

26 June 2024

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Dear Matthew

## Transpower IPP 2025 – Draft decision

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission's draft decision paper "Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025"<sup>1</sup> and supporting material published for consultation on 29 May 2024.
2. MEUG members have been consulted on the approach to this submission. Members may lodge separate submissions. This submission does not contain any confidential information and can be published on the Commission's website unaltered.

### Summary of MEUG's points

3. The Commerce Commission's decisions for Transpower's next regulatory control period (RCP4) from 2025 to 2030, alongside decisions for the 16 regulated electricity distribution businesses (EDBs), will have a significant impact on consumers across New Zealand. These draft decisions are being made in the context of a cost-of-living crisis, alongside the need to decarbonise, and increasingly electrify, our economy. The decision also comes at a time when electricity wholesale prices are remaining stubbornly elevated, with no sign of decreasing in the short term, despite the push for greater renewable energy.
4. The Commission's decisions for Transpower will materially impact MEUG and its 13 members – we represent approximately 25% of New Zealand's electricity demand, with many members directly connected to the transmission network. The financial impact on our members will be of a scale much greater than that quoted for the average household – in the order of millions. This will increase the input costs for businesses, impacting profitability, particularly those exposed to international commodity markets.

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<sup>1</sup> [https://comcom.govt.nz/data/assets/pdf\\_file/0025/353860/Draft-Decision-for-Transpowers-IPP-commencing-1-April-2025-29-May-2024.pdf](https://comcom.govt.nz/data/assets/pdf_file/0025/353860/Draft-Decision-for-Transpowers-IPP-commencing-1-April-2025-29-May-2024.pdf)

5. Consumers will also face increased transmission charges resulting from Major Capital Projects, listed projects and possible re-openers over the coming regulatory period. The consultation paper is unfortunately silent on the impact of all these transmission components on end consumers, as well as the forecast lift in wholesale, distribution and retail components. MEUG has long advocated for this information to be made public, so consumers can understand the full costs facing the electricity sector and its consumers.
6. Given the discussion above, it is essential that the Commission robustly scrutinise Transpower's proposed expenditure for the coming five years, to ensure that it reflects that of a prudent and efficient supplier, while still enabling Transpower to deliver a secure and reliable supply of electricity across the country. MEUG supports the use of an independent verifier to review the base expenditure proposed by Transpower. This provides more assurance to interested stakeholders such as MEUG and helps us know where to focus our attention when reviewing the consultation paper.
7. We have appreciated the engagement we have had to date with both the Commission and Transpower, as we review this draft decision. This has enabled us to focus our comments on key areas, while also being able to discuss the broader changes we consider are necessary to the regulatory framework for Transpower (which we expand upon at the end of our submission).

### Balancing how to recover revenue over the regulatory period

8. MEUG agrees with the Commission's decision to continue with a five-year regulatory control period and supports the proposal to smooth Transpower's revenue allowance across the period. We appreciate that there are several ways that revenue could be smoothed across the period (as per Transpower's modelling), balancing the impact on consumers versus revenue recovery for Transpower. We would prefer a smoothing profile that weighted a higher proportion of funding to be recovered in the later years, enabling Transpower to address deliverability concerns and demand uncertainty first, while acknowledging the compounding cost pressures facing electricity consumers.
9. MEUG also notes the following points around revenue recovery:
  - We are comfortable with the process that Transpower and the Commission have established for reviewing and auditing Transpower IPP financial model.
  - The treatment of the (pre) payment for the replacement HVDC Cook Strait cable seems a sensible approach, to ensure that Transpower can source this necessary equipment.
  - We are comfortable with Chief Executive (rather than Director) assurance of the forecast MAR and SMAR. This seems prudent and will reduce compliance costs for Transpower. However, it is important that the Commission is adequately resourced to do the review of the information once received.

### Pragmatic approach to address deliverability issue

10. MEUG appreciates the proposed adjustments that the Commission will make to Transpower's expenditure allowances, to reflect the deliverability issues facing Transpower. The Commission has captured the concerns raised by numerous stakeholders about securing a sufficiently skilled workforce. In addition, we appreciate the Commission undertaking modelling to look at the impact on consumers if Transpower underdeliver. It is important to consider the time value of money from both a consumer and Transpower's perspective.
11. We have only reviewed the deliverability reopener proposal at a high level, but it seems to be a sensible way to enable Transpower to access greater funding once resourcing is confirmed. We question what level of public consultation will be required (by the Commission or

Transpower) if a reopener is pursued? Some visibility of this process is important for stakeholders.

12. MEUG welcomes the introduction of the deliverability report, to provide stakeholders with greater insight into how Transpower is progressing with its work programme. It is important that this report is designed with the reader in mind – it needs to provide a concise and digestible summary for interested stakeholders, while still providing the Commission with the necessary information to monitor Transpower's performance.

### Support approach to Quality standards over RCP4

13. MEUG supports retaining the existing quality standards and measures over RCP4, with the discussed amendments raised by Transpower. We also support the introduction of the new measures – HVDC operational capacity (AP1.2), customer service (CS1), connections (CS2).
14. We agree with the Commission and Transpower that it is not possible to develop a robust performance measure around market impact (AP2.2). We are happy to work with Transpower and the Commission to scope this measure for use in future regulatory periods.

