

21 February 2024

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Sent via email: infrastructure.regulation@comcom.govt.nz

Dear Matthew

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

1. This is a 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*"¹ published for consultation on 25 January 2024.
2. MEUG members have been consulted on the approach to this submission. Members may lodge separate submissions. This submission does not contain any confidential information and can be published on the Authority's website unaltered.

Overarching comments on Transpower's RPC4

3. Transpower's proposal for its' Individual Price-Quality Path for 2025 to 2030 (RCP4) represents a considerable increase in both capital and operational expenditure, with a corresponding significant increase in the revenue it seeks to recover from its customers. Transpower has set out a clear case for what is driving this increased expenditure: the need to meet increased demand from increased electrification of our economy, the replacement and maintenance of aging assets, the need to build greater resilience into the system, as well as input cost pressures and growth in its workforce.
4. MEUG and our 14 members support Transpower's work to provide a reliable and secure electricity transmission system – this is essential to support a productive economy, the well-being of communities and the country's decarbonisation goals. However, this considerable increase in investment comes at a time when consumers are facing a cost-of-living crisis and all components of the electricity price are increasing substantially – wholesale electricity prices, transmission charges, distribution charges, and industry levies. In our view, decisions on Transpower's RPC4 should not be taken in isolation, rather considered in the context of total costs facing consumers².

¹ https://comcom.govt.nz/data/assets/pdf_file/0020/341435/Transpower-RCP4-Issues-Paper-25-January-2024.pdf

² We raised these concerns in our recent submissions to the Commission on the [EDB DPP4 Issues Paper](#) and [Transpower's NZGP1 draft decision](#).

5. MEUG's comments are focused around the following areas:

- **Affordability:** Given the expected increase in revenue to be recovered, we support measures that look at smoothing forecast revenue both within and between regulatory periods, as well as the Commission assessing the total cost impact facing consumers over 2025 – 2030 (online side the RCP4 expenditure set out in this paper). As electricity prices continue to increase, this may conversely disincentivise consumers to make the decisions needed to decarbonise our sector in a timely manner.

We note that a considerable amount of the forecast revenue uplift is driven by factors set in the Commission's regulatory framework³ (outside of the RCP4 process) and has seen Transpower's revenue vary considerably between regulatory periods. This raises questions about the suitability of the Input Methodology framework in the long-term⁴ and how Transpower, as a state-owned enterprise could be regulated to meet the long-term interests of consumers.

- **Deliverability:** Deliverability of the work programme remains a key concern, with Transpower outlining the lift in resources it will require to deliver this investment in the transmission system. MEUG supports measures that require Transpower to report on its ability to deliver the proposed work programme, and how it is progressing its recruitment and retention of a skilled workforce. Recruitment of skilled staff is a sector wide issue, requiring the Commission to take a coordinated approach across both transmission and distribution.
- **Resilience:** Transpower is forecasting a significant lift in expenditure to address resilience of the network. We support the objectives of this expenditure, but believe the Commission need to further assess the scale of the increase.
- **Quality of the transmission service:** We are generally comfortable with the proposed changes to the quality measures proposed for RCP4 and support the introduction of measures to look at customer engagement.

6. We expand on each of these points below, as well as providing comments on several other areas addressed in the Commission's Issues Paper.

Addressing affordability over RCP4

7. Electricity consumers are facing a considerable increase in electricity costs in the coming five years, with increases in not only transmission charges as sought through the RCP4, but also through increases in the wholesale electricity price (and futures prices), distribution charges, industry levies, and ETS charges. This comes at a time when consumers are facing increased inflation and interest rates, and a cost-of-living crisis. Electricity is a key input for all MEUG's members, and as this input increases, it impacts operations and can hamper growing a productive economy.
8. There is also a real risk that increasing electricity prices may deter or delay businesses and consumers from taking action to decarbonize their operations or homes (i.e. switching from coal to an electrode boiler). This is counter to the action that the country needs to be taking in coming years, to meet our emissions targets and international commitments.
9. We welcome the discussion of different revenue scenarios to smooth revenue between RCP3 and RCP4, and across RCP4. It is also helpful for business to understand how revenue requirements will change between RCP4 and RCP5, given the longer-term investments that

³ For example, inflation, the WACC and the prior period wash-up for Transpower.

