

June 27, 2019

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Transpower's individual price-quality path from April 2020

Submission to the Commerce Commission

Final

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1. ENA

The Electricity Networks Association (ENA) welcomes the opportunity to submit on Transpower's individual price-quality (IPP) path from 1 April 2020.

The ENA represents all New Zealand's 27¹ electricity distribution businesses (EDBs) or lines companies, which provide critical infrastructure to New Zealand residential and business customers.

Nearly all electricity consumers are connected to a network operated by an ENA member, distributing power to and from consumers through overhead wires and underground cables.

Together, EDB networks total 150,000 km of lines. Some of the largest distribution network companies are partially publicly listed or privately owned, or owned by local government, but most are owned by consumer or community trusts.

2. Introductory comments

Transpower has dual roles as system operator and grid operator. Total funds employed are nearly \$6 billion and total operating revenue is over \$1 billion.²

As one of the four pillars of New Zealand's electricity supply industry (the others being generation, distribution, and retailing), Transpower is a significant monopoly regulated by the Commerce Commission.

Such a key part of New Zealand's infrastructure deserves proper scrutiny during significant periods of change, such as the reset of an individual price path (IPP) for a five-year period encompassing \$4.3 billion of maximum allowed revenues.

This IPP consultation is large and complex, involving a 374-page reasons paper, a 77-page determination, and five supporting documents.

ENA members are the major customers of Transpower, as they directly fund the bulk of Transpower's revenues.

ENA believes that the ability of its members to properly scrutinise Transpower's IPP is significantly constrained by the timing of this consultation, which coincides with the reset of the default price path (DPP) for electricity distribution businesses. The importance of the next regulatory control period focuses EDBs' efforts on the DPP reset and away from the Transpower IPP.

While we understand the legislative deadlines on the Commission to complete the various price paths by December, and welcome Transpower's and the Commission's admirable efforts to gather feedback through submissions and cross submissions, it's important to highlight that the concurrency of these

¹ Powernet is one member and comprises three individual businesses: Electricity Invercargill, The Power Co, and OtagoNet.

² Transpower 2017/18 annual report

IPP and DPP consultations limits effective feedback, and therefore could diminish the quality of your consultation.

There does not seem any significant reason why the commission releases both draft determinations on the same day (May 29) – possibly there is one.

ENA submits that in future the two consultations could be staggered, which should improve the quantity and quality of feedback, and certainly increase the focus on this key regulatory reset.

3. Customer engagement

ENA welcomes the commission's focus on enhancing Transpower's customer engagement³.

However we would exercise caution in using the terms "customer" and "consumer".

"Consumer" is defined broadly in the draft determination⁴ as "any generator, distribution business, end user, or other entity in New Zealand that is connected, or applies to be connected, to the grid".

Customer is defined as "the meaning given in section 52C of the (Commerce) Act (1986)". ENA could not find this definition in the quoted part of the Act – though interestingly "consumer" is defined in section 52C as "a person that consumes or acquires regulated goods or services".

While some would say that the terms "consumer" and "customer" are interchangeable, others would not, which creates ambiguity. For example, many ENA members consider retailers as their "customers" but they might not consider them "consumers". Similarly, members would consider end users of electricity as both "consumers" **and** "customers". It's important that the Commission's final determination is unambiguous.

ENA recommends that the Commission uses clear language in defining the terms "customer" and "consumer", as there are multiple meanings.

Putting definitions aside, we agree that Transpower needs to better understand consumer (using the above definition) preferences regarding price-quality trade-offs, and take these into account when making asset management, planning and investment decisions.

ENA and EDBs are similarly focused on enhancing feedback loops with end consumers, especially in the context of quality standards and pricing.

For example, ENA has established a Consumer Reference Panel of consumer stakeholder representatives, and held consumer focus groups workshops in urban and rural areas to help understand consumer views on, for example, reform of distribution pricing.

³ Commerce Commission, *Transpower's individual price-quality path from 1 April 2020 – Draft decisions and reasons paper*, 29 May 2019, p336

⁴ Ibid, p8

And one of the clear messages emerging from the Electricity Pricing Review was the need for improvement in customer engagement across the entire electricity sector.

This mood for change has been captured in the IPP draft determination, which stated that customer consultation was one of the “key focus areas⁵” in the reset.

While Transpower has set up a Consumer Advisory Panel, talks to individual electricity distribution businesses, and sought submissions on its IPP reset issues paper, the Commission has suggested in its draft determination some improvements in engagement.