### Capex and Opex over RCP4

15. MEUG welcomes the verifiers and Commission's review of the proposed capital and operational expenditure for RCP4. While it is a substantial increase over the current period, the verifiers work, and the Commission's further analysis and information requests have provided us with greater assurance over the levels proposed. In brief, MEUG note that:
  - We support the use of 2022/23 as the base year, as it uses the most up to date data and we support the Commission's review that endorses its use.
  - We support the use of benchmarking by the verifier, to get an understanding of how Transpower's spending compares to comparable companies, particularly in Australia.
  - There does seem to be an over-reliance on mid-period E & D reopeners for several issues – we hope these processes can be streamlined to avoid administrative burden, while still providing scrutiny and transparency of Transpower's progress and planned works.
  - We welcome the greater analysis and focus on resilience expenditure, and discussion of the specific projects in greater depth. A resilient and secure supply of electricity is essential for MEUG members, and it is important that Transpower can respond quickly and efficiently following any natural disasters and restore electricity.

### Attention must be given to broader regulatory framework for Transpower

16. There are several broader issues, that while out of the exact scope of the RCP4 process, have impacted and will continue to impact on the regulatory framework for Transpower and the magnitude of transmission charges that consumers will face. MEUG strongly recommends that the Commission, alongside the Electricity Authority and the Ministry of Business, Innovation and Employment (MBIE), reviews these issues and looks for ways to ensure that we have a regulatory framework that is future-proof and best considers both the short and long-term benefit of consumers, particularly during the energy transition.
  - **Volatility in WACC over multiple regulatory periods.** Increases in inflation and interest rates have had a significant impact on the proposed WACC for RCP4, and this has been the driver for most of the uplift forecast for RCP4. However, stakeholders have very little ability to influence the WACC figure through the RCP4 reset, as it is set outside of the price-quality reset process. MEUG strongly recommends that the Commission review the process for setting WACC, looking at the methodology of how it is calculated

and how the WACC percentile is applied. We believe that a less volatile and more consistent WACC would be beneficial for both consumers and regulated entities in the long-term.

- **Shift in balance of risk:** MEUG believes that there has been a shift in the balance of risk between regulated businesses and consumers over recent years. Transpower (and EDBs) now have a greater range of re-openers available to them, greatly reducing the risk of underinvestment in the network. As advocated in many submissions, MEUG believes there is an increasingly strong case to move the WACC percentile for Transpower and EDBs down from 65 percentile towards the 50<sup>th</sup> percentile.
  - **Ownership model for transmission:** MEUG queries whether the State-Owned Enterprise Model (SOE) is the appropriate model for Transpower going forward. NZAS and MEUG<sup>2</sup> raised this issue during the Issues Paper phase and would welcome greater discussion on this point. For example, there are different ways that Government could look to source insurance for Transpower and other critical infrastructure.
  - **Cross-checking of sector assumptions:** Due to the low-cost approach of the DPP and the Transmission specific focus for RCP4, there does not appear to be any cross checking of the assumptions made by Transpower and EDBs, to ensure that they present a consistent approach to demand forecasting and infrastructure planning. We would welcome further analysis in this space.
  - **Use of non-traditional solutions:** MEUG supports the greater use of non-traditional solutions (NTS), across the transmission network, where it is cost effective. We believe further work is needed in this area to understand what Transpower has learned to date from trying to procure NTS, what range of NTS are presently available to Transpower, and what is the state / maturity of the NTS market. Ideally, we want to encourage NTS across both transmission and distribution networks, and need to consider if there are any regulatory barriers to this market developing further.
  - **Pass-through of charges will be determined by the TPM:** How these costs over RCP4 are passed through to consumers will ultimately be determined by how they are allocated out under the Transmission Pricing Methodology (TPM) and passed through by both distributors and retailers. MEUG has concerns with the current TPM, as it is overly complex, and too large a proportion of costs are recovered via residual charges, rather than benefit-based charges. The TPM also lacks a peak pricing signal to incentivise the smoothing of demand – instead the focus continues to be on building networks to meet the ever-increasing level of peak demand.
17. MEUG welcomed the opportunity to discuss these broader concerns with the Commission and have also discussed them with the Electricity Authority. We strongly recommend that more focus is put on these issues in the short term, to ensure that we have a regulatory and policy framework that supports electrification and decarbonisation, and that meets consumer demand at a fair and justifiable price.

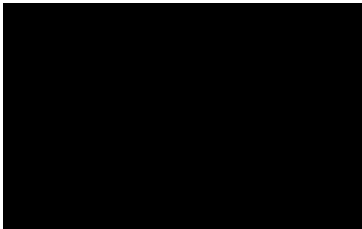
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<sup>2</sup> <http://www.meug.co.nz/node/1351>

### Next steps

18. We look forward to engaging with the Commission and stakeholders throughout the cross-submission process. If you have any questions regarding our submission, please contact MEUG on [REDACTED] or via email at [REDACTED]

Yours sincerely



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Major Electricity Users' Group