25 October 2022

Regulation Branch
Commerce Commission
Level 9, 44 The Terrace
Wellington 6011

Via email infrastructure.regulation@comcom.govt.nz

Tēnā koutou,

Feedback on draft decision: Transpower IPP changes for costs of TPM

This draft decision aligns with an important principle – expenditure driven by changes to regulatory settings should be recoverable. An efficient process for recovery of costs for uncertain projects or changes from third parties is also relevant for Electricity Distributor expenditure. Powerco's summary views on the draft decision are set out below.

Regulatory change cost must be recoverable The draft decision is appropriate as it provides for actual costs to be recovered. Electricity distributors regularly adapt to decisions from the Electricity Authority which can have direct implications for opex and capex allowances (and would have been factored into the Authority's cost-benefit analysis). Looking ahead, we expect this to occur as the Authority implements its workplan. The regulatory mechanisms for addressing these events may need refining to reflect this. For example:

- The amendments proposed in the draft decision for the 2021-22 period are lower than the 1% threshold typically used as a benchmark for IPP reconsideration.
- Initial costs to implement regulatory change can be significant, while ongoing costs can be closer to incremental to BAU, reinforcing the need for flexibility in thresholds and a mechanism to provide for out-year increases based on forecasts.

There may also be value in recording these costs for the Authority to carry out post-implementation reviews of its decisions.

An efficient process for confirming the forecast costs is warranted Actual costs incurred for 2021-22 are clear as they have already occurred. For forecast costs, a pragmatic approach to dealing with the range of costs is warranted. For example, the Transpower forecast TPM implementation costs for FY22 – 25 could be included in opex and capex allowances at least at the lower level of the forecast ranges. There is often a level of uncertainty in forecasting costs for new or changed activities eg see the Electricity Authority's consultation on levy funded appropriations[1]. In this case, where Transpower is implementing an Electricity Authority decision, an efficient outcome should minimise the effort to confirm final allowances. This could involve Commerce Commission and Transpower addressing the mechanics and the outcome being published. As an overarching principle, administrative processes for changes to allowances should be proportionate to the costs and risks involved to consumers.

If you have any questions regarding this submission or would like to talk further on the points we have raised above, please contact Irene Clarke ([redacted]).

Nāku noa, nā,

[redacted]

Andrew Kerr
Head of Policy, Regulation, and Markets
POWERCO

[1] The Electricity Authority is consulting on proposed 2022/23 and 2023/24 levy-funded appropriations which it proposes to endorse in advance of actual expenditure and based on limited published detail on the breakdown of the forecast.