

TRANSPower IPP 2020 – ISSUES PAPER

VECTOR COMMENTS



Transpower IPP 2020 – Issues Paper

- This is Vector's submission to the Commerce Commission's (Commission) issues paper for Transpower's individual price-quality path (IPP) for the next regulatory control period.
- No part of this submission is confidential and Vector is happy for it to be publicly released.
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NEED TO LIMIT PRICE VOLATILITY CAUSED BY VARIABILITY IN TRANSPOWER'S REVENUE

- Variability in Transpower's revenue is currently a major source of revenue instability for EDBs.
- Transpower's incentive schemes for RCP3 introduce a further source of revenue instability as they allow Transpower to periodically recover performance incentives through prices.
- To limit volatility, the restraints imposed on EDB price changes should be symmetrically applied to Transpower.
- This will ensure the balance between recoverable costs and net lines revenue is maintained year on year.

Vector recommendation:
The approach to smoothing Transpower's revenue should be symmetric with the approach to EDBs

REVENUE-LINKED GRID OUTPUT PERFORMANCE MEASURES

- We note Transpower's RCP3 proposal contains two types of revenue linked grid-output measures: service performance standards and asset health measures.
- The Commission distinguishes these measures as "service performance measures are those which are directly related to the performance of grid assets as they affect asset availability, customer supply reliability, and the electricity market, while asset health measures are assessments of asset condition."
- Service performance measures and asset health measures are interrelated. For example, we would expect improvements to asset condition to correlate with improved customer supply reliability.
- We do have concerns about the potential for revenue linked asset health measures to reward Transpower for routine expenditure on assets, particularly where improvements are already incentivised through the service performance measures.

Vector recommendation:

The Commission should be mindful that it does not reward Transpower for routine expenditure or "double-count" rewards when it sets incentives.