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## Transpower's individual price-quality path for 2025 to 2030: Process, decision-making framework, and approach for setting expenditure allowances, quality standards and the price path

Transpower welcomes the opportunity to respond to the Commission's consultation paper *process, decision-making framework and approach to setting expenditure allowances, quality standards and the price path* [the **approach** paper], for 2025 – 2030, published 9 October 2023.

We are comfortable with the timeline set out in Table 1 of the consultation paper.

### Untimely suggestion of a shorter RCP4 period

While we understand the IMs provide for a regulatory period shorter than the established five-year period, we are surprised by the Commission's indication just two months prior to our RCP4 submission that it could decide a shorter regulatory period for RCP4.<sup>1</sup> We have been working on our RCP4 proposal for nearly two years ready to submit in December 2023. This period has covered significant processes such as our consultation on service measures and expenditures for RCP4, independent verification and information provision compliance; as well as responding to specific investigative enquiries of the Commission under its three s53ZD notices.<sup>2</sup>

In our view any decision to reduce the regulatory period should be made prior to the start of the Transpower's submission proposal process, as the length of the regulatory period dictates investment and operational decisions (including accounting for the expenditure

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<sup>1</sup> Section 3.16 "RCP4 will commence on 1 April 2025 and unless we decide that a shorter period (a minimum of 4 years) would better meet the Part 4 purpose, then the default regulatory period will be five-years."

<sup>2</sup> For customer consultation, asset health and network risk, and cost estimation.

incentives). Our proposal is focused on a five-year period, and our expenditure plans and proposed initiatives reflect this.

A shorter control period would also create consequential effects on both Transpower and Commission processes and their timing, such as the E&D reopener, listed project application, and ability to respond to any specific investigation query under a s53ZD notice. In addition, the decision would mean the control period ended March 2029 and leave an overhang period under the *order-in-council* (which expires September 2030)<sup>3</sup> that provides for Transpower's IPP.

### **Affordability consideration**

We agree with the Commission that affordability is an important consideration for consumers. However avoidance of a price shock does not take precedence over Part 4 objectives. A company operating in a workability competitive market would not be able to delay, over a long period, passing through material increases in input costs.

We also note, a large part of the step change from RCP3 to RCP4 is driven by the Commission's regulatory settings i.e. rate of return fixed for the control period, the catch-up for the difference between outturn and forecast inflation, and the operation of Transpower's EV account. Further delaying the pass-through of these costs may mean placing a greater revenue recovery burden on future consumers.

### **Asset health and network risk (AHNR) development**

We agree that asset health and network risk evaluation (and evolution) continues to be important focus areas to ensure "more efficient spending over time"<sup>4</sup> to meet our expenditure objectives (the efficient cost of asset replacement, refurbishment, and development).

To support the Commission's evaluation of our RCP4 proposal, in 2019 the Commission issued a s53ZD notice to Transpower on asset health and network risk that required:

- *a development roadmap* setting out plans for developing asset health and risk models, asset life-extension models, and risk-based decision-making frameworks
- *a progress update* on its development; and
- *an expert opinion* on Transpower's progress in developing its asset health and risk models, asset life-extension models, and risk-based decision-making frameworks.

As the Commission notes, our expert opinion concluded that overall, our asset management system is in a mature state which is well developed<sup>5</sup> (as assessed against good electricity industry practice, GEIP) stating:

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<sup>3</sup> [Commerce \(Part 4 Regulation—Transpower\) Order 2010](#) The order expires September 2030.

<sup>4</sup> [Section 4.14 approach paper](#)

<sup>5</sup> [Expert Opinion Progress Review Report on Asset Health and Risk Modelling](#), page 1.