These include:

- publish an engagement plan for RCP3 by 1 October 2020;
- report at the end of each disclosure year on whether, how, and how well Transpower consulted with customers;
- measure customer satisfaction levels.

ENA agrees with the Commission’s focus on meaningful and reportable engagement between Transpower and consumers, which by definition include electricity distribution businesses.

Increasing engagement will result in better outcomes for all consumers and increase coordination and cooperation across the four pillars of the sector.

It could also be useful as input into a possible Consumer Advisory Council, which is one of the options being considered by the Electricity Pricing Review Panel.

4. Pass through

In the reasons paper, the commission says that Transpower will pass on most of the reduction in the WACC through lower transmission charges⁶. These reductions would be passed to Transpower’s immediate customers (which are mostly distributors but also generators and direct connects)

“We consider that the proposed RCP3 price path would promote the long-term benefit of consumers if electricity retailers and local lines companies pass on to retail consumers the price reductions from Transpower,” the commission said.

We strongly agree with this statement, and emphasise that this comment applies only to retailers.

Distributors revenues will next year be capped by the commission, and EDBs are already required to transparently pass through transmission changes. Retailers, especially the larger retailers, routinely bundle distribution and transmission charges into their own price plans, which makes it difficult or impossible to unpick any movements in regulated pricing.

⁵ Commerce Commission, *Analyst briefing slides*, May 2019, p29

⁶ *Ibid*, p6

ENA members have various views on this bundling and lack of pass through. While a minority see benefits of bundling, most ENA members acknowledge that bundling causes issues, especially in the context of changes to distribution pricing.

Some ENA members would prefer complete transparency of distribution/transmission charges – a practice adopted by some retailers, such as Flick.

An ENA analysis found that, all things being equal, the regulated rate of return from non-exempt EDPs and Transpower would lower revenue requirements by a combined \$300 million.

The reasons paper says Transpower HVAC (generally impacting consumers) and HVDC revenues (generally impacting gentailers) will fall 9.4 percent in 2020/21 from the previous year⁷.

While the actual impacts on revenues vary from EDB to EDB, based on a variety of factors, the average revenue requirements will fall – and ENA expects that retailers will pass through these reductions to consumers.

As such, ENA strongly endorses the Commission’s statement that transmission price reductions should be passed through by retailers to end consumers.

5. Revenue Smoothing

The commission is commended for changing the design of the price path to make transmission pricing less volatile and more predictable from year to year.

It has correctly pointed out that volatility in prices “can lead to increased difficulty of budgeting for transmission line charges”⁸. Variability in Transpower’s income is currently a major source of revenue instability for EDBs⁹.

As already stated, the majority of Transpower revenue is recovered from electricity distributors. ENA is aware of distributors seeing volatility in their connection and interconnection charges in the current regulatory period.

This has created issues for some EDBs, which have had to alter their pricing significantly from year to year.

6. FENZ levies

ENA supports the commission’s draft decision to add Fire and Emergency New Zealand levies as a recoverable cost (previously opex).

⁷ Ibid, p7

⁸ Ibid p322

⁹ Vector, *Transpower IPP 2020 – Issues Paper submission to Commerce Commission*, February 2019.

FENZ levies have increased significantly due to restructuring of fire and emergency response and greater revenue requirements. Transpower has forecast its levy to increase by \$2.7 million, on top of what it already pays.

Treatment of FENZ levies as recoverable is consistent with the approach the commission has taken under the proposed DPP that will apply to EDBs.

7. Conclusion

- Feedback on Transpower's IPP would be enhanced if the consultation period did not coincide with the EDB's default price path reset consultation.
- To avoid ambiguity, the words "consumer" and "customer" must be clearly defined in the final determination.
- ENA supports the Commission's focus on enhancing engagement between Transpower and consumers, which, as defined in the draft determination, include distribution companies.
- ENA strongly agrees that retailers should pass through reductions in Transpower charges, as this would promote the long-term benefit of consumers.
- ENA supports the commission's draft decision to add Fire and Emergency New Zealand levies as a recoverable cost.

Appendix 1: ENA Members

Alpine Energy
Aurora Energy
Buller Electricity
Centralines
Counties Power
Eastland Network
Electra
EA Networks
Horizon Energy Distribution
Mainpower
Marlborough Lines
Nelson Electricity
Network Tasman
Network Waitaki
Northpower
Orion New Zealand
Powerco
PowerNet (including The Power Company, Electricity Invercargill, and OtagoNet)
Scanpower
The Lines Company
Top Energy
Unison Networks
Vector
Waipa Networks
WEL Networks
Wellington Electricity
Westpower