Passing through transmission charges

FACT SHEET

ena
electricity networks association

This is one of series of fact sheets to inform pricing practioners within the electricity industry. It should be read alongside the ENA's pricing guideline for electricity distibutors.

Distributors pass through Transpower's charges to electricity customers through their delivery charges. There is no one pricing approach that all distributors can take to pass-through transmission charges.

Transmission charges are set by the TPM

Transmission charges are set by Transpower under the Transmission Pricing Methodology (TPM). The Electricity Authority administers the TPM as prescribed by the Electricity Industry Participation Code (the Code).

From 1 April 2023, transmission charges will be made up of four cost components:

(i) **Connection Charges** – based on asset values, recover the costs of the dedicated assets that connect the customer to the transmission grid

(ii) **Benefit-Based Charges** (BBC) – based on a one-off forward-looking assessment of the beneficiaries of a new investment

(iii) **Residual Charges** – recover any other costs from load not recovered through other transmission charges

(iv) **Provisions for adjusting transmission charges** – consist of four adjustments: general adjustment provisions, reassignment provisions, a prudent discount policy, and a transitional cap.

Two key principles

We consider there to be two key principles underpinning the pass-through of transmission costs by distributors:

- **Principle 1** – distributors should not attempt a detailed replication of the allocation approach used in the TPM. Rather the allocation approach should be consistent with and have regard for the allocation approaches adopted by the TPM. In practice, this can be achieved by adopting the same underlying allocation drivers of demand (AMD) and usage (kWh) share.
- **Principle 2** – the pricing structures for the recovery of transmission costs should reflect the non-distortionary principle (prices should not influence the ongoing use of the grid) as outlined by the Authority in its Distribution Pricing: Practice Note.

Transpower

Transpower owns and operates the National Grid – the high voltage transmission network connecting areas of generation with towns and cities across New Zealand.

More information about the setting of the TPM can be found on their website at – www.transpower.co.nz/our-work/industry/transmission-pricing-methodology

Recommended approaches to passing through transmission charges

As an aid to pricing is a summary of our recommended approaches, based on the two key principles above, that distributors can choose to use when choosing how they will pass through transmission costs to their customers.

Irrelevant to the approach chosen by distributors, pass-through approaches must take account of each distributor's circumstances.

Connection charges – The approach to connection charges has not changed under the new TPM. Accordingly, it is recommended that distributors retain their existing methodology for allocating connection charges to pricing groups.

Residual charges – As with BBCs, residual charges are not intended to influence the existing customers' use of the transmission network. It is recommended that distributors recover these costs through fixed or fixed-like charges to the extent practicable.

Benefit Based charges – BBCs are not intended to influence the existing customers' use of the transmission network. Accordingly, the Authority has voiced a strong preference for distributors to recover costs through fixed or "fixed-like" charges.

To the extent practicable, we recommend that distributors recover BBCs through fixed charges, including:

- daily charge per ICP,
- installed capacity per kVA,

or a similar fixed charge approach.

Bespoke commercial arrangements for large users – The lagged approach to the allocation of charges means that where a large customer ceases to be connected to the distribution network, the EDB will continue to be charged transmission changes as though the customer is still connected for four years with the charges then phased out over the subsequent four years. To mitigate the impact of the exit of a large customer on the distributors remaining customers, the distributor could consider establishing bespoke commercial arrangements (i.e., bank bond or letter of credit) with its large customers to recover post-exit transmission charges from the customer exiting.

The Authority has provided high-level guidance

On page 20 of its Practice Note, the Authority provided its expectations for residential and small commercial consumers –

a. *fixed transmission charges, which are not intended to influence customers' network use decisions, should be passed through as fixed (daily) distribution charges*

b. *transmission charges intended to send price signals that influence network use should be passed through as distribution charges that send the same price signal (and influence network use in the same way) as the transmission charge.*

The Electricity Authority

The Authority supports distribution networks to set cost-reflective and efficient pricing through its Distribution Pricing: Practice Note.

www.ea.govt.nz/development/work-programme/pricing-cost-allocation/distribution-pricing-review/