

## Section IV Transmission pricing methodology

### 1. Purpose for establishing transmission pricing methodology

The purpose of the **transmission pricing methodology** is to ensure that, subject to Part 4A of the Commerce Act 1986, the full economic costs of **Transpower's** services are allocated in accordance with the principles set out in rule 2.

### 2. Pricing principles

The principles to be applied by **Transpower** in developing the **transmission pricing methodology** and the **Board** in approving the **transmission pricing methodology** are as follows:

- 2.1 the costs of connection and use of system should as far as possible be allocated on a user pays basis;
- 2.2 the pricing of new and replacement investments in the **grid** should provide beneficiaries with strong incentives to identify least cost investment options, including energy efficiency and demand management options;
- 2.3 pricing for new generation and load should provide clear locational signals;
- 2.4 sunk costs should be allocated in a way that minimises distortions to production/consumption and investment decisions made by **grid** users;
- 2.5 the overall pricing structure should include a variable element that reflects the marginal costs of supply in order to provide an incentive to minimise network constraints; and
- 2.6 transmission pricing for investment in the **grid** should recognise the linkages with other elements of market pricing (including the design of the **financial transmission rights** regime under section V, and any revenues from **financial transmission rights**).

### 3. Application and interpretation of pricing principles

- 3.1 In applying the pricing principles, **Transpower** and the **Board** should take into account practical considerations, transaction costs and the desirability of consistency and certainty.
- 3.2 Where conflicts arise in applying the pricing principles set out in rule 2, they should be resolved with the objective of best satisfying the **Board's** principal objective.

### 4. Board must prepare an issues paper

The **Board** must prepare an issues paper on the process to be followed and guidelines to be used by **Transpower** in preparing a methodology for allocating

**Transpower's** revenues to **designated transmission customers** in accordance with the pricing principles set out in rule 2, determine the process for the development and approval of the **transmission pricing methodology**.

**5. Board must consult on issues paper**

5.1 At the time the **Board publishes** the issues paper, the **Board** must notify **registered participants** of the date by which submissions are to be received by the **Board**. The date must be no earlier than 15 **business days** from the date of **publication** of the issues paper.

**5.2 Submissions process**

Every submission on the issues paper must be made in writing to the **Board** and received on or before the **submission expiry date**. In addition to receiving written submissions, the **Board** may elect to hear one or more oral submissions.

**5.3 Board to consider submissions**

Within 20 **business days** of the **submission expiry date** (or such longer period as the **Minister** may allow), the **Board** must complete its consideration of all submissions it receives on the issues paper.

**6. Board must publish process for development of transmission pricing methodology**

After consideration of submissions in rule 5.3, the **Board** must, as soon as reasonably practicable, **publish**:

6.1 the process for the development of the **transmission pricing methodology**; and

6.2 any guidelines that **Transpower** must follow in developing the **transmission pricing methodology**.

**7. Development of transmission pricing methodology by Transpower**

**7.1 Transpower to submit methodology**

**Transpower** must submit a proposed **transmission pricing methodology** to the **Board** within 90 days (or such longer period as the **Board** may allow) of receipt of a written request from the **Board**. The **Board** may, after **publishing** the process described in rule 6.1 and the guidelines described in rule 6.2, issue such a request.

**7.2 Form of proposed transmission pricing methodology**

7.2.1 **Transpower** must develop its proposed **transmission pricing methodology** consistent with:

- 7.2.1.1 any determination made under Part 4A and sections 70 to 74 of the Commerce Act 1986;
  - 7.2.1.2 the pricing principles set out in rule 2 and their application and interpretation set out in rule 3;
  - 7.2.1.3 any guidelines published pursuant to rule 6.2.
  - 7.2.2. **Transpower's** proposed **transmission pricing methodology** must include indicative prices to allow the **Board** and interested parties to understand the impact of the methodology on customers.
- 7.3 Board may decline to consider proposed transmission pricing methodology**
- 7.3.1 The **Board** may decline to consider the proposed **Transpower transmission pricing methodology** if, in its view, **Transpower** has not provided sufficient information for the **Board** to make an informed assessment of the matters referred to in rule 8.
  - 7.3.2 If the **Board** so declines, the **Board** must advise **Transpower** of the extra information required, and **Transpower** must provide a revised **transmission pricing methodology** by a date specified by the **Board**.

**8. Process for Board determination of transmission pricing methodology**

**8.1 Board may approve proposed transmission pricing methodology or refer back to Transpower**

- 8.1.1 After consideration of **Transpower's** proposed **transmission pricing methodology**, the **Board** may either:
  - 8.1.1.1 approve the proposed **transmission pricing methodology** having regard to the requirements of rule 7.2.1; or
  - 8.1.1.2 refer the proposed **transmission pricing methodology** back to **Transpower** if in the **Board's** view the proposed pricing methodology does not adequately conform to the requirements of rule 7.2.1 and **Transpower** will have **20 business days** to consider the **Board's** concerns and to resubmit its proposed methodology for consideration by the **Board**.
- 8.1.2 If the **Board** considers that the pricing methodology resubmitted by **Transpower** under rule 8.1.1.2 does not conform to the requirements of rule 7.2.1, the **Board** may make any amendments it considers necessary to ensure that the proposed **transmission pricing methodology** adequately conforms to the requirements of rule 7.2.1.

