TRANSPOWER SUBMISSION (SUPPLEMENTARY CONSULTATION) APPENDIX A: GUIDELINES REVIEW

The table below contains our comments on the revisions to the Guidelines proposed in the supplementary consultation on the Second Issues Paper. Our comments on the Guidelines in our response to the first consultation on the Second Issues Paper still stand and are not repeated here.

Our comments in the table assume the Guidelines will be substantially as proposed in the supplementary consultation. Accordingly, for the most part our comments address what we see as the major workability and clarity issues in the Guidelines, rather than going to design or technical drafting issues. We have provided drafting suggestions for some clauses to illustrate how our comments might be translated into changes to the Guidelines.

We have also highlighted the changes to the Guidelines we support.

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
TPM guidelines for development of the Transmission Pricing Methodology **Published under clause 12.83(b) of the Electricity Industry Participation Code 2010 on [insert date]**		
Introduction 1. These guidelines for the development of the transmission pricing methodology (**TPM**) are published by the Electricity Authority (**Authority**) under clause 12.83(b) of the Electricity Industry Participation Code 2010 (**Code**).		
Interpretation 2. In these guidelines, the following terms have the meaning given to them in the Transpower Capital Expenditure Input Methodology Determination [2012] NZCC 2, including each amendment to that determination, in force on the date of these guidelines: (a) base capex: (b) capital expenditure: (c) commissioned: (d) completion date: (e) major capex: (f) major capex project: (g) major capex proposal:		

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
(h) non-transmission solution: (i) programme: (j) project.		
3. Unless the context otherwise requires, any other term that is defined in Part 1 of the Code, and used but not defined in these guidelines, has the same meaning as in Part 1 of the Code.		
General 4. To be consistent with the Authority's statutory objective specified in section 15 of the Electricity Industry Act 2010 as required by clause 12.89(1)(b) of the Code, the TPM must be directed at— (a) facilitating efficient investment in the electricity industry by providing incentives for the right investments to occur at the right time and in the right place. Those investments may be in the transmission grid, generation (including distributed generation), distribution networks or the demand-side; and (b) facilitating ~~the~~ efficient operation of the transmission grid, generation (including distributed generation), distribution networks, and demand-side management. This means providing incentives so that the day to day operation of transmission, generation, distribution, and demand-side management involves an efficient trade-off between reliability and cost~~.~~; and (c) in order to achieve the objectives in paragraphs (a) and (b), setting charges in a way that is as cost-reflective and service-based as is practicable in the circumstances; and (d) as far as is practicable, facilitating competitive neutrality between grid-connected generation, distributed generation, and demand response.	Subclause (d) should be removed. The "competitive neutrality" of distributed generation and demand response is not only (or even mostly) a function of the TPM. The rules about distributed generation and dispatchable demand exist elsewhere in the Code, and demand response as a grid support product is governed by unregulated private contracts.	
Connection charge 5. Subject to ~~clauses 43 to~~clause 47 of these guidelines, the TPM must— (a) include a definition of connection asset that~~-~~— (i) corresponds to the definition of connection asset in the	Subclause (a)(ii) is not a matter for the definition of connection asset. It should be elsewhere in the guidelines. Another problem is the overlap and inconsistency between subclause (a)(ii) (a mandatory component) and clause 47(c) (an additional component, and therefore not mandatory). This problem also arises in the context of the	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
TPM in force on the date of these guidelines; and (ii) to the extent practicable, provides for the allocation to each connection asset of any of Transpower's overhead and other expenses that relate to the connection asset; and (b) charge for connection assets on the same basis, and with the same effect, as under the TPM in force on the date of these guidelines.	area-of-benefit charge.	
Area-of-benefit charge 6. The TPM must include an area-of-benefit charge that recovers ~~the full cost of each asset (excluding any connection asset) that is included in an eligible investment.~~— ~~7. An eligible investment is any of the following:~~ (a) the full cost of all assets (excluding connection assets) included in an eligible investment (calculated as if the area-of-benefit charge had applied to the eligible investment since it was commissioned or completed (as the case may be)), including the capital cost of each asset, and an allowance for the weighted average cost of capital for the eligible investment; and (b) to the extent practicable, an amount allocated to each eligible investment for any of Transpower's overhead and other expenses that relate to the eligible investment. 7. The TPM may provide for a suitable proxy to be used to determine the full cost of an eligible investment commissioned before the date of these guidelines, if it is not practicable to use the method included in the TPM under clause 6.	Eligible investments that are transmission alternatives will not produce assets (at least not grid assets), and so "the full cost of all *assets*" in clause (6)(a) is too restrictive. This is a recurring problem in the Guidelines when they deal with eligible investments. It is unclear what the "calculated as if…" wording in the brackets means in clause 6(a) in terms of how the full cost of an asset or transmission alternative, or the area-of-benefit charge in respect of it, is to be determined. The wording should be changed to make the intent clearer (whatever the intent may be). It is not clear whether "full cost" in clause 7 includes the overhead and other expenses referred to in clause 6(b). We think it should. There is an overlap and inconsistency between clauses 6(b) and 47(c) (see comment above on clause 5). We have suggested alternative drafting for clauses 6 and 7.	**Area-of-benefit charge** 6. The TPM must include an area-of-benefit charge that recovers the full cost of all assets and non-transmission solutions included in each eligible investment *[, calculated as if the area-of-benefit charge had applied to the eligible investment since it was commissioned or completed (as the case may be)]*. To the extent practicable, the full cost of an asset or non-transmission solution must include: (a) the capital cost of the asset; and (b) an allowance for the weighted average cost of capital for the asset; and (c) Transpower's operating and maintenance costs, overhead and other expenses that relate to the asset or non-transmission solution. 7. The TPM may include a proxy to determine the full cost of an asset or non-transmission solution if the method for determining the full cost included in the TPM under clause 6 is not practicable for the asset or non-transmission solution.
8. The eligible investments must include the following— (a) a project or programme of base capex or major capex~~,~~ (including any non-transmission solution), that is commissioned or completed on or after the date of these guidelines~~; and~~: (b) the following investments: (i) the North Island Grid Upgrade Project, approved by the Electricity Commission on 5 July 2007~~; and~~:		

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
(ii) the Upper South Island Dynamic Reactive Support Project, approved by the Electricity Commission on 25 July 2007~~; and~~: (iii) the Otahuhu Substation Diversity Proposal, approved by the Electricity Commission on 30 August 2007~~; and~~: (iv) the HVDC Project, approved by the Electricity Commission on 25 September 2008~~; and~~: (v) the Wairakei Ring Project, approved by the Electricity Commission on 20 February 2009~~; and~~: (vi) the North Auckland and Northland Project, approved by the Electricity Commission on 30 April 2009~~; and~~: (vii) the Upper North Island Dynamic Reactive Support Project, approved by the Electricity Commission on 5 July 2010~~; and~~: (viii) the Lower South Island Renewables Project, approved by the Electricity Commission on 9 August 2010~~; and~~: (ix) the Lower South Island Reliability Project, approved by the Electricity Commission on 6 September 2010~~; and~~: (x) the Bunnythorpe-Haywards Reconductoring Project, approved by the Commerce Commission on 9 May 2014~~; and~~: (c) Pole 2 of the HVDC link~~; and~~.		
