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Transpower New Zealand
Wellington 6011

Vector Limited
110 Carlton Gore Road
PO Box 99882
Newmarket
Auckland 1149
+64 9 978 7788 / vector.co.nz

By email: tpmreview@transpower.co.nz

TPM operational review: workstream 1

1. This is Vector's submission on workstream 1 of Transpower's operational review of the TPM.
2. No part of this submission is confidential and we are happy for it to be published on Transpower's website.

General comments on price signalling

3. We recognise the review is targeted at operational matters and broader policy questions are out of scope for this review.
4. However, we do wish to highlight a broader challenge is to ensure the regulatory framework (including but not limited to the TPM) supports the most efficient costs at a whole-of-system level.
5. We see significant scope for EDBs and Transpower to work together and co-ordinate, including through pursuing non-traditional solutions that can defer or alleviate the need for investment in both transmission and distribution networks.
6. We consider the current system lacks a price signal for long run marginal costs in the transmission network. Future transmission costs are not signalled in either distribution pricing or in the TPM. Retailers, and consumers, therefore have no visibility of this information when developing products and considering investment and operational / consumption decisions. An appropriate price signal could assist market co-ordination on solutions that could defer the need for investment. We highlighted this gap in our [response to the Energy Competition Task Force's open letter](#) earlier this year.¹
7. We look forward to continuing to work with Transpower on areas that can deliver better outcomes for consumers.

¹ Available: https://www.ea.govt.nz/documents/9319/Vector_-_Task_Force_open_letter_submission.pdf

Adjustment events

8. We support Transpower's approach for the operational review in initially prioritising "quick wins" starting with refinements to adjustment events.
9. As identified in the consultation paper, adjustment events have led to uncertainty and volatility in transmission charges; and have been administratively burdensome to implement.

Timing of adjustment events

10. Transpower has proposed a "batching" approach where adjustment events (other than customer exit) are treated as occurring on 30 June and processed simultaneously with charges applied in the following pricing year.
11. We support this approach. While it would reduce precision in the adjustment calculations, customers will benefit from reduced administrative burden and less volatility in transmission charges.

Triggers/thresholds/information requirements

12. As noted in the consultation paper, batching alone will not address the administrative burden associated with obtaining information required for adjustment events, particularly for embedded plant and SSI events. In our experience, there are ongoing challenges in obtaining reliable and timely information on consuming plant capacity, with distributors, retailers, and Transpower often lacking access to the necessary data. These issues call into question the ongoing workability of several adjustment event types, particularly SSI events.
13. We therefore support:
 - batching of adjustment events with a deemed 30 June event date;
 - increasing the threshold for large plants triggering an adjustment event; and
 - removing all substantial sustained increase (SSI) adjustment events.
14. We agree these changes would materially reduce complexity, administrative cost, and volatility, while improving workability and certainty for stakeholders.

Intra-Regional Allocator (IRA) updates

12. We also support in principle the option of introducing annual IRA and customer allocation updates. We recognise that an annual IRA update could address a number of the issues identified with the current adjustment event framework, including timing, administrative burden, and data limitations. However, this represents a more fundamental change to how transmission charges are updated and allocated.

13. Before supporting the introduction of annual IRA updates, we consider that further analysis is required to better understand the wider implications of this approach. In particular, we would need to see evidence that annual IRA updates would:
- not introduce additional year-on-year price volatility or uncertainty;
 - avoid material price shocks for individual customers on introduction or over time; and
 - be consistent with the intent of the TPM Guidelines and section 32(1) of the Electricity Industry Act.
14. We therefore recommend that Transpower include additional analysis of the annual IRA update option in any proposal submitted to the Electricity Authority. This analysis should include:
- a robust cost-benefit assessment of annual IRA updates relative to alternative options (such as batching with higher thresholds and removal of SSI);
 - an assessment of what charges for individual customers would have been if annual IRA updates had been part of the TPM from its commencement; and
 - analysis of distributional impacts and potential price volatility over time.
15. Given the more fundamental nature of this change, we also recommend that the Electricity Authority consult with industry again before any decision is made to adopt annual IRA updates.

Housekeeping & emerging TPM issues

16. Transpower proposes to defer preparations for the second simple method period until after the operational review is complete and any changes to the simple method from workstreams 2 and 3 are incorporated into the TPM. We agree this will reduce administrative burden for stakeholders and avoid potential confusion.
17. We also support removing the time-bound/obsolete text from the drafting of the TPM to improve clarity for stakeholders interpreting the TPM. However, we have not reviewed the text of the proposed drafting amendments.
18. Our responses to the specific questions posed in the consultation paper, including emerging TPM issues, are set out in Appendix A to this submission.

