

26 June 2024

Manager, Transpower and Gas
Commerce Commission
Wellington 6011

Vector Limited
110 Carlton Gore Road
PO Box 99882
Newmarket
Auckland 1149
+64 9 978 7788 / vector.co.nz

By email: infrastructure.regulation@comcom.govt.nz

Transpower IPP 2025 – Draft Decision

1. This is Vector's submission on the Commerce Commission's (Commission) Draft Decision on Transpower's 2025 Individual Price-Quality Path (IPP).
2. Since the draft decision was published New Zealand Aluminium Smelters has announced a long-term electricity supply contract with Meridian until 2044 for the Tiwai Point Aluminium Smelter. Although Transpower's major capex proposals are outside the scope of this consultation, it is worth noting Transpower's assumptions around major transmission investments may need to be reconsidered now Tiwai can be expected to stay until at least 2044.
3. We also note Transpower has stated the recent pylon collapse, which caused a major power outage in Northland, will be considered in an independent investigation. In addition, the Energy Minister has stated he would ask the Electricity Authority to review the incident and is considering a government investigation. The Electricity Authority also confirmed they will undertake a review.¹ Following these investigations, if the Commission needs to consider additional expenditure, for example for resilience, it should consult again on any changes.

IM amendments to implement RAB indexation

4. The Commission has accepted Transpower's proposed approach to implementing the RAB roll forward – to allow revaluations to be calculated on opening RAB less depreciation to align the GAAP and regulatory fixed asset registers – on the basis this will result in significantly lower compliance costs, in terms of upfront development costs and business as usual operating costs.²

¹ See: <https://www.nzherald.co.nz/nz/northland-power-outage-pylon-collapse-transpower-chief-executive-alison-andrew-to-make-announcement/77DBD3SCGFHNJHLAC654SKATKA/>

² Commerce Commission, *Proposed amendments to input methodologies for Transpower New Zealand Limited related to the 2025 Transpower individual price-quality path: Draft Decision* (29 May 2024) at 3.31

5. It is not clear from the Commission's paper how this will result in lower costs. The benefit appears short lived as, in the second year, the assets will have been revalued and therefore no longer the same value as assumed in the accounting fixed asset register.
6. It is also unclear in the Commission's paper how the approach would impact on the determination of gains / losses on asset disposals. We recommend the Commission release the models referred to in the paper so stakeholders can better understand the implications of the Commission's draft decision.
7. We are also interested in any read-across of the Commission's reasoning in regard to the EDB IMs, as these were amended in the last IM review to require an asset-by-asset calculation for the RAB roll forward (where revaluations are carried out on the opening RAB for each asset and not the opening RAB less depreciation).
8. In the draft decision, the Commission appears indifferent between the two approaches, based on its reasoning that there is no material difference between them and none in NPV terms. We recommend the Commission allow EDBs and GDBs to choose either of the two approaches.

Uncertainty mechanisms

9. We note the Commission's draft decision is not to implement Transpower's proposed use-it-or-lose-it (UIOLI) mechanisms. For example, for Transpower's proposed resilience UIOLI expenditure, the Commission has instead approved \$64.4m resilience capex as base capex (along with \$3.8m resilience opex) and for, *"for resilience UM expenditure we have not approved, we encourage Transpower to further develop its business cases and economic justifications and utilise the mid-period reopener process."*³
10. Similarly, Transpower had proposed a UIOLI mechanism for connection asset capacity issues related to customer electrification. The Commission implemented an anticipatory capacity mechanism as part of the IM review and noted that, *"Transpower may include smaller prospective ACA capacity investments, that are estimated to cost less than \$10 million, in the E&D portfolio of base capex proposals or use the mid-period E&D reopener."*⁴
11. 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.

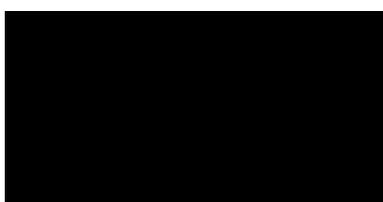
³ Ibid, at 3.19

⁴ Commerce Commission, *Transpower's individual price-quality path for the regulatory control period from 1 April 2025, Draft Decision Attachment B: Capex* at 5.12

12. As the Commission's Draft Decision acknowledges, "*there was considerable support for UIOLI funds in response to Transpower's draft proposal consultation in October 2022.*"⁵

13. We recommend the Commission give further consideration to utilising UIOLI mechanisms for both EDBs and Transpower in their fourth regulatory period. This would better promote the Part 4 purpose by providing greater certainty for EDBs and Transpower that they will be able to fund investments once the need for them becomes clear.

Yours sincerely



Richard Sharp
GM Economic Regulation and Pricing

⁵ Ibid at A30