



14 June 2017

Keston Ruxton  
Manager, EAD Regulation Development  
Regulation Branch  
Commerce Commission  
WELLINGTON

By email: [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Dear Keston,

**Trustpower Limited**  
**Head Office**  
108 Durham Street  
Tauranga  
Postal Address:  
Private Bag 12023  
Tauranga Mail Centre  
Tauranga 3143  
**F** 0800 32 93 02  
**Offices in**  
Auckland  
Wellington  
Christchurch  
Oamaru  
**Freephone**  
0800 87 87 87  
[trustpower.co.nz](http://trustpower.co.nz)

## TRUSTPOWER SUBMISSION: PROPOSED FOCUS AREAS FOR THE CAPEX IM REVIEW

### 1 Introduction and overview

- 1.1.1 Trustpower Limited (Trustpower) welcomes the opportunity to provide a submission to the Commerce Commission (**the Commission**) on its *Proposed focus areas for the capex IM review* consultation paper (**the Consultation Paper**).
- 1.1.2 Firstly, we thank the Commission for the opportunity to attend the knowledge-sharing workshop (**the workshop**) on 24 May. We found this an extremely useful exercise, and it increased our understanding of the capex IM considerably. We would recommend a similar workshop is held at the conclusion of the submission period, by which stage submitters' views will be much more informed and considered. Such a workshop would provide valuable opportunities for submitters to inform each other of their views, and for the Commission and other parties to ask questions to understand fully the views that have been put forward by others – ensuring that stakeholders are not talking past each other.
- 1.1.3 We have elected to focus this submission on just two key points, relating to focus areas 1 and 2 in the Consultation Paper. These points are covered in the remainder of this submission.

### 2 Focus area 1

- 2.1.1 The Commission's key question relating to focus area 1 is:

*“Given the changing landscape in the energy sector, are there adjustments that could be made to the capex IM to better ensure the right transmission investments are being made, including non-transmission solutions?”*

## **2.2 Potential for reduction of the existing threshold**

- 2.2.1 We wholeheartedly support the requirements on Transpower to seek non-transmission solutions, and would look to provide such transmission alternatives to Transpower wherever possible.
- 2.2.2 We propose that the Commission considers explicitly the costs and benefits of reducing the threshold for base capex projects or programmes below the current \$20 million level, and ensuring that the processes for engendering and assessing non-transmission solutions are as robust and effective as possible.
- 2.2.3 It may be the case that some transmission projects (including base capex) are more conducive to non-transmission alternatives than others. Therefore, the Commission should consider whether an absolute dollar threshold is the right one.

## **2.3 Support for a staged approach**

- 2.3.1 Similarly, we would support a staged approach to approving transmission investments (as discussed in the Commission's focus area 3), as it may also be the case that new alternatives have come to light (and other critical assumptions changed) in the intervening periods. This may require more constant updating of key assumptions (and provision of these to stakeholders) by Transpower.
- 2.3.2 A re-assessment could also be initiated after an investment has been approved, if/when new information came to light. However, such a process should also account for the costs of any irreversible decisions made either by Transpower itself, or any providers of non-transmission solutions.

## **2.4 Mechanisms for funding of non-transmission solutions**

- 2.4.1 As part of focus area 1, the Commission should also consider the duration of the contracts Transpower is able to strike with the providers of transmission alternatives, and what types of projects are likely to be surfaced and supported with contracts of different lengths.
- 2.4.2 For example, if Transpower is only able to offer the provider of a non-transmission a contract of (say) five years (until its next reset), this may not provide the certainty required by an investor in a new long-lived, capital-intensive asset such as a new power station.
- 2.4.3 It may be the case that there are currently no constraints on Transpower's ability and incentives to strike contracts of any duration, but this topic is likely to be of particular interest to providers of non-transmission solutions and so it is worth exploring in detail.
- 2.4.4 We think it will also be important for the Commission to engage directly with existing and potential providers of non-transmission solutions to ensure that the process within the capex IM meets their needs, and provides a level playing field for competition between these and transmission solutions. This may also extend to the Commission having some oversight of the process of assessment between the different solutions.

## **2.5 Applicability of the concepts of the capex IM to investment in distribution businesses**

- 2.5.1 While it is out of the scope of this review, we would also support the Commission examining the costs and benefits of mandating an equivalent requirement on electricity distribution businesses to test the market for distribution alternatives, prior to any major investment decisions they make.

2.5.2 We refer the Commission to our submission on the IMs review of August 2016<sup>1</sup>, including its supporting expert reports. In particular, section 3.4 of that submission discussed the frameworks that could (or should) apply to investment decision-making by regulated transmission and distribution businesses.

### 3 Focus area 2

3.1.1 The Commission's key question relating to focus area 2 is:

*“Does the capex IM support a proportionate approach to scrutiny?”*

#### 3.2 Consistency between the capex IM and the TPM

3.2.1 We raised a point in the workshop about the consistency of approach between the Electricity Authority (**the Authority**) in its review of the Transmission Pricing Methodology (**TPM**), and the Commission in its capex IM.

3.2.2 One of the key features of the Authority's proposed TPM is that it will require long-term forecasts of market outcomes (i.e. over 30+ years), with and without specific transmission assets. These forecasts are required to determine who the beneficiaries of specific transmission assets may be (i.e. it is an “asset-based”, beneficiaries-pay approach). These forecasts would, by necessity, include predictions of parties entering and exiting the market, and what their behaviour in the market would be. Parties' transmission charges would then be based on those estimated benefits, with the charges for an asset allocated among the deemed beneficiaries on a pro rata basis.

3.2.3 One of the motivations for this approach is the idea that, when faced with more targeted cost allocation, Transpower's customers (and its indirect customers, including end consumers) will engage more closely with the Commission's investment approval process under the capex IM.

3.2.4 It was therefore our assumption that the capex IM would be required to evolve to incorporate the requirements of the new TPM<sup>2</sup>. However, our current understanding is that no changes are anticipated for the benefits test under the capex IM – the benefits of a new transmission investment would continue to be assessed largely on the bases of reductions in energy losses and savings of other resource costs. There would be no requirement for Transpower to undertake forecasts of market outcomes.

3.2.5 While we believe that creating such forecasts would be largely impracticable (and that even gaining agreement across stakeholders on the vast array of detailed assumptions and inputs would be unlikely), this does risk a potential misalignment between the requirements on Transpower under the new TPM, and the requirements on it under the capex IM. Any potential misalignment in forecasted benefits and costs for a specific transmission investment would create risks for transmission customers, and also risk undermining the aims of the new TPM.

3.2.6 Ideally, the benefits of a new transmission investment, as calculated under the capex IM, would match exactly the aggregate benefits of that investment used to determine the TPM charges for the deemed beneficiaries. This consistency is very important.

3.2.7 In order to ensure this consistency, we suggest that the forecasting requirements under the new TPM are included in the capex IM review as an explicit area of focus.

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<sup>1</sup> Available online at <http://www.comcom.govt.nz/dmsdocument/14566>

<sup>2</sup> We understand that consistency is also required under section 54V of the Commerce Act.

#### **4 Conclusion**

- 4.1.1 We look forward to continuing to work constructively with the Commission on its review of the capex IM.
- 4.1.2 For any questions relating to the material in this submission, please contact me on 07 572 9888.

Regards,

A handwritten signature in blue ink, appearing to read "J. Tipping".

**JAMES TIPPING**  
**MANAGER STRATEGY AND REGULATION**

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