

13 March 2024

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Dear Matthew

## **Issues paper: Transpower's individual price quality path for the next regulatory control period**

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission's (the Commission) issues paper "*Transpower's individual price-quality path for the next regulatory control period*"<sup>1</sup> published for consultation on 25 January 2024.
2. MEUG members have been consulted on the approach to this cross-submission. Members may lodge separate cross-submissions. This cross-submission does not contain any confidential information and can be published on the Commission's website unaltered.

### **Transpower's submission aids discussion**

3. MEUG welcomed the opportunity to review Transpower's detailed submission on the Commission's issues paper regarding the reset of its price-quality path for the next five years. It was concerning to read that Transpower had:

*"identified several inaccuracies in the Commission's Issues Paper and are concerned that these inaccuracies may lead to stakeholders' responses being based on false premises. [Transpower] were surprised and concerned to read that the Commission considered that there was no evidence in our RCP4 proposal that we had carried out a deliverability review."*<sup>2</sup>

4. Subsequently, we found it helpful that Transpower then provided additional information to clarify the errors it identified in the issues paper and expanded on several areas (for example, insurance) where it felt explanation was required. MEUG recommends that if either Transpower or the Commission identify any further issues regarding Transpower's RCP4 proposal, that all correspondence is published on the Commission's website and stakeholders are advised. It is important that all submissions and decisions are based on correct and up to date information.

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<sup>1</sup> [https://comcom.govt.nz/data/assets/pdf\\_file/0020/341435/Transpower-RCP4-Issues-Paper-25-January-2024.pdf](https://comcom.govt.nz/data/assets/pdf_file/0020/341435/Transpower-RCP4-Issues-Paper-25-January-2024.pdf)

<sup>2</sup> Page 1, Transpower submission, [https://comcom.govt.nz/data/assets/pdf\\_file/0020/344810/Transpower-submission-on-RCP4-Issues-paper-21-February-2024.pdf](https://comcom.govt.nz/data/assets/pdf_file/0020/344810/Transpower-submission-on-RCP4-Issues-paper-21-February-2024.pdf)

## Balancing investment needs with consumer price shock

5. Like MEUG, many submitters commented on the scale of proposed increase in expenditure and associated revenue over the next regulatory control period and discussed the need to balance investment in the transmission system against price shock for consumers.<sup>3</sup> We agree with the submission from MEUG member NZAS<sup>4</sup> who outlined how the rate of the price increase is steep and is contrary to the approach agreed in the Transmission Pricing Methodology (TPM). In addition, we endorse the points raised by Contact Energy that:

*"Increasing consumer charges by almost a quarter is significant....*

*Assuming the Commission retains the 10%+CPI definition of a consumer price shock for distribution businesses the cumulative increase in lines charges for the average bill will be more than 15%....*

*The Commission should consider more price smoothing scenarios than those presented in figure 10.2. There should also be scenarios that spread the significant increase in costs over more than one regulatory period."*<sup>5</sup>

6. MEUG supports the call from Mercury<sup>6</sup> for the Commission to clarify its definition of a "price shock" and the request for specific issues-based workshops on the Commission's assessment of price shocks to consumers.<sup>7</sup>

## Different approach needed to address deliverability concerns

7. Deliverability is a key concern for other consumer groups and direct connect customers, such as the Consumer Advisory Council<sup>3</sup> and NZA.<sup>4</sup>
8. It was helpful to read that Transpower<sup>2</sup> has conducted an extensive deliverability review and developed a workforce plan for the work programme proposed for RCP4. Transpower also outlines how it will continue to make improvements to review and recalibrate its workforce model as time progresses. This does help alleviate some of the concerns that stakeholders may have with deliverability of this large work programme. However, planning alone will not alleviate the clear workforce challenges, especially in specialist roles, that all our members face, and which we foresee Transpower facing as well.
9. When considering allowances for RCP4, Transpower has stated that it does "*not consider that making a deliverability adjustment for RCP4 is appropriate. Delaying this work would not align with the long-term interests of consumers.*" However, it has noted that it is "*open to using uncertainty mechanisms in this area if the Commission is not confident in [Transpower's] ability to hire sufficient resource.*"
10. We welcome Transpower's openness to using alternative approaches in RCP4 to address the uncertainty the electricity sector is facing. Many stakeholders such as Vector<sup>8</sup> and ENA<sup>8</sup> have recommended that the Commission make greater use of use it or lose it (UIOLI) mechanisms, particularly to "*minimise the possibility that under-delivery is not seen as efficiency*".<sup>9</sup> MEUG would welcome further discussion with the Commission, Transpower and stakeholders on how UIOLI mechanisms could be implemented for this coming regulatory period.

