

15 July 2024

Matthew Clark
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Commerce Commission
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Sent via email: infrastructure.regulation@comcom.govt.nz

Dear Matthew

Cross-submission: Transpower IPP 2025 – Draft decision

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission's draft decision paper "*Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025*"¹ and supporting material published for consultation on 29 May 2024.
2. MEUG members have been consulted on the approach to this cross-submission. Members may lodge separate cross-submissions. This cross-submission does not contain any confidential information and can be published on the Commission's website unaltered.

Impact on consumers must be recognised

3. MEUG's cross-submission focuses on high-level comments, due to our limited time to review the submissions made by other stakeholders, alongside our focus on commenting on the draft decision for EDBs for DPP4. The magnitude and impact of this draft decision for Transpower on end consumers is well understood by all stakeholders, with many concerned about how this will impact businesses and how it may increase the level of energy hardship faced by New Zealanders. For example:

"...this will be a significant increase at a time when many domestic and small business consumers face difficulties paying for power.....Price increases that exacerbate energy hardship will not serve consumers' interests" (Consumer Advocacy Council)²

"...the Commerce Commission's proposed Transpower RCP4 is projecting significant price increases which Fonterra as an exporter cannot pass through to internationally traded dairy products." (Fonterra).³

¹ https://comcom.govt.nz/data/assets/pdf_file/0025/353860/Draft-Decision-for-Transpowers-IPP-commencing-1-April-2025-29-May-2024.pdf

² https://comcom.govt.nz/data/assets/pdf_file/0024/357072/Consumer-Advocacy-Council-Submission-on-RCP4-Draft-decision-26-June-2024.pdf

³ https://comcom.govt.nz/data/assets/pdf_file/0025/357073/Fonterra-Submission-on-RCP4-Draft-decision-papers-26-June-2024.pdf

4. Consumers are simply not in a position to just absorb the forecast increase in transmission charges, without it negatively impacting on business profitability or personal wellbeing, despite the benefits possible from a reliable and secure electricity network. We agree with Meridian's⁴ statement that:

"...it is critical that the greater public understands the full quanta of the expected cost increases (i.e. from April 2025 and the subsequent years – consumers should be aware that the necessary downside of smoothing is that network costs will continue to build for all five years in the regulatory control period) and the reasons for the increases."

5. MEUG has long advocated for better communications and transparency around electricity pricing, noting the challenges with both opaque transmission and distribution pricing methodologies, and the need to "demystify" how prices are established.⁵ The ability to forecast inputs is essential for businesses as they look to manage costs and make informed and effective energy procurement decisions. We encourage the Commission and the Electricity Authority to work with sector participants to see how the final decisions for both Transpower and EDBs can be better communicated to all types of consumers.

Concern about viability of re-openers

6. We support the concerns raised by Vector⁶ about the expected use of re-openers over the coming regulatory control period:

"We are concerned about the workability of relying solely on re-openers given the constraints on the Commission's resources involved (along with those of the applicant and other interested stakeholders). Both Transpower and EDBs may need to rely on re-openers throughout the period. It is critical there are mechanisms to provide access to funding in a smooth, efficient and timely way".

7. In its draft decisions for both Transpower and EDBs, the Commission appears to expect several regulated businesses to come back in for re-openers over the coming regulatory period, once greater certainty of projects and information is available to the regulated businesses. MEUG recognises that re-openers can be an effective tool for dealing with this increased need for investment, once information is known. However, it is important that this process is robust and incorporates proper consumer engagement. Multiple re-opener consultations could also place stress on consumer bodies, who have limited resources to engage fully through with submission process. Different approaches to consultation may be needed, to ensure interested and affected consumers can provide input into the Commission's process.

Call for broader review of regulatory framework

8. From our review of the submissions, many stakeholders have called for improvements to the regulatory regime that oversees Transpower. For example:

"The Council believes the significant increases being proposed in both transmission and distribution costs highlight the wider need to review current approaches to forecasting and approving network revenue. The aim of this review should be to ensure decision making is informed by consumer-centric and integrated planning."

"We also consider a review should examine the rate of return that Transpower, as a monopoly supplier, is permitted to make."⁷

⁴ https://comcom.govt.nz/data/assets/pdf_file/0027/357075/Meridian-Submission-on-RCP4-Draft-decision-26-June-2024.pdf

⁵ <http://www.meug.co.nz/node/1331>

⁶ https://comcom.govt.nz/data/assets/pdf_file/0024/357081/Vector-Electricity-Submission-on-RCP4-Draft-decision-26-June-2024.pdf

⁷ Paragraphs 5 and 6, Consumer Advocacy Council submission.

“..Meridian queries whether these increases and decreases in the weighted average cost of capital (WACC) are in the best interests of consumers. We wonder whether there is scope for the Commission to work with the Ministry of Business Innovation and Employment on processes for smoothing the WACC across longer terms. This may help to avoid some of the consumer price shocks that result when the WACC significantly increases after coming off a low base, as is proposed in the draft decisions.”⁸

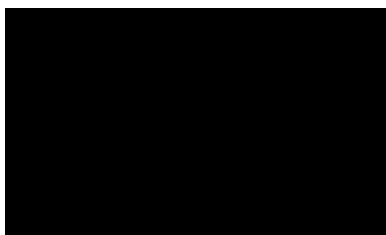
“We recommend the commission considers how information provided by Transpower in annual reports will be reviewed and explain what measures will be taken if planned work is significantly delayed or not able to be progressed. These measures should include reducing the revenue that can be recovered from consumers.”⁹

9. As noted in our submission,¹⁰ we consider that there are a range of broader issues that need to be examined to ensure we have regulatory framework that is fit for purpose. We encourage Commission staff to raise these issues with MBIE and the Government.

Next steps

10. If you have any questions regarding our submission, please contact MEUG on [REDACTED] or via email at [REDACTED]

Yours sincerely



Karen Boyes
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⁸ Page 3, Meridian submission.

⁹ Paragraph 25, Consumer Advocacy Council submission.

¹⁰ <http://www.meug.co.nz/node/1373>.