

Part F Transport

Section I General

1. Contents of part F

Part F relates to the following aspects of transmission:

- 1.1 **transmission agreements** (section II);
- 1.2 **grid** upgrade and investments (section III);
- 1.3 the **transmission pricing methodology** (section IV); and
- 1.4 financial transmission rights (section V).

2. Discretion to waive rule requirements

- 2.1 The **Board** may agree to waive rule requirements under part F where, prior to the commencement of part F rules, or prior to commencement of a revision to a section of these rules:
 - 2.1.1 **Transpower** or any other **participant** required to complete actions under these rules has in substance done what it would have been required to do under the rules; and
 - 2.1.2 the **Board** is satisfied that the actions have been completed.
- 2.2 If the **Board** agrees to waive rule requirements under rule 2.1 above, the **Board** must **publish** its decision and reasons for agreeing to waive rule requirements.

3. Interaction between Part C and Part F

- 3.1 The **principal performance obligations** in relation to the real time delivery of **common quality** and **dispatch** under part C relate to the functions and obligations of the **system operator**.
- 3.2 When it is exercising its functions and powers under part F, the **Board** must have regard to the desirability of part C and part F operating in an integrated and consistent manner.
- 3.3 The performance or non-performance of any function or obligation of the **system operator** under part C, and any claim against the **system operator** under part C, is without prejudice to the functions and obligations of **Transpower** under part F.

- 3.4 The performance or non-performance of any function or obligation of **Transpower** under part F, and any claim against **Transpower** under part F or a **transmission agreement**, is without prejudice to the functions and obligations of the **system operator** under part C.

Section II Transmission agreements

1. Contents of section II

Section II deals with **transmission agreements**, and provides for:

- 1.1 a process for the **Board** to:
 - 1.1.1 determine the structure of **transmission agreements**; and
 - 1.1.2 determine which **participants** must enter into **transmission agreements**;
- 1.2 an obligation on **Transpower** and **designated transmission customers** to enter into **transmission agreements**;
- 1.3 matters to be included in **transmission agreements**;
- 1.4 a process for the **Board** to determine **benchmark agreements** that:
 - 1.4.1 provide the basis for the negotiation of **transmission agreements**; or
 - 1.4.2 act as a **default transmission agreement** if **Transpower** and a **designated transmission party** fail to execute a **transmission agreement**;
- 1.5 a process for variations in **transmission agreements** from **benchmark agreements**;
- 1.6 a process for resolving disputes arising from the negotiation of **transmission agreements**; and
- 1.7 existing agreements.

2. Structure of transmission agreements and participants required to enter into transmission agreements

2.1 Structure of transmission agreements

2.1.2 Board must propose an appropriate structure for transmission agreements

The **Board** must propose an appropriate structure for **transmission agreements** such as:

2.1.2.1 a single agreement that covers all aspects of connection to and use of the **grid**; or

2.1.2.2 separate agreements for use of the **grid** and connection to the **grid**.

2.1.3 Board must publish proposed structure

2.1.3.1 The **Board** must **publish** its proposed structure as soon as reasonably practicable.

2.1.3.2 At the time the **Board publishes** its proposed structure, the **Board** must notify **registered participants** of the date by which submissions on the proposed structure are to be received by the **Board**. The date must be no earlier than 15 **business days** from the date of **publication** of the proposed structure.

2.1.4 Submissions process

Every submission on the proposed structure 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.

2.1.5 Board to consider submissions and determine structure of transmission agreement

2.1.5.1 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 and determine an appropriate **transmission agreement** structure.

2.1.5.2 The **transmission agreement** structure determined by the **Board** under this rule will be the structure of the **benchmark agreements** to be developed and approved by the **Board** under rule 4.

2.2 Categories of participants required to enter into transmission agreements

2.2.1 Board must propose categories of participants

2.2.1.1 The **Board** must propose appropriate categories of **participants** to be **designated transmission customers** required to enter into **transmission agreements** with **Transpower** under rule 3.1.1.

- 2.2.1.2 In considering which categories of **participants** should be **designated transmission customers**, the **Board** must have regard to:
- efficient allocation of risks, including consideration of access to information and data, capability, competence, and incentives (including financial incentives);
 - protecting end use customer interests;
 - the legitimate commercial interests of **Transpower** as **asset owner** and other **participants**.

2.2.2 Board must publish proposal of appropriate categories of participants

- 2.2.2.1 The **Board** must **publish** its proposal of appropriate categories of **participants** to be **designated transmission customers** as soon as reasonably practicable.
- 2.2.2.2 At the time the **Board publishes** its proposal, the **Board** must notify **registered participants** of the date by which submissions on the proposal are to be received by the **Board**. The date must be no earlier than 15 **business days** from the date of **publication** of the proposal.

2.2.3 Submissions process

Every submission on the proposal 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.

2.2.4 Board to consider submissions and make recommendations to Minister

- 2.2.4.1 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 proposal and make recommendations to the **Minister** for inclusion of the list of the categories of **designated transmission customers** in a schedule to this section, in accordance with the **Act**.

2.2.4.2 The **Board** must record in the **register** whether a **registered participant** is a **designated transmission customer**.

2.2.4.3 Registration has no effect on a **participant's** status as a **designated transmission customer**.

3. Transmission agreements

3.1 Transpower and designated transmission customers must enter transmission agreements

3.1.1 Obligation to enter transmission agreements

Transpower and **designated transmission customers** must enter into **transmission agreements**.

3.1.2 Board determines date on which transmission agreements take effect

3.1.2.1 The **Board** must determine the date on which **benchmark agreements** will take effect as **default transmission agreements** under rule 3.1.3, which must not be earlier than 2 months after the date on which **benchmark agreements** have been included in a schedule to this section, in accordance with rule 4.6.

3.1.2.2 The **Board** must **publish** the date determined under rule 3.1.2.1 as soon as reasonably practicable.

3.1.2.3 Any **participant** who becomes a **designated transmission customer** after the date on which the **benchmark agreements** have been included in a schedule to this section, is required to enter into a **transmission agreement** with **Transpower** within 2 months of becoming a **designated transmission customer**.

3.1.3 Benchmark agreements to be default transmission agreements

3.1.3.1 Subject to rule 8, a **benchmark agreement** will apply as a binding contract between **Transpower** and the **designated transmission customer** as a default **transmission agreement** on and from the date determined under rule 3.1.2.1 (or rule 3.1.2.3 if applicable) unless **Transpower** and that **designated transmission customer** have executed a **transmission agreement** before that date.

3.1.4 Subsequent transmission agreements

Where a **benchmark agreement** applies as a default **transmission agreement**, the **benchmark agreement** may always be superseded by a subsequent **transmission agreement** entered into by **Transpower** and the **designated transmission customer**.

3.2 Content of transmission agreements

3.2.1 Transmission agreements to be consistent with benchmark agreements and grid reliability standards

Subject to rule 5, any **transmission agreement** entered into between **Transpower** and a **designated transmission customer** under rule 3.1.1 must be consistent in all material respects with:

3.2.1.1 the **benchmark agreement** specified in a schedule to this section in accordance with rule 4.6; and

3.2.1.2 the **grid reliability standards**,

as at the date the **transmission agreement** is entered into.

3.2.2 All transmission agreements to be provided to the Board and published

3.2.2.1 **Transpower** must provide the **Board** with a copy of any **transmission agreement** executed by it as soon as reasonably practicable;

3.2.2.2 The copy that is provided must be:

- a copy of the complete **transmission agreement**;
- certified by a director or the chief executive of **Transpower** or the **designated transmission customer**, to the best of the director's or chief executive's knowledge and belief, to be a true and complete copy of the agreement.

3.2.2.3 The **Board** must **publish** all **transmission agreements** between **Transpower** and **designated transmission customers** within a reasonable time of their receipt.

4. Benchmark agreements for connection to and/or use of the grid

4.1 Purpose of benchmark agreements

The purpose of **benchmark agreements** is to:

- 4.1.1 facilitate commercial arrangements between **Transpower** and **designated transmission customers** by providing a basis for negotiating **transmission agreements** required under rule 3.1.1 that meet the particular requirements of **Transpower** and **designated transmission customers**; and
- 4.1.2 act as a default **transmission agreement** in the event that **Transpower** and a **designated transmission customer** fail to enter into a **transmission agreement** by the date required by the **Board** under rule 3.1.2.

