

14 August 2023

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Dear Charlotte

## **Draft decisions for Transpower: Input Methodologies Review 2023**

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission's (the Commission's) consultation paper "*Context and summary of draft decisions: Part 4 Input Methodologies Review 2023*"<sup>1</sup> published for consultation on 14 June 2023 and draft IMs determinations for Transpower<sup>2</sup> published for consultation on 21 June 2023.
2. MEUG members have been consulted on the approach to this submission. This submission does not contain any confidential information and can be published on the Commission's website unaltered. Members may lodge separate submissions.
3. This submission focuses on the Input Methodologies (IMs) amendments applicable to Transpower. Our comments on the IMs amendments relating to electricity distribution businesses (EDBs) have been made via separate submissions.<sup>3</sup>

### **Limited opportunities for engagement during busy consultation period**

4. As outlined in our cross-submission on the draft IMs decisions relating to EDBs, MEUG is concerned that stakeholders have not been given sufficient time to provide detailed and robust input on the 2023 IMs review. This consultation comes at a time when several other government agencies are also consulting on energy and climate change policies that will affect both regulated monopolies and the broader energy sector – for example, the Electricity Authority's targeted reform of distribution pricing, the Ministry of Business, Innovation and Employment's (MBIE) consultation package on advancing the

<sup>1</sup> [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0030/318666/Part-4-IM-Review-2023-Draft-decision-Summary-and-context-paper-14-June-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0030/318666/Part-4-IM-Review-2023-Draft-decision-Summary-and-context-paper-14-June-2023.pdf)

<sup>2</sup> [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0036/319599/Draft-Transpower-Capital-Expenditure-Input-Methodology-IM-Review-2023-Amendment-Determination-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0036/319599/Draft-Transpower-Capital-Expenditure-Input-Methodology-IM-Review-2023-Amendment-Determination-2023.pdf) and [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0019/319600/Draft-Transpower-Input-Methodologies-IM-Review-2023-Amendment-Determination-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0019/319600/Draft-Transpower-Input-Methodologies-IM-Review-2023-Amendment-Determination-2023.pdf)

<sup>3</sup> <http://www.meug.co.nz/node/1302> and [MEUG cross submission to ComCom on IMs review | Major Electricity Users' Group](#)

energy transition and the New Zealand Emissions Trading Scheme (NZ ETS) review.

5. Stakeholders such as MEUG, alongside gentailers and EDBs have also had to review the large volume of consultation material and submissions relating to the draft IMs decisions for EDBs, alongside the proposals for Transpower. This has required MEUG to focus on a selected number of key issues, and often provide only high-level comments.
6. It is disappointing and telling to see that only one party (Vector) besides Transpower was able to provide a submission on Transpower's draft IMs determinations.<sup>4</sup> This brings into question whether the Commission has received sufficient feedback to inform its decisions for the IMs review. Transpower is a key stakeholder for MEUG, and we certainly would have welcomed the opportunity to discuss these IMs proposals through workshops, where we could have heard from a range of stakeholders and the independent experts who have provided advice for this review.

#### **Support changes to WACC percentile and RAB indexation**

7. MEUG supports the proposed changes to the WACC parameters to incorporate the latest empirical evidence and to reflect the current regulatory environment facing Transpower and their customers. As outlined in our submissions on the IMs amendments relating to EDBs:
  - a) MEUG supports the Commission's draft decision to use the 65<sup>th</sup> percentile of the WACC for price-quality regulation of EDBs and Transpower.
  - b) However, we question whether the Commission has gone far enough to balance the risk of underinvestment against the impact on consumers of a higher WACC.
  - c) MEUG continues to hold the view that the WACC should be set at the 50<sup>th</sup> percentile (midpoint) for regulated energy businesses.
  - d) We query whether Contact Energy's recommendation<sup>5</sup> to use the 60<sup>th</sup> percentile of the WACC for EDBs, should also be applied to Transpower.
8. MEUG continues to support a consistent approach being taken with RAB indexation for both Transpower and EDBs. We agree with the statements from Vector, Unison and Contact that there is no justification for a difference in approach, and we note that Contact has provided a view on how indexing Transpower's RAB will be beneficial for consumers in the long term, particularly as we move to greater electrification. We believe this change should be introduced as soon as is practicable for Transpower.

#### **Support improvements that reduce compliance burden**

9. MEUG supports improvements that will streamline the IPP and major capex processes for Transpower, the Commission and customers, while ensuring that robust but commensurate oversight of Transpower's expenditure is maintained. We consider that it is prudent to allow Transpower to amend major capex outputs following submission of its investment proposals, rather than the present requirement that Transpower withdraw the proposal and re-submit. A reduction in any unnecessary re-work will have long term benefits (albeit likely minor) for the end-consumer.

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<sup>4</sup> MEUG advised the Commission that it was unable to finalise a submission on the Transpower IMs Determinations by 26 July 2023, and therefore would only be able to provide comment through a cross-submission.

<sup>5</sup> Paragraph 45, Contact Energy submission, [Contact-Energy-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf \(comcom.govt.nz\)](https://www.comcom.govt.nz/Content/Contact-Energy-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf)

## MEUG's response to points raised in submissions

10. Our comments on the points raised in Transpower and Vector's submissions are set out in the table below. They are relatively high-level given the limited time available.

