

26 June 2024

Commerce Commission
PO Box 2351
Wellington 6140

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

Submission on: *Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025 – draft decision paper*

Introduction

1. Thank you for the opportunity to make a submission on this paper. This submission is from the Consumer Advocacy Council, the independent advocate for residential and small business electricity consumers in New Zealand.
2. If you have any questions regarding our submission, please contact:

[Redacted contact information]

or

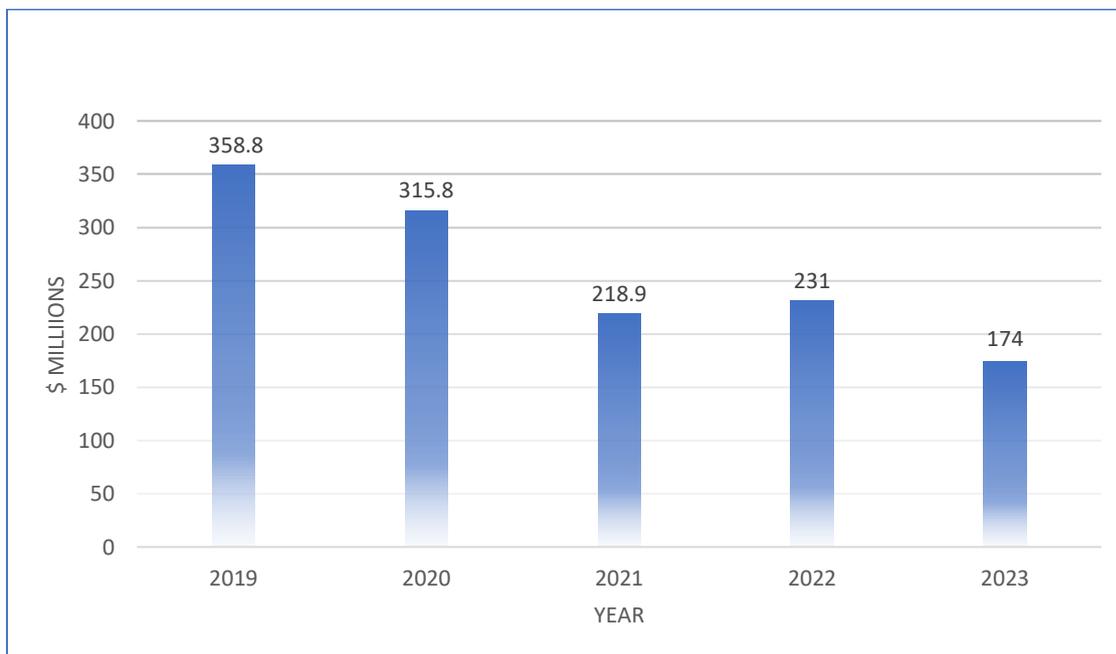
[Redacted contact information]

General comments

3. The draft decision paper proposes increasing Transpower's revenue to \$5.8 billion over the next five years. As the Council commented in its [previous submission](#), this will be a significant increase at a time when many domestic and small business consumers face difficulties paying for power.
4. While expenditure on the transmission network must be sufficient to support a reliable electricity system, it is equally important that electricity is affordable for consumers. Price increases that exacerbate energy hardship will not serve consumers' interests.
5. 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.

6. We also consider a review should examine the rate of return that Transpower, as a monopoly supplier, is permitted to make.
7. Transpower’s financial statements for the five years from 2019 to 2023 show it earned a combined net profit (before tax) of \$1.298 billion (Table 1). This is equivalent to 31% of the proposed capital and operating expenditure that Transpower will be able to recover from consumers for the 2025-2030 period.

Table 1: Transpower’s earnings before tax 2019-2023



Data are from Transpower’s annual financial statements, retrieved from companiesoffice.govt.nz.

8. Such a return for a monopoly supplier is arguably inconsistent with the purpose of [Part 4 of the Commerce Act](#) to “promote the long-term benefit of consumers,” particularly in light of [evidence that shows](#) a significant proportion of households are already experiencing energy hardship.
9. Our comments below highlight key issues that we consider require further attention in considering Transpower’s expenditure forecasts for 2025-2030.