4.2 Principles for benchmark agreements

Benchmark agreements should:

- 4.2.1 reflect a fair and reasonable balance between the requirements of **designated transmission customers** and the legitimate interests of **Transpower** as **asset owner**;
- 4.2.2 reflect the interests of end use customers;
- 4.2.3 reflect the reasonable requirements of **designated transmission customers** at the **grid injection points** and **grid exit points**, and the ability of **Transpower** to meet those requirements;
- 4.2.4 reflect the differing needs of different classes of **designated transmission customers**;
- 4.2.5 be appropriate to the technical requirements of services provided at the **point of connection** to the **grid**, but not duplicate requirements that are more appropriately included in the **grid reliability standards**;
- 4.2.6 establish common standards for a common configuration based on factors such as size of connection and voltage level;
- 4.2.7 encourage efficient and effective processes for enforcement of obligations and dispute resolution.

4.3 Contents of benchmark agreements

4.3.1 Benchmark agreements must include:

- 4.3.1.1 an obligation on the parties to design, construct, maintain and operate all relevant plant and equipment in accordance with:
- relevant laws;
 - the requirements of these rules (including obligations on **designated transmission customers** to provide information to facilitate system planning, as set out in rule 3 of section III); and
 - good electricity industry practice and applicable New Zealand technical and safety standards,
- 4.3.1.2 an obligation on **designated transmission customers** to comply with **Transpower's** reasonable technical connection and safety requirements;
- 4.3.1.3 an obligation on **designated transmission customers** to pay prices calculated in accordance with the application of the **transmission pricing methodology** approved by the **Board** under section IV;
- 4.3.1.4 arbitration or mediation processes for resolving disputes; and
- 4.3.1.5 **service definitions, service levels, and service measures** to the extent practicable.

4.3.2 Grid reliability standards

Benchmark agreements must be consistent in all material respects with the **grid reliability standards**.

4.4 Board must publish draft benchmark agreements

- 4.4.1 The **Board** must **publish** draft **benchmark agreements** as soon as reasonably practicable.
- 4.4.2 At the time the **Board publishes** a draft **benchmark agreement** the **Board** must notify **registered participants** of the date by which submissions on the draft **benchmark**

agreement are to be received by the **Board**. The date must be no earlier than 15 **business days** from the date of **publication** of the draft **benchmark agreement**.

4.5 Submissions process

Every submission on the draft **benchmark agreements** 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.

4.6 Board to consider submissions and make recommendations to Minister

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 draft **benchmark agreement** and make recommendations to the **Minister** for inclusion of the **benchmark agreement** in a schedule to this section, in accordance with the **Act**.

5. Variations from benchmark agreements and grid reliability standards

5.1 Increased services

Where a proposed **transmission agreement** is not consistent in all material respects with **benchmark agreements** because it increases the services above those described in a **benchmark agreement** or increases the level of reliability above the **grid reliability standards** for a particular **grid injection point** or **grid exit point**, the parties must certify in writing to the **Board** that they have consulted with affected end use customers in relation to the proposed increase in service levels or reliability and any price implications, and that there are no material unresolved issues affecting the interests of those end use customers.

5.2 Decreased services

Where a proposed **transmission agreement** is not consistent in all material respects with **benchmark agreements** because it decreases the services below those described in a **benchmark agreement** or decreases the level of reliability below the **grid reliability standards** for a particular **grid injection point** or **grid exit point**, the parties must obtain **Board** approval of the proposed variation, having regard to potential material adverse impacts for current and future service levels or reliability and price for any affected **designated transmission customers** and end use customers.

5.3 Variations that may increase or decrease services

Where it is uncertain whether a proposed **transmission agreement** increases or decreases the services described in a **benchmark agreement**, or increases or decreases the level of service or reliability above or below the **grid reliability standards**, for a particular **grid injection point** or **grid exit point**, the parties must obtain the **Board** approval **described in rule 5.2**.

6. Resolutions of disputes arising from the negotiation of a transmission agreement

6.1 Disputes may be referred to Rulings Panel

If a dispute between **Transpower** and a **designated transmission customer** concerning:

- 6.1.1 the customer specific terms of a **transmission agreement** being negotiated between those parties; or
- 6.1.2 a requested variation of the services described in a **benchmark agreement**,

is not resolved within a reasonable time, either party may refer the matter to the **Rulings Panel** for determination.

6.2 Rulings Panel has discretion to determine dispute

- 6.2.1 The **Rulings Panel** may, in its discretion, decide whether or not to undertake the determination of the dispute.
- 6.2.2 If the **Rulings Panel** decides not to undertake the determination of the dispute, the **Rulings Panel** must inform **Transpower** or the **designated transmission customer**:
 - 6.2.2.1 that the **Rulings Panel** intends to do no more in relation to the matter; and
 - 6.2.2.2 of the reasons for that intention.

6.3 Determinations by Rulings Panel

- 6.3.1 In determining a dispute under this rule, the **Rulings Panel** must take into account:
 - 6.3.1.1 the principles for **benchmark agreements** in rule 4.2;

6.3.1.2 the desirability of consistent treatment of **designated transmission customers** except where special circumstances justify a departure; and

6.3.1.3 the potential impact of any decision on the contents of other **transmission agreements**.

6.3.2 The **Rulings Panel** must not determine disputes relating to the interpretation or enforcement of any **transmission agreement** including a **benchmark agreement**.

6.4 **Rulings Panel to give written notice of determinations**

The **Rulings Panel** must give notice to the parties of its determination, as soon as reasonably practicable.

6.5 **Status of default transmission agreement while Rulings Panel determining dispute**

Nothing in this rule 6 overrides the application of a **benchmark agreement** as a default **transmission agreement** under rule 3.1.3.1, pending a determination of the **Rulings Panel**.

7. **Review of benchmark agreements**

7.1 **Board may initiate review**

Having regard to the statutory objectives of the **Board** in section 172N of the **Act** and to the principles for **benchmark agreements** set out in rule 4.2, the **Board** may initiate a review of a **benchmark agreement** at any time.

7.2 **Review process**

Any review of **benchmark agreements** must follow the purpose, process and principles in rule 4.

8. **Existing agreements not affected**

8.1 **Existing agreements**

8.1.1 Except as provided for by rule 9.1 of section IV, Part F does not apply to or affect the rights, powers or obligations of any **participant** or **Transpower** under a written agreement entered into between that **participant** and **Transpower** for connection to and/or use of the **grid** that is:

8.1.1.1 entered into before 29 October 2003; or

8.1.1.2 based on **Transpower's** standard connection contract and entered into before the date on which the first **benchmark agreement** was included in a schedule to this section, under rule 4.6.

8.1.2 The exception from part F in rule 8.1.1 does not apply to a right, power or obligation of a **participant** that arises because of the variation of an agreement described in rules 8.1.1.1 or 8.1.1.2.

8.1.3 For the avoidance of doubt, the posted terms and conditions of **Transpower** do not constitute a written agreement.

8.2 Copies of other agreements to be provided to Board

8.2.1 If requested to do so by the **Board**, **Transpower** or a **participant** must provide a copy of any written agreement for connection to and/or use of the **grid** that they are a party to and that was entered into before the date on which the first **benchmark agreement** was included in a schedule to this section, under rule 4.6.

8.2.2 The copy that is provided must be;

8.2.2.1 a copy of the complete agreement; and

8.2.2.2 certified by a director or the chief executive of **Transpower** or the **participant**, to the best of the director's or chief executive's knowledge and belief, to be a true and complete copy of the agreement.

8.2.3 Such agreements are to be **published** by the **Board**, unless the parties establish to the satisfaction of the **Board** that there is good reason for not **publishing** them.

8.3 Application to Comalco agreements

Subpart 2 of Part 10 of the **regulations** applies in respect of a **Comalco agreement**.

Section III Grid Upgrade and Investments

1. Contents of section III

Section III contains rules dealing with:

- 1.1 **grid reliability standards;**
- 1.2 **grid investment test;**
- 1.3 **investment contracts;**
- 1.4 **statements of opportunities;**
- 1.5 **grid planning assumptions;**
- 1.6 **centralised data set;**
- 1.7 **grid upgrade plans;**
- 1.8 transitional provisions; and
- 1.9 consequence of approval of **grid** investment.