## **8.2 Board must publish proposed transmission pricing methodology**

8.2.1 The **Board** must **publish** the proposed **transmission pricing methodology** as soon as practicable.

8.2.2 At the time the **Board publishes** the proposed **transmission pricing methodology** the **Board** must notify **registered participants** of the date by which submissions are to be received by the **Board**. The date will be no earlier than 15 **business days** from the date of **publication** of the proposed **transmission pricing methodology**.

## **8.3 Submissions process**

Every submission on the pricing methodology must be made in writing to the **Board** and received on or before the **submission expiry date**. In addition to receiving written submissions, the **Board** may elect to hear one or more oral submissions.

## **8.4 Board to consider submissions and make recommendations to Minister**

Within 40 **business days** of the **submission expiry date** (or such longer period as the **Minister** may allow), the **Board** will complete its consideration of all submissions it receives on a proposed **transmission pricing methodology** and make recommendations to the **Minister** for inclusion of the **transmission pricing methodology**, including a date that the **transmission pricing methodology** must take effect in accordance with rule 8.5, in a schedule to this section, in accordance with the **Act**.

## **8.5 Board to determine a date**

In determining a date that the **transmission pricing methodology** must take effect the **Board** must consult with **Transpower**.

## **9. Transpower to apply approved transmission pricing methodology**

### **9.1 Charges to comply with approved transmission pricing methodology**

9.1.1 Except for the **input connection contracts**, **new investment agreement contracts**, and **notional embedding contracts**, and subject to rule 9.1.2, upon approval of the **transmission pricing methodology** by the **Board**, from the date that the **transmission pricing methodology** must take effect, **Transpower** must charge for those transmission services affected only in accordance with the approved **transmission pricing methodology**.

9.1.2 **Transpower** is permitted to impose charges additional to those set out in the **transmission pricing methodology** if those charges are provided for in the **Comalco agreements**.

## 9.2 Development of transmission prices

After approval of the **transmission pricing methodology**, **Transpower** must:

- 9.2.1 develop and **publish** transmission prices consistent with the **transmission pricing methodology** based on its total revenue requirement for connection to or use of the **grid**; and
- 9.2.2 demonstrate to the **Board** that the prices are consistent with the **transmission pricing methodology**.

## 9.3 Audit of transmission prices

- 9.3.1 The **Board** may appoint an auditor to confirm whether **Transpower's** transmission prices have been calculated in accordance with the **transmission pricing methodology**. The auditor's report will consider whether the application of the **transmission pricing methodology** by **Transpower** contains errors or inconsistencies that may have a material impact on the prices of any **individual designated transmission purchaser**, or **designated transmission purchasers** in general.
- 9.3.2 **Transpower** is to provide the auditor with all relevant information required by the auditor to complete its review.

## 9.4 Transpower will respond to auditor's report

**Transpower** must be provided the opportunity to respond in writing to the auditor's report within 15 **business days** of receiving the report, prior to the finalising the audit report.

## 9.5 Final auditor report to the Board

Within 10 **business days** of receipt of **Transpower's** response under rule 9.4, the auditor will report to the **Board** certifying either that:

- 9.5.1 **Transpower** had applied correctly the approved **transmission pricing methodology**; or
- 9.5.2 material errors remained in the application by **Transpower** of the **transmission pricing methodology**.

## 9.6 Board to publish auditor's report

Within 5 **business days** of the day on which it receives the report, the **Board** must **publish** the auditor's report provided pursuant to rule 9.5.

### 9.7 **Transpower to redetermine transmission prices**

In the event that the an auditor concludes that there are material errors in **Transpower's** application of the **transmission pricing methodology**, **Transpower** will recalculate and **publish** revised transmission prices to correct identified errors.

### 9.8 **Auditor's costs**

**Transpower** will meet the actual and reasonable expenses of the auditor.

## 10. **Enforcement of transmission charges**

10.1 The approved **transmission pricing methodology** must be incorporated in **transmission agreements** between **Transpower** and the **designated transmission customers**.

10.2 The amount payable by a **designated transmission customer** under a **transmission agreement** under rule 10.1:

10.1.1 is recoverable in any court of competent jurisdiction as a debt due to **Transpower**; and

10.1.2 may be challenged in any proceedings to recover the debt on the ground that **Transpower** has incorrectly applied the **transmission pricing methodology** in a manner that is adverse to the **designated transmission customer** but the **transmission pricing methodology** itself may not be challenged.

## 11. **Review of an approved transmission price methodology**

### 11.1 **Review by Transpower**

At any time, **Transpower** may submit to the **Board** a proposed variation of its **transmission pricing methodology**, provided that the submission is made at least 12 months after the last **Board** approval of the **transmission pricing methodology**.

### 11.2 **Review by the Board**

The **Board** may review an approved **transmission pricing methodology** if it considers that there has been a material change in circumstances.

### 11.3 **Process for review**

A review of the **transmission pricing methodology** must take into account the requirements of rule 7.2.1 and rule 2. The **Board** must follow the processes outlined in rule 8, if reviewing a **transmission pricing methodology**.