



MAJOR ELECTRICITY USERS' GROUP

16 August 2010

Alex Sim
Regulation Branch
Commerce Commission

By email to regulation.branch@comcom.govt.nz

Dear Alex

Cross-submission on proposed Individual Price-Quality Path and Input Methodologies, apart from cost of capital, for Transpower

1. This is a cross-submission by the Major Electricity Users' Group (MEUG) on the submissions of other parties relating to Input Methodologies (IM) for Transpower and the draft reasons paper on proposed Individual Price Quality-Path regulation for Transpower¹. Those other parties are Contact Energy, Genesis Energy, Meridian Energy and Transpower.
2. MEUG submitted on these two topics on 9th August 2010. This cross-submission does not cover cost of capital IM for Transpower or other topics not covered in submissions of 9th August.
3. No propositions in the submissions of other parties has changed the submissions of MEUG of 9th August apart from the following:
 - a) Genesis Energy suggested the Incremental Rolling Incentive Scheme (IRIS) should take into account exclusion of net efficiency losses². MEUG's earlier submission assumed the IRIS as being symmetrical. We now agree with the view of Genesis Energy in commenting on the Commission proposal that:

"We believe the proposed approach will not incentivise Transpower to address ongoing efficiency losses and as noted by the Commission, it will slightly skew the sharing ratio of benefits more in favour of the Transpower (over consumers)."

Harding Katz in their report for Transpower also notes the Australian Energy Regulator adopts a symmetrical approach to positive and negative carryovers whereas the Commission proposal does not³.

MEUG submit the Commission should amend the proposed IRIS to provide a symmetrical approach to positive and negative carryovers or if not, then justify the asymmetry by proving the long-term benefit of consumers is enhanced compared to the symmetrical approach.

¹ <http://www.comcom.govt.nz/submissions-on-input-methodologies-draft-reasons-and-determination-and-individual-price-quality-path-draft-reasons-paper-for-transpower/>

² Genesis Energy, 6th August 2010. Genesis discusses the Australian Energy Regulator's Efficiency Benefits Sharing Scheme (EBSS) that takes into account net efficiency losses.

³ Harding Katz, report for Transpower, Comparison of NZ and Australian regulation of electricity transmission networks, August 2010. Issue number 19, p16.

- b) Meridian Energy appears to have made valid points on reporting the quality for HVDC services. Note that Meridian has applied their expertise on this issue because they pay HVDC charges. Consumers do not have such expertise. MEUG therefore does not have a full view on the proposals by Meridian but we hope the Commission will consider those carefully; after all in this instance Meridian as a customer of HVDC services is likely to have better insights than the Commission.
- 4. Submissions that lend more detailed support to the submissions of MEUG include:
 - a) Meridian Energy⁴ provides a more rigorous discussion on why Instantaneous Reserve availability charges should not be treated as Recoverable Costs by Transpower.
- 5. There are many points made in the submissions of other parties that MEUG strongly disagrees with. We have not listed those because they can be deduced from our original submissions of 9th August as modified by the changed views of MEUG listed in paragraph 2 above.
- 6. Setting the above aside, there are a few comments by other parties that need a response:
 - a) In their Key Points Summary paper, Transpower in setting the context (page 2) state:

"Transpower has come through a prolonged period of under-investment. Compared to other transmission grids internationally, our national grid is older and more heavily loaded. This has: led to deteriorating reliability of supply for consumers; affected the development and operation of the energy market; and created uncertainty for regional economic development."

This version of historic context is a key foundation for Transpower arguing for any exercise of judgment by the Commission to be in favour of over-building. MEUG note:

 - i) An alternative view is New Zealand has come through a decade of spending monies to carefully nurse an aging network and that has saved the country from building transmission investment earlier than necessary.
 - ii) The reliability of supply statistics for New Zealand transmission and distribution is comparable to other OECD countries. There have been and will continue to be unexpected supply disruptions. Many of those are due to failures in operating and maintenance practices rather than failure of existing assets⁵.
 - iii) A bias to over-build will satisfy Transpower and perhaps politicians in the short-term. But is it in the best long-term interest of consumers? The choice for the Commission isn't a simple over-build or not option. There are many overlapping levers the Commission needs to consider that will uncover the utility of consumers to make trade-offs between reliability and price and the transmission and non-transmission alternatives to efficiently meet those needs. Unfortunately the submissions of Transpower remain biased towards an engineering "build at all costs" regime than evolving towards a service regime where consumers rather than the regulator are their most important counterparty.
 - b) Ian Millard QC in a report for Transpower refers (paragraph 11.10) to consumers with an interest in assessing if Transpower is complying with Part 4 as "busy bodies." We hope this disparaging attitude towards consumers is not a view held by Transpower's management.

Yours sincerely



Ralph Matthes
Executive Director

⁴ Meridian Energy submission, paragraphs 98 to 120.

⁵ A notable example of a failure in operating and maintenance practices was the earth-wire "U" bolt failure at Otahuhu substation on 12th June 2006. The response by Transpower was to use that incident to support a gold plated capital investment solution rather than robustly consider alternatives.