2. Purpose of the grid upgrade and investment rules

The purposes of the rules in section III are to:

- 2.1 facilitate **Transpower's** ability to develop and implement long term plans (including timely securing of land access and resource consents) for investment in the **grid**;
- 2.2 assist **participants** to identify and evaluate investments in **transmission alternatives**;
- 2.3 facilitate efficient investment in generation;
- 2.4 facilitate any processes pursuant to Part 4A of the Commerce Act 1986; and
- 2.5 enable the cost of approved investments to be recovered through the **transmission pricing methodology** applied in **transmission agreements**.

3. **Obligations to provide information**

- 3.1 All **participants** must provide information reasonably required by the **Board** for the purposes of this section and respond to requests from the **Board** under this section promptly and accurately.
- 3.2 **Participants** must use reasonable endeavours to provide accurate information.
- 3.3 The **Board** is not liable for the accuracy of any information provided by **participants**.
- 3.4 Subject to the Official Information Act 1982, the **Board** may at its discretion, or on the application of an affected party, withhold **publication** of confidential aspects of the information provided by **participants** to the **Board** if the **Board** reasonably considers that there is good reason for withholding it.

4. **Grid reliability standards**

4.1 **Board determines grid reliability standards**

- 4.1.1 The **Board** must determine the most appropriate **grid reliability standards**.
- 4.1.2 The **Board** is to consider and determine **grid reliability standards**, having regard to the purposes set out in rule 4.2 and the principles set out in rule 4.3.

4.2 **Purpose of grid reliability standards**

- 4.2.1 The purpose of the **grid reliability standards** is to provide a basis for:
 - 4.2.1.1 the **Board** to **publish statements of opportunities** (other than the **initial statement of opportunities**);
 - 4.2.1.2 **Transpower** to prepare **grid upgrade plans**;
 - 4.2.1.3 other parties to appraise opportunities for transmission investments and **transmission alternatives**.

4.3 **Principles of grid reliability standards**

The **grid reliability standards** should:

- 4.3.1 take into account the **grid investment test**;

- 4.3.2 take into account that transmission investments are long-lived assets and require a long-term planning perspective;
- 4.3.3 reflect the public interest in reasonable stability in planning, having regard to the long term nature of investment in transmission assets;
- 4.3.4 be consistent with good electricity industry practice;
- 4.3.5 provide flexibility to allow the form of the standards to evolve over time, reflecting any changes in good electricity industry practice;

4.4 Content of grid reliability standards

- 4.4.1 The **grid reliability standards** must contain one or more standards for reliability of the **grid**, which may include without limitation a primary reliability standard and other reliability standards.
- 4.4.2 The reliability standards set out in the **grid reliability standards** may differ to reflect differing circumstances in different regions supplied by the **grid**.
- 4.4.3 The **grid reliability standards** may include one or more standards for reliability of the **core grid**.
- 4.4.4 The **grid reliability standards** may contain supporting information, such as information summarising economic assessments balancing different levels of reliability and the expected value of energy at risk.

4.5 Board must publish draft grid reliability standards

- 4.5.1 The **Board** must **publish** draft **grid reliability standards** as soon as practicable.
- 4.5.2 At the time the **Board publishes** the draft **grid reliability standards** the **Board** must notify **registered participants** of the date by which submissions on the draft **grid reliability standards** are to be received by the **Board**. The date must be no earlier than 15 **business days** from the date of **publication** of the draft **grid reliability standards**.

4.6 Submissions process

Every submission on the draft **grid reliability standards** must be made in writing to the **Board** and be 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.

4.7 Board to consider submissions and make recommendations to Minister

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 draft **grid reliability standards** and make recommendations to the **Minister** for inclusion of the **grid reliability standards** in a schedule to this section, in accordance with the **Act**.

5. Review of grid reliability standards

5.1 Interested parties may request review of grid reliability standards

5.1.1 Interested parties may request a review by the **Board** of the **grid reliability standards**. The request must be in the form of a written submission to the **Board** describing:

5.1.1.1 the nature of the interest of the party seeking a review;

5.1.1.2 how the review might enable the **grid reliability standards** to better reflect the purpose and principles set out in rules 4.2 and 4.3.

5.1.2 In addition to receiving written submissions, the **Board** may elect to hear one or more oral submissions.

5.1.3 The **Board** must either undertake a review of the **grid reliability standards**, or decline to review the **grid reliability standards** and **publish** reasons for declining.

5.2 Board review of grid reliability standards

5.2.1 The **Board** may initiate a review of the **grid reliability standards** for any reason consistent with the statutory objectives of the **Board** in section 172N of the **Act** and the purpose and principles set out in rules 4.2 and 4.3.

5.2.2 If the **Board** undertakes a review of the **grid reliability standards** in accordance with rule 5.1.3 or rule 5.2.1, the **Board** must repeat the steps set out in rules 4.5 to 4.7.

5A Core grid determination

5A.1 Board determines core grid determination

- 5A.1.1 The **Board** must determine the most appropriate **core grid determination**.
- 5A.1.2 The **core grid** specified in the **core grid determination** must include:
- 5A.1.2.1 at a minimum, those **assets** that comprise the main elements of the **grid**; and
- 5A.1.2.2 at most, all **assets** that form part of the **grid** and operate at nominal voltages of 66kV and above.
- 5A.1.3 In determining the most appropriate **core grid determination**, and in any subsequent review of the **core grid determination**, the **Board** must have regard to:
- 5A.1.3.1 the purposes set out in rule 5A.2;
- 5A.1.3.2 the principles set out in rule 4.3 for the **grid reliability standards**; and
- 5A.1.3.3 the objectives set out in rule 5A.3.
- 5A.1.4 In determining the most appropriate **core grid determination**, the **Board** may engage **Transpower** or any other person to assist in the preparation of all or part of the **core grid determination**.

5A.2 Purpose of core grid determination

- 5A.2.1 The purpose of the **core grid determination** is to provide a basis for:
- 5A.2.1.1 the **Board** to determine the **grid reliability standards**;
- 5A.2.1.2 the **Board** to **publish statements of opportunities**;
- 5A.2.1.3 **Transpower** to prepare **grid upgrade plans**; and

5A.2.1.4 other parties to appraise opportunities for transmission investment and **transmission alternatives**.

5A.3 Objectives of core grid determination

5A.3.1 The **Board** must have regard to the following objectives in determining, and in any subsequent review of, the **core grid determination**:

5A.3.1.1 avoiding the failure or removal from service of any **asset** forming part of the **core grid**, where the failure or removal from service of that **asset** may result in cascade failure;

5A.3.1.2 providing flexibility to allow the **core grid** to evolve over time, reflecting any changes in the **grid**; and

5A.3.1.3 reflecting the public interest in reasonable stability in planning for transmission.

5A.4 Board must publish draft core grid determination

5A.4.1 The **Board** must **publish** a draft **core grid determination** as soon as practicable.

5A.4.2 At the time the **Board publishes** the draft **core grid determination** the **Board** must notify **registered participants** of the date by which submissions on the draft **core grid determination** are to be received by the **Board**. The date must be no earlier than 15 **business days** from the date of publication of the draft **core grid determination**.

5A.5 Submission process

Every submission on the draft **core grid determination** must be made in writing to the **Board** and be 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.

5A.6 Board to consider submissions and make recommendations to Minister

Within 20 **business days** of the **submission expiry date** (or such longer period as the **Minster** may allow), the **Board** must complete its consideration of all submissions it receives on the draft **core grid determination** and make recommendations to the **Minister**

for inclusion of the **core grid determination** in a schedule to this section, in accordance with the **Act**.

5B Review of core grid determination

5B.1 Interested parties may request review of core grid determination

5B.1.1 Interested parties may request a review by the **Board** of the **core grid determination**. The request must be in the form of a written submission to the **Board** describing:

5B.1.1.1 the nature of the interest of the party seeking a review;

5B.1.1.2 how the review might enable the **core grid determination** to better reflect the purpose and objectives set out in rules 5A.2 and 5A.3 respectively.

5B.1.2 In addition to receiving written submissions, the **Board** may elect to hear one or more oral submissions.

