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TPM amendments 2026: Anticipatory Capacity

Introduction

Transpower welcomes the Electricity Authority's consideration of changes to the transmission pricing methodology (TPM), including in relation to anticipatory capacity for connection assets. We appreciate the extra time afforded for submissions on this aspect of the consultations given the complexity and potentially significant implications of the change being considered.¹

We support the Authority's objective of ensuring that the costs of anticipatory investments are allocated as efficiently as possible while avoiding disproportionately high charges. However, Transpower does not support requiring the standard method(s)² to be used for all anticipatory connection assets, especially for low-value assets (including where the 50% share would be a low-value asset). While we agree there are cost-allocation issues that warrant attention, we are not persuaded replacing the simple method with the standard method(s) would improve outcomes, given the uncertainty inherent in identifying future beneficiaries and estimating future benefits, and the concerns stakeholders have raised about benefit-based charges through our TPM Operational Review work programme.

¹ Including distributional impacts if the changes resulted in material changes to estimates of the net private benefits of different designated transmission customers.

² There are two standard methods - the price-quantity method and the resiliency method. We understand the Authority's references to "the standard method" in this consultation to mean the price-quantity method. Anticipatory capacity investments are intended to accommodate expected future growth and allocate costs among future beneficiaries. They are not resiliency investments designed to maintain supply following a low-probability, high-impact event. As a result, the resiliency method would not be applicable, leaving the price-quantity method as the only standard method relevant to the Authority's proposal.

In our view, any proposed change should be tested carefully against the practical difficulties of identifying uncertain future beneficiaries (under either the simple and standard methods), the administrative costs of applying the standard method(s), and the risk of undermining confidence in the durability of the TPM.³

We discuss our concerns further below. Responses to the Authority's specific questions are provided in the Appendix.

A broader range of options warrants further consideration

While we understand that the Authority wants to ensure the scope of its TPM consultation is kept narrow, we are cautious about excluding certain options that could address the problems identified in the consultation paper at this stage. Our views about the 50:50 split of the cost of anticipatory capacity between connection charges and benefit-based charges (BBCs) remain largely unchanged from those provided in 2021.⁴ The reluctance to revisit this could be problematic, even if well intended, because the problems identified in the consultation are not necessarily specific or exclusive to the simple method.

We are not suggesting the current arrangements should necessarily be retained unchanged. Rather, we consider there may be a broader range of options that warrants further consideration. This, at minimum, should include exploration of options to share the anticipatory costs for connection assets via connection charges rather than BBCs (a charge designed to recover the cost of interconnection assets); retention of existing TPM thresholds; or hybrid approaches. This would allow the Authority to compare the likely benefits of each option against implementation costs, administrative burden, customer impacts and the durability of the TPM framework.

The price-quantity method would not necessarily improve allocation outcomes

Our experience with the operation of the TPM, and the application of the BBC methodologies, has given us a strong appreciation of the difficulties and challenges involved in allocating costs in a manner that reflects expected benefits. We agree there are issues with the current arrangements which need to be addressed.⁵

However, we do not consider it follows that because the simple method may not be fit for purpose in some circumstances, the standard method(s) (and the price-quantity method in particular) would produce an improvement in allocation outcomes for anticipatory capacity. The price-quantity method may provide a degree of "bespoke market modelling", but that

³ Frequent changes to allocation methodologies without clear evidence of better outcomes may reduce stakeholder confidence in the durability and predictability of the TPM.

⁴ Refer to our [2021 TPM proposal](#) and [Transmission Pricing Methodology Consultation submission](#), 2 December 2021.

⁵ Refer, for example, to Transpower, [Transmission Pricing Methodology Consultation](#), 2 December 2021.

does not mean it would be “better able to identify the beneficiaries, and the extent to which they may benefit” in relation to anticipatory investment.

