

MAJOR ELECTRICITY USERS' GROUP

27 June 2014

Paolo Ryan
Commerce Commission

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

Dear Paolo

Transpower individual price-quality path submission

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission paper¹ "Setting Transpower's individual price-quality path for 2015-2020, Reasons for draft decision", dated 16th May 2014, ie the "the draft IPP reasons paper".
2. This submission also references the draft IPP determination published 30th May 2014².
3. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential. Several members will also be making submissions.

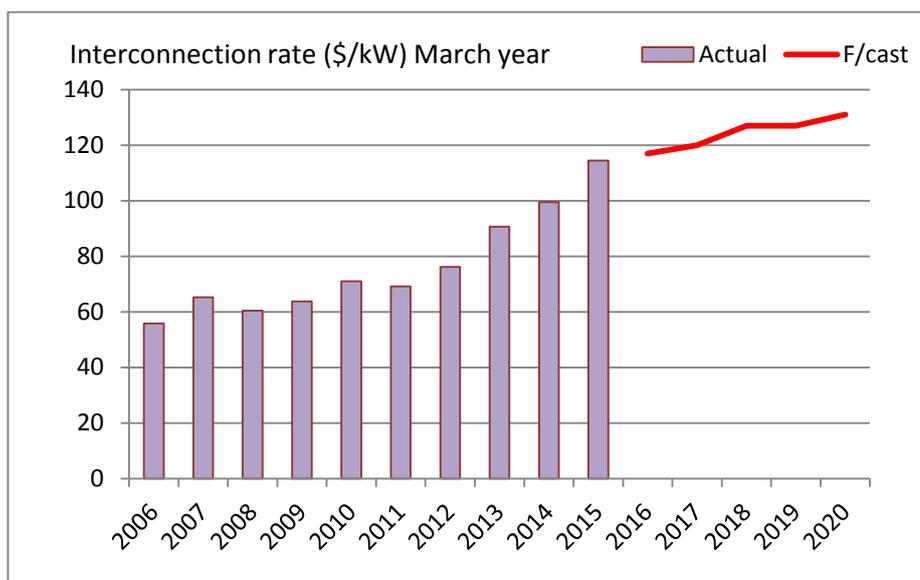
The broader context

4. Transpower's services are important to almost every household and business in New Zealand. With almost a billion dollars per year of charges consumers need Transpower to make efficient investment decisions and be at the highest tier ranking of operational productivity of equivalent size and age networks. Even very large electricity consumers have difficulty with assessing the detail in the proposal by Transpower and the material published by the Commission to decide how far away from world best practice we are. Publication of a few dashboard type indicators would assist consumers understand if they should be concerned or not with the gap between and proposed rate of progress towards achieving world best practice.
5. We simply don't know if we are getting good, indifferent or poor transmission service compared with peer networks.

¹ Document URL <http://www.comcom.govt.nz/dmsdocument/11897> found at <http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-individual-price-quality-regulation/transpowers-price-quality-path-from-2015-to-2020/>

² Same website as above, document URL <http://www.comcom.govt.nz/dmsdocument/11942>

6. One important benchmark of any service is price. Actual to date interconnection rates and forecasts³ by Transpower follow:



7. For the forecast 5 years of RCP2 interconnection rates are expected to increase by 14% having already increased over the 5 years prior to 1st April 2015 by 61%. Based on Transpower's proposal over the 10 years prior to and including RCP2 the average annual compounding rate of increase in interconnection charges will be 6.3% per year, ie a total change over ten years of 85%. This is incredible. No competitive business that we are aware of has been able to charge year on year increase prices at such a rate over a ten year span that included the GFC in 2008-09.
8. On the metric of unit price the proposed IPP price path fails.
9. With relatively flat forecast demand and assuming there will be business-as-usual productivity improvements; then unit prices should decrease. Moreover having just been through a large capital works programme we would expect in a competitive market that economies of scale with new plant would drive unit prices down.
10. If the Commission's final IPP path price decision results in forecast unit transmission costs decreasing then that would be a measure of success. If the Commission cannot find a price path where unit prices are declining then MEUG suggests that points to a more fundamental policy issues such as the treatment of uneconomic assets. That issue is beyond the scope of the IPP determination but we flag it in this submission just as we have with Ministers⁴ and the Electricity Authority⁵ on previous occasions.

³ Transpower, 2015/16 to 2019/20 Transmission Revenue, 9th December 2013, p5, refer

⁴ MEUG letter to Ministers, Improving productivity in the electricity sector, 17th June 2013, page 10, document URL <http://www.meug.co.nz/includes/download.aspx?ID=128750> found at <http://www.meug.co.nz/Site/Publications.aspx>

⁵ MEUG to EA, Consultation Paper – Transmission Pricing Methodology: issues and proposal, 28th February 2013, paragraphs 7 and 13 c), document URL <http://www.meug.co.nz/includes/download.aspx?ID=126486> found at <http://www.meug.co.nz/Site/submissions.aspx>

Draft key decision features

11. Referring to the 28 key decision features listed in table 3.1 MEUG:

- a) Agrees with key design feature #'s 1-7, 11-15, 19, 21 and 22 carried over unchanged from Regulatory Control Period 1 (RCP1).
- b) Agrees with those new or changed decision features for RCP2 relative to RCP1 listed as #'s 8, 9, 17, 18, 20, 23, 24, 27 and 28.
- c) MEUG disagrees with the new feature #16 "EV adjustments will be smoothed to avoid pricing shock effects" discussed in paragraphs 3.38 to 3.46 on pages 33 and 34. The draft IPP reasons papers notes price shocks are likely to arise due to major capex over-expenditures and in paragraph 3.44 states "such adjustments for project overspends will be in consumers' favour and therefore should arguably be returned to consumers at the next available opportunity." MEUG agrees.

