

14 June 2017

Keston Ruxton
Manager, EAD Regulation Development
Commerce Commission,
PO Box 2351,
Wellington 6140.

By email to keston.ruxton@comcom.govt.nz

Re: Transpower capex IM review – ENA submission

Dear Keston,

The ENA is appreciative of the opportunity to submit on the Commission consultation paper on the proposed focus areas for the Transpower capex IM review. Input Methodologies (IM) concerning opex and capex are particularly important because this is where the financial boundaries are set under the economic regulation of the electricity networks sector.

Our submission takes the form of a letter because the consultation paper is a detailed description of potential problems that could exist with the processes embodied in the existing capex IM. ENA members may wish to comment on aspects of the processes that are discussed in the consultation paper, but the ENA is not able to comment at that level of detail at this stage of the review.

Be cautious but not overly so.

ENA members are supportive of the Commission's approach to its review of Transpower capex IM. Members consider that it is important to ensure that all IMs remain fit for purpose, given changes that are taking place in energy and transport markets. These changes affect where and when electricity is generated and consumed and therefore transmission solutions need to deliver associated electricity services. Consumer technologies will be able to both compete with and complement traditional grid-side investments.

Members are thoroughly engaged with this issue, as evidenced by the various trials across the country¹ and the attention that is currently being given to pricing reform. The timing and scale of technology changes on the industry is less clear. We therefore support the Commission aligning its approach to that used for the 2016 IM reviews, where changes to IMs would only be contemplated if there is clear evidence that the IM needed to be changed.

Members are also concerned about downplaying the threats posed by technology change. Members consider that technology disruption is likely to have a significant impact and IMs need to be as future-proof as possible. This is especially so when it comes to long-life assets, where there is a possibility of longer term stranding or partial stranding. While we are unable to anticipate the timing or extent of disruption, there are strong forces driving consumer-side technologies which can complement and compete with traditional grid-side solutions

Greater challenges lie ahead.

Making change for the sake of it is to be discouraged and regulatory certainty, to the extent that this can be provided, is important for all parties. In saying this, members acknowledge that incremental improvements should not be overlooked and that the learnings from working with this capex IM, since 2012, should be brought into the review to improve the effectiveness and efficiency of the processes in the Transpower capex IM.

There is also a role for the Commission to assist with stakeholder understanding of the IMs. The Commission workshop on this IM review was useful. It provided an opportunity to listen to Commission and Transpower presenters explain aspects of the review in plain language.

It was also beneficial to understand Transpower's views regarding the factors that will influence the fitness for purpose of this (and other) IMs, including those factors that we comment on in this submission. Transpower noted that the near-term future is less certain than the medium term, though they are optimistic that the longer-term future for the grid is "bright" but will involve a transformative shift from the grid we see today. This suggests to us that there will be challenges for the Commission, for Transpower and for stakeholders, when they come to evaluate long-life capex proposals.

Members consider that there will certainly be greater challenge in the future in weighing different non-grid solutions against transmission investments. Cost-benefit analyses will require a greater range of considerations than previously, and be subject to greater assumption error than in the past. The capex IM processes need to recognise that grid investment business cases will be more probabilistic rather than deterministic. Further, alignment of forecasting scenarios across the whole sector will be important given the role that non-grid solutions will play when considering Transpower capex proposals. The challenges with forecasting will flow through into the processes for setting Transpower revenues and into the pricing arrangements that are used to recover Transpower revenues from grid users (the TPM) and affect everyone.

¹ See for example: <http://www.energynews.co.nz/news-story/33238/contact-wellington-electricity-team-solar-battery-trial>

Incentive arrangements

Members understand that Transpower is still adapting to the incentive mechanisms in both the capex IM and the incentives that are applied to Transpower opex. From the Transpower workshop presentation we can see that there are areas of the incentive scheme that Transpower considers should be adjusted given the learnings from RCP1 and RCP2 to date.

In focus area 4 of the consultation paper, the Commission poses a simple question as to whether the incentive mechanisms in the capex IM are effective. This question seems to have a backward-looking emphasis, which ENA members believe is only half the story.

The caution that members hold regarding the impacts of change on the grid (and on distribution networks), and especially the heightened risks of asset stranding, suggests that focus area 4 should consider whether the incentive mechanisms are going to be effective going forward in a sector that will experience changing needs for grid investments.

Yours sincerely

A handwritten signature in black ink, appearing to be 'David de Boer', written in a cursive style.

David de Boer

Principal Advisor