



MAJOR ELECTRICITY USERS' GROUP

17 May 2011

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

Dear Paul

Transpower Capex Input Methodology – Post-workshop submission

Please find attached an advisory briefing paper by Strata Energy Consulting in relation to the work shop held on 28th and 29th April 2011. MEUG agrees with the points made by Strata in relation to a cautious approach being needed for the proposed incentive mechanism and the importance of having ex ante limits on substitutability for Minor Projects no matter where the Minor/Major capex boundary is set. Note that my comments at the workshop suggesting we should aggressively consider 100% incentives was to try and stretch the debate to uncover constraints as to why that may be unwise in the current regulated setting where it is difficult to effectively measure outputs as opposed to setting incentives in a competitive environment.

Strata also note their view that the Commission should not conduct a merits review of major Grid Upgrades as a matter of course but it must retain the right to do so should it choose to. MEUG agrees with this approach. Such a merit review would not be undertaken likely. In capital intensive projects in non-regulated markets where a significant departure in costs or output occurs then a post project review would be the norm rather than the exception.

The work shop was a useful forum to debate in more detail these issues. We think given more time to allow further interaction between Transpower, its customers, end users and the Commission a better Input Methodology that has been peer tested with more consensus between the parties is likely to emerge. Therefore MEUG suggests the Commission consider requesting from the Minister an extension to the time for the Input Methodology to be finalised.

Yours sincerely

Ralph Matthes
Executive Director