⁴ With both customers and regulated supplies facing volatility in prices and company returns/cashflow.

businesses are making. For businesses, it is important to be able to forecast price increases over the long-term, with possibly some preference for a more balanced increase between and within regulatory periods. Individual MEUG members may wish to comment on this matter.

Role of the regulatory framework in determining electricity prices

10. Figure X1 of the Issues Paper⁵ helpfully outlines the items that contribute to the lift in forecast revenue between RCP3 and RCP4. MEUG observes that most of this uplift is due to external factors set outside of price-quality path process, such as the increase in interest rates and inflation, and Transpower's EV account. This has led to a substantial increase in the forecast WACC, with an increase from 4.57% (RCP3) to 7.17% (forecast for RCP4). These factors have also contributed to the drop in revenue requirements over RCP3, providing a volatility in prices/returns for both consumers and regulated businesses.
11. We acknowledge that these factors are set through the Commission's regulatory framework as determined through the Input Methodologies. These factors are therefore not the primary focus for a price-quality reset yet contribute to a considerable price shock for consumers. It therefore would be remiss not to comment on these factors, when considering affordability of Transpower's proposed investment.
12. MEUG believes this raises questions about the suitability of the Input Methodology framework in the long-term, given the impact on both consumers and regulated businesses. Volatile prices and returns do not seem to be in the best interest of consumers going forward, particularly as we seek to transition the energy system. Given Transpower's role as a state-owned enterprise, we also believe that the regulatory framework could be adapted to better reflect Transpower's unique role. We would welcome greater discussion on these two suggestions and will raise it further in our cross-submission.

Focus on deliverability

13. MEUG welcomes the preparation and publication on an independent verifier report for RCP4. This provides an additional level of assurance that the forecast expenditure is efficient and well justified. It also helps identify areas where the Commission and stakeholders should focus their attention when reviewing the proposal.
14. The verifier has identified that deliverability of the work programme is a key issue, recommending that the Commission focus on "*Transpower's ability to secure the specialised workforce resources required to deliver the RCP4 work program in the face of strong international competition for skilled energy sector labour*".⁶ MEUG has previously noted concerns with Transpower's ability to deliver the extensive programme of work, and we support the Commission undertaking more assessment in this space. Given that this issue is also facing electricity distribution businesses in DPP4, we consider that a sector-wide approach might be more useful.
15. MEUG would support Transpower being subject to reporting requirements around deliverability. It would be helpful to see how Transpower is managing the recruitment of the extra 200 FTEs (or equivalent resource from other sources) as it progresses through RCP4. We believe it would also be useful for Transpower to report on staff retention, given the commentary on current staff attrition rates in key technical areas.⁷
16. Alongside workforce numbers, we also support a focus on Transpower providing project delivery information (as noted in paragraph 9.25) and continuing to provide regular information on how it is maturing its asset health and risk modelling (as noted in paragraph 4.26). The combination of information should provide insight into how successfully Transpower is

⁵ Page 8 of the Issues Paper.

⁶ Paragraph 3.29.1 of the Issues Paper.

⁷ Paragraph 8.29 of the Issues Paper.

managing its work programme and would enable the Commission to identify any issues during RCP4 that may need to be addressed (i.e. whether the IPP should be adjusted for remainder of period due to deliverability concerns).

