



MAJOR ELECTRICITY USERS' GROUP

28 June 2017

Keston Ruxton
Manager, EAD Regulation Development
Regulation Branch
Commerce Commission
By email to regulation.branch@comcom.govt.nz

Dear Keston

MEUG cross-submission on Transpower capex input methodology review

1. This is a cross-submission by the Major Electricity Users' Group (MEUG) on the submissions of other parties to the Commission consultation paper "Transpower capex input methodology review – Proposed focus areas for the capex IM review" published 15 May 2017.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. Only two topics are considered in this cross-submission: Other parties' views on the forecast need for transmission services and contracting.

The need for transmission services

4. The starting point for deciding ex ante Regulatory Control Period (RCP) capex and opex cost allocations is to scope forecast need for transmission services over the long-term. "Investment need" is a defined term in the Capex IM. The Capex IM sets out where information and analysis on investment needs are required. Different scenarios for the need for transmission services coupled with different cost of supply scenarios, including non-transmission solutions and options, can lead to different optimal solutions over the long-term. All this is well known.
5. What was surprising in submissions was a dearth of commentary by other parties on whether uncertainty about the forecast growth in need for transmission services was a problem. We think there is a risk the Capex IM treatment of the uncertainty in forecast need for transmission services may not be future proof given new technologies and business models using more granular data are likely to change how electricity line monopolies can monitor and assess demand and trade-offs between price and quality at a sub-regional or even finer level.

¹ Document URL <http://www.comcom.govt.nz/dmsdocument/15418> at <http://www.comcom.govt.nz/regulated-industries/input-methodologies-2/transpower-input-methodologies/capex-input-methodology-review/>,

6. MEUG is also not sure the current Capex IM has the right balance between giving Transpower latitude to uncover future needs and pressing Transpower to pursue new approaches at more than a pace they feel comfortable with. Participants in workably competitive markets are more often than not, in a state of being uncomfortable. This incentivises businesses to innovate and implement changes that benefit their customers ahead of their competitors.
7. NZIER's advice to MEUG put the case for making sure how needs are forecast based on consumer preferences and the need for Transpower to change its business to act on those forecasts as a key topic for the Capex IM review succinctly as follows (with text underlined by MEUG for emphasis):²

“As the outlook for peak demand transitions from ‘continuous growth’ to flatter demand with more volatile peaks the question for regulation of grid investment needs to shift from ‘is expansion in capacity occurring at the right speed?’ towards ‘what are consumer preferences for managing the grid reliability impacts or a small number of peaks and how can Transpower be encouraged to make decisions that reflect those preferences?’”

Contracts for non-transmission solutions

8. This section discusses one part of the how-to-meet-the-need part of the equation; namely non-transmission solutions (NTS) procured by Transpower contracting with third parties.
9. Several parties mentioned NTS contracts:
 - a) **Pioneer Energy** referred to “Grid Support Agreements”. [p3]
 - b) **Trustpower** was concerned about duration of contracts, [2.4, p2] and, the need for a level playing field for competition between Capex IM and transmission solutions. [2.4.4, p2]
 - c) **Contact Energy** mentioned: “If applied [... assess the likely cost benefit of different investment options ...] to competitive infrastructure like battery storage, we believe this requirement has the potential to distort Transpower’s RAB, and harm competitive markets.” [a] Also, the Grid Support Contract and Demand Response Agreements and their interaction. [b]
 - d) **IEGA** submitted that the regulatory regime should ensure “... distributed generation contracted as an alternative to transmission investment is compensated on the same basis as Transpower’s transmission assets ...”. [p3]
10. A cohesive regulatory regime would ensure an appropriate balance between Transpower choosing between commissioning its own projects and NTS contracts. By cohesive we mean Transpower is indifferent between electing to build-to-own or contract for equivalent services. To understand if that is true requires an assessment of the risk and reward for Transpower under either option. Transpower’s indifference between the build-to-own option and contracting for services option is partly dependent on the just about to commencement development of the “Transpower Works Agreement” (TWA). We are supportive of the TWA having, as far as is possible, similar terms and conditions in one generic format instead of the existing numerous be-spoke investment agreements.³

² NZIER to MEUG, Advice on Transpower Capex Input Methodology, 14 June 2017, http://www.meug.co.nz/system/files_force/Transpower%20Capex%20IM%20Advice%2014.06.17%20Final_0.pdf?download=1

³ MEUG to Transpower, Comments on draft Transpower Works Agreement, 26 February 2016, http://www.meug.co.nz/system/files_force/MEUG%20to%20Transpower%2C%20Transpower%20Works%20Agreement%2C%2026-Feb-16.pdf?download=1

11. MEUG suggests emerging technologies are likely to become more economic and this will lead to a greater supply of economic NTS compared to conventional transmission assets. Uncertainty on how NTS contracts fit into the overall regulatory regime, including the cost of capital Transpower applies to its build-to-own investments or those built under the TWA, and how those terms and conditions might change in the future will dampen economically viable NTS being developed and offered as a procurement option for Transpower. Accordingly, MEUG recommends a key topic in the Capex IM review is whether the treatment of contracts for NTS can be improved. This would include a reconciliation of the allocation of risk within Part 4, including the Capex IM, with existing and future third party contracts.

Yours sincerely

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

Ralph Matthes
Executive Director