~~(d)~~ Subject to clauses 10 and 11, the ~~extent not covered by paragraphs (a) to (c), the cost of any payments made by Transpower in respect of a non-transmission solution.~~ ~~8. The~~ TPM must include~~—~~ 9. a standard method or methods for calculating the area-of-benefit charge, to apply to ~~each~~all eligible ~~investment valued at $5 million or more at~~investments from the ~~time~~date on which the ~~investment is commissioned or at the completion date, as the case may be (**high value investment**); and~~TPM comes into force. 10. ~~a~~ The TPM must include a simplified method or methods for calculating the area-of-benefit charge, to apply to ~~each~~ eligible ~~investment~~investments valued at less than $5 million at the time the investment is commissioned, or at the completion date, as the case	The references to "*all* eligible investments" in clause 9 and "investments to which the simplified method or methods *must* apply" in clause 11(a) create uncertainty as to whether the standard method can be applied to low value investments as well as high value ones. That is, for low value investments is the simplified method intended to be a requirement or merely an option?	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
may be. ~~(a)~~ The TPM must provide that the ~~investment is commissioned or at the completion date, as the case may be (**low value investment**); and~~ 11. ~~Each of the~~ method or methods described in clause 10 must be applied from the earlier of— (a) as soon as reasonably practicable after the standard method for calculating the area-of-benefit charge has been applied to the eligible investments described in clause 8(a) to (c), excluding investments to which the simplified method or methods must apply; and (b) 3 years after the date on which the TPM comes into force.		
12. In determining the standard method and the simplified method or methods for the purposes of clauses 9 and 10, Transpower must weigh the economic benefits of sending accurate price signals against the economic costs of developing and administering the relevant method.	We agree we should be required to consider the economic costs of developing and administering the standard and simplified methods. However, we do not consider the area-of-benefit charge will send accurate or useful price signals to customers and therefore do not consider it is possible to weigh that factor against anything else (because it does not exist). The area-of-benefit charge is designed to provide a more targeted (cost-reflective and service-based) charge that the current postage stamp interconnection charge, but that does not equate to providing a price signal about anything in particular, especially in so far as the area-of-benefit charge applies to historical investments.	
~~10.~~13. Subject to clauses 14 and 15, each of the methods described in clauses 9 and 10 must— (a) for each eligible investment, identify the areas-of-benefit (in the case of the standard method) or the main areas-of-benefit (in the case of the simplified method or methods). An area-of-benefit is an area in which at least one designated transmission customer is expected to receive a positive net private benefit from the eligible investment; and (b) apportion charges to each area-of-benefit based on the aggregate expected positive net private benefit to the designated transmission customers to which positive net private benefits are expected to accrue in that area-of-benefit; and	All benefit identification clauses should be subject to the practicability rider. Clause 13 does not include the rider, in contrast to clauses 16 and 17. The addition of the word "private" before "benefit" potentially brings in non-electricity market benefits, which is not appropriate. For example, it may mean we are required to consider the aesthetic benefit some consumers would derive from an undergrounding project, and put a value on it. Distributors do not benefit at all from economic investments, and arguably do not benefit from reliability investments either. In that case distributors would never pay area-of-benefit charges, which is clearly not intended. We have suggested alternative, and less prescriptive, drafting for clauses 13 to 17 and 19, taking into account our comments on those clauses.	13. The standard and simplified methods must include a method for allocating the area-of-benefit charge for each eligible investment, to the extent practicable: (a) to areas-of-benefit based on the expected aggregate positive net benefit derived by designated transmission customers in the area-of-benefit from the eligible investment. An area-of-benefit is an area in which at least one designated transmission customer is expected to receive a positive net benefit from the eligible investment; and (b) to designated transmission customers in each area of benefit based on the expected positive net benefit derived by those designated transmission customers from the eligible investment.

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
~~(c) allocate charges to generation designated transmission customers and load designated transmission customers so that each group is allocated charges that correspond to the proportion of the aggregate positive net benefits that the group is expected to receive from the eligible investment; and~~ ~~(d)~~(c) apportion the area-of-benefit charge between eligible investments, if a project or programme provides for replacement or refurbishment of assets contained in 2 or more of those eligible investments.		14. Under the standard and simplified methods, net benefits that are expected to accrue to consumers connected to a distributor's network must be deemed to be expected to accrue to the distributor. 15. The standard method or methods must: (a) provide for Transpower to consult with interested parties about the relevant net benefits expected to be received by designated transmission customers; and (b) provide for a designated transmission customer's expected net benefit from an eligible investment to take into account any increase or decrease in loss and constraint excess allocated to the designated transmission customer as a result of the eligible investment; and (c) be consistent in their application as between major capex and base capex. 16. The simplified method or methods may: (a) be simpler than the standard method or methods for Transpower to apply and administer; and (b) apportion the area-of-benefit charge for an eligible investment to the main positive net beneficiaries of it only. 17. The TPM must provide that Transpower may apply to the Authority for a determination as to whether any assumptions or other inputs Transpower proposes to use to allocate the area-of-benefit charge for an eligible investment are reasonable. 18. To the extent it is not practicable to allocate the area-of-benefit charge for an eligible investment in accordance with the standard or simplified method or methods, the TPM must provide for an alternative allocation method that Transpower considers meets the Authority's statutory objective.
14. If Transpower considers it necessary to ensure a robust estimate of benefits for eligible investments, the TPM may provide for benefits to be calculated by taking the average of the benefits under two or more likely scenarios.	Clause 14 is overly prescriptive and should be removed. There are many things we may do to discern benefits, including some form of weighted averaging of possible scenarios. Removing clause 14 will not prevent us using weighted averaging techniques if that is what we decide to do. In any event, the word "likely" should be removed as it would appear to preclude the consideration of scenarios that are of a relatively low, though still significant, probability. It may even mean that only scenarios with at least a 51% probability can be weighed (of which there can only ever be a	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
	maximum of one).	
