



MAJOR ELECTRICITY USERS' GROUP

16 January 2018

Keston Ruxton
Manager, EAD Regulation Development
Regulation Branch
Commerce Commission
By email to regulation.branch@comcom.govt.nz

Dear Keston

MEUG cross-submission on draft Transpower capex input methodology decision

1. This is a cross-submission by the Major Electricity Users' Group (MEUG) on the submissions by Contact Energy and Transpower on the Commission draft decisions paper, Transpower capex input methodology review, 15 December 2017.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. This submission has 3 sections:
 - Support for Contact Energy submissions that Transpower publish more detailed information on options when lodging an Individual Price-Quality Path (IPP) application;
 - Rebuttal of Transpower's opposition to using a demand trigger mechanism for enhancement and development (E&D) expenditure less than \$20m; and
 - Rebuttal of Transpower opposing a requirement on Transpower to publish more granular estimates of changes in transmission charges with changes in base capex.
4. There is no change in view of MEUG from our submission of 8 December 2017 other than the additional new support for Contact Energy's proposal in the first bullet point above.
5. The two issues we do rebut in detail listed in the last 2-bullet points are the most critical policy decisions where there are differences of view.

¹ <http://www.comcom.govt.nz/regulated-industries/input-methodologies-2/transpower-input-methodologies/capex-input-methodology-review/>

IPP proposal should contain detailed option analysis

6. We agree with the following submissions by Contact Energy:

“Transpower’s existing information disclosure (including the integrated transmission plan) provides third parties only with information on Transpower’s base capex needs and, in some cases, an initial options identification. These are planning documents. By definition they do not include any options analysis. There is no cost/benefit analysis of shortlisted options and no preferred option analysis based on maximum net benefit or least net cost.”²

“We assume that Transpower’s existing base capex investment process will include the preparation of documentation similar to Powerco’s PODs and OAEETs. Requiring disclosure of this information for consultation would require little effort by Transpower and could only result in better outcomes for consumers.”³

7. MEUG believes Contact Energy have identified an opportunity to improve disclosures required when an IPP is lodged that will be helpful to consumers and their agents in providing feedback on proposed IPP. There would be minimal incremental cost to Transpower. We point out that:

- Evidence of the usefulness of such granular analysis on options is Contact Energy’s submission on the draft decision on the Powerco CPP application.⁴ In that submission Contact Energy demonstrated the value of more information on options considered and an opportunity for interested parties to provide feedback on the detail in an informed manner. The one failing in that CPP process was the PODs and OAEETs were not published sooner.

MEUG recommends Transpower publishes PODs and OAEETs or equivalent as early as possible in the IPP process and to allow sufficient time for feedback from interested parties. Transpower could be proactive and consult on this material before finalising and lodging an IPP application. As a backstop, we recommend the Commission include a requirement in the Capex IM requiring PODs and OAEETs or equivalent to be lodged with an IPP application. This still allows Transpower to choose if it wishes to consult widely or partially on detailed granular analysis of options ahead of finalising the IPP application.

- MEUG assumes PODs and OAEETs or equivalent are prepared by Transpower in a bottom up development of an IPP proposal and hence publishing these will not incur material compliance costs.
- As an aside note MEUG has separately suggested all Electricity Distribution Businesses publish the more granular information in PODs, OAEETs or similar as part of their annual Asset Management Plan disclosures.⁵

² Contact Energy submission, paragraph 10.

³ Ibid, paragraph 25. PODs refer to Project Overview Documents and OAEETs refer to Options Analysis and Economic Evaluation Tools.

⁴ Contact Energy submission to CC, Re: Powerco CPP draft decision, 15 December 2017, pp 2-10, refer <http://www.comcom.govt.nz/dmsdocument/16028>

⁵ MEUG to CC, Priorities for the electricity distribution sector for 2017/18 and beyond, 15 December 2017, paragraph 16, refer <http://www.meug.co.nz/node/896>