5B.1.3 The **Board** must either undertake a review of the **core grid determination**, or decline to review the **core grid determination** and **publish** reasons for declining.

5B.2 Board review of core grid determination

5B.2.1 The **Board** may initiate a review of the **core grid determination** for any reason consistent with the statutory objectives of the **Board** in section 172N of the **Act** and the purpose and objectives set out in rules 5A.2 and 5A.3 respectively.

5B.2.2 If the **Board** undertakes a review of the **core grid determination** in accordance with rule 5B.1.3 or rule 5B.2.1, the Board must repeat the steps set out in rules 5A.4 to 5A.6.

6. Grid investment test

6.1 Board determines grid investment test

6.1.1 The **Board** must determine the most appropriate **grid investment test**.

- 6.1.2 The **Board** is to consider and determine the most appropriate **grid investment test**, having regard to the objectives set out in rule 6.3.

6.2 Application of grid investment test

The **grid investment test** is to be applied by:

- 6.2.1 the **Board** in developing **grid reliability standards**;
- 6.2.2 **Transpower**, to determine proposed **economic investments** for inclusion in the proposed **grid upgrade plan**;
- 6.2.3 the **Board**, to review and approve **reliability investments** and **economic investments**;
- 6.2.4 the **Board** to review **transmission alternatives**.

6.3 Objectives of grid investment test

The **Board** must have regard to the following objectives in developing, and in any subsequent review of, the **grid investment test**:

- 6.3.1 promoting economic efficiency (including energy efficiency) in transmission and the wholesale electricity market;
- 6.3.2 as far as practicable reflecting the interests of end use customers in ensuring a reliable transmission system having regard to the cost to end use customers;
- 6.3.3 reflect a reasonable economic assessment of the balance between different levels of reliability and the expected value of energy at risk;
- 6.3.4 enabling selection of transmission upgrade options that maximise the total net benefits to those who produce, distribute and consume electricity after taking into account **transmission alternatives**;
- 6.3.5 promoting certainty for investment in transmission, generation and **transmission alternatives** and **investment contracts**;
- 6.3.6 facilitating outcomes acceptable to **Transpower** and **designated transmission customers**.

6.4 Board must publish draft grid investment test

6.4.1 The **Board** must **publish** a draft of the **grid investment test** as soon as practicable.

6.4.2 At the time the **Board publishes** the draft **grid investment test** the **Board** will notify **registered participants** of the date by which submissions on the draft **grid investment test** are to be received by the **Board**. The date will be no earlier than 15 **business days** from the date of **publication** of the draft **grid investment test**.

6.5 Submissions process

Every submission on the draft **grid investment test** 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.

6.6 Board to consider submissions and make recommendations to Minister

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 draft **grid investment test** and make recommendations to the **Minister** for inclusion of the **grid investment test** in a schedule to this section, in accordance with the **Act**.

7. Review of grid investment test

7.1 Request for review

7.1.1 Interested parties may request a review by the **Board** of the **grid investment test**. The request must be in the form of a written submission to the **Board** describing:

7.1.1.1 the nature and interest of the party seeking a review; and

7.1.1.2 how the review might enable the **grid investment test** to better reflect the **grid investment test** objectives set out in rule 6.3.

7.1.2 In addition to receiving written submissions, the **Board** may elect to hear one or more oral submissions.

7.1.3 The **Board** must either undertake a review of the **grid investment test**, or decline to review the test and **publish** reasons for declining.

7.2 Board may initiate review

7.2.1 The **Board** may initiate a review of the **grid investment test** for any reason consistent with the statutory objectives of the **Board** in section 172N of the **Act**, including without limitation a review to encourage **investment contracts**.

7.2.2 If the **Board** undertakes a review of the **grid investment test**, it must repeat the steps set out in rule 6.1 to 6.6.

8. Investment contracts

8.1 Purpose

This rule provides for **investment contracts** to be agreed between **designated transmission customers** and **Transpower**, and establishes a process to manage any potential implications for **grid reliability standards**.

8.2 Application

Transpower may only enter into **investment contracts** with implications for **grid reliability standards** if:

8.2.1 the **investment contracts** are consistent with the content of **grid reliability standards** set out in rule 4.4; and

8.2.2 **Transpower** notifies the **Board** of the proposed **investment contract**.

9. Statements of opportunities

9.1 Purpose and content of statements of opportunities

9.1.1 The **statements of opportunities** are to:

9.1.1.1 set out the **grid reliability standards**, or, in the case of the **initial statement of opportunities**, the **interim grid reliability standards** prepared by the **Board** under rule 9.1.3:

9.1.1.2 set out the **grid planning assumptions**; and

- 9.1.1.3 include an analysis of the performance of the power system against the **grid planning assumptions** and, except in the case of the **initial statement of opportunities**, the **grid reliability standards**.
- 9.1.2 The purpose of the **statements of opportunities** is to enable identification of potential opportunities for efficient management of the **grid** including investment in upgrades and investment in **transmission alternatives**.
- 9.1.3 For the sole purpose of the **initial statement of opportunities**, the **Board** will prepare, for inclusion in the **initial statement of opportunities**, **interim grid reliability standards** which must contain:
 - 9.1.3.1 an interim primary reliability standard that enables the reliability of the **grid** to be maintained during credible contingency events; and
 - 9.1.3.2 other interim reliability standards that may differ from the interim primary reliability standard to reflect differing circumstances in different regions supplied by the **grid**.
- 9.1.4 The **interim grid reliability standards** are not **grid reliability standards**.

9.2 Principles for statements of opportunities

In preparing **statements of opportunities**, the **Board** must have regard to the following principles:

- 9.2.1 **statements of opportunities** should aim to meet the reasonable requirements of **Transpower**, investors in generation, other **participants**, end use customers and those interested in evaluating **transmission alternatives**;
- 9.2.2 **statements of opportunities** should reflect good electricity industry practice;

9.3 Statements of opportunities provided for information only

Statements of opportunities are provided for information only. No liability will attach to the **Board**, **Transpower** or any other person for the accuracy of **grid planning assumptions** set out in **statements of opportunities**.

9.4 Board may engage Transpower or any other person to assist

The **Board** may engage **Transpower** or any other person to assist in the preparation of all or part of **statements of opportunities**.

9.5 Board must publish draft statements of opportunities

9.5.1 The **Board** must **publish** draft **statements of opportunities** as soon as reasonably practicable after their preparation.

9.5.2 At the time the **Board publishes** draft **statements of opportunities**, the **Board** must notify **registered participants** of the date by which submissions on a draft **statement of opportunities** is to be received by the **Board**. The date must be no earlier than 15 **business days** from the date of **publication** of a draft **statement of opportunities**.

9.6 Submissions process

Every submission on the draft **statements of opportunities** 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.

9.7 Board to consider submissions and finalise and publish statement of opportunities

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 a draft **statement of opportunities** and finalise and **publish** the **statement of opportunities**.

10. Grid Planning Assumptions

10.1 Purpose of grid planning assumptions

This purpose of this rule is to assist the **statement of opportunities** to meeting its purpose laid out in rule 9.1.2.

10.2 Principles for grid planning assumptions

The principles for **grid planning assumptions** are:

10.2.1 **grid planning assumptions** should cover a reasonable range of credible forecasts and scenarios;

10.2.2 **grid planning assumptions** should have a length of outlook commensurate with consideration of future investment in long-life transmission assets;

10.2.3 **grid planning assumptions** should be as accurate as possible; and

10.2.4 the rigour applied to the process for developing the **grid planning assumptions** should be commensurate with the economic significance of the decisions to be made on the basis of them.

10.3 Contents of grid planning assumptions

10.3.1 **Grid planning assumptions** should include:

10.3.1.1 committed projects for additional generation, transmission, and demand side management;

10.3.1.2 a reasonable range of credible demand forecasts by region or **grid** exit point (e.g. high, medium and low growth); and

10.3.1.3 a reasonable range of credible future, high-level generation scenarios (e.g. different outcomes for generation capacity by region)

10.3.2 The **Board** may require **designated transmission customers** to provide forecasts of future demand;

11. Centralised data set

11.1 Board to establish and maintain centralised data set

The **Board** must establish and maintain a **centralised data set**.

