



TRANSPOWER

Keeping the energy flowing

Waikoukou
22 Boulcott Street
PO Box 1021
Wellington 6140
New Zealand
P 64 4 495 7000
F 64 4 495 6968
www.transpower.co.nz

5 July 2019

Dane Gunnell
Manager, Price-Quality Regulation
Commerce Commission

By email: regulation.branch@comcom.govt.nz

Proposed amendments to input methodologies

We welcome the opportunity to submit on the consultation on *Proposed amendments to input methodologies for electricity distributors and Transpower New Zealand*, published 29 May 2019.

Our submission addresses amendments proposed to Input Methodologies (IMs) for Transpower. We propose amendments to support contingent recovery of costs associated with development and implementation of a change to the Transmission Pricing Methodology (TPM) arising if the Electricity Authority (Authority) amends or replaces the TPM Guidelines.

Proposed IMs amendments relevant to Transpower

We support all the amendments to our IMs proposed by the Commission,¹ and suggest some improvements. Our rationale follows.

Specification of prices

We agree with the Commission's proposal to introduce FENZ levies payable by Transpower as a new recoverable cost, and levies payable by members of the Energy Complaints Scheme operated by Utilities Disputes Limited (UDL) as a new pass-through cost.

We suggest the Commission should introduce FENZ levies as a pass-through cost rather than a recoverable cost. This classification would achieve the same outcome for our customers as the draft decision, and apply consistent treatment to all relevant industry levies.

Circumstances when an individual price-quality path may be reconsidered

We agree with the Commission's proposal for amendment to the circumstances in which an individual price-quality path (IPP) may be reconsidered each year within a

¹ Section 3.3 [consultation paper](#)

regulatory period to recover/return incentive and wash-up amounts through 'EV adjustments'.

We understand our customers and end-use consumers value smooth prices and as a consequence we support the Commission's intent to reduce volatility in our revenues.

Definition of operating costs

We agree with the amendments proposed to the definition of 'operating costs', which provides clarity that pecuniary penalties cannot be treated as 'operating costs'.

Correcting implementation errors in the IRIS drafting

We agree with the intent of the proposed amendment, which is to address errors identified with the 'opex incentive amount' calculation in the time value of money adjustment.

The current IM clause 3.6.2(1)(b) uses the cost of debt, r , as the time value of money. Other aspects of the IRIS IM use WACC. We are unclear about the economic rationale for the inconsistent use.

In our view, the Net Present Value (NPV) of the formula in clause 3.6.2(1)(b) should, for consistency, presentation and ease of analysis, be equal to the NPV of the formula in clause 3.6.4(1). Equality would be achieved if 'r' in clause 3.6.2(1)(b) is replaced with WACC.

TPM change cost recovery

The Commission's view expressed in its [draft decisions and reasons paper](#) on our individual price-quality path from 1 April 2020 is that it *"appears likely that Transpower will need to respond to finalisation of updated TPM guidelines at some time during RCP3 by making changes to the TPM."*²

The Commission proposes that the revenue path for RCP3 excludes any allowance for capex and opex costs arising from any decision by the Electricity Authority (Authority) to change the TPM Guidelines. The Commission observes this reflects the uncertainty in timing and quantum, which creates difficulties with including these costs as part of the RCP3 decision.³

The Commission's expectation is *"that once a change has been made, the Electricity Authority would make a request, under s 54V, that [the Commission] reconsider our IPP determination"*⁴.

We propose an alternative contingent mechanism to provide certainty

In our view, a preferable contingent mechanism available to the Commission, is to amend both the Transpower IM and Capex IM to enable opex and capex cost

² Transpower's individual price-quality path from 1 April 2020 [Draft decisions and reasons paper](#), X 40.

³ Similarly, any allowance for costs associated with TPM reform were specifically excluded from the IPP decision and determination for RCP2.

⁴ Transpower's individual price-quality path from 1 April 2020 [Draft decisions and reasons paper](#), I42

recovery should new TPM Guidelines be approved by the Authority. We propose drafting detail for the contingent mechanism in the Appendix to this submission.

The principal benefit of our proposed approach is to provide certainty ahead of any need for Transpower to develop a new TPM.

Our expectation is any decision by the Authority to approve new TPM Guidelines will specify a very tight and challenging timeline for Transpower to complete what will be a complex policy development process. Any residual uncertainty around our ability to recover the associated costs under our IPP will add to the challenge of that timeline. Our Board and management's strong preference, as has been communicated to the Authority and Commission, is for certainty to be provided ahead of time.

Yours sincerely

A handwritten signature in blue ink, reading "Gordon W Davidson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Gordon Davidson
Chief Financial Officer

Appendix – proposed drafting for IMs and Capex IMs amendments

Below we propose drafting amendments to the Transpower IMs and Capex IM to enable our opex and capex cost recovery for TPM development.⁵

Transpower IMs - Proposed drafting

New definitions:

TPM means the transmission pricing methodology specified in the **code**, as amended from time to time;

TPM change means a change to the **TPM guidelines** or a review of the **TPM** by the **Electricity Authority** under clause 12.86 of the **code**;

TPM guidelines means the transmission pricing methodology guidelines published by the **Electricity Authority** under clause 12.83(b) of the **code**, as amended from time to time;

Operating costs recovery:

Clause 3.1.3 (1) defines recoverable costs. To clause 3.1.3(1) add:

- (x) an amount determined by the **Commission** and specified in the **IPP determination** following a reconsideration and amendment of the **IPP** under clauses 3.7.4(1)(a)(i) and 3.7.5(1) for the prudent net additional operating costs, in excess of those provided in the **IPP determination**, incurred or likely to be incurred, in responding to a **TPM change**, including implementing the **TPM change** in the **TPM** and administering the **TPM** following the implementation of the **TPM change**; and

Clause 3.7.4(1) says when price-quality paths can be reconsidered. To clause 3.7.4(1) add:

- (x) there has been a TPM change;

Clause 3.7.5(2) puts limits on changes to the IPP after reconsideration. To clause 3.7.5 (2) add:

- (x) the **TPM change**;

An appropriate addition would also be needed to the table of pass-through costs and recoverable costs in Schedule H of the IPP determination.

Transpower Capex IM - Proposed drafting

Base capex recovery:

⁵ We note the existing “change event” re-opener in the IMs (clause 3.7.2) is unlikely to apply for a change to the TPM because the 1% of forecast MAR threshold is too high.

An equivalent base capex re-opener could go in Subpart 2 of Part 3 of the Capex IM. For example new clause 3.2.4 as follows:

3.2.4 Re-opening of standard incentive rate base capex allowance for a TPM change

The **Commission** may amend the **IPP** to increase the **standard incentive rate base capex allowance** by an amount equal to the prudent additional **base capex** incurred or likely to be incurred during the **regulatory period** in responding to a **TPM change**, including implementing the **TPM change** in the **TPM** and administering the **TPM** following the implementation of the **TPM change**.