**Table 1: Comments on IMs review submissions for Transpower**

Submitter	Point raised by submitter	MEUG response
<b>Transpower – cover letter<sup>6</sup></b>	<ul style="list-style-type: none"> <li>Our preference is that consultation [on major capex proposals] is commensurate with the type of and context for, the investment. Alternatively, the test could be “reasonable to exclude” instead of “unreasonable to include” (paragraph 5).</li> <li>Our drafting proposes that Transpower has discretion to undertake the number and range of scenarios commensurate with the proposed investment need (paragraph 6).</li> </ul>	<ul style="list-style-type: none"> <li>We support a consultation process and scenario analysis requirements that are proportionate to the scale of the major capex proposal or matter being consulted on.</li> <li>We recommend that the Commission develop guidance on what they consider is appropriate, to ensure that both Transpower and the Commission share similar expectations.</li> </ul>
	<ul style="list-style-type: none"> <li>We also encourage the Commission to have a technical consultation on the determination to test that the final decisions are accurately reflected. We are very open to having targeted workshops/ meetings to discuss the content in our submissions, this may be an efficient way to work through some issues (paragraph 13)</li> </ul>	<ul style="list-style-type: none"> <li>We fully support the use of technical consultation papers and workshops as an effective way to discuss and flesh out IMs proposals.</li> </ul>
<b>Transpower – draft Determination<sup>7</sup></b>	<ul style="list-style-type: none"> <li>Recommendation to swap term – E&amp; D non-transmission solution over to transmission alternatives (page 18).</li> </ul>	<ul style="list-style-type: none"> <li>We support this change as it is a much simpler description.</li> </ul>
<b>Transpower – capital expenditure draft IMs<sup>8</sup></b>	<ul style="list-style-type: none"> <li>Advocate for an explicate expenditure category for resilience (page 14)</li> </ul>	<ul style="list-style-type: none"> <li>We are comfortable with this recommendation as infrastructure resilience is an increasingly important area of focus.</li> </ul>
	<ul style="list-style-type: none"> <li>We do not consider that the IV's terms of reference should be codified. This is very restrictive (page 33).</li> </ul>	<ul style="list-style-type: none"> <li>We agree that it would be too restrictive to include all the detail required from an Independent Verifier (IV) in the Determination. However, some basic level of requirements might be prudent.</li> </ul>
	<ul style="list-style-type: none"> <li>This is very burdensome, and it is not clear how it better achieves the objectives of Part 4. We have to evidence whether our proposals are prudent or efficient, not whether we have had engagement with consultants. The relevant material is covered in FA4, FA5, and FA6 to demonstrate prudence</li> </ul>	<ul style="list-style-type: none"> <li>We query what impact these requirements may have on consumers, i.e., will there be an increase in compliance costs that will be passed onto consumers?</li> </ul>

<sup>6</sup> [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0021/323805/Transpower-Cover-letter-to-Submission-on-IM-Review-2023-Draft-Decisions-Transpower-IM-Determinations-26-July-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0021/323805/Transpower-Cover-letter-to-Submission-on-IM-Review-2023-Draft-Decisions-Transpower-IM-Determinations-26-July-2023.pdf)

<sup>7</sup> [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0022/323806/Transpower-Submission-on-IM-Review-2023-Draft-Decision-Transpower-Input-Methodology-Amendment-Determination-26-July-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0022/323806/Transpower-Submission-on-IM-Review-2023-Draft-Decision-Transpower-Input-Methodology-Amendment-Determination-26-July-2023.pdf) (comcom.govt.nz)

<sup>8</sup> [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0022/323806/Transpower-Submission-on-IM-Review-2023-Draft-Decision-Transpower-Capital-Expenditure-Input-Methodology-Amendment-Determination-26-July-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0022/323806/Transpower-Submission-on-IM-Review-2023-Draft-Decision-Transpower-Capital-Expenditure-Input-Methodology-Amendment-Determination-26-July-2023.pdf)

Submitter	Point raised by submitter	MEUG response
	and efficiency (page 107). <ul style="list-style-type: none"> <li>We do not agree that the ToR should be codified. We do not believe this increases the certainty for Transpower (Schedule K, page 132)</li> </ul>	<ul style="list-style-type: none"> <li>We agree. There is a risk that detail specified here becomes quickly out of date.</li> </ul>
<b>Vector<sup>9</sup></b>	<ul style="list-style-type: none"> <li>Vector believes that more time should have been allocated to consult on the draft decision (paragraph 2)</li> <li>Having only an extra week to focus on the Transpower issues has constrained our ability to respond fulsomely to this consultation and therefore our submission unfortunately reflects that constraint (paragraph 3)</li> </ul>	<ul style="list-style-type: none"> <li>We agree.</li> </ul>
	<ul style="list-style-type: none"> <li>When more than half of the expenditure required will come from the distribution companies, Vector believes that the Commission needs to align the regulatory focus attributed to Transpower to EDBs (paragraph 5).</li> <li>For that reason, we were pleased to see some proposals that went in that direction. The new Large Connection Contract (LCC) mechanism has been introduced for EDBs similar to Transpower's New Investment Contract (NIC) (paragraph 6)</li> </ul>	<ul style="list-style-type: none"> <li>We agree. We support a neutral regulatory framework where the customer can make the most economic choice of where to connect to the electricity system to get the required level of supply.</li> <li>As noted in our submission on the IMs proposals for EDBs, we believe that further consultation is required on the LCC to ensure an efficient mechanism is established.</li> </ul>

11. We would welcome the opportunity to engage further with the Commission, Transpower, and other interested stakeholders as the Commission progresses the 2023 IMs review. If you have any questions regarding our submission, please contact MEUG on 027 472 7798 or via email at [karen@meug.co.nz](mailto:karen@meug.co.nz).

Yours sincerely



**Karen Boyes**  
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<sup>9</sup> [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0024/323808/Vector-Submission-on-IM-Review-2023-Draft-Decisions-Transpower-IM-Determinations-26-July-2023.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0024/323808/Vector-Submission-on-IM-Review-2023-Draft-Decisions-Transpower-IM-Determinations-26-July-2023.pdf)