15. The TPM must provide that Transpower may apply to the Authority for a determination as to whether the assumptions that Transpower proposes to adopt are reasonable, if Transpower considers that the method in clause 14 has not resulted in a robust estimate of benefits.	Clause 15 is helpful, but should not be limited to determinations about the averaging referred to in clause 14.	
16. The standard method must— ~~(e)~~(a) to the extent practicable, provide for charges to be allocated to designated transmission customers in an area-of-benefit so that each customer is allocated the proportion of the charges that corresponds to the proportion of the aggregate positive net private benefits ~~that it~~the customer is expected to receive from the eligible investment in that area-of-benefit; and ~~(f)~~(b) to the extent that the method in paragraph (a) is not practicable, provide for— (i) charges to be allocated to each load designated transmission customer in the area-of-benefit ~~on the basis of each customer's physical capacity~~using the same method as is used to allocate the residual charge; and (ii) charges to be allocated to each generation designated transmission customer in the area-of-benefit on the basis of each customer's average injection; and ~~(g)~~(c) to the extent practicable, limit the need for Transpower to exercise discretion; and ~~(h)~~(d) result in charges that are consistent with the identification of benefits (if any) in relation to the relevant investment proposal; and ~~(i)~~(e) be consistent in its application as between major capex and base capex; and ~~(j) for each high value investment commissioned on or after the date of these guidelines, provide for Transpower to adjust a customer's charges to reflect—~~ ~~(i) any marginal saving to Transpower from the customer's credible commitment to reduce its demand for transmission services, if that commitment results in Transpower changing its investment plans resulting in a~~	Subclause (b) should be generalised to give Transpower more flexibility: • Subclause (b) (and also clause 17(e)) does not provide any guidance about how to apportion charges between load and generation. The assumption appears to be that the basis for allocation to generators will be directly comparable to the residual allocation measure for load, which may not be the case. • We do not consider that allocating to generators on the basis of their average injection will necessarily be the most efficient method. The effect of this allocation method (and of allocating the area-of-benefit charge to generators generally) on generators' wholesale market behaviour does not appear to have been the subject of detailed analysis. Subclauses (c) and (d) are unhelpful and should be removed: • We will inevitably need to exercise considerable discretion when it comes to estimating net benefits. • For historical eligible investments, to the extent the identified beneficiaries at the time of the proposal can be discerned, it is possible (perhaps even likely) that the beneficiaries have changed since the time of the proposal. Clause 18(a) requires the net benefits of historical eligible investments to be assessed as at the date the TPM comes into force, not as at the date of the proposal. Subclause (g) is meaningless and should be removed. The methods we use will produce an allocation which will be incapable of having its accuracy checked against anything else. We support the removal of old subclause (f). We note that the marginal saving adjustment is now an additional component (clause 47(f)), which we comment on below.	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
~~reduction in costs; or~~ ~~(ii) any marginal increase in costs to Transpower from the customer's credible commitment to increase its demand for transmission services, if that commitment results in Transpower changing its investment plan resulting in an increase in cost; and~~ ~~(k)~~(f) provide for Transpower to consult with interested parties about the areas that are likely to benefit from the investment, and the extent of any such benefit~~.~~; and ~~(l)~~(g) be as accurate as is reasonably practicable.		
~~11.~~17. The simplified method or methods must— (a) to the extent practicable, be simple to apply and administer; and (b) to the extent practicable, be simple for a party paying the charge to ascertain why the party is subject to the area-of-benefit charge; and (c) for each eligible investment, identify each designated transmission customer that is expected to receive a positive net private benefit from the eligible investment, unless doing so would unduly prejudice meeting the requirements of paragraphs (a) and (b), in which case the method must identify the designated transmission customers expected to receive the majority of the positive net private benefits; and (d) to the extent practicable, provide for the allocation of charges to the beneficiaries identified as specified in paragraph (c), so that each beneficiary is allocated the proportion of the charges that corresponds to the share that the beneficiary is expected to receive of the aggregate positive net private benefits expected to be received by all identified beneficiaries; and (e) to the extent that the method described in paragraph (c) is not practicable, provide for— (i) charges to be allocated to each identified beneficiary that is a load designated transmission customer ~~on a physical capacity basis~~using the same method as is used to allocate the residual charge; and (ii) charges to be allocated to each identified beneficiary	Subclause (b) misses the point of the simplified method(s). The method(s) will be aimed at reducing the analytical rigor for low value investments, not making the analysis more understandable for customers. That may be a side-effect, but it will not be our objective in designing the method(s). "Majority" is the wrong word in subclause (c). It could be interpreted as meaning "only those with more than a 50% net benefit" or "stop once you have identified where more than 50% of the net benefit lies". We note that "main" is used in clause 13(a).	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
that is a generation designated transmission customer on the basis of each customer's average injection~~; and~~. ~~(f) be phased in over a short a period of time as is practicable after the standard method takes effect.~~		
~~13. The method for determining physical capacity for the purposes of clauses 10(b)(i) and 11(e)(i) must be the same as the method used to determine physical capacity for the purposes of clauses 24 to 29.~~	We support the removal of old clause 13.	
~~12.~~18. For the purposes of clauses ~~9~~13(a) to (~~c), 10~~b), 16(a), and ~~11~~17(c) to (d), the TPM must provide for expected net private benefits to be assessed as follows: (a) for eligible investments commissioned before ~~1 April 2019, as at 1 April 2019~~the date on which the TPM comes into force, from that date, for the expected remaining life of the investment: (b) for all other eligible investments, ~~as at~~from the date of commissioning or the completion date (as the case may be), for the expected remaining life of the investment.	We support the generalisation of the date on which the TPM comes into force, but note that this has not been done in clauses 55 and 57 (which still assume a 1 April 2020 effective date). We do not consider it realistic to anticipate the new TPM will be implemented for the 2020/21 pricing year, especially in light of the additional complexity the Guidelines will introduce. It is also inappropriate for the drafting of the Guidelines to assume the outcome of a decision the Authority has not yet made.	
