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Cross submission on Transpower's IPP 2025 - Issues Paper

1. This is Vector's cross-submission on the Commerce Commission's (Commission) Issues Paper for Transpower's 2025 Individual Price-Quality Path (IPP).

2. No part of this submission is confidential, and we are happy for it to be published on the Commission's website.

Revenue path and affordability

3. The need to balance consumer affordability and ensure Transpower is able to fund its investment programme is a key theme from submissions.

4. We agree with Meridian and Mercury that it is important the Government is aware of upcoming cost increases and their impact on consumer bills. As noted by Mercury:

   "*the Commission has some discretion to determine the rate of change in Transpower's allowed revenue to not impose undue financial hardship on it and to minimise price shock risks on consumers. Exercising this discretion, however, may become increasingly challenging as there are an increasing number of other input factors that may impact on electricity retail prices.*

   These other input factors may include near term inflation, cost of capital, growth in intermittent generation resulting in increased spot market volatility, the price of NZ ETS units, as well as skilled worker shortages and supply chain issues.

   In addition, a larger concern we have is that the full range of factors highlighted above span the Commission, the Electricity Authority, MBIE, and the Ministry for the Environment, which then impact distributors', Transpower's, retailers' and generators' investment and *pricing decisions. Presently, there is no single view of how these decisions might come together and impact in total on retail prices*."[1]

5. Accordingly, we agree with Meridian that their may be a need for Government social policy to manage the distributional impact of price increases and address any increase in energy hardship.

6. We note Contact's submission suggested the Commission also consider price smoothing scenarios that spread cost increases across regulatory periods.

7. We do not consider a revenue path that deferred cost recovery across regulatory periods would support the long-term benefit of consumers. Transpower's submission explains:

"*Our view is that, to the extent possible, today's consumers should pay for today's costs. Any long-term deferral of revenue is unlikely to be consistent with a workably competitive market. Customers are charged our regulated rate of return on deferred revenue recovery…*

the Commission's decision to index our RAB has deferred a significant proportion of our RCP4 revenue into the future. Further deferrals for smoothing purposes, not in line with the purpose of Part 4, may impact our financing needs."[2]

Deliverability

8. Appropriate scrutiny around Transpower's ability to deliver its work programme was another key theme from submissions.

9. Transpower submitted that:

"A*s we set out in our proposal, we do not consider that making a deliverability adjustment for RCP4 is appropriate. Delaying this work would not align with the long-term interests of consumers.*

Despite facing a financial penalty, under the IRIS and capex incentive mechanism, we are increasing our workforce capacity in RCP3 to deliver our RCP4, and beyond, work programme.

[1] Mercury (21 February 2024) *Transpower's individual price-quality path for the next regulatory control period*, page 3
[2] Transpower, Transpower Individual Price-Quality Path 2025 (RCP4): Issues Paper (21 February 2024), para 41 - 43

We are hiring in line with our targets for FY23/24 and we continue to have confidence that we can recruit the resources required to deliver our work plan.

As we noted in our RCP4 Proposal, while confident in our plan, we are open to using uncertainty mechanisms in this area if the Commission is not confident in our ability to hire sufficient resource. This would provide us with access to funds with protecting our customers from paying for under-delivery. We agree that, alternatively, additional reporting requirements can provide stakeholders with enhanced confidence in our delivery during RCP4."[3]

10. We consider uncertainty mechanisms are the best way to mitigate any concerns around delivery. As Transpower's submission notes, uncertainty mechanisms would protect customers from paying for any under-delivery while ensuring Transpower has funds available to deliver its work programme.

Efficiency

11. New Zealand Aluminium Smelter's submission suggested the efficiency of Transpower's expenditure be assessed by benchmarking against transmission owners in other jurisdictions.[4]

12. Caution should be exercised comparing expenditure between jurisdictions given differences in operating environment.

13. We note s53P of the *Commerce Act* prohibits the Commission from using comparative benchmarking on efficiency in order to set starting prices, rates of change, quality standards, or incentives to improve quality of supply.

Yours sincerely

[redacted]

Richard Sharp
GM Economic Regulation and Pricing

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[3] Ibid, paras 35 - 37

[4] New Zealand Aluminium Smelter, *Submission on Commerce Commission Issues Paper: Transpower's individual price quality path for the next regulatory control period* (21 February), page 5