Importance of understanding expenditure for resilience

17. MEUG support's the Commission "*assessing how Transpower is identifying resilience risk, accounting for climate change effects, and considering potential changing risk exposures.*"⁸ A resilient network is essential for a productive economy, and we support work to address risks arising from increasing weather events. Last year's Cyclone Gabrielle had a considerable impact on some of our members, particularly Pan Pac,⁹ and illustrates the scale of damage that can occur, and the expenditure and resources required to restore the network.
18. We note that Transpower only budgeted \$0.5 million for resilience expenditure in RCP3 but is now seeking \$75 million for RCP. Given the scale of this increase, we recommend that the Commission focus its attention on the proposed expenditure in this category and look at how this type of work was previously considered in RCP3.
19. We agree that there is a link between resilience expenditure and insurance, with the Commission noting that they intend to look at "*whether prior resilience expenditure has had an impact on insurance premiums.*"¹⁰ Insurance has increased for all parties in the energy sector (and the economy as a whole), with Transpower forecasting a 36% increase. Scrutiny is required to ensure that this is efficient and discussion around whether there are other options available to Transpower, i.e. as a fully state-owned enterprise is there alternative government-backed options, such as self-insurance like EQC.

General support for proposed Quality standards and monitoring

20. MEUG is generally comfortable with the proposed quality standards and grid output measures put forward for RCP4. We have the following comments:
 - We support the new customer engagement measures that Transpower has put forward (CS1 and CS2). As Transpower must manage an increased number of grid connections and work with a broader range of participants, it will be important to ensure that Transpower are providing a service that meets the needs of consumers and enables timely grid connections, to support an efficient wholesale market.
 - MEUG queries the proposal to remove the quality standard for AP2 – HVAC selected asset availability. We believe there is merit in monitoring the availability of key HVAC transmission assets, which support a reliable and secure market. We would welcome further discussion on this to understand Transpower's concerns.
 - MEUG is unclear whether removing data that relates to availability affected by major capex or listed projects will provide the most accurate picture of HVDC performance (AP1). While these project-related outages (or reduction in HVDC capacity) are well-signalled and planned works, it is still beneficial to understand the systems total performance (even if this is presented as a grid output measure, but not linked to quality standard).
 - MEUG believes that there may be some merit in looking at market impact measures, that look at the cost impact of transmission line outages on wholesale

⁸ Paragraph 3.3.1 of the Issues Paper.

⁹ <https://www.panpac.co.nz/we-will-rebuild/>

¹⁰ Table 3.2, page 37 of the Issues Paper.

electricity costs.¹¹ We would welcome further discussion on this option. There has been a significant increase in the wholesale electricity price over the last five years¹² and it is helpful to understand what impact transmission constraints might be contributing to this.

- We would encourage Transpower to include some reporting on the use of non-traditional network solutions. This is an area where there has been limited uptake but would be beneficial to increase the use of these solutions.

Comments on other areas

21. MEUG has brief comments on the following areas discussed in the Issues Paper:

- **Areas for scrutiny:** We support the Commission further assessing Transpower's ICT Opex, the grid maintenance opex forecasts,¹³ and the expenditure associated with compliance with drinking water requirements not approved by the Verifier.¹⁴
- **Treatment of instantaneous reserve event charges:** Transpower has proposed to include instantaneous reserve event charges in the AM&O opex portfolio.¹⁵ We question whether these charges should be passed through to consumers, as they arise from Transpower's actions and are in their control.
- **Regulatory period:** As outlined in prior submissions, MEUG is comfortable with the current 5-year regulatory control period. We do not believe that a four-year regulatory period would provide sufficient benefits to justify the change.

Next steps

22. We look forward to engaging with other stakeholders, Transpower and the Commission during the cross-submission phase. If you have any questions regarding our submission, please contact MEUG on 027 472 7798 or via email at karen@meug.co.nz.

Yours sincerely



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¹¹ Paragraphs 7.115 to 7.117 of the Issues Paper.

¹² As outlined in our briefing to the incoming Minister of Energy, <http://www.meug.co.nz/node/1331>

¹³ See paragraph 6.42 of the Issues Paper.

¹⁴ Table 3.1, page 3.1 of the Issues Paper.

¹⁵ Paragraph 6.47 of the Issues Paper.