Yours sincerely



Richard Sharp
GM Economic Regulation and Pricing

Attachment A: Response to specific consultation questions

Question	Vector response
<p>1. Do you have any comments on the process, timing and/or prioritisation of each of the Operational Review workstreams?</p>	<p>We support Transpower’s approach to prioritise “quick wins” in the first stage of its operational review as a pragmatic approach to the review.</p> <p>We agree adjustment events are the best candidate to address through the first workstream.</p>
<p>2. Are there any other matters we should consider as part of the Operational Review?</p>	<p>Not at this stage but we appreciate Transpower has noted the matters to be addressed in the review may evolve in response to stakeholder feedback.</p> <p>We may provide further issues that should be included in the operational review at a later stage.</p>
<p>3. Are there any matters we should specifically exclude from the Operational Review?</p>	<p>We agree fundamental policy changes are not appropriate to be considered as part of an operational review.</p>
<p>4. Do you agree with the proposed amendment - batching of adjustments with a deemed 30 June event date?</p>	<p>Yes.</p>
<p>5. Are there any other options to simplify adjustment events timing that we should consider?</p>	<p>-</p>
<p>6. Do you support (i) increasing the “large” plant threshold, or (ii) annual IRA updates? Which option, if either, do you prefer and why?</p>	<p>Vector supports batching, increasing thresholds, and removal of SSI events, and supports annual IRA updates in principle, subject to further evidence and analysis.</p>
<p>7. If Transpower proposed raising the threshold for “large plant”, what threshold(s) do you consider would be appropriate?</p>	<p>If a threshold increase is pursued, then 25 MW appears reasonable and more reflective of minimum viable grid connection sizes.</p>
<p>8. Are there any other options to address trigger/threshold sensitivity we should consider?</p>	<p>-</p>

<p>9. Do you agree with our initial view that the TPM should be amended to:</p> <ul style="list-style-type: none"> • remove the SSI adjustment events; • 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? 	<p>Vector supports batching, increasing thresholds, and removal of SSI events, and supports annual IRA updates in principle, subject to further evidence and analysis.</p>
<p>10. Are there any other options that we should consider to improve adjustment event workability?</p>	<p>-</p>
<p>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:</p> <p>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?</p> <p>b) Does the effect adjustment events have on businesses:</p> <p>I. alter or delay investment commitment for embedded generation or offtake plant and, if so, how?</p>	<p>We agree the benefits of the proposal are likely to outweigh the costs given the administrative burden and uncertainty created by current provisions.</p> <p>Engagement costs vary by event, but an average assumption of \$5,000 per adjustment appears reasonable.</p>

<p>II. affect plant design and location decisions for embedded generation or offtake plant and, if so, how?</p> <p>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?</p>	
<p>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?</p>	<p>Yes this is a pragmatic approach that avoids duplication and reduces administrative burden.</p>
<p>13. Are there any other options we should consider for the second simple method period work?</p>	<p>-</p>
<p>14. Do you agree with the proposal to clean up the TPM legal text?</p>	<p>Yes.</p>
<p>15. Are there any other opportunities to clean up the TPM legal text we have not identified?</p>	<p>-</p>
<p>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?</p>	<p>Yes we agree this would create a problem for remaining customers and result in inefficient and inequitable pricing outcomes. Depending on the size of the disconnections this could become material.</p>
<p>17. What other options do you think should be considered? Are these options consistent with the intent of the TPM Guidelines?</p>	<p>We consider the unrecovered connection charges should be recovered from the broadest possible customer base to minimise the impact on individual customers.</p> <p>In our view it would be preferable to include these unrecovered charges through connection charges rather than the residual charge to avoid lumping all unrecovered connection charges solely on load.</p>
<p>18. Do you think that this is a matter that could/should be addressed through the Operational Review?</p>	<p>We agree with Transpower this is likely to raise policy matters more appropriately dealt with by the Authority.</p>

	<p>However, the operational review may provide an opportunity to initially consider these issues for later referral to the Authority.</p>
<p>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?</p>	<p>Yes and we agree the TPM should ensure regional load customers don't disproportionately bear transmission charges in the short term for investments that have wider regional or national benefits in the long term.</p> <p>We do note Transpower should invest only when it has a high degree of confidence that customers will connect or, preferably, have made a commitment to connect (e.g. through signing a works agreement).</p>
<p>20. What options do you think should be considered? Are these options consistent with the intent of the TPM Guidelines?</p>	<p>We have not provided specific options at this stage. However, we look forward to continuing to discuss potential solutions as the consultation progresses.</p>
<p>21. Do you agree that this is a matter that could/should be addressed through the Operational Review?</p>	<p>Again, we expect this may raise policy matters that should be considered by the Authority.</p> <p>However, the operational review may provide an opportunity to initially consider these issues for later referral to the Authority.</p>
<p>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?</p>	<p>Our understanding is the FMD type 1 mechanism is not intended to guarantee the first mover that other customers will connect. Rather, it provides compensation to the first mover if and when other customers connect.</p>
<p>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?</p>	<p>-</p>
<p>24. What options do you think should be considered? Are these options consistent with the intent of the TPM Guidelines?</p>	<p>We have not provided specific options at this stage. However, we look forward to continuing to discuss potential solutions as the consultation progresses.</p>

25. Do you think these are matters that could/should be addressed through the Operational Review?	Again, we expect this is likely to raise policy issues that may be more appropriately dealt with by the Authority.
26. Do you agree with the overall objectives of the proposed TPM Operational Review?	Yes
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?	We agree it is appropriate to rely on a qualitative evaluation on the cost and benefits of the housekeeping proposals.
28. Do you agree the benefits of the proposals can reasonably be expected to outweigh their costs?	We would expect the benefits of the proposals will outweigh the costs as implementing multiple adjustment events per year is a significant administrative burden.
29. Do you agree that the preferred options will comply with section 32(1) of the Act?	Yes we agree the proposed options for adjustment events and house keeping are likely to support the efficient operation of the electricity industry.