

22 March 2019

The TPM Group

We are group which formed in 2016 because we were concerned about the Electricity Authority's (EA) proposed changes to the transmission pricing methodology (TPM) guidelines.

We comprise organisations from right across the electricity sector including large consumers, energy consumer trusts, stakeholder groups, electricity network companies, and electricity generators and retailers. Active members of the TPM group since formation are:

- Counties Power
- EMA Northern
- Federated Farmers (Auckland and Northland)
- Horizon Networks
- Norske Skog Tasman Ltd
- Northpower
- Oji Fibre Solutions
- Top Energy
- Trustpower
- Entrust
- Vector

The TPM Group meets regularly, face to face and via teleconference.

Various TPM Group publications and events have also been directly supported by:

- The Northland Mayoral Forum
- Northland Inc
- The Mayor of the Far North District Council
- The Mayor of Kawerau District Council
- EA Networks (Ashburton)
- New Zealand Federated Farmers
- Auckland Chamber of Commerce
- Counties Power Consumer Trust
- Auckland Airport

The TPM Group has been and remains concerned about both the poor processes the EA ran to come up with a proposed new TPM, timing issues and the ongoing impact of its proposed reform, particularly on end users including vulnerable consumers.

At a meeting the TPM Group asked for and held with the EA's chief executive and senior managers on 8 February this year, we were told that the EA intends to press ahead with TPM guideline changes that "*will be very similar to (that proposed by the EA in) 2016,*" and will include a new cost-benefit analysis on that preferred option. The EA Board, we were told, "*is not mindful to do a cost-benefit analysis on any other option.*" We are concerned by the EA's repeated tendency to pre-determination outcomes, despite an acknowledgement at that same meeting that the TPM Group had "*made a fair point about the lack of (EA) feedback*" on multiple expert submissions received on the EA's 2016 and earlier proposals for change

(summarised in a paper we commissioned from COVEC and published in 2017 – conclusions attached in Appendix Two).

On that note, we do want to record our disappointment that the Panel made no recommendations on improvements to the EA's processes, despite finding in its First Report that the EA's process had been deeply problematic. The EA has promised a "*better process*" in the next/final round of its TPM proposals, but the EA's position is clearly unchanged, so providing more time for "*consultation*" and "*regional technical fora*" seems a complete waste of time as they already have the solution.

Addressing the EPR Options Paper

The below submission is made on behalf of all active TPM group members, except for Vector and Entrust who are submitting separately.

Section E: Improving transmission and distribution

Option E1: The TPM Group strongly supports the Panel's proposal for the Government to issue a Government Policy Statement (GPS) for transmission networks that sets out its policy objectives for transmission pricing.

The Panel's terms of reference require it to consider how regulatory frameworks can be improved to facilitate the delivery of fair and efficient prices as technology evolves and New Zealand transitions to a lower emissions future. We think a GPS will do this by providing the EA with a clear direction on how the Government thinks efficiency/equity trade-offs should be resolved in the context of transmission pricing.

The Panel has requested comment on Transpower's draft GPS. We note Transpower's GPS goes beyond network pricing and includes suggestions about how regulatory frameworks could be advanced to facilitate a transition to a low emissions future. Those topics are outside the remit of the TPM Group.

We therefore attach an alternative GPS (and accompanying explanatory diagram) for the Panel's consideration in Appendix One. This GPS was drafted independently by consulting firm Law+Policy, commissioned by Trustpower. It includes relevant material from the Transpower GPS.

The TPM Group would favour a mandatory GPS, where the EA would be required to "*give effect to*" the GPS, rather than the weaker requirement to "*have regard to*" the GPS (as provided for under the Electricity Industry Act 2010). However, for the reasons noted in Appendix 1, we think a GPS issued under existing legislation is a useful intermediate step.

Option E2: There is growing support amongst the TPM Group for a GPS for distribution pricing.

Recent submissions on the EA's proposals for reform of distribution pricing show that the EA appear to be at odds with the rest of the industry on how the Low Fixed Charge Regulations are impacting distributors' ability to reform tariff structures and the need for distributors to engage with stakeholders, take into account practical considerations and manage transitions when implementing reform. As a consequence, the group thinks the GPS needs to provide guidance in the area of distribution pricing as well. The GPS in Appendix One addresses this as well.