Paragraph 3.44 continues "However, we consider there is a balance between giving consumers such a temporary reduction in prices for one year and the objective of predictability of future prices". MEUG suggests most end customers would prefer early receipt of payments they have been over-charged for rather than having a longer smoothed but "predictable" price path. Allowing smoothing of monies owed to end customers will lead to inequities whereby customers that have been over-charged but subsequently cease taking line services will not receive their share of overpayments whilst newcomer customers will receive a windfall gain.

- d) The above comments on inequitable outcomes by delaying settlement of EV balances supports another concern of MEUG with the drawn out re-payment to consumers of pre RCP1 HVAC EV balances. MEUG recommends the Commission consider changing the draft decision feature #13 "legacy 2011 EV account balances are to be cleared by the end of RCP2."

In addition to the inequity noted above, MEUG is concerned that consumers are being denied access to monies owing and will be compensated for the time value of money at Transpower's regulated WACC whereas their opportunity cost of capital will be higher. It would be impractical to ascertain the time value of money for each type of customer and compensate them differentially to retain a smoothed repayment of monies. A cleaner approach is to change this design feature and require Transpower to pay customers the remaining positive balance in the HVAC EV account immediately.

MEUG sees no reason why the treatment of the 2011 positive HVAC EV account balance owing to customers and the HVDC negative HVDC EV account (owed by South Island generators) should be treated the same. If Transpower is prepared to accept deferred settlement of the HVDC EV account so be it.

- e) At a high level we agree with a process to allow "The forecast MAR may be updated during RCP2 to take into account of approved listed contingent events" (key design feature #25) discussed in paragraphs 3.63 to 3.71 on pages 36 and 37. At a detailed level the Commission in considering a request for approval should require Transpower to disclose any consequential or supplementary incremental savings in opex or capex from the existing plan or economies of scope with existing work.
- f) The criteria whereby "additional opex approved after a catastrophic event may be recovered in recoverable costs" (#25 and detailed in appendix D) needs to reflect the business reality of non-regulated companies that not every possible downside risk can be insured. MEUG is still considering this issue.

Draft opex and base capex

12. MEUG agrees with the proposal not to have an allowance for Consumer Guarantees Act indemnity payments as discussed in paragraphs 5.72 to 5.79 on pages 64 to 65.
13. MEUG suggests clarity on a Demand response programme⁶ will require careful integration and alignment of governance for demand response work managed by the grid owner, the system operator, the Electricity Authority and Commerce Commission. We are not convinced any funding should be approved for the grid owner to implement demand response as a transmission alternative ahead of knowing there is an integrated plan to maximise current and nascent demand response including consumers making optimal decisions to invest in processes and capital in any or all of the following:
 - To respond to forecast spot prices;
 - To become Dispatch Capable Load Station and thereby offer into the dispatchable demand regime;
 - To offer into the reserves market;
 - In the future possibly supply frequency services;
 - In the future possibly supply extended reserves;
 - Offer demand response as a distribution alternatives; and
 - Offer demand response as a transmission alternative.

We may comment further once we view Transpower's submission and consulted with other parties.

14. MEUG looks forward to Transpower in submissions proposing⁷ "an appropriate incentive mechanism that links \$34.2m of expenditure to delivered levels of asset health". MEUG will comment on that proposal in cross-submissions.

Draft grid output measures linked to revenue

15. No suggested changes.

Draft non-revenue linked grid output measures

16. Referring to the nine performance-based grid output measures(OM) proposed for RCP2 listed in table 4.2 MEUG has one comment:
 - a) OM7 is "Energy not supplied for each point of service for each interruption". This is defined in the draft IPP determination in cl. 21.1.8 with reference to "Unserviced Energy". MEUG suggest the definition of "Unserviced Energy" be defined as demand forgone because of an outage until the consumer could reasonably resume to take supply rather than when transmission services were restored. This information will be of more value to Transpower to understand the impact on individual end customers that might otherwise be considered to be equal because transmission assets were livened at the same time.
17. MEUG members will be making more detailed submissions on the draft non-revenue linked grid output measures.

⁶ Paragraphs 5.80 to 5.89, pp 65-66

⁷ Paragraph X22, p8. Also mentioned paragraph 3.21, p29

Draft business improvement initiatives

18. MEUG has one comment on the list⁸ of suggested business improvement initiatives in table 6.1:
 - a) The last suggested initiative in the table is to “develop measures to assess market impact of forecast vs actual outages” and a suggested monitoring measure is “annual report on market impact of forecast vs actual outages”. MEUG suggests if lessons are to be quickly learned and adaptations to business practice implemented in a timely fashion then these reports should be published monthly not annually. More frequent publication would allow discussions between Transpower and its customers on emerging trends and quicker decisions to implement changes for the benefit of customers.
19. We look forward to discussing options with Transpower ahead of the company lodging the proposed report on business improvement initiatives with the Commission by 1st July 2015 and that report being the basis for annual progress reports.

Yours sincerely



Ralph Matthes
Executive Director

⁸ Draft IPP reasons paper, p74