Applying the price-quantity method instead of the simple method *may*⁶ alter the allocation profile, but it would not address the Authority’s underlying concerns about estimating future beneficiaries and their relative benefits. There is an underlying problem that “at the time of investment, we will not know who the future beneficiaries are. The future beneficiaries may not even exist at the time of the investment. We will only have a prediction as to the type of future beneficiary, which may not transpire.”⁷ Given these uncertainties, any amendment should be shown to deliver a material improvement in allocation outcomes before introducing additional complexity or change to the TPM.

The price-quantity method is also highly sensitive to modelling assumptions, and significant costs could still be allocated to local demand (even if actual benefits are more dispersed). The outcome of applying the price-quantity method modelling cannot be predicted reliably without carrying out the modelling itself.⁸

We also suggest the relative costs and benefits of socialisation warrant careful consideration. BBC methods do not eliminate socialisation, rather, they spread costs across a narrower group of customers identified as beneficiaries, often based on uncertain information. In some circumstances, broader socialisation may be less harmful and less distortionary than concentrating costs on a small group of customers who may not represent all future beneficiaries and may not ultimately benefit.⁹ This reinforces the need to consider whether alternative approaches, including greater reliance on connection charges, may produce more durable and proportionate outcomes.

Implementation and administrative costs need to be justified by clear benefits

We also caution against assuming that applying the standard method(s) to anticipatory connection assets would be straightforward to implement. The proposal would not simply apply an existing BBC process to a new asset category. It would require new operational processes, supporting assumptions and Transmission Pricing System (TPS) changes. For example, there are practical asset-mapping and operational questions that would need to be resolved, including changes to ensure the relevant anticipatory capacity assets are recovered through the standard method(s) rather than the simple method. The required TPS system changes would take time and add further costs. These issues should be worked through before any amendment is finalised.

⁶ This would be dependent on the assumptions used.

⁷ [Part 1 Refer-Back Response](#), section 3.1.

⁸ We have previously provided the Authority with initial observations about how the price-quantity method might apply to a potential investment in the Northland region, including how the outcomes could be completely different depending on factors such as demand growth and restrictions on Northland generation.

⁹ We made these points in our 2021 advice to the Authority, and we have not seen any evidence since the implementation of the current TPM to depart from this view ([Part 1 Refer-Back Response](#), section 3.1).

Requiring the standard method(s) to be used for all anticipatory connection assets could also increase administrative costs, both for Transpower and stakeholders, particularly if it introduces additional consultation requirements. The standard methods currently include consultation because they apply to high-value Benefit-Based Investments (BBIs). It is unclear whether the Authority's proposal would require consultation for lower-value anticipatory BBIs (less than \$30m). If so, this would create additional administrative costs for investments that would not otherwise be subject to consultation. Even where anticipatory BBIs exceed the existing threshold and consultation would already be required, the Authority should carefully assess whether the additional complexity and cost of applying the standard method(s) are justified by a material improvement in allocation outcomes.

These implementation issues are not simply operational matters for Transpower. They are relevant to whether the proposal is proportionate and efficient. If applying the standard method(s) introduces system changes, new business processes, additional consultation and higher administrative costs, those costs should be weighed carefully against any demonstrated improvement in allocation outcomes.

Concluding remarks

In summary, we agree there are legitimate cost-allocation issues associated with anticipatory capacity that warrant attention. However, we are not persuaded that requiring the standard method(s) for all anticipatory connection assets would improve allocation outcomes, particularly for low-value assets (and where the 50% share would be a low-value asset). Before progressing any amendment, we recommend the Authority reassess a broader range of options, including allocation through connection charges, and test whether the benefits of the proposal can reasonably be expected to be achieved and that they justify the additional complexity, implementation costs, and potential durability risks for the TPM.