Section F: Improving the regulatory system

Option F2: The TPM Group does not support the Panel's view that a transfer of the EA's network rule-making functions to the Commerce Commission is not required.

All the evidence, including all the process and evidential issues detailed in the COVEC report, through to our recent meeting with the EA, strongly suggests that preserving the status quo will simply result in the continuation of the current set of problems.

Option F1: It follows that the TPM Group does not support the EA being given clearer, more flexible powers to regulate network access for distributed energy resources, as we think these powers should reside with the Commerce Commission.

Setting aside transmission and distribution pricing reform, we think having two different regulators address distributors' revenue requirements (including investment expenditure), quality and service performance and risks does not make sense.

Option F3: The TPM Group has significant concerns around fairness and consumer protection but consider they are best addressed by Government through a GPS clarifying how the EA should apply its current statutory objectives for the long-term interests of consumers, and other proposals such as the Consumer Advisory Council proposed in option A1, rather than through changes to the EA's statutory objectives. Adding further statutory objectives, as the Panel notes, simply creates internal conflict for the EA, and forces a small unelected Board to make tradeoff decisions for which they face limited accountability.

Option F4: The TPM Group supports merits review of regulatory decisions.

We do not understand why there should be a separate treatment for Commerce Commission IM decisions (where merits appeals are allowed) and the EA's regulatory decisions (which can only be appealed on the notoriously uncertain judicial review grounds). Both regulators have the power to make regulatory decision which have a significant impact on the sector.

Our view is that the prospect of a merits appeal of a poorly justified decision is likely to significantly reduce the prospects of that decision occurring in the first place. This will be of benefit to all stakeholders. Certainly the TPM Group's experience throughout the TPM process to date is testament to the fact that merits review of decisions is required.

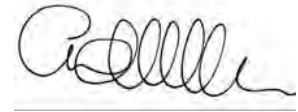
Yours sincerely



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Appendix 1 (see attachment)

Draft Government Policy Statement for transmission and distribution and explanatory diagram

Appendix 2

Extract from “Expert Review of Expert Reviews of Transmission Pricing Methodology Reform Proposals” published 23 February 2017 by COVEC Ltd (available on request).

Chapter 6, ‘Conclusions’ (whole chapter, paras 294-305)

(We have added bolded the text for emphasis)

6 Conclusions

294. The source materials for this review show that the EA has consistently sought to do three things: abandon the current separate charge for the HVDC link; create new transmission charge based on the benefits of individual transmission investments; and extend this beneficiaries-pay charge to existing grid assets approved since 2004. These goals have also been consistently linked together: the EA has always proposed that the costs of the HVDC link be included in its asset-based beneficiaries-pay charge.

295. **These three consistent goals did not emerge from a disciplined policy development process.** This is most apparent from reading the first issues paper (October 2012) in which the EA did not separate its review of the existing TPM Guidelines from its proposals for change. The first issues paper described the problem the EA was addressing as the absence of the solution it preferred. This approach left readers unclear as to whether a review had actually been undertaken. Moreover, **it was not until September 2014, after a further seven working papers had been issued for consultation, that the EA explicitly consulted on its problem definition.**

296. While the problem definition was sharpened somewhat as the review progressed, substantial criticisms remained. Over time, expert arguments against the (evolving) problem definition focused more heavily on the EA’s description of the interconnection charge problems and the durability problems, and on the EA’s estimates of the scale and materiality of problems.

297. **Alongside these concerns about the problem definition, experts have been very critical of the EA’s proposed beneficiaries-pay charges, including the core features of asset-level benefit charging, and the inclusion of pre-existing assets, which have remained in place since the first issues paper in October 2012. Carefully drafted expert reports have examined in detail the way these proposals are likely to affect the conduct of grid users, and concluded that there are serious problems with the EA’s analysis.**

298. The EA has modified its proposals over this period but remained firmly in favour of highly detailed asset-level estimation and allocation of benefits, and firmly in favour of extending beneficiaries pay charges to pre-existing assets approved since 2004.

