TRANSPOWER
Keeping the energy flowing

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19 July 2019

Dane Gunnel
Manager, Price-Quality Regulation
Commerce Commission

By email: regulation.branch@comcom.govt.nz

Proposed amendments to Input Methodologies

Thank you for the opportunity to cross-submit in response to the consultation on *Proposed amendments to input methodologies for electricity distributors and Transpower New Zealand,* published 29 May 2019.

Increases in revenue from price changes and avoiding price shocks

Both ENA and Vector raised issues with the interaction between the operation of the price cap (an annual limit on price increases) and Transpower's charges.

ENA is concerned that *"For example, proposed changes to the Transmission Pricing Methodology may result in the net lines revenue being compromised the gross price cap [sic] and also result in other EDB incurred recoverable costs not being able to be included in revenue for some EDBs."*[1]

Vector similarly raised concern that *"Vector and other EDBs face the possibility of large external price shocks that are beyond our control, including … increases to Transpower's charges, for example arising from changes to the Transmission Pricing Methodology (TPM)" and "While the EA's latest TPM proposals have not yet been released, the previous proposal in 2016 would have raised Vector's transmission charges by $50 million per annum or more [footnote removed]. This alone would use up all of the 10% cap proposed by the Commission, leaving no room for any smoothing to our network charges."*[2]

We consider these concerns highlight that price quality regulation by the Commerce Commission (under Part 4 of the Commerce Act), and regulation of transmission and distribution pricing methodologies by the Electricity Authority, should be co-ordinated. We note that the Commerce Act includes price shock as a consideration for the Commission in setting alternative price-quality paths for suppliers,[3] but the Electricity Industry Act does not direct the Electricity Authority to do the same.

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[1] ENA submission page 2
[2] Vector submission pages 16 - 17
[3] Section 53P (8) Commerce Act 1986.

We consider it is to the long-term benefit of consumers that price shocks be minimised. One way to avoid or minimise price shocks would be for both regulators to adopt the same approach to the cap on annual price increases. This approach would be consistent with ENA and Vector's recommendation that the distribution price cap be set on a net revenue basis.

We have previously recommended to the Electricity Authority that it applies the same approach to price increases under the TPM that the Commerce Commission applies to price caps under Part 4 Commerce Act.[4] Our recommendation would help minimise price shocks for consumers regardless of the cause of the potential price shock.

Investment requirements to meet growth in Auckland

Vector's submission details the large increase in capex forecast to meet Auckland demand growth etc. Vector noted "The scale of this increase is comparable to what Transpower faced". We agree.

Vector's situation highlights the challenges that can arise trying to operate the DPP regime in a low-cost manner, while the individual circumstances of regulated suppliers can vary a great deal. This isn't an issue Transpower faces under the IPP regime, or that Chorus will face under the new Telecommunications Act IPP regime for fibre services.

One of the potential outcomes of Vector's capex programme is that the average age of its network will reduce substantially, as has happened with our own network over the last 15 years. This is likely relevant to the matter of technology risk individual regulated suppliers face, and relevant to decisions over, for example, accelerated depreciation.

Please do contact us if you have any questions about this submission,

Yours sincerely

David Knight
Acting Chief Financial Officer

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[4] Transpower, TPM 2nd Issues Paper, Supplementary Consultation Transpower Submission, February 2017, section 4.