21 December 2017

Keston Ruxton
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Commerce Commission
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Via email: regulation.branch@comcom.govt.nz

Dear Keston

Re: Transpower capex input methodology review: draft decision

1.1. Thank you for the opportunity to provide a cross submission. The points raised in this cross submission relate to Transpower's Capital Expenditure Input Methodology draft decision submission dated 12 December 2017.

Base capex consultation

1.2. In our submission we highlighted that Transpower's existing information disclosure provides third parties only with information on Transpower's base capex needs and, in some cases, initial options. We highlighted that these planning documents have very limited use to third parties as there is no cost/benefit analysis of shortlisted options and no preferred option analysis based on maximum net benefit or least net cost. These comments have been amplified by Transpower's own submission where Transpower notes,[1] with regard to its annual report on base capex and stakeholder engagement, that:

"Our base capex forecast need and costs are based on the best available information at the time each proposal is put together (up to seven years in advance of delivery)"[2]

and

1.3. *"During RCP2, we have cancelled, deferred and added projects based on information as it arose"*[3]

and

1.4. *"Significant uncertainties within the planning period make it difficult to accurately forecast which system needs will eventuate. The scenarios should not be viewed as a prescriptive list of investments that we will deliver in RCP3. To ensure we maintain dynamic efficiency within the portfolio we continually review investment requirements within the period as new information becomes available. We expect a number of*

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[1] Transpower submission dated 12 December 2017, Capital Expenditure Input Methodology draft decisions, p4

[2] " Ibid p3

[3] " Ibid p3

investments may be deferred beyond the RCP3 period, and others may be brought forward. Also, new system needs are likely to be identified".[4]

These statements are incongruous with Transpower's rationale for why additional reporting is not warranted.

"[Transpower] consider[s] the five-year cycle, combined with the annual processes under IPP and ID, already provide opportunity for scrutiny and engagement on our investment plans. We only support additional reporting under information disclosure on our base capex stakeholder engagement, where it is fit for purpose and the benefit outweighs the cost."

1.5. Accordingly, not only do Transpower's comments on base capex and stakeholder engagement say nothing about investment decisions, the points raised above highlight those made in our submission that the planning documents are exactly that, planning documents[5], and as such do not provide the sort of disclosure required for third parties to properly interrogate and evaluate the merits of the options Transpower selects for itself.

1.6. As a party keen to review and engage on Transpower's proposed investments, we disagree with Transpower's statement that:

"For base capex proposals, we consider the qualitative information at the time of the proposal, as well as periodic updates, provide efficient opportunities for consumers to review and engage with the benefits of our proposed investments".[6]

1.7. This point contradicts Transpower's earlier comment that the base capex proposals are up to seven years out and actual projects change materially, making the information provided at the time of the proposals largely irrelevant.

1.8. In our view Transpower's contradictory statements highlight the need to mandate the disclosure of relevant information and the process that the Commission requires Transpower to follow. This process must be project specific, and explicitly require Transpower to consider third-party non-transmission solutions, as well as consult externally on investment analysis and decisions.

1.9. As detailed in our previous submissions, this process must include the following:

1.9.1. Replacement and refurbishment projects. Transpower noted in its submission on the draft decision that these projects are *"less likely to provide opportunities for alternative solutions than enhancement projects".* Whilst that may be the case, it is not a reason not to include these projects in an external consultation process. Our previous submissions have included rationale for including these projects, and proposed Transpower use a 'screening test notice' for projects where it believes non-transmission solutions cannot defer or partly avoid traditional capex.

1.9.2. A low threshold for consultation. Transpower noted in its submission on the draft decision that *"the threshold for individual enhancement project scrutiny has lifted from $1.5m to $5m to $20m".* The $20m threshold applies for major capex and is justifiably high given the very significant process requirements. We also note that the Commission made the decision to lift the threshold in an

4 " Ibid p6

5 Contact Energy submission, p2

6 Transpower submission dated 12 December 2017, Capital Expenditure Input Methodology draft decisions, p5

environment prior to technology driving down the cost of non-transmission solutions. We have proposed a significantly streamlined consultation process for base capex <$20m, and encourage the Commission to fully explain any decisions it makes in relation to consultation and an appropriate threshold for base capex.

Other points

1.10. We note the Commission/Transpower[7] wish to increase Transpower's scope to invest in grid-scale storage by including grid-scale storage within the definition of non-transmission solution (NTS) and provide the ability for Transpower to "use NTSs to manage operation risks and optimise the timing of major capex projects during construction".

1.11. We oppose this on the basis that demand side management is already contained within the definition. There is no need for batteries to be funded as regulated monopoly assets, and there is nothing preventing Transpower from obtaining the transmission network benefits that batteries could provide through utilising regulated opex and contracting services from a third party.

1.12. Finally we question why the Commission's demand-based trigger only includes a mechanism to cover additional expenditure/revenue in the event that demand increases, i.e. an upwards trigger, but includes no trigger in the event demand is lower than forecast. This approach seems inconsistent to us and we believe that if an upwards trigger is to be applied it should apply equally in reverse.

1.13. We thank the Commission for its time and efforts in this process, and would be happy to discuss or engage further if it would be of assistance.

Yours sincerely

Louise Griffin
Head of Regulatory Affairs and Government Relations

[7] Ibid p10, B70