



# MAJOR ELECTRICITY USERS' GROUP

11 July 2014

Paolo Ryan  
Commerce Commission

By email to [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Dear Paolo

## **Transpower asset health grid output measures submission**

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission paper<sup>1</sup> "Draft decision on additional revenue-linked grid output measures for Transpower's individual price-quality path", dated 3<sup>rd</sup> July 2014, ie the "the draft IPP asset health grid output measures paper".
2. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential.
3. MEUG welcome the positive approach by Transpower to develop revenue-linked performance measures related to asset health and the Commission's pragmatic approach to consult on the proposal at short notice. We do not have the expertise to comment on the detailed draft decision for the six asset portfolios, quality standards and proposed caps and collars set out in table 1 on page 7. To that extent we rely on the expertise of the Commission.
4. On the broader design MEUG agrees with Transpower's suggestion and the Commission's acceptance that there should be an aggregate cap to<sup>2</sup> "ensure that Transpower does not earn a net benefit from 'over-delivery' ie, more than proposed in its RCP2 proposal."
5. MEUG believes there is no difference in opinion by Transpower, the Commission or any consumer of transmission services that progress on improving asset health metrics and development of management practices based on those has taken too long. There are though differences in how to ensure Transpower achieves world class asset management in a timely and effective manner. Transpower has proposed an increased incentive rate that has a mark-up<sup>3</sup> of 10% on the existing symmetrical base capex incentive rate of 33% to give a new incentive rate of 36%.

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<sup>1</sup> Document URL <http://www.comcom.govt.nz/dmsdocument/12040> found at <http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-individual-price-quality-regulation/transpowers-price-quality-path-from-2015-to-2020/>

<sup>2</sup> Refer discussion paragraph 40, 48-49 and 19-20

<sup>3</sup> Refer discussion paragraphs 34 to 38

6. MEUG suggests the Commission should consider an asymmetric incentive rate whereby there is a greater penalty for not achieving the target compared to the reward for achieving an asset health level greater than the target. This option is more akin to incentives on companies in competitive markets that have below industry average performance. In competitive markets you do not find a company that has below industry average productivity, in this case less efficient asset management practices because of poorly developed asset health modelling, yet earns industry average WACC<sup>4</sup>. Therefore for the asset health revenue-linked grid output measures MEUG suggest more of a penalty should apply for under-performance relative to asset health targets and the existing standard incentive rate of 33% should only apply to over-performance relative to the targets.
7. We look forward to considering the submissions of other parties.

Yours sincerely



Ralph Matthes  
Executive Director

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<sup>4</sup> This argument sets aside the debate on what the WACC should be; that is for another forum.