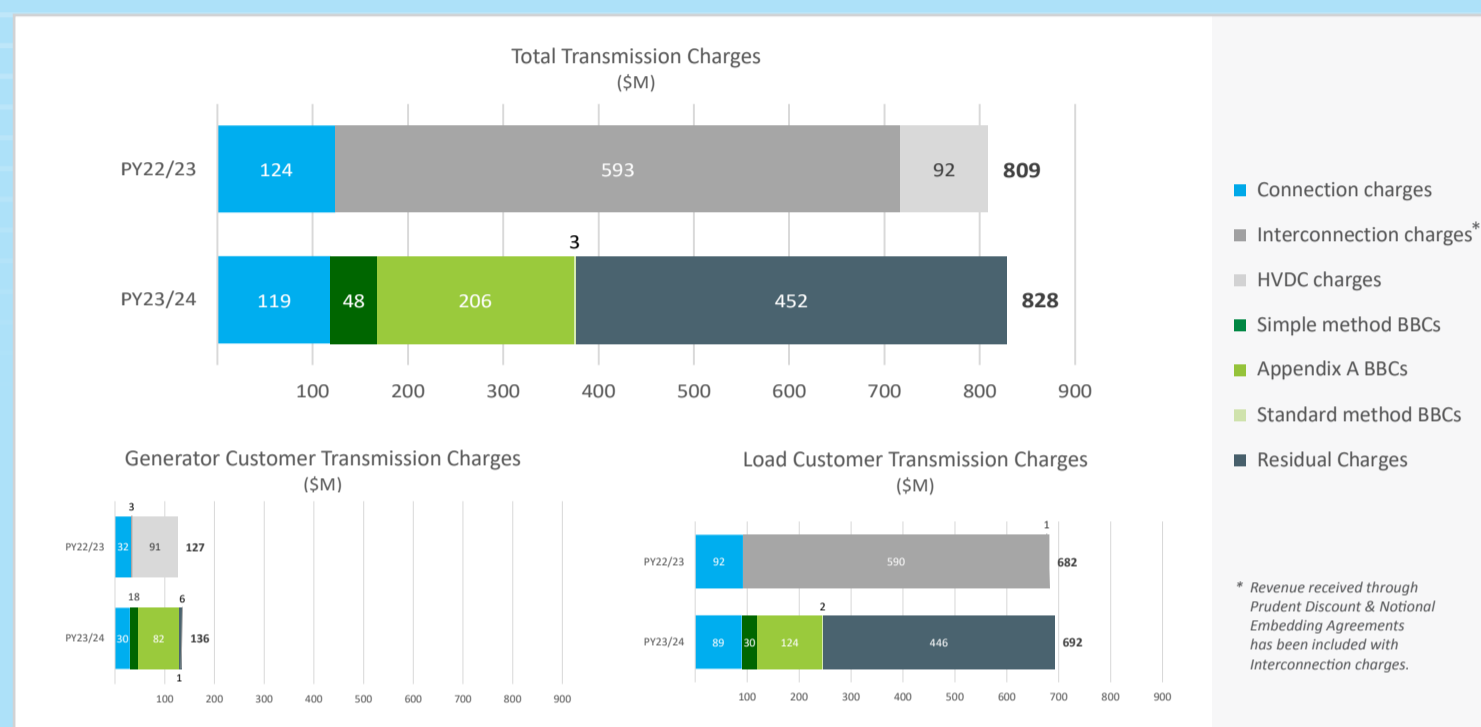


Transitioning to a new TPM

On 12 April 2022, the Electricity Authority announced its decision to reallocate transmission charges by adopting a new TPM. The TPM cannot change the total amount of transmission charges Transpower receives from its customers. We have published information on the new TPM, including a short [Guide to the new TPM](#), which is available on our [website](#). The graphs below show the different components that make up transmission charges for the pricing year 2023/24 (when the new TPM comes into effect – from 1 April 2023) in comparison to the current pricing year.

Transmission charge components for pricing year 2023/24 compared to 2022/23



Key drivers for the changes to transmission charges

The Electricity Authority's new TPM reallocates the cost to customers of providing transmission services in a number of ways.

