

6 October 2022

Matthew Clark
Manager, Transpower and Gas
Commerce Commission
By email to infrastructure.regulation@comcom.govt.nz

Dear Matthew

Transpower E&D base capex projects reopener

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission draft decision paper "Transpower's 2020-2025 IPP – Draft decision on enhancement and development base capex projects – 21 September 2022."¹ In abbreviated form referred to as the RCP3 IPP E&D reopener.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may also make separate submissions.
3. MEUG agrees with the draft decision to reopen the RCP3 IPP to allow four additional E&D base capex projects with an estimated forecast value of \$40.6m in nominal prices. MEUG agrees with the draft decision not to approve \$0.55m for the Otahuhu-Whakamaru C variable line ratings project subject to viewing submissions from other parties.
4. Some generators and distributors, and occasionally direct or near-direct grid connected consumers, may be able to provide detailed comments on E&D reopener proposals. Most consumers will not have the expertise and resources to interrogate specific proposals in detail as the money at stake per consumer is small. Hence consumers rely on the technical expertise of the Commission to consider and provide an assurance on the merits of proposed additional E&D.
5. Nevertheless, it would be helpful if Transpower in making an E&D reopener application to have a short narrative to put the scale of the proposed E&D reopener into perspective for an average consumer. The same applies to the draft decision consultation by the Commission. For example, a short narrative might put the application and draft decision into perspective as follows:

¹ Draft decision paper URL https://comcom.govt.nz/_data/assets/pdf_file/0025/293128/Transpower27s-2020-2025-IPP-Draft-decision-on-enhancement-and-development-base-capex-projects-21-September-2022.pdf and Transpower application dated 25 May 2022 URL https://comcom.govt.nz/_data/assets/pdf_file/0024/293127/Transpower-Application-to-reconsider-IPP-for-revenue-control-period-3-25-May-2022.pdf at <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-transmission/transpowers-price-quality-path/setting-transpowers-price-quality-path-from-2020>.

- Approving \$40.6m is a lot of money. However, compared to the total RCP3 IPP base capex of around \$1 billion (in total over 5-years) it is a small additional fraction.
- The actual capex expenditure of \$40.6m over the balance of RCP3 that ends 31 March 2025 will flow through to transmission charges over many years and decades. Even a rule of thumb range of estimated impact on charges would be useful for the average consumer.

For example, and these are not actual estimates but illustrative, on average every \$1m of E&D base capex will within first full one to three years after commissioning add around \$70,000 per annum, +/- \$15,000, to total transmission charges (this year totalling around \$800m). Incremental E&D base capex related annual charges will on average decrease over time until the assets are fully depreciated ranging between 20 years and 40 years economic life.

It would be helpful to have an estimate of annual benefits that offset the incremental transmission charges. That may be challenging, nevertheless even a broad estimate of benefits will assist the average consumer put some perspective on the proposed additional E&D.

6. The suggestions above are intended to supplement rather than replace for future re-openers the useful introductory analysis in the draft decision paper in paragraphs 1.4 to 1.11 under the header “Why Transpower applied for additional base capex allowance.”

Yours sincerely



Ralph Matthes
Executive Director