



TRANSPOWER

Keeping the energy flowing

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Dane Gunnel
Manager, Price-Quality Regulation
Commerce Commission

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

Default Price-Quality Paths from 1 April 2020

We appreciate the opportunity to submit to the Commission's consultation *Default price-quality paths for electricity distribution businesses from 1 April 2020 – Draft decision*, published 29 May 2019.

We suggest amendment to clause 3.1.3 *recoverable costs* in the Electricity Distribution Input Methodologies (IMs) to reflect potential funding arrangements for transmission investment contracts.

Changes to treatment of *recoverable costs* from investment contracts

Electricity Distribution Businesses (EDBs) are permitted to pass on to consumers Transpower's charges under investment contracts as a *recoverable cost* (clause 3.1.3(1)(c) of the Electricity Distribution Input Methodologies (IMs)).

We understand some EDBs may choose to service the investment contracts by accessing credit from third parties such as banks. We consider access to lower-cost finance for assets built under investment contracts is prudent because of the potential to reduce overall costs for EDBs, and, therefore, consumers.

Currently, the costs under any third-party credit arrangements are not permitted to be recovered by EDBs as a *recoverable cost* under the Electricity Distribution IMs.

In our view, the Electricity Distribution IM should be amended to provide the costs of third party finance contracts with unrelated third parties to fund costs under investment contracts are a *recoverable cost*. We suggest drafting for clause 3.1.3(1)(c) as follows:

A recoverable cost is...

... (c) a charge payable:

- (i) by an **EDB to Transpower** in respect of a new investment contract (as 'new investment contract' is defined in the Electricity Industry Participation Code) between those parties, or an equivalent type of contract; or
- (ii) by an **EDB** to a non-related party financier of the amounts payable to **Transpower** in respect of a new investment contract (as 'new investment

contract' is defined in the Electricity Industry Participation Code) between
an **EDB** and **Transpower**, or an equivalent type of contract ...
provided that in respect of a new investment contract an EDB may only treat as
recoverable costs the charges in (i) or (ii);

Please do contact us if you would like to discuss our submission further.

Yours sincerely

A handwritten signature in blue ink, appearing to read "David Knight". The signature is stylized and cursive.

David Knight
Acting Chief Financial Officer