



MAJOR ELECTRICITY USERS' GROUP

7 March 2011

Paul Melville
Regulation Branch
Commerce Commission
By email to regulation.branch@comcom.govt.nz

Dear Paul

Cross-submission on Capital Expenditure Methodology for Transpower

1. This is a cross-submission by the Major Electricity Users' Group on the submissions by five other parties¹ on the Commerce Commission Discussion Paper Capital Expenditure Input Methodology (Transpower), dated 24th December 2010².
2. There was nothing in the submissions of the other parties to alter the three points made in our submission of 18th February 2011.
3. The opening section of the Transpower submission titled "wider context" proposes the overall goal should be to transition the regulatory regime from Commission regulation of individual investment decisions to Transpower making decisions based on financial incentives "*that meets the needs of all stakeholders in the national grid – and accords with the Purpose Statement.*" MEUG:
 - Agrees with Transpower the regulatory regime should evolve to better mimic normal commercial arrangements. This will require a co-ordinated change in both the capital expenditure approval process and other transmission contract terms and conditions such as liability for non-performance.
 - Disagrees with the phrase "*meets the needs of all stakeholders in the national grid – and accords with the Purpose Statement*". It would be possible to have a capital expenditure approval process that was optimal in meeting the Purpose Statement but did not meet the needs of distributors and or generators.

¹ Submissions closed 18th February, refer <http://www.comcom.govt.nz/electricity-transmission-2/>

² Refer <http://www.comcom.govt.nz/assets/Pan-Industry/Input-Methodologies/Transpower-Capital-Expenditure-IM/Transpower-Capex-Input-Methodology-Discussion-Paper-Dec-2010.PDF>

This distinction is important. We do not believe distributors and generators, who are important "stakeholders in the national grid", always have objectives that coincide with those of end consumers.

4. MEUG agrees with the statement by Meridian Energy:

"In Meridian's view, the transmission investment framework was working well at the time that responsibility was handed to the Commerce Commission from the Electricity Commission. Meridian therefore submits that it is important to maintain the effective aspects of the previous regime while making the most of this opportunity to enhance it."

5. This is sound advice, ie carry over those many well working aspects of the regime administered by the Electricity Commission and look for enhancements. The major innovation proposed is³:

"The Commission's preliminary view is that the incentive for Transpower to under-invest could be mitigated by developing 'output' measures that Transpower is required to deliver under the Capex IM"

6. It isn't a matter of if rewards and risks to Transpower should be linked with performance or non-performance, but when. This has been in the too hard basket for too long. MEUG therefore welcome this initiative and look forward to it being thoroughly tested in the next stages of consultation.
7. The Commission proposes a \$5m threshold between minor and major capex. We strongly disagree to the suggestions to increase this by Meridian Energy (to \$20m), Transpower (\$40m) and Contact Energy (between \$40m and \$50m). This issue has been well canvassed in the past. Once Transpower has clearly demonstrated it has best practice processes in place then a review of the threshold can be considered.
8. This submission is not confidential.

Yours sincerely



Ralph Matthes
Executive Director

³ Paragraph X3, pviii