Need for integrated planning to inform expenditure forecasts

10. The draft paper states the Commerce Commission’s expectation is that Transpower will operate as a “prudent supplier” and meet the planning and performance standards of good electricity industry practice. The definition of good practice relies on that provided in the [Electricity Industry Participation Code](#), which states:

*Good electricity industry practice in relation to transmission, means the exercise of that degree of skill, diligence, prudence, foresight and economic management, as determined by reference to **good international practice** [emphasis added], which would reasonably be expected from a skilled and experienced asset owner engaged in the management of a transmission network under conditions comparable to those applicable to the grid consistent with applicable law, safety and environmental protection. The determination is to take into*

account factors such as the relative size, duty, age and technological status of the relevant transmission network and the applicable law.

11. Internationally, good practice is recognising the need for an integrated approach to transmission and distribution planning. This type of approach aims to ensure transmission planning is not undertaken in isolation from distribution planning and that both meet consumers' needs.
12. In the US, the term "consumer-oriented integrated planning" is being used to refer to this approach. With this model, planning starts by looking at the needs of consumers, rather than those of network companies. Such an approach is increasingly being recognised as essential to ensuring affordability for consumers.
13. It is unclear to what extent an integrated planning approach is informing Transpower's expenditure forecasts, either in the short- or long-term. The Council's observation is that transmission planning and distribution planning are not well integrated, nor could they be described as consumer-centric.
14. As a result, the expenditure forecasts that provide the starting point for setting revenue allowances through the price-quality path process risk overstating funding requirements. In turn, this increases the risk of higher costs being passed on to consumers in monthly power bills.
15. The rapid development of new technologies in the energy sector makes the need for integrated planning more acute, particularly to avoid over-investment in infrastructure that could be superseded by technological developments, which provide lower-cost options.
16. For example, microgrids that are run locally (and are not tied to the national grid) offer the potential for a more efficient way of supplying power to some areas, particularly to geographically isolated communities. Such developments could lessen the need for future transmission expenditure requested by Transpower.
17. Before finalising its decision, we recommend the commission considers whether Transpower – operating as a prudent supplier that meets good electricity industry practice – is taking an integrated planning approach to inform its expenditure forecasts.
18. We recommend the commission also considers additional measures, such as new quality standards, that could be used to provide greater transparency about Transpower's planning processes and the extent to which it recognises and uses consumer-centric integrated planning approaches.

Operating expenditure assumptions

19. The draft decision paper concludes that Transpower's proposed use of 2022/23 as the base year for operational expenditure forecasts is "likely to result in prudent and efficient expenditure values" (para 3.35), noting that the base year spending is consistent with "its historical [operating expenditure] profile".
20. We have concerns with the implied assumption that historical operating expenditure is always a robust basis for forecasting future expenditure. Historic investment is not necessarily a reliable indicator of required future spending, particularly in an industry where technology is changing rapidly and consumer needs are also changing.

21. Given the above, we recommend the commission considers further whether there is sufficient and robust information to support the use of 2022/23 as a base year.

Transpower’s capacity to deliver work programme

22. We note the commission’s concerns regarding Transpower’s ability to recruit staff to deliver its planned work programme and the associated risks that consumers:

- will overpay for transmission costs
- may experience deteriorating network conditions if required work is delayed or not delivered.

23. We support the proposed introduction of an annual delivery reporting requirement for Transpower and agree this would help improve the transparency of information about its work programme. However, this information must be subject to independent scrutiny to ensure reporting is robust.

24. The [recent failure](#) on 20 June 2024 of a transmission tower causing power to Northland to be cut will inevitably raise questions for consumers about Transpower’s planning and workforce capacity. This was a major failure in winter, unrelated to any extreme weather, that left an estimated 100,000 consumers without electricity.

25. 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.

Thank you for the opportunity to make a submission.

Yours sincerely



Deborah Hart
Chair, Consumer Advocacy Council