26 October 2018

Interim Infrastructure Unit
The Treasury
By email to infrastructure@treasury.govt.nz

Infrastructure Body Consultation

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Treasury consultation document "A New Independent Infrastructure Body" published 8 October 2018.[1]

2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.

3. MEUG submits:

   a) The definition of infrastructure should include conventional physical assets and alternative non-physical asset solutions.[2]

   b) The scope of infrastructure within the remit of the work of the new independent infrastructure body should be clearly defined. It's unclear if there are some sectors where the scope of work will include central and local government infrastructure and other sectors where only central government is within scope. The cleanest demarcation is for the new independent infrastructure body to only consider tax-payer funded publicly funded infrastructure. Governance and accountability for local government rate-payer funded infrastructure is a matter for local councils and their constituents.

      We do not see the new independent infrastructure body having a role in lifting best practices for infrastructure management in relation to privately owned infrastructure or state-owned enterprises because those entities already have commercial drivers to seek and adopt best practices.

   c) The overall purpose and objectives of the new independent infrastructure body should include a specific objective of maximising the long-term benefit to tax-payers.[3]

[1] https://treasury.govt.nz/publications/consultation/new-independent-infrastructure-body
[2] The definition in the text box on page 3 of the consultation paper we think infers only physical assets will be considered.
[3] The purpose of the new body set out in bullet point 5 of page 5 of the consultation paper, notes an objective to consider the broader public good benefits but does not mention the need for publicly funded infrastructure to be in the best long-term interest of taxpayers.

d) The new independent infrastructure body should be responsible for evolving best practice guidelines using lessons learned from a structured post implementation review programme.

e) We agree the new body should not duplicate and should build on existing best practices developed within Government. For example:

   i) Cost-benefit-analysis (CBA) techniques have been developed and continuously improved by Treasury. CBA is a central tool for decision-making and necessary for complex multiple future scenarios and uncertainties for long-life infrastructure needs of consumers.

   ii) The Commerce Commission has experience in facilitating improved Asset Management Plan practices by regulated monopolies and economic models for estimating ex ante rates of return and reporting actual ex post returns.

   The latter financial and economic metrics are needed to inform decisions and to allow ex-post review of implementation against the objectives of broader public good benefits and the long-term benefit to taxpayers (see paragraph 3 c) above). Setting an appropriate cost of capital for CBA for comparing options and estimating returns is critical for infrastructure projects because of their capital-intensive nature and how risk allocation is assigned in the contract terms and conditions for infrastructure providers.[4]

f) To retain independence from all proposed new infrastructure services we do not think the new body should provide specific project procurement and delivery support.[5] If, as suggested in paragraph 3 d) above, the new independent infrastructure body has a role to play in a structured post implementation review programme, then there would be a conflict of interest if the new body assisted in specific project procurement and delivery.

4. We look forward to the early publication of the submissions of other parties.

Yours sincerely

Ralph Matthes
Executive Director

[4] Note that MEUG acknowledges the Commerce Commission has developed best practice techniques for models that estimate economic profit for line monopolies. However, in our view the regulated cost of capital for Transpower, electricity distributors and gas monopolies, has led to excessive costs to consumers compared to the risk those suppliers face. The new Infrastructure body should assist other Crown entities not to make the same mistake when assessing asset beta.

[5] Consultation paper, proposed function 8, p14.