11.2 Purpose of centralised data set

This purpose of the **centralised data set** is to support efficient planning processes by ensuring collection and ongoing maintenance by the **Board** of the factual and historical information required to make efficient and effective decisions on transmission and **transmission alternatives**.

11.3 Contents of centralised data set

A **centralised data set** should include:

11.3.1 provisions for updating and maintenance of data;

11.3.2 information on network capabilities, performance and constraints.

11.4 Public access to centralised data set

Subject to rule 3.4, the **Board** must **publish** the **centralised data set**.

12. Grid upgrade plans

12.1 Purpose of grid upgrade plans

12.1.1 The purpose of a **grid upgrade plan** is to enable **Transpower** to:

12.1.1.1 propose, and for the **Board** to review and approve, **reliability investments** that are justified on the basis of the **grid reliability standards** and the **grid investment test**; and

12.1.1.2 propose, and for the **Board** to review and approve, **economic investments** justified on the basis of the **grid investment test**

12.1.2 These rules establish differing processes for consideration and approval by the **Board** of the proposed investments referred to in **grid upgrade plans**, depending on the nature of the proposed investment;

12.1.3 In making any determinations or exercising any discretion under rules 12, 13, 14, and 15, the **Board** must have regard to:

12.1.3.1 the costs imposed on **Transpower**, **designated transmission customers**, end use customers, and the **Board** itself arising from any process of consultation, review, modelling or public conference;

12.1.3.2 the likelihood of benefits to end use customers exceeding regulatory costs.

12.2 Obligations on Transpower in respect of grid upgrade plans

Transpower must submit a **grid upgrade plan** to the **Board** within 3 months of receiving a written request from the **Board**, or such other date as the **Board** agrees, and may submit a **grid upgrade plan** for **Board** consideration at any other time.

12.3 Content of grid upgrade plans

Grid upgrade plans submitted by **Transpower** under rule 12.2 must include:

12.3.1 a comprehensive plan for asset management and operation of the **grid**;

12.3.2 information on **investment contracts**

12.3.3 investment plans disaggregated into the following categories:

Reliability investments comprising:

- proposed **reliability investments**;
- justification for proposed **reliability investments** against the **grid reliability standards** and the **grid investment test**;
- any options considered in identifying the proposed **reliability investments**;
- consequences of non-investment or delay in investment; and
- forecast costs of proposed **reliability investments**;

Economic investments comprising:

- **economic investments** proposed by **Transpower**;
- justification of proposed **economic investments** against the **grid investment test**;
- any options considered in identifying the proposed **economic investments**; and
- forecast costs of proposed **economic investments**.

12.3.4 Such other content as prescribed in writing by the **Board**, to ensure that **grid upgrade plans** include such information that the **Board** considers is reasonably required to enable the **Board** and interested parties to evaluate proposed transmission

investments, such as indicative pricing impacts of investment proposals.

12A. Grid reliability reporting

12A.1 Transpower to publish grid reliability report

- 12A.1.1 Within six months of the date of publication of a **statement of opportunities**, or such other date as determined by the **Board**, having first consulted **Transpower**, **Transpower** must **publish a grid reliability report** setting out:
- 12A.1.1.1 a forecast of **demand** at each **grid exit point** over the next **10 years**;
 - 12A.1.1.2 a forecast of **supply** at each **grid injection point** over the next **10 years**;
 - 12A.1.1.3 whether the power system is reasonably expected to meet the **N-1 criterion**, including in particular whether the power system would be in a **secure state** at each **grid exit point**, at all times over the next **10 years**, having regard to the possible future scenarios set out in the **statement of opportunities**; and
 - 12A.1.1.4 planning proposals for addressing any matters identified in accordance with rule 12A.1.1.3.
- 12A.1.2 The forecast of **demand** at each **grid exit point** and forecast of **supply** at each **grid injection point** included in the **grid reliability report published** under 12A.1.1 must be consistent with the forecasts of **demand** and **supply** set out in the **statement of opportunities** or must be explained by reference to the forecasts of **demand** and **supply** set out in the **statement of opportunities**.
- 12A.1.3 Where there is a material change in the forecast **demand** at any **grid exit point** or in the forecast **supply** at any **grid injection point** in the period considered by the most recent **grid reliability report**, **Transpower** must **publish a revised grid reliability report** as soon as reasonably practicable after that material change.

13. Approval of reliability investments

13.1 Purpose

This rule sets out the processes for consultation, and **Board** approval of **reliability investments** proposed in **Transpower's grid upgrade plans**.

13.2 Consultation

13.2.1 The **Board** and **Transpower** must agree to a timetable for consultation and approval of **reliability investments**;

13.2.2 In the absence of agreement with **Transpower**, the **Board** may stipulate a timetable for consultation and approval of **reliability investments**; and

13.2.3 The **Board** must consult with **Transpower** in relation to a process for consultation with persons that the **Board** thinks are representative of the interests of persons likely to be substantially affected by the **reliability investments** and content of draft **grid upgrade plans**.

13.3 Board process for approving reliability investments

13.3.1 In exercising any discretion under rules 13.3 or 13.4, the **Board** must have particular regard to:

13.3.1.1 regulatory costs including **Transpower's** costs; and

13.3.1.2 the need to avoid unnecessary delays in approving **reliability investments**.

13.3.2 The **Board** must **publish** a notice and provide an opportunity for **designated transmission customers** to:

13.3.2.1 provide written comments on **Transpower's** proposed **reliability investments**; and

13.3.2.2 request that the **Board** consider alternatives to the proposed **reliability investments**;

13.3.3 The **Board** may:

13.3.3.1 direct further investigations by **Transpower** of all or some of the proposed **reliability investments**;

- 13.3.3.2 ask questions of **Transpower** or require further information or consultation in relation to part or all of the **reliability investments**;
 - 13.3.3.3 ask **Transpower** to evaluate alternative **reliability investments** including those which would result in differing probabilities of meeting the **grid reliability standards**,
 - 13.3.3.4 where **Transpower** possesses relevant expertise, ask **Transpower** to evaluate **transmission alternatives**.
- 13.3.4 **Transpower** may amend proposed **reliability investments** in response to the **Board's** requests set out in 13.3.3.
- 13.3.5 The **Board** may undertake such inquiries, appoint experts and undertake such consultation with affected parties as it considers reasonable to assist in its review;

13.4 Board approval of reliability investments

The **Board** may:

- 13.4.1 Subject to rule 15, approve some or all of **Transpower's** proposed **reliability investments** where a proposed reliability investment:
 - 13.4.1.1 reflects good electricity industry practice in meeting **grid reliability standards**; and
 - 13.4.1.2 complies with the processes set out in these rules; and
 - 13.4.1.3 meets the requirements of the **grid investment test**.
- 13.4.2 If the **Board** declines to approve a **reliability investment** under rule 13.4.1 above, it must **publish** reasons.

14. Approval of economic investments

14.1 Purpose

This rule sets out the processes for consultation, and **Board** approval of the **economic investment** component of **Transpower's grid upgrade plans**.

14.2 Consultation

- 14.2.1 The **Board** and **Transpower** must agree to a timetable for consultation and approval of **economic investments**;
- 14.2.2 In the absence of agreement with **Transpower**, the **Board** may stipulate a timetable for consultation and approval of **economic investments**; and
- 14.2.3 The **Board** must consult with **Transpower** in relation to a process for consultation with persons that the **Board** thinks are representative of the interests of persons likely to be substantially affected by **economic investments** and content of draft **grid upgrade plans**.
- 14.2.4 **Transpower** must consult on whether it has applied the **grid investment test** reasonably.

14.3 Board approval process of economic investments

- 14.3.1 The **Board** must review the application of the **grid investment test** by **Transpower** to determine whether **Transpower** has applied the **grid investment test** reasonably, and followed any agreed consultation process.
- 14.3.2 The **Board** may:
- 14.3.2.1 direct **Transpower** to consider modifying all or part of its application of the **grid investment test**;
 - 14.3.2.2 direct **Transpower** to investigate and apply the **grid investment test** to alternative **economic investments**, but must consult with **Transpower** before doing so.
- 14.3.3 **Transpower** may amend or introduce new **economic investments** in response to the **Board's** requests at 14.3.2.1 and 14.3.2.2.
- 14.4 Subject to rule 15, the **Board** may approve proposed **economic investments** where **Transpower** has applied the **grid investment test** reasonably, and followed any agreed consultation process.