*When considering the entire range of asset management practices comprising of various elements, processes, tools and decisions holistically, we have not identified any evidence that Transpower is not meeting GEIP.<sup>6</sup>*

The opinion also identified:

*when granular elements, processes or tools of asset management practices (i.e., individual asset class/hazard/topic within each workstream) are assessed in isolation without any regard to the entire asset management ecosystem, we found 12 instances where Transpower could further improve its practice to align with GEIP...<sup>7</sup>*

and

*we did not identify any gaps relating to Transpower's ability to use the developed asset health models, criticality framework and network risk-based decision-making framework to inform and support its base capex need for RCP4 submission, and hence we do not have any recommendations associated with it.<sup>8</sup>*

We consider the expert opinion provides solid evidence that our asset management journey continues to mature. We appreciated its identification of opportunities for improvement on some technical modelling matters, and consider the decision to proceed or not (and how) in those areas rests with Transpower. Transpower's asset management journey, the uncertainty around probability of failure calculations and continual model refinement, need to be taken into account when the Commission considers where Transpower should progress to inform its RCP5 individual price-quality path proposal.<sup>9</sup>

The Commission continues to present its view that Transpower should explore ways to consult on cost/ risk-trade-offs with customers.<sup>10</sup> We have worked on our individual engagement plans with customers to provide them with information on our forward-looking plans that could affect their service. Given the interconnected nature of the grid, for RCP4 we considered that it was appropriate to start our engagement with customers on whether they were happy with our current levels of service. This allows us to determine if our overall strategies for managing risk are appropriate, and therefore the work programme we need for RCP4 to deliver against these strategies.

While quality (continuance of supply) is a function of asset health and network risk, a customer's price is not directly linked to the condition or availability of assets; rather it is a

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<sup>6</sup> Page 2 Ibid

<sup>7</sup> Page 2 Ibid

<sup>8</sup> Page 3 Ibid

<sup>9</sup> [Section 4.16 approach paper](#)

<sup>10</sup> Refer [section 4.26 approach paper](#) "Consistent with our expectation that Transpower should explore ways to consult on cost/risk trade-offs with its customers, such performance measures would help customers make more informed decisions about strategies to manage outage risk."

function of the TPM allocation based on grid power flows, forecast wholesale market prices and (for load) anytime maximum demand.

The key area for customer negotiation on price-quality is on connection assets. This process is governed by the Benchmark Agreement under the Electricity Industry Participation Code. The Grid Reliability Standards (GRS) must be taken into account.<sup>11</sup> New customer connections or enhancements to existing connections are directly funded by the customers under transmission works agreements (referred to as 'new investment contracts' in the Input Methodologies).

## Resilience

Our resilience strategy has continued to mature since the establishment of cost-benefit analysis of high impact low probability (HILP) events for RCP2. While we agree an objective for resilience expenditure is mitigating HILP events this does not take into account broader resilience objectives such as *risk reduction, readiness, response and recovery* aspects.

The independent verifier assessed our resilience programmes for RCP4<sup>12</sup> and concluded the following:

*The proposed resilience workstreams are also based and prioritised on vulnerability or risk determination (asset location, condition, service performance requirement etc.). The solution provided by these proposed workstreams encompass risk reduction, readiness, response and recovery aspect of resilience objectives.*<sup>13</sup>

## Performance measures

Our consultation on proposed performance measures for RCP4 started in May 2022 with a paper outlining the history of our service measures and inviting feedback on proposed changes to those measures for RCP4, and beyond.<sup>14</sup> We sought to engage extensively with our customers and interested parties on the metrics for grid and asset performance.

We support the Commission's intent to "seek views from interested parties on a range of areas, including the appropriateness and effectiveness of the RCP3 performance measures...and whether using a risk-based asset management framework to set quality measures has merit."<sup>15</sup>

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<sup>11</sup> [Schedule 12.2 Electricity Industry Participation Code](#)

<sup>12</sup> The IV report identifies "Historically, Transpower had a developed framework for investigating unexpected major hazard event impacting its substation sites. Transpower has used this old framework to justify for regulatory expenditure during its previous RCP submission for several High Impact Low Probability (HILP) mitigation measures. This HILP framework was initially based on an insurance view of risk event and lacked holistic and continual strategy to identify and inform the breath of risk scenarios and mitigation measures" [IV RCP4 report-Final](#)

<sup>13</sup> Ibid

<sup>14</sup> [Service measures refresh | Transpower](#)

<sup>15</sup> [Section 4.27 approach paper](#)

Yours faithfully

Joel Cook

Head of Regulation