

27 June 2019

Dane Gunnell (Manager, Price-quality Regulation)  
c/o regulation.branch@comcom.govt.nz

## Transpower IPP 2020 – Draft decisions

This letter sets out Meridian’s response to the Commission invitation for submitters to provide their views on the Commission’s draft decisions and reasons paper in respect of Transpower’s IPP from 1 April 2020.

Meridian supports many aspects of the Commission’s draft decision. We note in particular the key non-financial draft decisions summarised at paragraph X 17 and the Commission’s efforts, at least in relation to the next Regulatory Control Period, to provide greater visibility of the effectiveness of the efficiency incentives to which Transpower is subject (paragraphs I38 and I39).

However, we also note the Commission has not, it seems, responded to our submission that a straightforward assessment of whether Transpower’s proposed costs are the “...efficient costs of a prudent supplier of electricity transmission services...” may not adequately capture the Commission’s reset task. The Commission cites previous papers in which it has successively applied this assessment standard none of which, so far as we can tell, explicitly link the standard to the purpose of Part 4 of the Commerce Act.

The Commission says that for both capex and opex decisions it will be “guided by whether Transpower’s proposal is consistent with an expenditure outcome which represents the efficient costs of a prudent supplier”.<sup>1</sup> It also says this is consistent with the Part 4 purpose.<sup>2</sup> We can agree with that statement to some extent but we question whether it is completely consistent with the Part 4 purpose in the sense that it captures it all.

For example, it’s not clear how decisions guided in this way enable the Commission to deliver on the key wording in the Part 4 purpose of “promoting outcomes...consistent with outcomes produced in competitive markets.” The Commission states that in applying the concept of an “expenditure outcome representing the efficient costs of a prudent supplier” it considers such a supplier is one whose standards reflect Good Electricity Industry Practice as defined in the Electricity Industry Participation Code 2010. That definition requires that Transpower meet the level of “good international practice” expected from the owner of a transmission network. As transmission networks are typically natural monopolies and few owners of transmission networks are engaged in competition with anyone else it is not clear how holding Transpower to this standard can produce outcomes consistent with outcomes produced in competitive markets.

We are also disappointed the Commission has not:

- Consistently with section 53A, done more to ensure interested parties have the information to assess whether Transpower does have incentives to improve efficiency;
- Analysed if and how Transpower has responded over RCP 2 to the efficiency incentives that the Commission has put in place; or

---

<sup>1</sup> B8 and B18 of the draft decision.

<sup>2</sup> B9 of the draft decision.

- Provided any such information or analysis to submitters as part of the 2020 – 2025 Transpower IPP reset.

Meridian submitted that the Commission should carry out “...a systematic analysis of the way IRIS has operated and the effect of IRIS on Transpower’s rate of return...”. The Commission has declined to act on this submission but nevertheless asserts, at paragraph 2.33:

*Our form of regulation for Transpower, revenue-cap regulation, involves setting a revenue path which Transpower can outperform and thereby earn additional profits. This is an important way to incentivise efficiencies which are later passed back to customers at the next regulatory period.*

As noted in Meridian’s submission the EPR confirmed that over the course of RCP2 Transpower has outperformed and has earned additional profits. If this really is “...an important way to incentivise efficiencies...” then the Commission should have been able, consistently with its statement above, to quantify or to at least explain the efficiencies which are now being passed back to customers as a result. So far as we can tell there is nothing in the Commission’s Decisions Paper that does this. This would seem to raise questions as to the effectiveness of the regulatory regime to which Transpower is subject.

Finally, we note that the Commission has not commented on our submission in respect of the verification process. Our previous submission noted that the Commission will put considerable reliance on the verifier in decisions and we submitted that it would be much more appropriate for verifiers to be contracted by the Commission than by the regulated supplier. We also raised concerns regarding the verifiers use of subcontractors and management of conflicts of interest.

Please contact me if you have any questions.

Yours sincerely



Jason Woolley  
Head of Regulatory Affairs