15. Publishing of grid upgrade plans and approvals

15.1 Board to publish grid upgrade plans and intention to approve

The **Board** must **publish grid upgrade plans** and a notice of its intention to approve some or all of the **reliability investments** and **economic investments** in the **grid upgrade plan**.

15.2 Requesting a public conference

If a **designated transmission customer**, an authorised representative of parties substantially affected by the **grid upgrade plan**, or **Transpower** consider that:

15.2.1 the interests of end use customers are materially adversely affected by the cost or the service outcome of a proposed investment set out in a **grid upgrade plan**, or

15.2.2 the **grid investment test** has not been applied properly to a **grid upgrade plan**,

the **designated transmission customer**, authorised representative, or **Transpower** may, within 10 **business days** of the date of **publication** of the notice of the **Board's** intention to approve some or all of the investments in a **grid upgrade plan**, request the **Board** to hold a public conference.

15.3 Purpose of a public conference

The purpose of a public conference is to provide a final opportunity for comment on the **grid upgrade plan**.

15.4 Board may agree or refuse request for public conference

15.4.1 The **Board** may agree or refuse the request to conduct a public conference.

15.4.2 If the **Board** refuses a request to conduct a public conference, the **Board** must **publish** its reasons for the refusal.

15.5 Board may confirm or amend investments in grid upgrade plan

15.5.1 Following the public conference, the **Board** may confirm or amend investments in the **grid upgrade plan**.

15.5.2 Where no public conference is held, **Board** decisions concerning investments in the **grid upgrade plan** are final.

16. Transitional provisions

16.1 Board may approve interim grid expenditure

The **Board** may approve interim **grid** expenditure proposed by **Transpower** having regard to the purpose and principles set out in rule 16.2

16.2 Purpose and principles

16.2.1 The purpose of this rule is to allow the **Board** to approve interim **grid** expenditure proposed by **Transpower** before the **Board** makes final decisions on the first **grid upgrade plan**.

16.2.2 The **Board** must be satisfied that the proposed **grid** expenditure is additional to **Transpower's** normal ongoing **grid** expenditure.

16.2.3 The **Board** must also be satisfied that the proposed **grid** expenditure is:

16.2.3.1 reasonably prudent or necessary to meet **Transpower's** current grid reliability standards; or

16.2.3.2 prudent expenditure on preparatory work necessary for other **grid** expenditure that have not yet been approved in a **grid upgrade plan**; or

16.2.3.3 emergency expenditure.

16.2.4 The **Board** is not required to undertake a formal cost/benefit analysis or apply the **grid investment test** when it decides whether or not to approve an interim **grid** expenditure proposed by **Transpower** under this rule.

16.3 Obligations on Transpower

Transpower must submit to the **Board** such information as the **Board** considers is reasonably necessary to enable the **Board** to properly consider and decide whether or not to approve an interim **grid** expenditure proposed under this rule.

16.4 Obligations on Board

The Board:

- 16.4.1 must consider whether **Transpower's** proposals meet the requirements of rule 16.2;
- 16.4.2 may consult with persons that the **Board** thinks are representative of the interests of persons likely to be substantially affected by the proposals;
- 16.4.3 must decide whether or not to approve all or any part of the **grid** expenditure proposed by **Transpower** within 6 weeks of the information under rule 16.3 being submitted to the **Board** by **Transpower**.
- 16.4.4 If **Transpower** submits a revised or modified proposal for interim **grid** expenditure after an initial proposal is rejected by the **Board**, the revised or modified proposal must be treated by the **Board** as a new proposal for interim **grid** expenditure by **Transpower**.

17. Consequence of approval of grid investment or expenditure

17.1 Recovery of investment costs by Transpower

Approved costs incurred by **Transpower** in relation to an approved economic or reliability investment, or interim **grid** expenditure approved under rule 16, (irrespective of when they were incurred) are recoverable by **Transpower** from **designated transmission customers** on the basis of **the transmission pricing methodology** and are to be paid by **designated transmission customers** accordingly.

17.2 No review of investment or expenditure decisions

Approval by the **Board** of grid investment or expenditure may not be revoked or amended except with the consent of **Transpower**.

17.3 Board to give notification to the Commerce Commission

Within not less than 10 **Business Days** of approving an economic or reliability investment, or interim **grid** expenditure approved under rule 16, the **Board** must advise the Commerce Commission of its decision.

Schedule F3 Grid Reliability Standards

Making of Electricity Governance Rule

1. In accordance with rule 4.7 in section III of part F of the **rules**, and the provisions of the **Act**, the **Minister**, on the recommendation of the **Board**, makes these **grid reliability standards** a schedule to section III of part F of the **rules** with effect from 13 May 2005.

Preamble

2. Rule 4.1, in section III of part F of the **rules**, requires the **Board** to determine the most appropriate **grid reliability standards** and in so doing must have regard to the purposes in rule 4.2 and the principles set out in rule 4.3, as required by rule 4.1.

The grid reliability standards

3. The purpose of the **grid reliability standards** is to provide a basis for:
 - 3.1. the **Board** to **publish statements of opportunities**;
 - 3.2. **Transpower** to prepare **grid upgrade plans**; and
 - 3.3. other parties to appraise opportunities for transmission investments and **transmission alternatives**.
4. For the purpose of clause 3, the **grid** satisfies the **grid reliability standards** if:
 - 4.1. the power system is reasonably expected to achieve a level of reliability at or above the level that would be achieved if all **economic reliability investments** were to be implemented; and
 - 4.2. with all **assets** that are reasonably expected to be in service, the power system would remain in a **satisfactory state** during and following any **single credible contingency event** occurring on the **core grid**.
5. For the purpose of clause 4.1, the expected level of reliability of the power system must be assessed at each and every **grid exit point** and **grid injection point** (wherever located on the **grid**).
6. For the purpose of clause 4.1 and 4.2, the expected level of reliability, and state, of the power system must be assessed using the range of relevant operating conditions that could reasonably be expected, having regard to the possible future scenarios set out in the **statement of opportunities**.

Interpretation and definitions

7. For the purposes of these **grid reliability standards**, unless the context calls for another interpretation:
 - 7.1. terms defined in part A of the **rules** take that defined meaning;
 - 7.2. terms defined in the **grid investment test** take that defined meaning;
 - 7.3. the term defined in clause 8 of these **grid reliability standards** takes that defined meaning;
 - 7.4. a reference:
 - 7.4.1. to the singular includes the plural and conversely; and
 - 7.4.2. to a person includes an individual, company, other body corporate, association, partnership, firm, joint venture, trust, or Government Agency;
 - 7.5. the word including or includes means including, but not limited to, or includes, without limitation; and
 - 7.6. where a word or phrase is defined in the **grid investment test** or in clause 8 of these **grid reliability standards**, its other grammatical forms have a corresponding meaning.
8. **“Economic reliability investments”** means investments in the **grid** and **transmission alternatives** that would satisfy the **grid investment test**:
 - 8.1. reading each reference to a **proposed investment** in the **grid investment test** as a reference to the **grid investment** or **transmission alternative** (as the case may be); and
 - 8.2. having regard to part C of these **rules** including the **policy statement** set out in schedule C4.

Schedule F4 - Grid Investment Test

Making of Electricity Governance Rule

1. In accordance with rule 6.6, section III of part F of the **rules**, and s172H of the **Act**, the **Minister**, on the recommendation of the **Board**, makes this **grid investment test** a schedule to section III of part F of the **rules** with effect from 11 February 2005.

Preamble

2. Rule 6.1, in section III of part F of the **rules**, requires the **Board** to determine the most appropriate **grid investment test** and in so doing must have regard to the objectives in rule 6.3, as required by rules 6.1 and 6.3.
3. Pursuant to rule 6.2, the **grid investment test** is to be applied:
 - 3.1. by the **Board**, in developing **grid reliability standards**, to review and approve **reliability investments** and **economic investments** and to review **transmission alternatives**, and
 - 3.2. by **Transpower**, to determine proposed **economic investments** for inclusion in the proposed **grid upgrade plan**.

The grid investment test

4. A **proposed investment** satisfies the **grid investment test** if the **Board** is reasonably satisfied that:
 - 4.1. for a **proposed investment** that is necessary to meet the reliability standard set out in clause 4.2 of the **grid reliability standards**:
 - 4.1.1. the **proposed investment** maximises the **expected net market benefit** or minimises the **expected net market cost** compared with a number of **alternative projects**; and
 - 4.1.2. if sensitivity analysis is conducted, a conclusion that a **proposed investment** satisfies clause 4.1.1 is sufficiently robust having regard to the results of that sensitivity analysis; or
 - 4.2. for any other **proposed investment**:
 - 4.2.1. the **proposed investment** maximises the **expected net market benefit** compared with a number of **alternative projects**;
 - 4.2.2. the **expected net market benefit** of the **proposed investment** is greater than zero; and

- 4.2.3. if sensitivity analysis is conducted, a conclusion that a **proposed investment** satisfies clauses 4.2.1 and 4.2.2 is sufficiently robust having regard to the results of that sensitivity analysis.

Methodology for application of the grid investment test

5. The **market benefits** and **costs** of a **proposed investment** or **alternative project** are determined for each of the **market development scenarios** for the future with that **proposed investment** or **alternative project** by comparing that **market development scenario** with the corresponding **market development scenario** developed for the **base case**.
6. In applying this **grid investment test**:
 - 6.1. the **market development scenarios** must be the possible future scenarios outlined in the **statement of opportunities** unless the **Board** determines that **market development scenarios** proposed by **Transpower**, the proponent of a **transmission alternative** or the **Board** are more appropriate;
 - 6.2. the probability of occurrence of a **market development scenario** must be as set out in the **statement of opportunities** in respect of the relevant possible future scenario; and
 - 6.3. the number of **market development scenarios** used in applying this **grid investment test** must be same as the number of **market development scenarios** set out in the **statement of opportunities**.
7. The **supply-side** of any **market development scenario** must include:
 - 7.1. **committed projects**;
 - 7.2. the decommissioning, removal or de-rating of **decommissioned assets**; and
 - 7.3. **modelled projects**.
8. The **base case** must be reasonable having regard to:
 - 8.1. the **grid reliability standards**;
 - 8.2. any possible future scenarios outlined in the **statement of opportunities**;
 - 8.3. the current state of the electricity industry, including the following elements of the current state of the electricity industry:
 - 8.3.1. the size and location of **demand**;

- 8.3.2. historical nodal prices for **electricity**;
- 8.3.3. the **grid reliability standards**;
- 8.3.4. the value(s) of unserved energy (which value(s) will be the value or values **published** by the **Board** for this purpose from time to time or, if no such value or values is **published** by the **Board**, \$20,000/MWh);
- 8.3.5. the operating and maintenance costs of efficiently supplying **demand** from **existing assets**;
- 8.3.6. transfer capacities and capabilities of the **grid**; and
- 8.3.7. the cost of providing sufficient **ancillary services** and the cost of **losses** involved in efficiently supplying **demand**;
- 8.4. reasonably expected future market development, including:
 - 8.4.1. the size, timing and location of **demand** growth;
 - 8.4.2. forecast nodal prices for **electricity**;
 - 8.4.3. the value of unserved energy (which value(s) will be the value or values **published** by the **Board** for this purpose from time to time or, if no such value or values is **published** by the **Board**, \$20,000/MWh);
 - 8.4.4. the size, location and timing of **committed projects** and **modelled projects**;
 - 8.4.5. the operating and maintenance costs of efficiently supplying demand by means of **existing assets**, **committed projects** and **modelled projects**;
 - 8.4.6. the capital costs of efficiently supplying **demand** by means of **modelled projects**;
 - 8.4.7. the timing of decommissioning, removing or de-rating **decommissioned assets**;
 - 8.4.8. transfer capacities and capabilities of the **grid**; and
 - 8.4.9. the cost of providing sufficient **ancillary services** and the cost of **losses** involved in efficiently supplying **demand**; and
- 8.5. the **proposed investment** to which the **grid investment test** is to be applied.

9. Where a material **market benefit** or **cost** cannot be quantified, the direction of the **market benefit** or **cost** and likely magnitude of the **market benefit** or **cost** must be identified.
10. **Competition benefits** may be included in the **market benefits** of a **proposed investment** or **alternative project** if the **Board** reasonably considers this appropriate, provided the **competition benefits** can be separately identified and calculated.
11. The **alternative projects** used in applying this **grid investment test** must be limited to those appropriate in number and technology given the cost magnitude of the **proposed investment**, the complexity of the required modelling and the urgency of the **proposed investment**.
12. The rigour and comprehensiveness of the analysis undertaken in applying this **grid investment test** must be commensurate with the estimated capital expenditure required for the **proposed investment**.
13. Either standard net present value analysis or real options analysis must be applied in assessing the **expected net market benefit** of a **proposed investment** or **alternative project**. The type of analysis to be used in applying the **grid investment test** to a particular **grid investment** must be whichever of standard net present value analysis or real options analysis is more appropriate having regard to the likelihood of occurrence of any real options during the economic life of the **proposed investment** or **alternative project**.
14. The discount rate used in all present value calculations must be:
 - 14.1. the discount rate determined by the **Board**, from time to time, for the purposes of this **grid investment test**; or
 - 14.2. if the **Board** has not determined a discount rate for the purposes of clause 14.1, a discount rate of, or equivalent to, a pre-tax real rate of 7%.
15. If real options analysis is used, all material real options must be taken into account in determining the **market benefits** and **costs** of a **proposed investment** or **alternative project**.
16. Subject to clause 17, sensitivity analysis must be applied in assessing the **expected net market benefit** of a **proposed investment** or **alternative project**.
17. In applying sensitivity analysis, a number of alternative reasonable scenarios should be developed for each of the **market development scenarios** using reasonable variations in all of the following variables, with the exception of those variables in respect of which sensitivity analysis is either not reasonably practicable or not reasonably necessary:

- 17.1. forecast **demand**;
- 17.2. the size, timing, location, and operating and maintenance costs of:
 - 17.2.1. the **proposed investment** or **alternative project**; and
 - 17.2.2. **existing assets, committed projects** and **modelled projects**;
- 17.3. the capital cost of:
 - 17.3.1. the **proposed investment** and the **alternative projects**; and
 - 17.3.2. **modelled projects**;
- 17.4. the timing of decommissioning, removing or de-rating **decommissioned assets**;
- 17.5. the value(s) of unserved energy (which varied value or values will be the value or values **published** by the **Board** for this purpose from time to time or, if no such value or values is **published** by the **Board**, \$10,000/MWh and \$30,000/MWh);
- 17.6. the discount rate used in all present value calculations;
- 17.7. the discount rate used in present value calculations in relation to a particular **alternative project** that is a **transmission alternative**;
- 17.8. a range of consistent hydrological inflow sequences, as defined in the **statement of opportunities** and **centralised data set**;
- 17.9. **generator** and **demand**-side bidding strategies;
- 17.10. key input variables in the calculation of **competition benefits**;
- 17.11. the forecast amount of carbon charges associated with operating the **proposed investment, alternative projects, existing assets, committed projects** and **modelled projects**; and
- 17.12. the probability of occurrence of a **market development scenario**.

