6th May 2020

Transpower's COVID-19 deferred payment offer to consumers falls short

Transpower has offered some of its direct and indirect customers a reduction in bills for three months proportional to the decrease in their level of operations but only on the basis that charges would rise for the following nine months to recoup the reduction.

"The deferred payment options offered electricity consumers in response to the COVID-19 offered by Transpower is disappointing" said John Harbord, Chair of the Major Electricity Users' Group (MEUG) and Jon Duffy, Chief Executive of Consumer NZ.

"Put simply Transpower is saying it's revenue collection should be immune to COVID-19 regardless of the commercial pain its customers are suffering," Mr Harbord said.

MEUG has written to Transpower asking it to reconsider its position, pointing out that the deferral proposal doesn't recognise that Transpower has discretion on a year by year basis to lower charges.

Due to collecting the same level of revenue when grid maintenance and upgrades have been postponed also means there is a possibility of the Government as shareholder of Transpower receiving additional windfall in dividends than that forecast in Transpower's Statement of Corporate intent of $165 million.

"This possibility should compel Transpower to make more effort to provide financial relief in addition to the deferred payment option. We encourage Transpower to review its decision and take a leadership role for other parties in the supply chain in going further than the bare minimum in offering financial relief" concluded Mr Harbord.

ENDS

For further information, please contact:

John Harbord, Chair, Major Electricity Users' Group, +64 276 838 983

Jon Duffy, Chief Executive, Consumer, +64 21 733 272

Attachment:

MEUG letter to Transpower, Transpower's COVID-19 financial relief offer, 5th May 2020.

Background:

Transpower is a 100% government owned SoE. Regulated line revenues for 2020/21 are expected to be approximately $716 million. Most revenue (in excess of 80%) is paid by Electricity Distributors that in turn charge retailers that supply households, SME's and medium sized commercial and industrial consumers. The balance is paid, approximately evenly, by generators and by large grid connected consumers

5 May 2020

Alison Andrew
Chief Executive
Transpower
By email to alison.andrew@transpower.co.nz

Dear Alison

Transpower's COVID-19 financial relief offer

MEUG's members have been disappointed with Transpower's payment deferral offer to grid connected customers and businesses connected to Electricity Distributors that have fully or largely closed to meet the Government's COVID-19 Alert Level 4 requirements. This letter explains why members are disappointed and reasons why we think Transpower should reconsider what forms of financial relief rather than deferral can be offered.

The Transpower offer correctly notes current year transmission charges allocated to individual transmission customers are allocated by the Transmission Pricing Methodology (TPM) and cannot be revisited in the current year apart from timing of receipts. It is disappointing that the letter glosses over the fact that the Transpower Board does have discretion before the start of a pricing year to approve costs below the revenue cap set by the Commerce Commission. MEUG believes the letter should have acknowledged that it was possible to exercise that discretion and explained which options the Board considered - in particular if there were options it could take, later in the year, once there is more certainty on Transpower's costs and the flow on impact on consumers.

We expect Transpower's profits at the end of the current financial year, 30th June 2020, will be higher than planned in the Statement of Corporate Intent (SCI). This is because over the five weeks of lockdown during alert level four operating costs would have been lower than planned but income remained unchanged. Potentially dividends paid to the Government this year will exceed the $165 million set out in the 2019/20 SCI. This will not be the result of additional efficiency gains, improved productivity and better outcomes delivered to customers by Transpower. Rather it will be a fortuitous windfall gain because of the allocation mechanism of the TPM being applied before the start of a pricing year.

We make no judgement on the pros and cons of having a less rigid TPM. What is important is that Transpower and the Government considered this possible outcome whereby the Government will be a winner from COVID-19 by being paid a higher dividend. This outcome should have been an incentive to be more innovative in finding ways to mitigate a windfall dividend by offering COVID-19 financial relief options in addition to payment deferment. Considering options to mitigate a potential windfall dividend would also be consistent with Government's encouragement to businesses in other sectors of the economy to do what they can to assist end customers, tenants and other struggling businesses and to use every mechanism at its disposal to foster our post COVID economic recovery.

There are three other inter-related aspects of Transpower's COVID-19 financial relief offer MEUG members have found wanting.

1. The offer was not discussed with MEUG members who are direct customers of Transpower before being finalised. MEUG members learned of Transpower's payment deferral option via a notice to the NZX. Transpower did not bother to talk to its direct business customers – the very entities Transpower was purporting to be trying to help. This is not the approach we would expect from a customer focussed enterprise in a competitive industry.
2. It took a long time for the offer to be made so that there was a delay for customers in having certainty on their options. Anecdotal reports indicate businesses in most, but not all, other sectors that provided financial relief did so more quickly.
3. We believe some Electricity Distributors held off finalising their offers until they had clarity on Transpower's offer. The latter highlights the importance of Transpower's leadership role for other regulated line companies and how, in this instance, that role has failed because of the poor precedent of not consulting with end consumers and not acting speedily.

This letter has been copied to appropriate Ministers and electricity industry regulators for their information. This correspondence is not confidential and will be published on the MEUG website within the next 24-hours.

Yours sincerely

John Harbord
Chair

cc Rt Hon Winston Peters, Minister for State Owned Enterprises
cc Hon Grant Robertson, Minister of Finance
cc Hon Dr Megan Woods, Minister of Energy and Resources
cc Anna Rawlings, Chair, Commerce Commission
cc Dr Brent Layton, Chair, Electricity Authority