~~13. Except as provided for in clauses 15 and 16, the TPM must~~To avoid doubt, for the purposes of ~~determining~~calculating the area-of-benefit charge, ~~provide for—~~ ~~(a) assets in eligible investments commissioned before the date of these guidelines to be valued on a depreciated historical cost (**DHC**) basis; and~~ ~~(b) assets in eligible investments commissioned on or after the date of these guidelines to be based on a replacement cost (**RC**) basis.~~ ~~14. In~~ a designated transmission customer's net private benefit in relation to ~~any asset~~an investment is to be ~~valued at replacement cost,~~ calculated taking into account any increase or decrease in the ~~TPM must provide that—~~ ~~(a) Transpower must determine~~amount of loss and constraint excess the ~~expected life of~~ designated transmission customer would receive following the ~~asset at the time of~~	Factoring in the LCE increase or decrease should only be mandatory under the standard method(s). It should also be subject to the practicability rider. We support the removal of the requirement to value eligible investments on either a DHC or RC basis depending on their commissioning dates. The basis for calculating the area-of-benefit charge should be as time-neutral as possible.	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
commissioning~~; and~~ ~~(b) subject to paragraph (c) and clause 16, the area-of-benefit charge must be set so as to recover the cost of the asset and the capital cost of holding the asset over its full expected life; and~~ ~~15.~~19. ~~in case of a force majeure event, the value of the asset must be depreciated to its residual value and its expected life adjusted accordingly~~ of the investment.		
~~16.~~ The TPM must provide that~~, if Transpower undertakes replacement, refurbishment or maintenance expenditure that extends the expected life of an asset, the replacement, refurbishment or maintenance expenditure would be capitalised and charged for as a new asset with a life equal to the new expected life of the asset.~~ ~~17. The TPM must provide that~~ designated transmission customers may apply to Transpower~~—~~ ~~18.~~20. to have the value of an asset in an ~~eligible~~ investment valued at $5 million or more at the time the investment is commissioned ~~before~~, or at the completion date ~~of these guidelines~~(as the case may be) (high value investment), optimised ~~from DHC to optimised depreciated historical cost (**ODHC**)~~. ~~(a) to have the value of an asset in a high value investment commissioned on or after the date of these guidelines optimised from RC to optimised replacement cost (**ORC**).~~ ~~19.~~21. The TPM must provide that, if Transpower receives an application to have the value of an asset in a high value investment optimised ~~as described in clause 17~~, Transpower must optimise the value of the asset in the following circumstances: (a) for an asset in ~~an eligible~~a high value investment commissioned before the date of these guidelines, if the ~~ODHC for~~optimised value of the asset is less than 80% of the ~~DHC~~non-optimised value for the asset: (b) for an asset in a high value investment commissioned on or after the date of these guidelines and before the investment has been commissioned for the period of time specified in the TPM for the purposes of this paragraph, if— (i) a single customer disconnects from the grid causing the	Clauses 20 to 23 should be deleted: • Clauses 20 to 23 assume the method we use to value eligible investments for the purpose of determining their full cost will be non-optimised. That is not necessarily the case because the Guidelines do not preclude Transpower determining an optimised valuation methodology for eligible investments. • Grounds for optimisation will not be present unless there has been a material change in circumstances in respect of the eligible investment. That is covered later in clause 24. If clauses 20 to 23 are to be retained: • "eligible" should be reinserted in clause 20. Clause 20 is presumably only intended to apply to investments that contribute to the area-of-benefit charge. The deletion of "eligible" potentially opens it up to connection assets as well; • $5m is too low a threshold for the potentially complicated task of optimisation, considering the likely (low) impact on transmission charges. This should be increased to $20m, which would be consistent with the Commerce Commission's base capex threshold (which distinguishes base capex from major capex); and • clauses 21 and 22 should not be prescriptive about the thresholds that would justify optimisation, which appear to be arbitrary. We also query whether "must" in clause 21 is intended to be read as "must only". That is, would we have discretion to optimise even if the thresholds in clause 21 are not met?	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
~~ORC for~~optimised value of the asset to reduce by more than 20%; and (ii) the ~~ORC for~~optimised value of the asset is less than 80% of the ~~RC for~~non-optimised value of the asset: (c) for an asset in a high value investment commissioned on or after the date of these guidelines and after the investment has been commissioned for the period of time specified in the TPM for the purposes of this paragraph, if the ~~ORC for~~optimised value of the asset is less than 80% of the ~~RC for~~non-optimised value of the asset. ~~20.~~22. The TPM must— (a) include a method and process for Transpower to determine the ~~ODHC or the ORC for~~ optimised value of an asset; and (b) specify a period of time for the purposes of ~~clauses 18~~clause 21(b) and (c), which must be sufficient to ensure that the prospect of optimisation has a negligible impact on customers' motivation to seek new investment; and (c) provide for Transpower to have the discretion to revise the ~~ORC or ODHC for~~optimised value of an asset, if demand for the asset changes by more than 20%. ~~21.~~23. The TPM must provide that Transpower ~~would have the~~has a discretion to remove optimisation altogether if, following a revision under clause ~~19~~22(c), the criteria for optimisation ~~is~~are no longer met.		
~~22.~~24. The TPM must include a method and process for— (a) Transpower to review the application of the area-of-benefit charge for a high value investment if there has been a material change in circumstances, and adjust the charge if necessary; and (b) Transpower to decide when a material change in circumstances has occurred, which must include consultation with interested parties about whether there has been a material change in circumstances before proceeding to review any area-of-benefit charge.	$5m (the proposed threshold for high value investments) is too low a threshold for the potentially complicated task of making material change in circumstances adjustments, considering the likely (low) impact on transmission charges. This should be increased to $20m, which would be consistent with the Commerce Commission's base capex threshold (which distinguishes base capex from major capex).	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
~~23.~~25. The TPM must provide for the area-of-benefit charge to include an allocation for maintenance and operating expenses that is at least broadly cost-reflective.		