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<sup>3</sup> Submissions from Consumer Advisory Council, NZAS, Contact, Mercury, and Meridian.

<sup>4</sup> NZAS submission, [NZAS-submission-on-RCP4-Issues-paper-21-February-2024.pdf](https://comcom.govt.nz/data/assets/pdf_file/0024/344805/NZAS-submission-on-RCP4-Issues-paper-21-February-2024.pdf) ([comcom.govt.nz](https://comcom.govt.nz))

<sup>5</sup> Contact Energy submission, [https://comcom.govt.nz/data/assets/pdf\\_file/0024/344805/Contact-Energy-submission-on-RCP4-Issues-paper-21-February-2024.pdf](https://comcom.govt.nz/data/assets/pdf_file/0024/344805/Contact-Energy-submission-on-RCP4-Issues-paper-21-February-2024.pdf)

<sup>6</sup> Mercury submission, [https://comcom.govt.nz/data/assets/pdf\\_file/0027/344808/Mercury-submission-on-RCP4-issues-paper-21-February-2024.pdf](https://comcom.govt.nz/data/assets/pdf_file/0027/344808/Mercury-submission-on-RCP4-issues-paper-21-February-2024.pdf)

<sup>7</sup> Vector also called for the Commission to hold workshops on several topics, which are equally of relevance to EDBs as Transpower.

<sup>8</sup> Vector submission, [https://comcom.govt.nz/data/assets/pdf\\_file/0021/344811/Vector-submission-on-RCP4-Issues-paper-21-February-2024.pdf](https://comcom.govt.nz/data/assets/pdf_file/0021/344811/Vector-submission-on-RCP4-Issues-paper-21-February-2024.pdf)

<sup>9</sup> Paragraph 12, Vector submission.

## Broader issues to be addressed to support energy transition

11. There have been several broader issues that have been raised through submissions on this issues paper, which MEUG considers warrant further consideration by not only the Commission, but also the Ministry of Business, Innovation and Employment (MBIE) and the Electricity Authority:
- **Total price impact on consumers:** In recent submissions, MEUG<sup>10</sup> has called for the Government to consider the overall impact on electricity prices (from the numerous regulatory resets and market conditions) and whether the total level of investment into the electricity system results in affordable prices for both consumers and businesses. This point was echoed in submissions on this issue paper, with Mercury noting that *“there is no single view of how these decisions might come together and impact in total on retail prices”*. Meridian<sup>11</sup> also noted that it thinks that *“it is essential that the Commission makes sure the wider government is aware of the upcoming cost increases and the underlying drivers”*.
  - **Managing price volatility over the long-term:** There has been considerable volatility in recent years in the price-quality paths for regulated businesses, with changes in the factors informing the Weighted Average Cost of Capital (WACC). Meridian queries *“whether the cycle of sharp, five-yearly increases and decreased in the weighted average cost of capital (WACC) is in the best interests of consumers.”* Many submitters, like MEUG and Mercury, have also called for revenue smoothing not only within a regulatory period, but also across regulatory periods. This view is however not shared by Transpower who state that they *“do not support smoothing of revenue between and across RCPs. [Their] view is that, to the extent possible, today’s consumers should pay for today’s costs.”*<sup>12</sup>
  - **Setting a WACC to reflect Transpower’s risk:** We support NZAS’s view<sup>4</sup> that the Commission needs to revisit Transpower’s WACC settings, as these settings haven’t been adequately debated. MEUG remains of the view that the WACC should be set at the 50<sup>th</sup> percentile, particularly for Transpower.
  - **Regulatory framework for Transpower:** NZAS raises an interesting point about whether the regulatory approach for Transpower should be reconsidered, given its status as a State-Owned Enterprise (SOE). It is important to assess whether the regulatory framework is continuing to meet the long-term benefits of consumers and will support the sector through the energy transition.
12. MEUG would welcome the opportunity to discuss these matters further, noting that these issues may be considered by the Government as it develops an Energy Strategy.

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<sup>10</sup> For example, in MEUG’s submission to the Commission on the EDB DPP4 Issues Paper, <http://www.meug.co.nz/node/1335>

<sup>11</sup> Meridian Energy submission, [Meridian-submission-on-RCP4-issues-paper-21-February-2024.pdf \(comcom.govt.nz\)](http://www.comcom.govt.nz/meridian-submission-on-RCP4-issues-paper-21-February-2024.pdf)

<sup>12</sup> Paragraph 41, Transpower submission.

### Next steps

13. If you have any questions regarding our cross-submission, please contact MEUG on 027 472 7798 or via email at [karen@meug.co.nz](mailto:karen@meug.co.nz).

Yours sincerely



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