Yours sincerely

Joel Cook
Head of Regulation & Strategy

Appendix: Transpower Response to Questions

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#	Question	Response
7	Has the Authority correctly described the nature and root cause of the cost-allocation issues for anticipatory connection assets? Please provide your reasons.	We recognise that there are challenges with establishing beneficiaries, in relation to anticipatory capacity. Even if there is a good level of confidence and surety that the investment is prudent and efficient, there can be a high degree of uncertainty about who the future beneficiaries will be (and how much they will each respectively benefit). We would not attribute the nature and root cause of the cost allocation issues as being entirely or exclusively attributable to the simple method or resolvable simply by switching to the standard method(s).
8	Do you agree with the proposal to require the use of the standard method to allocate the 50% share of capital cost of anticipatory connection assets that is to be recovered through benefit-based charges? Please give your reasons.	We do not agree with the proposal to require the use of the standard method (which in practice would mean the price-quantity method) to allocate the 50% share of capital cost of anticipatory connection assets that is to be recovered through benefit-based charges. We have not seen evidence which demonstrates that allocations using the price-quantity method would: (i) improve cost allocation outcomes, or (ii) deliver "benefits from additional scrutiny."¹⁰ In our view, the Authority should demonstrate that" (i) there would reasonably be expected to be an improvement in allocation outcomes, and (ii) that any such improvement would be material and proportionate to the additional modelling, consultation, implementation and administrative costs before making a decision to adopt the proposed change.

¹⁰ The TPM has been in operation long enough for the Authority to test its expectations about increased engagement (and provision of better information) as a result of application of/allocation on the basis of the price-quantity method.

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#	Question	Response
		If the Authority requires use of the standard method(s) it should: (i) follow existing TPM precedent, including the existing \$30m threshold for determining whether the simple or standard method(s) are used, or (ii) only apply the BBC method to high-value anticipatory investments (see response to Q11).
9	Do you agree with the proposal that the requirement to use the standard method for allocating the cost of anticipatory capacity should progress ahead of Transpower's operational review of the benefit-based charging methods? Please state your reasons.	We would be cautious about introducing the proposed change at this stage, given the risk it could replace one imperfect allocation approach with another, while increasing administrative and implementation costs. This could undermine the credibility and durability of the TPM and should be carefully tested before decisions are made. We note that practical implementation considerations would still need to be worked through before the standard method(s) could be applied to anticipatory capacity assets. While the methodologies themselves already exist within the TPM, further work would be required to operationalise these in this context. There would also be costs associated with system changes, and administrative costs associated with additional consultation.
10	Do you agree that the cost of anticipatory interconnection assets should be met by beneficiaries through the normal BBC allocation approach? Please explain your reasons.	It is not clear what process the Authority is referring to as the 'normal BBC allocation approach'. The BBC processes, as set out in our assumptions book, have not been developed for the use proposed by the Authority. The proposal creates a bespoke process, which would need to be supported by a new business process, potential updates to the assumptions book and system changes.
11	Can you identify better options than those proposed by the Authority to allocate the cost of anticipatory assets? Why would your option be better?	We would prefer one of the following options, in descending order of preference: • Full allocation of anticipatory connection costs to connection customers – this remains our preferred option because it avoids attempting to identify uncertain future beneficiaries through the BBC methods,

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#	Question	Response
		• The status quo (no change), • A hybrid approach under which anticipatory connection assets below \$30m would be fully allocated to connection customers, while larger anticipatory connection assets would retain the 50:50 split, with the price-quantity method applied where appropriate i.e. when the value of the 50% share would be over \$30m), • Retain the 50:50 split, with the price-quantity method required only where TPM conditions are met (i.e. when the value of the 50% share treated as a BBI is over \$30m) – this would preserve the existing \$30m threshold between the simple and standard methods. For the avoidance of doubt, we would not support allocating 100% of anticipatory connection costs using BBC methods or developing a new bespoke method. The TPM already contains a simple method, two standard methods and the Appendix A allocations.
12	Do you have any comment on the drafting of the amendment to the treatment of anticipatory connection assets in Appendix C?	Please see our proposed drafting for our preferred option in: • Attachment 1 – Proposed amendments for full allocation of anticipatory connection costs to connection customers. Our suggested drafting, should the Authority decide to proceed with its proposal, is in: • Attachment 2 – Comments in EA proposed drafting for anticipatory capacity.