

10th March 2014

Paolo Ryan
Commerce Commission
PO Box 2351
Wellington 6140

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

Dear Paolo

Cross Submission on the IPP Issues Paper

This letter sets out our response to the submissions you received from stakeholders on the IPP Issues Paper.¹

We have attached a set of clarifications and additional information. Below, we summarise the main points:

Opex Productivity

Transpower continuously strives to achieve productivity gains.

In aggregate, our proposal will see us deliver improved service performance while reducing costs (in real terms) i.e. becoming more productive. To achieve this we will need to improve productivity across all areas of our business, particularly by realising increased performance from our systems and workforce. We have included such improvements across all major Opex categories (as well as in our Capex proposals).

Service Performance Measures

We welcome the constructive suggestions on how we can best provide information and updates on our performance.

The targets we have proposed represent a significant improvement in our service performance and the associated revenue mechanism provides a strong and appropriate incentive for us to achieve those improvements.

We note the points raised on the measures themselves and the suggestions for amending some of the targets. Having considered these, we are of the view that the suite of measures and associated targets should remain as proposed. This view reflects the transitional nature of the framework and our limited experience with the proposed incentive regime.

¹ "Invitation to have your say on Transpower's individual price-quality path and proposal for the next regulatory control period: Issues Paper" dated 10 February 2014.

Consumer Guarantees Act (CGA)

The regulatory arrangements should provide compensation for the expected, efficient costs of providing the CGA indemnity. This outcome, contrary to MEUG's submission, would be consistent with a workably competitive market. In Transpower's context, compensation could be provided through the opex allowance or by treating the costs as "recoverable".

We appreciate the Commission's concerns about adopting a policy that simply neutralises the indemnity. Therefore, we intend to develop and submit a proposed self-insurance allowance as an addition to our previous Opex proposal.

Yours sincerely



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