

3 August 2022

Dane Gunnell
Head of Price-Quality Regulation, Infrastructure Branch
Commerce Commission
By email to im.review@comcom.govt.nz

Dear Dane

IM review process and issues cross-submission

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on submissions by 32 other parties (that closed 11th June) on the Commerce Commission "Part 4 Input Methodologies Review 2023, Process and Issues paper" dated 20th May 2022.¹ MEUG has separately made a cross-submission on the IM draft framework paper.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.
3. The sections below have MEUG cross-submissions on three of the five topic section chapters in the process and issues paper. We have no cross-submissions on the chapters titled "CPPs and in-period adjustments to price-quality paths", and "Effectiveness of the IMs for each sector."

Risk allocation and incentives under price-quality regulation

4. Several submitters took issue with the analysis in Attachment A titled "Outcomes in the market for electricity lines services." We don't believe any submitter disagrees with the Commission acknowledgement that the available evidence to measure trends in economic efficiency, innovation and productivity is imperfect. Having more robust evidence will improve decisions to change the IMs.² It is, in our view, worth persevering to evolve and improve the various analytical approaches in Attachment A. Many of the questions the Commission posed can only be answered by EDB and Transpower; hence we encourage those suppliers to assist the Commission.
5. Infrastructure utilities have a common challenge in measuring productivity. Unison noted "Aurora and the alarming state of New Zealand's "three waters" infrastructure demonstrate that inefficiency occurs when expenditure is not keeping pace with the need to maintain and replace assets."³ One problem with the available statistics is Statistics NZ publishes an aggregate multifactor productivity index for the combined electricity, gas,

¹ Submissions found at <https://comcom.govt.nz/regulated-industries/input-methodologies/input-methodologies-for-electricity,-gas-and-airports/input-methodologies-projects/2023-input-methodologies-review>

² Process and issues paper [10.5].

³ Unison [24].

water and waste services sectors.⁴ MEUG recommend the Commission discuss with Statistics NZ publication of more granular data to allow electricity line sector productivity trends to be separated from other utility statistics. Making more granular data available to all interested parties would ensure a common evidential data set to work with.

6. Consumer affordability is an issue identified in the process and issues paper in table 6, mapping issues to the Part 4 regime. Several submitters agreed consumer affordability was an issue. Care is needed in finding evidence and analysis of consumer affordability. For example, Vector submitted “it is important to bear in mind the impact on consumers overall “energy wallet” when considering network price increases.”⁵ The problem with Vector’s example is there was no analysis of comparable EV and ICE vehicle investment and non-fuel operating costs.
7. The Commission consultation paper noted RAB indexation and inflation forecasting as key issues.⁶ Multiple submitters with opposing views signalled these as key issues. Given the impact on timing of regulated revenues could differ in aggregate by several tens of millions per year depending on whether indexation is applied or not, MEUG agrees these appear to be material issues.
8. Transpower quoted MEUG’s submission in the 2016 review supporting non-indexation for Transpower at that time.⁷ To remove any doubt, MEUG is approaching the 2022-23 review with no pre-conceived position on any issue, including RAB indexation or not for Transpower and EDB, because it’s the sum of all proposed changes that matter.
9. Longer-term demand risk was a topic covered in the process and issues paper.⁸ Methanex noted a new piece of evidence to consider; namely the Australian Energy Regulator’s (AER) draft decision in respect to regulation of the APA Victorian Transmission System released in June 2022.⁹ According to the Major Gas Users’ Group (MGUG) notice of appeal of the recent DPP3 decisions, the value at stake for accelerating depreciation for regulated gas line services is \$156m.¹⁰ Hence this is a material issue and should be considered for the short-list of issues to proceed to the next step. The AER draft decision is therefore an important piece of new evidence.

Issues relating to the cost of capital

10. There were multiple submissions ranging from high-level views to detailed submissions on every parameter of WACC. No new topics were raised apart from MEUG’s suggestion of using the expected WACC with the option and onus of proof on EDB and Transpower to seek approval for a percentile above the mid-point.
11. Some new evidence was submitted by other parties though some may be of partial benefit.¹¹

⁴ Process and issues paper, Figure 10.11.

⁵ Vector [22]

⁶ Process and issues paper [5.184] to [5.225.7].

⁷ Transpower, p25.

⁸ Process and issues paper [5.138] to [5.183].

⁹ Methanex submission [7] to [11].

¹⁰ MGUG notice of appeal, paragraph [10], 29 June 2022.

¹¹ E.g., unclear if The Lines Company evidence on asset betas, p4, might from the reference in footnote 6 refer to equity beta.

Transpower investment

12. Transpower proposed two key changes:
 - a) Shift the Capex IM Investment Test evaluation to a more principles-based approach.
 - b) Introduce more flexibility in the Transpower IMs to allow for a greater range of uncertainty mechanisms. Transpower also see this being achieved via a principles-based approach.
13. Shifting to a more principles-based approach is worth considering provided there is certainty for consumers as to how new approaches to introducing flexibility will be appraised by Transpower against the Part 4 purpose in section 52A, and how allocation of risks between Transpower and its customers will be managed. For the latter consumers are interested in what redress would an affected party have to dispute a new approach? Or should there be a mechanism where the Commission has a default power of veto and or power to arbitrate if no agreement between Transpower and affected parties can be reached? We are interested in such options because of lessons learnt when Transpower set the terms and conditions of the current Transmission Works Agreements (called new investment contracts in the IM¹²).

Yours sincerely



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¹² Transpower, p38.