299. I have been left with the impression that the EA has not been heavily influenced by the criticism these experts have made of its proposals. **While there have been many consultation papers since October 2012, and the proposals have changed over that time, the EA remains firmly committed to the original two underlying goals.** Indicators for this conclusion include:

a. NZIER, which has been much less critical of the EA's proposals than many experts, noting in response to the second issues paper the curious fact that *"the application of the same set of 'decision-making and economic framework' in TPM1 and TPM2 principles has led to a markedly different allocation of costs between EDBs and direct connect industrials"*.

b. Despite years of work to refine and explain the proposals, the expert reports are unanimous (12 – 0) in disagreeing with the proposition that *"the EA has established that an AoB charge will send desirable price signals"*.

c. By far the most rejected proposition I have assessed, is the most fundamental of all of the propositions, that *"the AoB charge is superior to the alternatives"*. My review found unanimous (32 – 0) disagreement on this point in the expert reports.

300. As an independent regulator, the EA is expected to stand-up to vested interests when that is necessary to fulfil its statutory obligations. So the *volume* of criticism identified in this review should not necessarily be determinative. Instead, the EA is obliged to dispassionately weigh up the evidence in reaching its determinations. Often this weighing up process is reflected in a regulator's consultation papers, including with citations to submissions making the arguments that are being weighed up.²¹

301. For the most part, the EA's style throughout this process has been to avoid citing particular critics. Instead it has tended to refer to "submissions" in the aggregate, without identifying particular arguments made by individual experts, claim they have been considered and then reiterate the EA's view. This style is unfortunate in the current context, where there is a substantial weight of expert opinion that opposes the EA's desires: it suggests that the EA is not actually engaging with the submissions.

302. To illustrate this point, consider the question of whether AoB charging should apply to new assets only (Application B) or to all assets installed since 2004. I choose this topic because it is one of the few on which the EA has engaged substantively with expert submissions. Prior to the second issues paper, expert opinion on this question was unanimously (15 – 0) against including pre-existing assets. Those fifteen expert reports argued (see section 5.1 above) that there were no clear dynamic efficiency benefits from such backdating on a beneficiaries-pay basis, but clear static efficiency losses. The EA's second issues paper responded (at ¶¶5.97 – 5.98):

"the dynamic efficiency gains from applying such pricing to historical assets are restricted to future modifications of those assets, and so are much weaker than implied in paragraphs 5.91 to 5.96 above. Arguably, therefore, in these circumstances a stronger emphasis should be placed on allocative efficiency, and so a greater focus on approximations to 'lump sum' charges for recovering the cost of those investments. Nevertheless, the Authority is of the view that there are good reasons to apply service-based and cost-reflective pricing approaches to recent major historical investments as well as future investments"

²¹ See, generally, the consultation papers issued by the Commerce Commission during its development of Input Methodologies. These papers frequently referred to specific submissions, despite being produced under onerous timelines dictated by legislation.

303. Despite the EA's attempt to justify this position, a (5 – 2) majority of experts commenting on the second issues paper remained unconvinced. I have explained above (¶¶274) why I agree with the majority.

304. A second and rather stark example concerns the EA's arguments over the durability of the TPM. Throughout the period under review, the EA has consistently argued that its

preferred TPM Guidelines would be more durable than the status quo because there will be less arguing and lower costs of disputes. The experts disagree by a margin of eight to two. This is one topic on which the number of submissions seems particularly relevant. Most of the people currently arguing with the EA disagree with the EA that there will be less arguing if the EA pushes this proposal through.

305. Based on the above review and analysis I consider that the vast majority of expert opinion has disagreed with the EA throughout this review, and that the EA has not attempted to explain why it disagrees with these experts.”

END OF CHAPTER.

Government Policy Statement on Network Pricing

To the Commerce Commission and the Electricity Authority:

This statement is given to:

1. the Electricity Authority by the Minister of Energy pursuant to section 17 of the Electricity Industry Act 2010 as a statement of government policy concerning the electricity industry; and
2. the Commerce Commission by the Minister of Commerce pursuant to section 26 of the Commerce Act 1986 as a statement of the economic policy of the Government on the electricity industry.

1. Background to this Government Policy Statement

- 1.1.1. A well-functioning electricity sector is essential for the well-being of all New Zealanders.
- 1.1.2. Across the sector new investment is likely to be required to accommodate an expansion of renewable energy and new energy technologies.
- 1.1.3. Transmission and distribution networks have strong natural monopoly characteristics and have an important role in the delivery of competitive, efficient, affordable and reliable electricity.
- 1.1.4. The way in which transmission and distribution services are provided and priced has an impact on all parts of the industry as well as the broader economy and the environment.
- 1.1.5. This makes it important that the Government sets out its policy expectations as to how these services should be provided and priced.

2. Government's future intentions in relation to the regulation of network pricing

- 2.1.1. The Government believes it is important that a single regulator is responsible for the way in which network services are provided and priced.
- 2.1.2. This will ensure a consistent and cohesive approach to regulatory decisions about each network company's:
 - a. regulated revenue requirements and how those revenue requirements are turned into prices for its customers;
 - b. network investment including its efficient deployment of alternative technologies;
 - c. desired network reliability, quality and service levels; and
 - d. network access arrangements including the obligations imposed on its customers.
- 2.1.3. The Government intends to pass new legislation which will:
 - a. transfer responsibility for the regulation of networks to the Commerce Commission with effect from [1 April 2020]; and
 - b. replace the processes and principles which currently apply for the regulation of network pricing with the processes and principles set out in this statement of government policy.

3. Government's views on the interests which need to be taken into account when determining network pricing

3.1.1. The Government considers that the Commerce Commission when making regulatory decisions about network pricing should take into account (and demonstrate how it has taken into account):

- a. [the incentives to innovate] and the risks faced by investors in long life investments; and
- b. distributional effects on end users of electricity service¹.

OR if the Government decides not to transfer the network functions to the Commerce Commission

3.1.2. The Government considers that it is both consistent with (a) the efficient operation of the industry and (b) the long term interests of consumers that the Electricity Authority when making regulatory decisions about network pricing should take into account (and demonstrate how it has taken into account):

- a. [the incentives to innovate] and the risks faced by investors in long life investments; and
- b. distributional effects on end users of electricity services.

4. Government's view on the need for sound transition arrangements in cases of significant network pricing reform

4.1.1. The Government's view is that the Commerce Commission when making regulatory decisions about network pricing should require:

- a. Appropriate transitional arrangements where a revision of a network pricing methodology leads to large increases or decreases in current charges².

OR

- b. That any significant change should be introduced incrementally, in a way that avoids price shocks, is sensitive to the impact on vulnerable regions or groups of consumers, and limits the potential for unintended consequences³.

OR if the Government decides not to transfer the network functions to the Commerce Commission

4.1.2. The Government's view is that it is both consistent with (a) the efficient operation of the industry and (b) the long term interests of consumers that the Electricity Authority require:

- a. Appropriate transitional arrangements where revisions of a network pricing methodology lead to large increases or decreases in current charges.

OR

¹ NB The transfer of network functions role to the Commerce Commission will require consequential amendments to the Commission's statutory objectives.

² Adapted from current clause 19 of TPM Guidelines.

³ Transpower proposal in its draft GPS.

- b. That any significant change should be introduced incrementally, in a way that avoids price shocks, is sensitive to the impact on vulnerable regions or groups of consumers, and limits the potential for unintended consequences.

Transmission pricing

5. Government's view on the purpose of network pricing principles

- 5.1.1. The Government's view is that Transpower's individual price quality path and information disclosure regulation under Part 4 of the Commerce Act will ensure that the overall costs of transmission services will be consistent with outcomes produced in competitive markets.
- 5.1.2. As a consequence the Government considers that the principal purpose of the transmission pricing methodology is to provide for the efficient and fair recovery of the Transpower's regulated revenues and to promote the nationally efficient use of the transmission network by grid users and consumers.

6. