

27 June 2017

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

Dear Keston

Transpower Capex IM Review- Cross Submission

Orion New Zealand Limited (**Orion**) welcomes the opportunity to comment on submissions to the Commerce Commission's (the **Commission**) paper "Proposed focus areas for the capex IM review", 15 May 2017.

- 1 We are making this cross submission from the following perspective:
 - 1.1 The regulatory regime for Transpower potentially provides a precursor to future distribution regulatory treatments.
- 2 Orion sees alignment in submissions on the merits of a staged approach to infrastructure investment particularly for major capex projects. Orion supports this view and the flexibility benefits for ensuring the right investment occurs at the right time.
- 3 A number of views exist around base capex given the requirement for flexibility in an uncertain environment. An uncertain environment may require short term decisions as opposed to long term decisions for the benefit of consumers in light of emerging technology. Considering base capex on a fungible allowance basis provides flexibility over the RCP period to adjust thinking and plans to be more responsive to the needs of customers and market investment options.
- 4 Orion agrees that more visibility on Transpower's website of forward plans, events and consultations would assist its customers.
- 5 Annual publication of a forward plan such as an ITP (or AMP) requires considerable time, planning and resource. We feel that moving this expectation to a quarterly or half yearly basis adds unnecessary administrative burden. This goes counter to Transpower's signal that policies and procedures adjustments should be removed.
- 6 The Performance Incentive Payment scheme mentioned by the MEUG submission "is not a term and condition of employment" and only applies to the CEO and GMTs. While performance criteria that meet Transpower's company objectives (which no doubt have alignment with the Commission's objectives) seems appropriate the same cannot be said for mandating this via a regulatory regime. This seems an inappropriate step.

- 7 A number of submissions commented on the differing cost of capital between a potential transmission and transmission alternative being an impediment to alternatives being implemented. The submissions conflict on the proposition of lowering Transpower's WACC, increasing Transpower's WACC or Transpower providing contractual relief from risk for other parties. Contracting for risk sharing is appropriate on a commercial basis although making this a function of regulation may not be. Providing a level playing field should not extend to adjusting Transpower's WACC to align with the differing risk profile of competing options.
- 8 We support Transpower's suggestion to increase disclosure of *works under construction*.
- 9 Discussion about flexibility between opex and capex spending suggests that it may be a worthwhile consideration. This would initiate the shift to an outcomes based approach giving Transpower greater freedom to choose the more suitable cost effective solution and be innovative.

Concluding remarks

- 10 Thank you for the opportunity to make this submission. We do not consider that any part of this submission is confidential. If you have any questions please contact Dayle Parris (Regulatory Manager), DDI 03 363 9874, email dayle.parris@oriongroup.co.nz.

Yours sincerely

Dayle Parris
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