Interpretation and definitions

18. For the purposes of this **grid investment test**, unless the context calls for another interpretation:
 - 18.1. terms defined in part A of the **rules** take that defined meaning;

- 18.2. terms defined in clauses 19 to 32 of this **grid investment test** take that defined meaning;
 - 18.3. a reference:
 - 18.3.1. to the singular includes the plural and conversely;
 - 18.3.2. to a person includes an individual, company, other body corporate, association, partnership, firm, joint venture, trust, or Government Agency;
 - 18.4. the word including or includes means including, but not limited to, or includes, without limitation; and
 - 18.5. where a word or phrase is defined in clauses 19 to 32 of this **grid investment test**, its other grammatical forms have a corresponding meaning.
19. **"Alternative projects"** means any alternative transmission augmentation projects and **transmission alternatives** to the **proposed investment**, including any variant of the **proposed investment** that involves a non-negligible change in the timing of that **proposed investment**, that are:
- 19.1. technically feasible;
 - 19.2. reasonably practicable having regard to the matters set out in clauses 8.1 to 8.4;
 - 19.3. reasonably likely to proceed if neither the **proposed investment** nor any other **alternative project** proceeds and unlikely to proceed if the **proposed investment** does proceed;
 - 19.4. reasonably expected to provide similar benefits, in type but not necessarily in magnitude, to relevant nodes, as the **proposed investment**; and
 - 19.5. reasonably expected to enable the deferment of investment of the type contemplated by the **proposed investment** for a period of 12 months or more.
20. **"Base case"** means the **market development scenarios** developed for the reasonable future state of the electricity industry without the **proposed investment** or any **alternative project**.
21. **"Committed projects"** means transmission augmentation projects and **non-transmission projects**, other than the **proposed investment** and **alternative projects**, which are reasonably likely to proceed in a similar timeframe regardless of whether or not the **proposed investment** or any **alternative project** proceeds and in relation to which either:

- 21.1. all of the following are satisfied:
 - 21.1.1. the proponent has obtained all required planning consents, construction approvals and licences, and fulfilled any other regulatory requirement that must be met before commencing construction;
 - 21.1.2. construction has commenced or a firm commencement date has been set;
 - 21.1.3. the proponent has acquired or executed an agreement to acquire land (or commenced legal proceedings to acquire land), or has executed an agreement for the leasing of land, for the purposes of construction;
 - 21.1.4. contracts for supply and construction of the major components of the plant and equipment (including any **generating units**, turbines, boilers, transmission towers, conductors, terminal station equipment) have been executed (i.e. all the necessary formal legal requirements have been observed to make the contract valid and complete); and
 - 21.1.5. contracts for the financing of the project, including any debt plans, have been executed (i.e. all the necessary formal legal requirements have been observed to make the contract valid and complete); or
- 21.2. in the case of transmission augmentation projects, the **Board** has unconditionally approved the project following application of this **grid investment test**.
22. "**Competition benefits**" means the direct or indirect effects of greater competition between **generators** resulting from a **proposed investment** or **alternative project**, including as a result of the associated introduction of additional **demand**-side management initiatives, on:
 - 22.1. the cost of **dispatch**;
 - 22.2. forecast **demand** growth; and
 - 22.3. the timing of **modelled projects**.
23. "**Cost**" means the present value of the costs of a **proposed investment** or **alternative project** to those persons who produce, distribute, retail and consume electricity in New Zealand over a period of 20 years from the commissioning date (unless significant **market benefits** or **costs** are expected to arise from the **proposed investment** or **alternative project** after that time, in which case the then-present value of any future costs may also be included in the **cost** of the **proposed investment** or **alternative project**) and includes:

- 23.1. capital costs incurred prior to the commissioning of the **proposed investment or alternative project** (as the case may be), including interest during construction;
 - 23.2. operating, maintenance and dismantling costs over the operating life of the **proposed investment or alternative project** (as the case may be);
 - 23.3. costs to **participants** associated with testing of the **proposed investment or alternative project** (as the case may be);
 - 23.4. any additional amount, approved by the **Board**, that could reasonably be considered to be a cost related to the commissioning of a **proposed investment or alternative project** (as the case may be); and
 - 23.5. costs of complying with or arising pursuant to all applicable existing and anticipated laws, regulations and administrative determinations.
24. **"Decommissioned assets"** means **existing assets** that are reasonably likely to be decommissioned, removed or de-rated in a similar timeframe regardless of whether or not the **proposed investment or alternative project** proceeds and in relation to which either:
- 24.1. both of the following are satisfied:
 - 24.1.1. a final decision to decommission, remove or de-rate the **existing asset** after a specified date has been made and has been publicly announced; and
 - 24.1.2. contracts to directly or indirectly facilitate the decommissioning, removal or de-rating of the **existing asset** have been finalised and executed; or
 - 24.2. consents or contracts for the operation and maintenance of the **existing asset** have been terminated or have expired with no reasonable prospect of renewal, or in relation to which agreements for early termination have been finalised and executed.
25. **"Existing assets"** means transmission **assets** and **non-transmission projects** that have been commissioned prior to, and are in operation at the time of, the application of this **grid investment test**. For the avoidance of doubt, an investment in the expansion of generating capacity of an existing **generating unit** is not an **existing asset** or part of an **existing asset**, unless the additional generating capacity associated with that capacity expansion has been commissioned prior to, and is in operation at the time of, the application of this **grid investment test**.
26. **"Expected net market benefit"** means the probability-weighted average of the **net market benefit** or **net market cost** for each of the **market development scenarios** developed for the future with the **proposed**

investment or alternative project. Where this probability-weighted average is less than zero, it is referred to as the “**expected net market cost**”.

27. **"Market benefit"** means the present value of the benefits to those persons who produce, distribute, retail and consume electricity in New Zealand from a **proposed investment or alternative project** over a period of 20 years from the commissioning date (unless significant **market benefits** or **costs** are expected to arise from the **proposed investment** or **alternative project** after that time, in which case the then-present value of any future benefits may also be included in the **market benefit** of the **proposed investment or alternative project**) and includes:

- 27.1. changes in fuel costs of **existing assets, committed projects** and **modelled projects**;
- 27.2. changes in the value of involuntary **demand** curtailment;
- 27.3. changes in the costs of **demand-side** management;
- 27.4. changes in costs resulting from the deferral of capital expenditure on **modelled projects**;
- 27.5. changes in costs resulting from differences in the amount of capital expenditure on **modelled projects**;
- 27.6. changes in costs resulting from differences in operations and maintenance expenditure on **existing assets, committed projects** and **modelled projects**;
- 27.7. changes in costs for **ancillary services**;
- 27.8. changes in **losses**, including **local losses**;
- 27.9. subsidies or other benefits provided under or arising pursuant to all applicable laws, regulations and administrative determinations;
- 27.10. the value of any material real options associated with the **proposed investment or alternative project**; and
- 27.11. subject to clause 10, **competition benefits**.

28. **"Market development scenarios"** means the reasonable future states of the electricity industry, developed for use in determining the **market benefits** and **costs** of a **proposed investment** and **alternative projects**, for each of:

- 28.1. the future with a **proposed investment**;
- 28.2. the future with each **alternative project**; and

- 28.3. the future without the **proposed investment** or any **alternative project**.
29. **"Modelled projects"** means transmission augmentation projects and **non-transmission projects**, other than the **proposed investment** and **alternative projects**, which are:
- 29.1. likely to occur in a **market development scenario**;
- 29.2. reasonably expected to occur in that **market development scenario** within the time horizon for assessment of the **market benefits** and **costs** of the **proposed investment** and **alternative projects**; and
- 29.3. the likelihood, nature and timing of which will be affected by whether the **proposed investment** or any **alternative project** proceeds.
30. **"Net market benefit"** means the **market benefit** of a **proposed investment** or **alternative project** in a **market development scenario** less the **cost** of that **proposed investment** or **alternative project** in that **market development scenario**. Where the **cost** exceeds the **market benefit** in a **market development scenario**, this is referred to as the **net market cost** for that **market development scenario**.
31. **"Non-transmission projects"** includes investments in:
- 31.1. generation;
- 31.2. energy efficiency;
- 31.3. **demand**-side management;
- 31.4. **local network** augmentation;
- 31.5. improvements to the systems and processes of the **system operator**;
and
- 31.6. the provision of **ancillary services**.
32. **"Proposed investment"** means a **reliability investment** or **economic investment** proposed by **Transpower** and submitted by it to the **Board** for approval under rules 13 or 14, respectively, of section III of part F of the **rules**. For the avoidance of doubt, an investment that is to be fully funded under an **investment contract** by one or more **designated transmission customers** that are party to that **investment contract** is not a **proposed investment**.

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

Except for the **input connection contracts**, **new investment agreement contracts**, and **notional embedding contracts**, 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**.

9.2 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**.

Section V Financial Transmission Rights

1. Contents of section V

Section V provides for the future development of financial transmission rights, by establishing a process for their design and introduction in accordance with the Government Policy Statement.

2. Design

The **Board** is to oversee the development of financial transmission rights in accordance with the Government Policy Statement, and to formulate and make recommendations concerning **regulations** and rules relating to financial transmission rights in accordance with the **Act**.

3. Report on progress

The **Board** will report to the **Minister** on progress in the design and development of financial transmission rights by 30 June 2005, and thereafter, at such times as the **Minister** may request.