A demand trigger mechanism is needed

8. Transpower oppose the proposed demand trigger mechanism for E&D expenditure less than \$20m because:
 - The mechanism is disproportionate to any current harm of improvement; and
 - It will hamper Transpower's ability to be flexible ("by using the lever of substitutability"⁶).
9. We think Transpower have focussed on the additional complexity and compliance costs without considering the benefits of this mechanism as set out in the Commission's draft decision.⁷ That aside, the main issue for Transpower seems to be a risk of reduced flexibility to substitute capex. We believe the Commission has responded adequately to that concern in its draft decision.⁸
10. Transpower suggest their alternative to a demand trigger is better.⁹ We do not agree with Transpower's interpretation of the Commission's proposal as a mechanism for managing uncertainty from peak demand only whereas Transpower's proposal would also cover uncertainty in:
 - Generation
 - Commercial investment decisions/timing from others, eg industrial development, urban growth
 - Changing expectations of service levels from customers.

The first 2-points above seem to us clearly part of a how demand, be it gross or net, would need to be considered in designing a demand trigger mechanism. The last point on service levels is a matter for connection contract terms and conditions and be-spoke assets. We are not sure how non-connection E&D might allow differential service levels.

11. Finally, all parties, including the Commission, agree this is not a trivial proposal. However, we should not lose sight of the problems with the current requirements where for the current RCP2 Transpower proposed E&D over 5-years of \$136m, the Commission determined an allowance of \$104m, the latest Transpower forecast is for \$75m and actual spend for the first 2-years of RCP2 (40% of RCP completed) is \$15m.¹⁰

Transpower also, should publish more granular forecast price effects for base capex

12. Transpower note there are already disclosure requirements for benefits and costs related to major and listed capex projects. MEUG notes that where we may differ from Transpower is the detail of the benefits and costs that must be disclosed, in particular the level of granularity and range of forecast effects on transmission charges.¹¹ Until we see Transpower's response to our submission of 8 December we do not know for certain if they will agree or disagree to our proposed greater level of granularity for major and listed capex proposals.

⁶ Transpower submission, p2.

⁷ CC draft decision, discussion paragraph 153 to 161.

⁸ Ibid, paragraph 159.

⁹ Transpower submission, Appendix A.

¹⁰ CC draft decision, paragraph 154.

¹¹ MEUG submission, paragraphs 6 to 8.

13. There is a greater likelihood of a difference of view on the level of granularity for disclosure of forecast transmission pricing effects for base capex. MEUG has submitted the same more granular level of disclosure as we propose for major and listed capex as discussed in the preceding paragraph. Transpower consider the draft decision proposal for base capex would be “unworkable in practice.”¹² In that case MEUG’s submission that the draft decision for major, listed and base capex require more granular detail is unlikely to be supported by Transpower.
14. Transpower raise 4-points in opposing publication of estimates of the effect on transmission prices for different base capex projects.¹³ Those points and MEUG’s responses follow:
- Transpower - “difficulty in creating a credible counterfactual against which to assess the change effects.”

MEUG – agree Transpower cannot estimate a change in transmission charges unless there is at least 2-scenarios. We think there should be at least 3-scenarios, an expected and plausible high and low scenario.¹⁴ The counterfactual for assessing the effect on base capex costs would be the expected scenario.
 - Transpower – “deciding in advance which pricing year to apply any change in revenue to individual charges.”

MEUG – provided Transpower publish the approach they use in preparing a forecast and use that approach consistently in all cases then parties comparing different scenarios will benefit from looking at the relative change in a consistent manner.
 - Transpower – “explaining the above processes to customers to ensure the information is relevant.”

MEUG – not sure what explanatory issues might arise that might confuse consumers or their agents (retailers and aggregators). Estimating a change in price with different capex and opex scenarios against an expected case counterfactual is standard cost-benefit-analysis methodology.
 - Transpower – “Addressing the issues above would be complicated and we would forego more valuable business activity.”

MEUG – Agree there is complexity. However, Transpower has an overall incentive to be efficient as possible and therefore part of the solution to this risk is in its own hands. The other part to efficiently designing and implementing an approach to estimating transmission price changes with different base capex scenarios is for Transpower to work collaboratively with consumers and their agents on design and implementation. Consumers will not want to waste Transpower’s time providing excessively detailed granular forecasts prone to wide error bounds when something less granular will be sufficient.

Yours sincerely



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Executive Director

¹² Transpower submission, p5.

¹³ All 4-points are found on Transpower submission, p5.

¹⁴ MEUG submission, paragraph 7.