would have had to pay for the TOPS had it not been there. Under the FMD Type 1 mechanism, EDB Networks does not contribute to the capital cost of the TOPS as it was already connected before Hurricane Wind Farm’s connection. Also, the FMD Type 1 mechanism cannot be applied to Cyclone Wind Farm as it is embedded.

FMD Example: Application of FAC to Large Embedded Plant



10.3.2 IWG feedback

The IWG considers that complexity and limited impact mean that these matters should not be addressed unless broader stakeholder concerns are raised through consultation. It is not evident to the IWG that there is a need for change.

10.3.3 Transpower's preliminary proposal

Transpower considers these matters raise broader policy issues that may most appropriately be referred to the Authority for consideration.

There are a wide range of options, not all of which may be consistent with the intent of the TPM Guidelines.

Question 22 Under the FMD Type 1 mechanism, which Transpower customer(s) should bear the financial risk of second mover(s) not connecting or delaying their connection?

Question 23 Do you agree that the FMD Type 1 mechanism is not functioning the way it should for connection assets that benefit embedded large plants? Do you think this is or could become a material problem?

Question 24 What options do you think should be considered? Are these options consistent with the intent of the TPM Guidelines?

Question 25 Do you think these are matters that could/should be addressed through the Operational Review?

11 Regulatory Statement for the proposed amendments in workstream 1

The commentary in this section is qualified on the basis that we have not included specific options for all issues and, in some places, have provided options without specifying a preferred option. The assessment below relates only to the adjustment event and housekeeping proposals and is subject to change as we further develop our thinking and land on firm proposals for the Authority.

11.1 Objectives of the operational review

The Operational Review aims to improve the operation of the TPM, addressing potential issues identified by stakeholders and Transpower since the implementation of the TPM.

The key objectives of the Operational Review are to:

- Refine adjustment mechanisms to reduce volatility and customer disruption.
- Reconsider the delineation between the simple and standard methods for calculating BBCs.
- Improve BBC calculations and inputs to reduce complexity and reliance on judgement, enabling stakeholders to replicate and forecast charges with confidence.
- Ensure First Mover Disadvantage and Prudent Discount provisions are fit for purpose in an evolving electrification landscape.

These changes aim to support stable, efficient pricing and help New Zealand transition to a low-emissions economy.

Question 26 Do you agree with the overall objectives of the proposed TPM Operational Review?

11.2 The benefits of the proposed amendments are expected to outweigh the costs

Assessing the effect of proposed amendments is complex and not easily quantifiable.

At this stage, we have undertaken an initial quantified CBA for batched adjustment events and an increase in the large threshold to 25 MW (and not any of the other proposals or preferences discussed in the paper). The draft CBA is included in as an Appendix B to this consultation.

The changes proposed for adjustment events would reduce administrative costs and provide greater price certainty for our customers. While every adjustment is different, each adjustment

follows the same basic process, essentially requiring the same calculations (some are automated, but many are manual, i.e. custom spreadsheets).

Key insights are:

- The process is very onerous and complex.
- Even a small change necessitates literally dozens of different models to be created and run to determine charges for the directly affected customer and to allocate wash-ups for other customers (for each BBI).
- Adjustments are additive, so management becomes progressively more complex and onerous, and at some point may become infeasible.

For the proposed housekeeping changes, we consider that a quantitative analysis of the costs and benefits of the proposal is not practicable or needed because the potential changes are minor and technical. We consider there are clear qualitative benefits from the housekeeping changes and no material costs to offset them.

Question 27 Do you agree it is appropriate to rely on the quantitative analysis of the costs and benefits of the adjustment event proposals and a qualitative evaluation of the costs and benefits of the housekeeping proposals? If not, what information and evidence can you provide, and what methods would you recommend, to quantify the costs and benefits?

Question 28 Do you agree the benefits of the proposals can reasonably be expected to outweigh their costs?

11.3 The proposed options are preferred to other options

In developing each of our proposed options we compared them against the current TPM (the status quo option) and other variants and options for amending the TPM.

The IWG has helped us identify options. For example, we have considered the option of raising the “large” plant threshold against the IWG’s suggestion of batching adjustments and a third option of doing both (our preferred option).

The preferred options (where applicable) are based on our experience and expertise in the role of administrator of the TPM, and the input we have received from the IWG. We would welcome feedback on any other potential amendments we should consider.

11.4 Compliance with section 32(1) of the Act

The Authority's main objective under section 15(1) of the Act is to promote competition in, reliable supply by, and efficient operation of, the electricity industry for the long-term benefit of consumers.

Section 32(1) of the Act provides that the Code may contain any provisions that are consistent with the Authority's objectives and are necessary or desirable to promote one or all of the matters listed in section 32(1).

We consider that our preferred options will comply with section 32(1) of the Act primarily because they would help to promote the efficient operation of the electricity industry, for the long-term benefit of consumers (see discussion on costs and benefits above).

Question 29 Do you agree that the preferred options will comply with section 32(1) of the Act?

