21 February 2024

Project Manager, Transpower and Gas

Commerce Commission

By email to: infrastructure.regulation@comcom.govt.nz

Tēnā koutou,

Transpower's individual price-quality path for the next regulatory control period – Issues Paper

Thank you for the opportunity to respond to the Transpower individual price-quality path (IPP) issues paper.

Electricity transmission services are a key enabler of the electrification and decarbonisation of the New Zealand economy. It is essential that Transpower is able to make efficient investments, in line with our previous submission in support of the NZGP1 proposal, including the upgrade to the HVDC line.

However, it is also important that the Commission carefully considers the potential for a price-shock for end-users. In the past consumers have been protected from price shocks from transmission increases as they were captured under the revenue smoothing limits applied to distribution businesses.

In the 2023 IM Review Final Decision the Commission stated:

> *we consider that Transpower is better placed than EDBs to manage volatility in transmission charges. We therefore consider that the appropriate place to manage transmission cost volatility is either via the TPM or in Transpower's IPP setting.*
>
> *…*
>
> *On balance, we consider our decision to reclassify transmission charges as passthrough costs for EDBs - and to rely on the TPM or Transpower's IPP to manage volatility in transmission costs - better aligns with our risk allocation principle and better promotes incentives to innovate and invest (s 52A(1)(a)), compared to the proposed alternatives.*[1]

We do not consider that the issues paper adequately undertakes this assessment of the impact on consumers. The consideration of the impact on consumers appears to be confined to footnote 208, where the Commission states:

> *Although an increase in transmission charges overall of 24.9% might still be considered more than moderate, we expect this would convert to an average consumer electricity bill effect of approximately 3% or less, which we would not consider to be a price shock at the consumer level.*[2]

Increasing consumer charges by almost a quarter is significant. We do not consider that dividing it by the value of an average retail bill is a reasonable justification, especially when

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[1] https://comcom.govt.nz/__data/assets/pdf_file/0023/337613/Part-4-IM-Review-2023-Final-decision-Risks-and-Incentives-topic-paper-13-December-2023.pdf, para D79-D81.

[2] https://comcom.govt.nz/__data/assets/pdf_file/0020/341435/Transpower-RCP4-Issues-Paper-25-January-2024.pdf, p116

the Commission knows there are other cost pressures on consumer bills, including distribution cost increases that the Commission is directly responsible for.

Assuming the Commission retains the 10%+CPI definition of a consumer price shock for distribution businesses the cumulative increase in lines charges for the average bill will be more than 15%. The Commission has previously considered a 15% increase to be inappropriate,[3] we are unaware of any evidence to support a change in view.

The Commission should consider more price smoothing scenarios than those presented in figure 10.2. There should also be scenarios that spread the significant increase in costs over more than one regulatory period. This would address the potential for a step down into RCP5.[4]

Smoothing revenue increases over more than one regulatory period remains consistent with preserving NPV, and there is regulatory precedent for doing so:

- In the first reset under the Part 4 regime in 2012 the Commission smoothed revenue increases for Alpine Energy, Centralines, The Lines Company, and Top Energy over two regulatory periods. Due to the shortened nature of the first regulatory period this meant costs were recovered over a 7-year period.[5]
- The regulation of fibre services under Part 6 of the Telecommunications Act 2001 established a 'financial losses asset'. This was to account for losses incurred during the construction of the UFB network. It therefore functions in a similar way to multi-period smoothing as there was a period of under-recovery followed by a period where revenues are allowed to increase to maintain long term NPV. The Commission determined that it was appropriate to recover these costs over 14.2 years.[6]

We are sensitive to the financeability concerns of spreading costs over multiple periods. It is in consumers long-term interests that Transpower has sufficient cashflows to undertake necessary investment. We encourage Transpower and the Commission to undertake financeability analysis to determine whether it is viable to spread recovery over multiple periods and reduce price pressures for consumers.

Please contact me at [redacted] if you wish to discuss further.

Ngā Mihi,

[redacted]

Brett Woods

Head of Regulatory and Government Relations

Contact Energy.

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[3] https://comcom.govt.nz/__data/assets/pdf_file/0027/63297/Final-determination-on-resetting-the-2010-15-default-price-quality-paths-for-16-electricity-distributors-30-November-2012.pdf, para 6.10.
[4] https://comcom.govt.nz/__data/assets/pdf_file/0020/341435/Transpower-RCP4-Issues-Paper-25-January-2024.pdf, para 10.27.
[5] https://comcom.govt.nz/__data/assets/pdf_file/0027/63297/Final-determination-on-resetting-the-2010-15-default-price-quality-paths-for-16-electricity-distributors-30-November-2012.pdf, chapter 6.
[6] https://comcom.govt.nz/__data/assets/pdf_file/0028/273475/ChorusE28099-price-quality-path-from-1-January-2022-Final-decision-Reasons-paper-16-December-2021.pdf, para 6.31.