

15 November 2018

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Dear Dane

### **Transpower IPP 2020 – Process, Framework and Approach Paper**

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission consultation paper Our process, framework and approach for setting Transpower's expenditure allowances, quality standards and individual price-quality path for 2020 to 2025, dated 25 October 2018.<sup>1</sup>
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. MEUG welcomes the early notice of the proposed process dates in table 1. We are comfortable with the proposed timetable. The background material on the regulatory framework in chapter 3 and appendix A is helpful to give context to the paper.
4. Initial views on the proposed approach follow:

- a) MEUG agrees with the goal set out in paragraph 4.9 and sub-paragraph 4.9.5 (text underlined highlighted by MEUG):

" We currently consider that by the end of RCP3, Transpower should be in a state where its investment decision making framework is underpinned, where appropriate, by a risk-based asset management approach that includes considering both asset health and criticality."

The above goal has been the objective ever since RCP1 commenced 8-years ago in July 2011. We think an innovative customer-centric business in a workably competitive market would have achieved this goal by now. Rather than expecting the goal should be achieved in another 6-years, we suggest it must be achieved.

The proposal in sub-paragraph 4.11.2 that if Transpower do not achieve this goal by the end of RCP3 then the Commission will take a more intrusive approach in the RCP4 reset is in effect a continuation of the current and prior years approaches. This business-as-usual approach has failed. It's time to consider other options to lift Transpower's performance.

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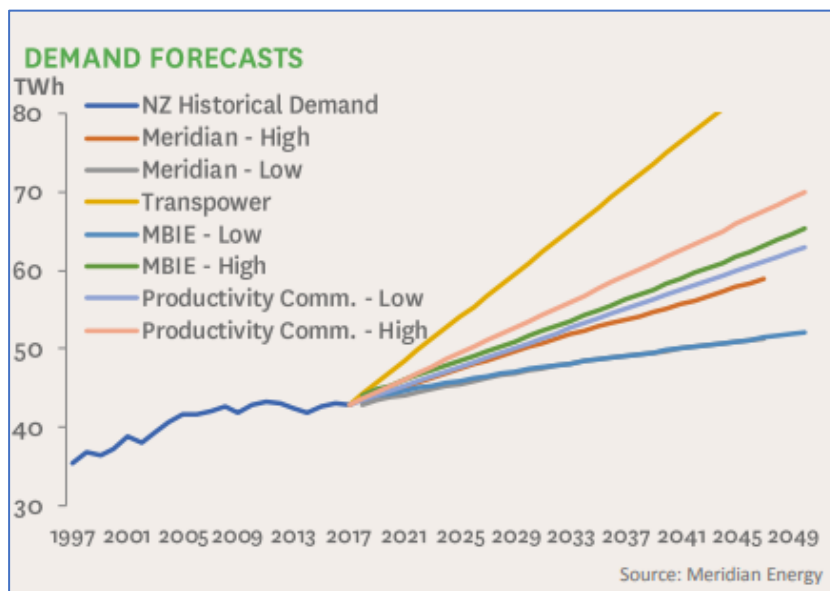
<sup>1</sup> URL <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-transmission/transpowers-price-quality-path/setting-transpowers-price-quality-path-from-2020?target=documents&root=102826>

- b) We acknowledge determining asset criticality is not a trivial exercise. The complexity of estimating asset criticality will increase as emerging technologies give consumers more options leading to greater diversity in preferences. More GXP will have two-way flows into and from the grid than today. This will require both Transpower and distributors to improve how they uncover end consumer preferences including the use of more rather than less sophistication and granularity of tariffs.

An example of how preferences and contracting models are changing follows. Batteries or other storage service providers at or feeding into an EDB substation at a GXP will, as they become economic, allow that EDB to choose a lower level of service reliability from Transpower to that GXP.

- c) Transpower's Te Mauri Hiko Energy Futures paper and submission to the Electricity Price Review are bullish on new generation being required by 2050 to meet demand growth significantly greater than recent demand growth. Transpower characterise RCP3 as a transition phase just ahead of their forecast increase in demand. Not considered in Te Mauri Hiko Energy Futures is what if the forecasts are materially wrong? There are multiple factors at play including what net demand distributors will have on the grid (see the example in prior paragraph) and that in turn will depend on if and how distribution and transmission pricing will change and what emerging technology options consumers might employ. Given these uncertainties, MEUG suggests there is a case to consider a 4-year rather than 5-year period for RCP3.
- d) The preceding sub-paragraph highlighted the importance of having a reasonable set of demand forecasts for grid services encompassing feasible scenarios. We are not confident the incentives on Transpower to develop a balanced view on the range of feasible scenarios are in place.<sup>2</sup> The following graphs illustrate that Transpower's electricity demand forecasts have been noted as an upper bound outlier by at least 2-suppliers:

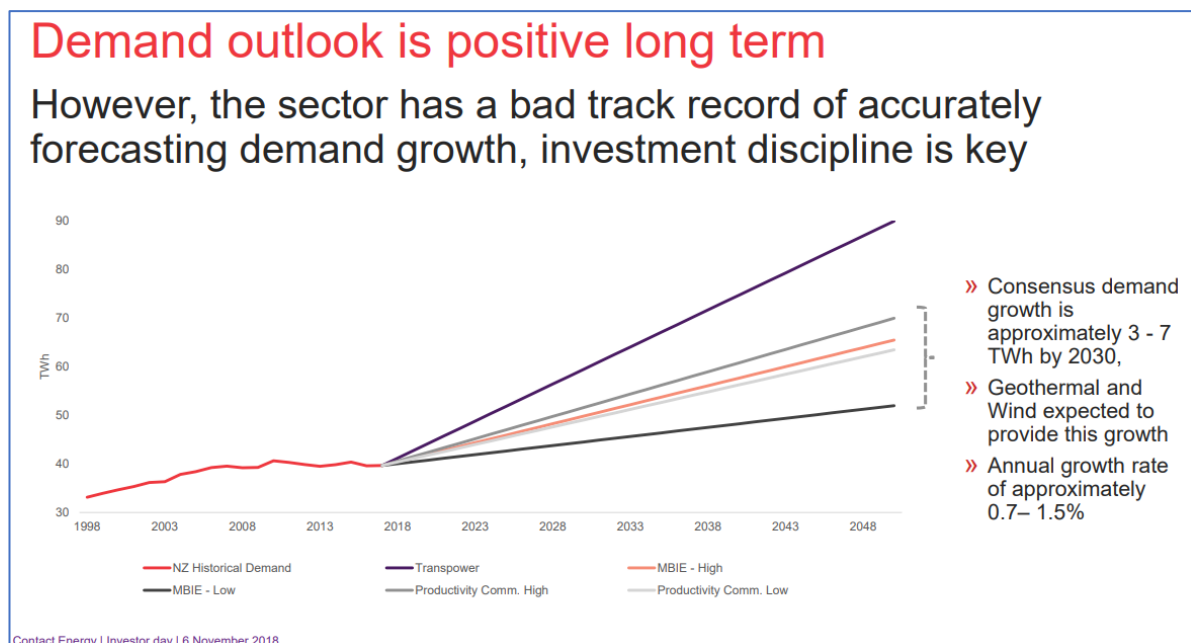
Forecast by Meridian Energy Limited<sup>3</sup>:



<sup>2</sup> The lack of an up to date version of MBIE's EDGS for RCP3 is a concern. For example, refer MEUG submission on the Electricity Price Review, response to question 33, bullet point 3, 24 October 2018, <http://www.meug.co.nz/node/958>.

<sup>3</sup> Meridian Energy retail Investor presentation, slide 5 July 2018, <https://www.meridianenergy.co.nz/assets/Investors/Reports-and-presentations/Investor-presentations/557d322286/NZX-Retail-Investor-Evening-Management-Presentation.pdf>

Forecast by Contact Energy Limited<sup>4</sup>:



- e) MEUG is open to considering the pros and cons of smoothing the revenue path over the term of RCP3.<sup>5</sup> However, at this stage we cannot see any significant advantage to consumers to support such a change.

The status quo puts pressure on Transpower to justify tariff changes. The risk of intense public scrutiny probably creates an incentive to minimise year to year spending volatility and lifts public awareness and participation in how Transpower is regulated. Those benefits will be lost with a smoothed revenue path.

- f) The piloting of an independent verifier for this reset should be reviewed after the November 2019 final IPP decisions are made. After that review a decision should be made on whether an independent verifier, as a requirement or an option, for future RCP resets should be formally included in the Input Methodologies or by a determination. While there may be benefits of using a verifier to ease the Commissions' workload with concurrent important workstreams, the downside is a loss of contact with Transpower to better understand what drives the company.
- g) Attachment C, Quantitative and qualitative summaries of Transpower's forecast expenditures, could include a column to check if transmission alternatives should have been and were adequately considered. That check is already embedded in major capex and listed capex investigations. Though the economics may be marginal today for base capex, there may be scenarios where transmission alternatives become viable and can be deployed by Transpower upstream of a GXP or within a distributors network or a grid connected customers site before the end of RCP3.

<sup>4</sup> Refer NZX web site, <https://www.nzx.com/announcements/32634>, Contact Energy 2018 Investor Day presentation, 6 November 2018, Slide 18.

<sup>5</sup> Consultation paper, paragraph 4.12 and chapter 6.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', with a long horizontal stroke extending to the right.

Ralph Matthes  
Executive Director