Connection charges

The new TPM retains most features of connection charges under the old TPM. Key drivers for changes to connection charges are:

- The new TPM does not include an injection overhead component (paid by generators under the old TPM).
- Replacement cost (RC)s have been updated: The RC update has generally increased connection charges for customers with spur lines as typically the RCs for the lines, establishments and buildings have increased proportionately more than RCs for other connection asset types. In contrast, the RC update has generally reduced connection charges at interconnection nodes where typically the associated lines are interconnection assets and establishments and buildings (i.e. "substation" asset group) are allocated between connection and interconnection.

Benefit-based charges (BBCs)

Under the old TPM, South Island generators pay an 'HVDC Charge', load customers pay an 'Interconnection Charge' and North Island generators do not pay a charge related to the cost of the interconnected grid. The new TPM does not include the HVDC or Interconnection Charge.

The new TPM allocates the capital costs and applicable operating costs associated with all new and some historic interconnection investments (benefit-based investments (BBIs)) to the expected beneficiaries of those investments through BBCs. All customers (load and generation) are allocated BBCs.

There are three broad categories of BBCs:

- Adjustments to Appendix A BBCs: The starting BBC allocations for seven historic (pre-July 2019) BBIs were specified by the Authority in Appendix A of the new TPM.
- Standard Method BBCs: The starting BBC allocations for new (post July 2019) high-value BBIs are calculated according to one of two standard methods in the new TPM: price-quantity and resiliency. A high-value BBI is an investment in the interconnected grid expected to cost more than the base capex threshold in Transpower's Capex IM (\$20m). For PY2023, CUWLP is the only BBI that a standard method is applied to, using the price-quantity method.
- Simple Method BBCs: The starting BBC allocations for new (post July 2019) low-value BBIs are calculated according to the simple method in the new TPM. For PY2023 the costs of low-value BBIs commissioned during FY19/20, FY20/21 and FY21/22 are recovered through Simple Method BBCs.

Customer BBI allocations (including those in Appendix A of the new TPM) are made over time, consistent with the adjustment provisions in the new TPM.

Residual charges

The new TPM's residual charge applies to each customer's gross load, whether it is supplied from the grid or from embedded generation, and regardless of season or its time-of-use. The revenue recovered through residual charges will decrease over time, as the revenue recovered through BBCs increases.

Historical arrangements

All historical arrangements, including two prudent discount agreements (PDAs) and a notional embedding contract (NEC), have been removed from calculations, for consistency with the new TPM.

Transitional Price Cap

A transitional cap applies to distributors' and grid-connected consumers' BBCs for the Appendix A BBIs and residual charges, and caps those charges relative to the distributor's or grid-connected consumer's interconnection and HVDC charges for PY2019/20. It is not a cap on total transmission charges. The cap is calculated based on an estimate of total electricity bills for loads at qualifying connections. Broadly, the cap is set at 3.5% (in real terms i.e. adjusted for inflation). The proportionate change in CPI for PY2023 was 6.8%. Four customers have received cap reductions for PY2023, totalling \$2.57m. The \$2.57m is recovered from all customers as a cap recovery charge, with the net effect of the transmission cap being 'zero' at total transmission charge level.

What has changed since our indicative pricing publication

In August 2022 we published pricing indicative of the application of the new TPM to the current pricing year (PY2022/23).

The key drivers for differences between that indicative pricing and your PY2023/24 prices are:

- Transpower's allowable revenue has increased from \$808.8m in PY22/23 to \$828.1m in PY23/24 (2.4% increase).
- Simple method BBI covered costs (total) increased by 55% between PY22/23 indicative prices and PY23 actual prices due to the addition of interconnection assets commissioned during FY21/22 (the third year of investment to which BBC apply). There are also regional variations reflecting our FY21/22 work programme: BBCs for the CNI_LV, CSI_HV, NLD_LV & USI_LV regions increased most significantly.
- A standard method BBC (CUWLP) has been reflected in the PY23/24 prices. The large majority of CUWLP assets were commissioned in FY21/22 and recovery of their costs commences in PY23/24.
- The replacement cost update, applied in connection charges for PY23/24, was not reflected in indicative connection charges for PY22/23.