Method to determine annual amount to be recovered under the area-of-benefit charge 26. The TPM must include a method for Transpower to determine the annual amount to be recovered under the area-of-benefit charge in relation to an eligible investment. 27. The method must— (a) result in annual area-of-benefit charges in relation to an eligible investment increasing over time in line with a price index determined by Transpower; or (b) be another method that is service-based and cost-effective, if that would better promote the Authority's statutory objective. 28. The method included in the TPM under clause 26 must promote an efficient trade-off between— (a) the economic benefit of sending accurate price signals to customers; and (b) the economic cost of developing, implementing, and administering the valuation method. 29. If the method included in the TPM under clause 26 would result in over-recovery of Transpower's recoverable revenue in relation to assets in eligible investments described in clause 8(b) and (c), the TPM must provide for a method to— (a) first, scale back the amount to be recovered by the residual charge, excluding the overhead and unallocated costs; then (b) to the extent that the over-recovery remains unresolved, scale back the amount to be recovered in relation to overhead and unallocated costs; then (c) to the extent that the over-recovery still remains unresolved, scale back the amount recovered by the area-of-benefit charge in relation to eligible investments commissioned or completed before the date of these guidelines. 30. Transpower may alter the time profile of area-of-benefit charges over an investment's remaining expected life, if the method included	It is unclear how clauses 26 to 30 relate to the requirement to determine the full cost of eligible investments under clauses 6 and 7. Clauses 26 to 30 alternate between talking about annual charges (26, 27, 29 and 30) and valuation methodology (28), which is confusing. Clause 28(b) exacerbates the confusion by referring to "the valuation method" in clause 26, even though clause 26 does not refer to a valuation methodology. We think clauses 26 to 29 are intended to be about the valuation methodology and clause 30 is intended to be about the annual charges. In clause 27(b) we think "cost-effective" should be "cost-reflective". Clause 28(a) should be deleted because the area-of-benefit charge will not send accurate or useful price signals to customers (see comment above on clause 12). Clause 29 is capable of several interpretations, and we do not think it guarantees the scaling of annual charges such that our revenue requirement can never be exceeded. That is because the clause only compares part of our revenue requirement with part of our annual charges. It is possible that after the scaling contemplated by the clause our revenue requirement is still exceeded by our total annual charges, which would be a breach of our price path under the Commerce Act 1986. Also: • if there is an over-recovery of the revenue requirement for an eligible investment then the residual charge will automatically be scaled back because there will be less of the revenue requirement to be recovered through the residual charge; and • we do not think it is practicable, or necessary, to distinguish between the elements of the residual charge referred to in subclauses (a) and (b). Clause 30 should be limited to high value investments (as clauses 21 to 24 are). As with those other clauses, the $5m threshold for a high value investment is too low. The threshold should be $20m. We have suggested alternative drafting for clauses 26 to 30. Our suggested clause 30 (redrafted clause 29) applies to annual charges generally, not just the annual area-of benefit charge, and so would ideally be moved to somewhere else in the Guidelines.	**Valuation of assets in eligible investments** 26. The TPM must include a method for Transpower to value an eligible investment over time for the purpose of determining the annual area-of-benefit charge for the eligible investment. 27. The valuation method must— (a) result in a value for the eligible investment that increases over the life of the eligible investment in line with a price index; or (b) be another method that is service-based and cost-reflective, if that would better promote the Authority's statutory objective. 28. In determining the valuation method Transpower must consider the economic cost of developing, implementing, and administering the valuation method. 29. The TPM must provide that Transpower may alter the valuation time profile for a high value investment if Transpower considers that the valuation method results in a valuation time profile that is manifestly inconsistent with the services provided by the high value investment at different times during the life of the high value investment. **Scaling back annual charges** 30. The TPM must include a method to scale back annual charges if total annual charges exceed Transpower's revenue requirement for the relevant year. The method must result in a scaling back of charges that: (a) minimises distortions to price signals to designated transmission customers; and (b) does not result in any designated transmission customer paying less than the incremental cost of Transpower providing transmission services to it.

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
in the TPM under clause 26 would result in charges that are manifestly inconsistent with the services provided by the investment at different times in the life of the investment.		
Residual charge 31. The TPM must provide for ~~the recovery of~~ a residual charge that allows Transpower to recover any revenue that Transpower is permitted to recover that is not otherwise recovered ~~by~~under the TPM ~~(or any lesser amount determined by Transpower) through a capacity-based charge on~~ .		
32. The method for calculating the residual charge must— (a) use load to identify designated transmission customers ~~(called~~that must pay the residual charge~~), allocated according,~~ and the extent to ~~the proportion~~which those customers must pay; and (b) correct for double counting and other charging anomalies; and (c) result in broadly equivalent charges to customers that are in broadly equivalent circumstances; and (d) to the ~~physical capacity~~extent that it can be economically achieved, be designed such that a customer's residual charge will not change as a result of the customer's actions or the actions of ~~each load~~ another party other than Transpower, such that it does not create incentives or opportunities for designated transmission ~~customer's connection~~customers to inefficiently avoid the ~~grid bears~~residual charge; and ~~(b)~~(e) be related to the ~~total physical capacity~~size of ~~all~~the load of each designated transmission ~~customers' connections to the grid.~~customer so that the allocation of charges is durable; and ~~24. For the purposes of clause 23, the TPM must specify whether physical capacity is—~~ ~~(a) each customer's transformer capacity in the 12 months prior to 17 May 2016; or~~ ~~(b) each customer's line capacity in the 12 months prior to 17 May 2016; or~~ (f) ~~each customer's gross~~be designed so that any distributed	Clause 32 does not outline a method for "calculating" the residual charge (the residual charge calculates itself), but rather allocating it. Subclause (b) should be subject to the practicability rider. Subclause (c) should be deleted because "broadly equivalent circumstances" is too wide. For example, are customers with the same annual revenue broadly equivalent such that they should face the same transmission charges? If the residual charge is allocated on the basis of a consistent load measure across customers then their charges will necessarily be equivalent from an allocation perspective. Subclause (d) should use the practicability rider used elsewhere in the Guidelines instead of the unusual words "to the extent that it can be economically achieved". Also, the subclause as drafted is too wide because it assumes a customer can never act legitimately to reduce its residual allocation (for example, by reducing its gross load). We do not consider the Guidelines should be prescriptive about allocating the residual charge on the basis of load, as required by subclause (e) (and overlapping subclause (a)). The key point about residual charge allocation is that it should not be able to be avoided through inefficient investment. There may be better ways to achieve that than a load-based allocation. In subclause (e) the reference to durability should be deleted because it is vague and probably redundant. To the extent it refers to insulating the principles behind the residual charge allocation methodology from formal or informal customer challenge, Transpower does not control that. Subclause (f) should be deleted because payments between distributors and embedded generators are not controlled by the TPM. They are a matter for the distributed generation pricing principles and private	32. The TPM must include a method for allocating the residual charge that: (a) allocates the residual charge to load designated transmission customers; and (b) to the extent practicable, does not incentivise load designated transmission customers or third parties to invest inefficiently to avoid a higher allocation of the residual charge; and (c) allows the allocation of the residual charge to be adjusted to correct for double-counting and other anomalies.

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
generator that is paid or credited for transmission charges avoided by the relevant distributor would not receive such payment or credit in respect of the residual charge component of the relevant distributor's transmission charges (for example, by adding back a value representing the load supplied by the distributed generator for the purpose of calculating the residual charge).	contract. If the Authority wishes the residual charge allocation methodology to disregard distributed generation (to the extent we have reliable information about it) the Guidelines should say that unequivocally. We have suggested alternative drafting for clause 32.	
33. The method for calculating the residual charge must be one of the following— ~~(c)~~(a) historical anytime maximum demand ~~in the 5 years prior to 17 May 2016.~~ ; (b) ~~If~~ another method.	Clause 33 is redundant and should be deleted. It simply says any method can be used to allocate the residual charge (as long as it is based on load, as required by clause 32(a)). We note that using HAMI as the allocator would not appear to achieve the requirements of subclauses (d) and (f) of clause 32.	
34. Clause 35 applies if a large consumer— (a) ceases to be connected to the grid and instead becomes connected to a distributor; or (b) ceases to be connected to a distributor and instead becomes a direct consumer; or (c) ceases to be connected to one distributor and instead becomes connected to another distributor. 35. The TPM must provide that area-of-benefit and residual charges attributable to the large consumer must— (a) in the circumstances described in clause 34(a) and (c),— (i) be deducted from the area-of-benefit and residual charges payable by the distributor to whom the large consumer was previously connected or by the large consumer (as the case may be); and (ii) be added to the area-of-benefit and residual charges payable by the distributor to whom the large consumer becomes connected; and (b) in the circumstances described in clause ~~24(c) applies, the~~34(b),— (i) be deducted from the area-of-benefit and residual charges payable by the distributor to whom the large consumer was previously connected; and	Clauses 34 and 35 are too prescriptive about how the new TPM should deal with changes to the connection status of large consumers. The problems include: • For embedded consumers we are unlikely to have reliable information about what their load was when they were embedded. • We may not know that an embedded consumer has connected to a different distributor. • If an embedded consumer connects to a different distributor (for example, by building a more modern factory somewhere else) the nature of the consumer's load profile may also change so that the previously drawn load (to the extent we know it) is not a valid comparator. • Clause 35 appears to assume we will have allocated area-of-benefit and residual charges to embedded consumers, which we will not have because they are not designated transmission customers. • The relevance of consumers' previous and future load to the adjustment of area-off-benefit and residual charges will depend on the final design of those charges. Some load may not be relevant at all. Also, clauses 34 and 35: • do not explain what a "large" consumer is (large relative to what?); • do not deal with changes in the connection status of generators and networks; and	34. The TPM must provide that if a designated transmission customer ceases to be connected to the grid and instead becomes connected to a distributor, the area-of-benefit and residual charges allocated to the designated transmission customer must be added to the area-of-benefit and residual charges payable by the distributor. 35. The TPM must provide that if a consumer ceases to be connected to a distributor and instead becomes connected to the grid, the area-of-benefit and residual charges allocated to the consumer (once they become a designated transmission customer) must be deducted from the area-of-benefit and residual charges payable by the distributor.

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
(ii) be added to the area-of-benefit and residual charges payable by the large consumer.	• in so far as they relate to the area-of-benefit charge, overlap with clause 24 (material change in circumstances). We have suggested alternative drafting for clauses 34 and 35. We note that clause 35 is in a part of the Guidelines that relates to the residual charge but the clause also covers the area-of-benefit charge. It would ideally be moved to somewhere else in the Guidelines.	
~~27.~~36. The TPM must ~~specify whether gross anytime maximum demand for a customer is—~~provide that, if any of the circumstances described in clause 34 arise in the period from 13 December 2016 to the date on which the TPM comes into force, those circumstances are deemed to have arisen on the date on which the TPM comes into force. ~~(d) the customer's highest gross demand in the 5 year period; or~~ ~~(e) the average of the customer's highest gross demand in each of the 5 years; or~~ ~~(f) the average of the customer's 5 highest gross demands in the 5 year period; or~~ ~~(g) another measure of gross anytime maximum demand.~~ ~~28. To the extent practicable, and to the extent that the transaction costs of doing so would not be prohibitive, gross anytime maximum demand calculated under clause 24(c) must be anytime maximum demand, including—~~ ~~(h) the quantity of electricity generated by generation connected to the customer's network; and~~ ~~(i) the volume of demand-side management and demand response on the customer's network.~~ ~~29. Clause 28 applies if—~~ ~~(j) a period of time (in years) specified in the TPM for the purposes of this clause and clause 28 has elapsed since the guidelines were published; and~~ ~~(k) there has been a material change in circumstances.~~ ~~30. Transpower may substitute the time period in relation to which physical capacity is calculated under clause 24 with another time period—~~ ~~(l) of the same duration; and~~	We do not understand why clause 36 is required. What anomalous result is it trying to avoid? We support the removal of old clauses 27 to 31.	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
~~(m) that ends on the date that is the period of time (in years) specified in the TPM before the date of substitution.~~ ~~31. The TPM must specify a period of time (in years) for the purpose of clauses 27(a) and 28(b).~~		
Overhead and unallocated operating expenses ~~(overheads)~~ 37. The TPM must provide for such of Transpower's overhead and unallocated operating expenses as are not recovered through the connection charge under clause 5(a)(ii) or the area-of-benefit charge under clause 6(b) to be recovered— (a) from generation designated transmission customers, through the connection charge; and (b) from load designated transmission customers, through the residual charge.		
38. ~~The overheads~~Transpower's overhead expenses that are not recovered through the connection charge under clauses 5(a)(ii) or the area-of-benefit charge under clause 6(b) must be allocated on substantially the same basis, and with the same effect, as under the TPM in force on the date of these guidelines.	Clause 38 should only apply to clause 37(a) because there is no residual charge under the current TPM and no specific means of allocating overhead expenses within the interconnection charge. We assume the intention is not to require overhead expenses to be allocated to load on the basis of RCPD.	
Allocation of charges to new designated transmission customers 39. The TPM must allocate charges to a person that becomes a designated transmission customer after the new TPM comes into force on the same basis as if the customer was an existing customer on the date on which the new TPM takes effect. 40. The area-of-benefit and residual charges for a new designated transmission customer must be based on a proxy for, but must not be dependent on, the ~~physical capacity~~allocator for the residual charge after the participant becomes a designated transmission customer.	Clause 39 appears to be in conflict with clause 40. When the new TPM comes into force it will not require the area-of-benefit charge to be allocated on the basis of a proxy for the allocator for the residual charge, as required by clause 40. Also, clause 39 appears to require Transpower to ignore any changes to the new TPM between when it first comes into force and when the new customer enters. We would have thought the TPM should be applied on its then current terms to new customers.	
Prudent discount policy 41. The TPM must include a prudent discount policy on the same basis (and with the same effect) as the prudent discount policy in the TPM in force on the date of these guidelines, except as provided for in		

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
clauses ~~35~~42 to ~~41~~46.		
42. The TPM must provide that~~, subject to clause 39(b),~~ a prudent discount ~~would apply~~applies for the expected life of the asset to which the prudent discount relates, unless a shorter prudent discount is agreed between Transpower and the party receiving the prudent discount.	Clause 43 should say that the term of a prudent discount is as agreed by the parties (and therefore not subject to the current 15 year maximum term). We do not consider it appropriate to make the life of the relevant asset the default term because that effectively forces Transpower into very long-term agreements unless the customer decides otherwise.	
43. The TPM must provide that a prudent discount would be available if it is privately beneficial for a load designated transmission customer to ~~build generation to~~ disconnect from the grid and source alternative supply, but not efficient and not for the long-term benefit of consumers.		
~~39. The TPM must provide that a prudent discount would be available to a direct consumer if—~~ ~~(a) the direct consumer's transmission charges are an amount that represents a material portion of the consumer's input costs and/or business profits; and~~ ~~(b) there is a material risk that transmission charges would cause the direct consumer to close down its New Zealand plant (and so disconnect from the grid); and~~ ~~(c) the customer's business profits have been heavily affected by market conditions; and~~ ~~(d) the direct consumer has taken reasonable steps to remain viable as a going concern, including taking significant steps to eliminate unnecessary costs.~~ ~~40. The TPM must provide that a prudent discount would be available to a distributor if the distributor can demonstrate that there is a material risk that—~~ ~~(e) transmission charges would cause one of the distributor's customers to disconnect from the distributor's network; and~~ ~~(f) if the distributor's customer was a direct consumer in the same circumstance as described in clause 37, the distributor's customer would be eligible to receive a prudent discount.~~ ~~41. A prudent discount under clause 37 or 38 must—~~	We support the removal of old clauses 39 to 41.	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
~~(g) be linked to key factors that would have a material effect on the decision to disconnect from the grid (for example, the world price of the product or service produced by the customer); and~~ ~~(h) be able to be reduced or suspended if the key factors relied on in granting the prudent discount change such that the prudent discount would not have been granted, or would not have been granted on the same basis.~~		
44. The TPM must— (a) provide that a prudent discount will be available if a load designated transmission customer's transmission charges exceed the standalone cost of delivering electricity to the load designated transmission customer; and ~~(b) provide that a prudent discount will be available to a distributor in respect of a load customer of the distributor if Transpower is satisfied that, if the load customer was a direct consumer, the prudent discount would be available on the basis specified in paragraph (a); and~~ ~~(c)~~(b) include a method for determining whether standalone cost is exceeded for the purposes of this clause.	We support the removal of old subclause (b).	
45. The TPM must provide that ~~any~~a prudent discount must not result in a customer paying less than the incremental cost of supplying it with transmission services.		
46. The TPM must include methods and processes for assessing applications and calculating prudent discounts in the circumstances described in clauses ~~35~~42 to ~~41~~45.		
Additional components 47. The TPM must include any or all of the following additional components if their inclusion is practicable and consistent with the requirements of clause 12.89 of the Code: (a) a requirement that, if an asset that will ultimately not be classified as a connection asset is commissioned such that it	See comments above on clauses 5 and 6 relating to subclause (c). As previously submitted, and as submitted again in the body of this submission, we consider that an LRMC charge should be a mandatory requirement not an additional component. We note the Authority's antagonism towards the LRMC charge in both consultations on the Second Issues Paper, and as reflected in clauses 48	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
meets the definition of connection asset, it must be charged for as a connection asset while it meets that definition: (b) a method to ensure that the charges that apply to assets that provide connection services are not affected by a person (other than Transpower) connecting assets to assets owned by Transpower: (c) a method for allocating operating and maintenance costs in relation to which the area-of-benefit charge or connection charge applies to parties that pay charges in relation to that asset, on an actual-cost basis: (d) a long-run marginal cost (LRMC) charge that— (i) is designed to promote the efficient use of Transpower's grid assets that are not connection assets, so as to efficiently defer investment; and (ii) complements or augments, but does not duplicate, the price signals provided by nodal pricing ~~and~~, other charges under the TPM, and any grid support arrangements relied on by Transpower to efficiently defer transmission investment: (e) a kVar charge on reactive load~~.~~: (f) a method for adjusting a customer's charges in relation to each standard investment commissioned on or after the date of these guidelines, to reflect any marginal saving to Transpower from the customer's credible commitment to reduce its demand for transmission services, if that reduction in demand would result in Transpower changing its investment plans resulting in a reduction in Transpower's costs: (g) a method for determining the annual amount to be recovered in connection charges in relation to each connection asset, which is the same as the method included in the TPM for the area-of-benefit charge under clause 26: (h) a method for including further assets as eligible investments, if doing so would promote the Authority's statutory objective.	and 49. The Authority's current stance on the LRMC charge is in marked contrast to its position at the time of its July 2014 LRMC Working Paper (being that an LRMC charge may be more efficient than a beneficiaries pay charge, and is market-like and therefore preferred under the TPM decision-making and economic framework). It would of course be improper for the Authority to include the LRMC charge as an additional component but with the intention of rejecting any TPM we propose that includes the charge. If the Authority has already made up its mind that the LRMC charge is undesirable (which we would strongly disagree with) then it should not be included in the Guidelines, even as an additional component. In any event, the reference to grid support arrangements in subclause (d)(ii) should be removed. Grid support arrangements should act as a supplement to the LRMC charge, not the other way around. Designing the TPM in a way that incentivises the deferral of future investment should be preferred to introducing the additional cost of grid support arrangements. Also, grid support arrangements are an administrative approach to managing grid capacity and should not be preferred to a market-like approach such as the LRMC charge. Making the marginal saving mechanism an additional component (subclause (f)) is an improvement, but we consider it should be removed entirely. As previously submitted, we have concerns about the workability of the marginal saving mechanism and the risk of unintended negative consequences arising from it. Also, "standard investment" is not defined in the Guidelines. We suspect this should be "eligible investment". We support the inclusion of subclause (h), but note that bringing more investments into the area-of-benefit charge will not solve the problems we identified previously with the design of the charge (notably, potential distortions to the wholesale market and steep increases in transmission charges in the upper North Island), and may make them worse.	
48. If an LRMC charge is included in the TPM, the TPM must specify that the purpose of the LRMC charge is to promote a change in the use of the interconnected grid in order to efficiently defer investment, after	Clauses 48 and 49 should be removed. It is unclear why the LRMC charge is being singled out for special treatment in these clauses, in contrast to the treatment of other additional components. It appears to us that the	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
taking into account ~~of~~ nodal prices~~ and~~, other transmission charges, and any grid support arrangements relied on by Transpower to efficiently defer transmission investment. 49. Transpower may only include an LRMC charge in the TPM if a price signal over and above the price signal provided by nodal pricing (or that could be provided by nodal pricing with direct refinements to the spot electricity market~~) and~~), other transmission charges, and any grid support arrangements relied on by Transpower to efficiently defer transmission investment is necessary to promote efficient investment in, and use of, the interconnected grid.	Authority is loading the Guidelines with reasons to reject the LRMC charge if we propose it, which is inappropriate. If clauses 48 and 49 are retained: • the references to grid support arrangements should be removed (see comment above on clause 47(d)(ii)); and • the reference in clause 49 to refinements to the spot electricity market should be removed because any such refinements are not within our control and, to the extent we can anticipate them, may never actually happen.	
50. If an LRMC charge is included in the TPM, the TPM must specify a method for adjusting charges under the TPM to take into account revenue recovered by the LRMC charge.	We support the inclusion of new clause 50.	
51. If a kVar charge is included in the TPM, the TPM must specify the circumstances in which the kVar charge would apply, and in which regions.		
52. If a method for including further assets as eligible investments is included in the TPM under clause 47(h)— (a) the TPM may specify a transition for the application of the arrangements described in 47(h); and (b) the TPM must specify a simplified method or methods for calculating the area-of-benefit charge to apply in relation to the further assets, if applying the standard method to those assets would not be practicable.	We support the inclusion of new clause 52, but see our comment above on clause 47(h).	
53. If Transpower does not include any of the additional components in the TPM initially developed under these guidelines, it would be desirable for Transpower to keep each of the components not included under review and consider~~,~~ whether to propose a variation under clause 12.85 of the Code to include any one or more of them.	As previously submitted, clause 53 should be removed. It is inappropriate for the Guidelines to require continuous monitoring of, and potential change to, the TPM. It is also unclear whether the word "desirable" actually imports any obligation.	
Cap on annual increases in transmission charges for pre-guidelines assets 54. The TPM must provide for a price cap on transmission charges to	We have major concerns about the workability, effectiveness and transparency of the proposed price cap, which we have covered in the body	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
distributors and direct consumers. 55. In clauses 56 to 60, base value for each year means— (a) for a distributor, the estimated total of the electricity bills (including all charges in respect of transmission, distribution, energy, levies, and taxes) of all of the distributor's customers in the 2019/20 pricing year, plus inflation (CPI); and (b) for a direct consumer, the direct consumer's estimated total electricity bill (including all charges in respect of transmission, distribution, energy, levies, and taxes) for the 2019/20 pricing year, plus inflation (CPI). 56. The cap must be set— (a) for a distributor, at 103.5% of the distributor's base value; and (b) subject to clauses 59 and 60, for a direct consumer, at 103.5% of the direct consumer's base value. 57. In clauses 58 and 61, the net charge for a distributor or direct consumer for a year means an amount calculated according to the following formula: $A = B - C$ where A is the net charge for the year B is— (a) for a distributor, the sum of the estimated electricity bills of all of the distributor's customers for the year, including all charges in respect of transmission, distribution, energy, levies, and taxes; and (b) for a direct consumer, the direct consumer's estimated electricity bill for the year, including all charges in respect of transmission, distribution, energy, levies and taxes C is the amount payable by the distributor or direct consumer for the year in respect of— (a) any LRMC charge; (b) any kvar charge;	of our submission and do not repeat in detail here. It is clearly impractical to expect us to apply the price cap with a sensible level of objectivity or precision. Our attempts to do so would be subject to criticism and potential legal challenge on a regular (at least annual) basis. The price cap is not durable. We are strongly of the view that the price cap should either be deleted or re-drafted as a straightforward cap on year-on-year transmission charge increases. If deleted it could be replaced with a generic transitional clause, as applies under the current Guidelines.	

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
(c) any charge attributable to assets commissioned after the end of the 2019/20 pricing year; (d) any area-of-benefit charge for assets included as eligible investments under the arrangements described in clause 47(h); and (e) any increase in a distributor's or direct consumer's uncapped charges as a result of the optimisation of an investment or a material change in circumstances. 58. The TPM must provide that, if a distributor's or direct consumer's transmission charges would increase in a year such that the distributor's or direct consumer's net charge would exceed the amount of the cap, Transpower must reduce the distributor's or direct consumer's transmission charges for the relevant year such that the net charge would not exceed the amount of the cap. 59. The TPM must provide for the arrangements described in clause 60 to apply from the earlier of— (a) The date on which Transpower begins to apply area-of-benefit charges to assets included as eligible investments under the arrangements described in clause 47(h); or (b) 3 years after the date on which the TPM comes into force. 60. The TPM must provide that, if the cap has resulted in a reduction in transmission charges for a direct consumer in a year, in the next year the cap must be set at 105.5% of the direct consumer's base value, increasing by 2 percentage points on the base value in each subsequent year (for example, 105.5% in the first year for which this clause applies, 107.5% in the following year). 61. The TPM must provide that, if a distributor's or direct consumer's total transmission charges, minus the components that comprise the variable C in the formula in clause 57, would be below incremental cost in a year, those charges must be set at incremental cost. 62. The TPM must provide that if, in any year, the cap does not result in a reduction in transmission charges for a distributor or direct consumer, no cap applies to the distributor's or direct consumer's transmission charges in any subsequent year. 63. The TPM must provide that, if there is a material increase in a distributor's or direct consumer's load, Transpower must adjust the cap for the distributor's or direct consumer's transmission charges by the same percentage as the percentage increase in the distributor's		

Supplementary Consultation version of the proposed TPM Guidelines	Transpower commentary	Transpower suggested drafting
<u>or direct consumer's load.</u> 64. <u>The TPM must provide that, if any of the cap arrangements provided for in clauses 54 to 61 would prevent Transpower from recovering its recoverable revenue, all caps must be increased proportionally so that it is possible for Transpower to recover its recoverable revenue.</u>		
65. <u>The TPM must provide for Transpower to conduct a review of the operation of the arrangements described in clauses 54 to 64 in relation to distributors and direct consumers whose charges continue to be reduced by the cap, to be carried out in 2025 and completed no later than the end of that year.</u> 66. <u>If, as a result of the review described in clause 65, Transpower considers that it would promote the Authority's statutory objective to amend the arrangements described in clauses 54 to 64, it would be desirable for Transpower to propose an amendment to the TPM.</u>	Clauses 65 and 66 should be removed. It is the Authority's job, not ours, to assess whether the price cap is "working" in terms of the statutory objective. If the Authority wishes to change or remove the price cap in 2025 (or at any point) there are mechanisms in the Code allowing for that to happen. The Guidelines should not include provisions about potential future changes to the TPM, and certainly not ones that would make the TPM inconsistent with other provisions in the Guidelines. We do not consider that a proposed change to the TPM that contradicts the Guidelines' requirement for a price cap designed in a particular way could be progressed under the Code.	