



MAJOR ELECTRICITY USERS' GROUP

3 March 2014

Paolo Ryan
Commerce Commission

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

Dear Paolo

Transpower RCP2 submission

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission issues paper¹ "Invitation to have your say on Transpower's individual price-quality path and proposal for the next regulatory control period" dated 10th February 2014. Members of MEUG have been consulted in the preparation of this submission. This submission is not confidential. Some MEUG members will also be making more detailed submissions particularly on performance measures.
2. Transpower engaged in a positive and open manner in developing customer facing performance measures. This aligns with experience from members "in the field" with Transpower staff and contractors becoming more end customer focussed. That journey has just begun and we hope the Transpower Board, senior management and line staff accelerate that change.
3. MEUG recognises that regulation needs to be an integrated package² and a reasonable transition path needs to be set. Unnecessary delays in achieving world best practice transmission services dampen the ability of businesses to compete in international and import substitution markets. Just as MEUG members and businesses throughout New Zealand must innovate and lift productivity continuously to meet their customers' needs; so too the RCP2/IPP reset is an opportunity to replicate those incentives to help Transpower lift its performance.

¹ <http://www.comcom.govt.nz/dmsdocument/11469> 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/>

² As noted in paragraph 3.22 "We now expect to develop the IPP into a regulatory instrument that is better-integrated with the overall package of IMs and information disclosure requirements

4. Responses to a selection of the questions in the issues paper follow:

Question	MEUG response
<p>11. Do you agree that it is inappropriate to make a similar adjustment for opex?</p>	<p>No. We suggest it is more appropriate to include an expected productivity gain for opex as well as capex.</p> <p>Businesses in workably competitive markets expect their competitors will in the future achieve productivity gains in both capex and opex and to survive each business must strive to achieve the same.</p> <p>Transpower suggest expected productivity gains in capex are linked to opex because to achieve capex improvements requires higher opex. For this reason no expected productivity gain in opex is required. We disagree for 2 reasons. First management time and decision making to consider and implement capex productivity gains should also be subject to continuous improvement and expected improvements compared to the status quo. Second some innovations in capex may lead to lower ongoing opex.</p> <p>We suggest any expected productivity gain factor should apply to the change in performance along the industry best practice or production frontier. In addition Transpower should have company specific "stretch" targets to transition the company from its current performance to best practice. The greater the variance between current and best practice performance then the greater the stretch targets should be. In workably competitive markets companies distant from best practice must improve performance rapidly or they go out of business. The latter cannot apply to Transpower but the pressure to lift performance should ne mimicked.</p>
<p>18. Do you have any comments on the link between expenditure and service delivery?</p>	<p>This is critical if Transpower is to be at world best practice. MEUG agrees with the intention of the Commission "to undertake further work in this area" (paragraph 5.35).</p>
<p>19. Do you agree that we should set a baseline demand response expenditure opex allowance?</p>	<p>It's not possible to comment on this without seeing the details of the proposed work programme, how much it will cost, how that expenditure links with service delivery and compliments or not other work by Transpower.</p>
<p>20. Do you agree that we should be considering an approach to approving contingent expenditure if the proposed expenditure is material but has a high level of uncertainty?</p>	<p>A change to the IPP is possible for such expenditure but we are not convinced that is better than the status quo. Another feasible option is to shorten the length of RCP2 to say 3 years on the assumption that will then allow Transpower to better forecast currently uncertain large base capex.</p>

Question	MEUG response
28. To what extent do you consider that the RCP2 targets proposed by Transpower reflect the level of performance demanded by the customers?	Customers' needs will have been considered along with Transpower's ability to deliver. We accept there is a trade-off however we don't know (1) if long term targets (see Q19) are reasonable and (2) if sufficient stretch has been given to RCP2 targets proportional to the variance of current performance from best practice (see Q11).
29. To what extent do you consider that the long term targets proposed by Transpower reflect the level of performance demanded by consumers?	We don't know if these are equivalent to current or expected future world best practice; but they need to be.
32. What alternative sources of information may assist in evaluating the values proposed by Transpower?	The survey work by the Electricity Authority "Investigation into the Value of Lost Load in New Zealand, Report on methodology and key findings" dated 23 rd July 2013 ³ would assist in evaluating the values proposed by Transpower.
37. What is your view on the materiality of Transpower's exposure to the new indemnity obligations arising under the CGA?	In a workably competitive market environment no business could immunise itself from some risk of exposure to CGA indemnity obligations. This therefore creates an incentive on managers of those businesses to be cognisant of that risk and decide how best to manage it accordingly. We see no reason why Transpower should be treated any differently.
38. Do you have a preferred view on how Transpower's exposure to the (at this time) unknown cost impacts of the amendment to the CGA should be treated for RCP2?	The onus to forecast the number of claims and likely aggregate value should be on Transpower. The Commission can then test if that assessment is reasonable.

5. We look forward to considering the submissions of other parties.

Yours sincerely



Ralph Matthes
Executive Director

³ <file:///C:/Users/Ralph/Downloads/VOLL-technical-report.pdf> found at <http://www.ea.govt.nz/our-work/programmes/transmission-work/investigation-of-the-value-of-lost-load/>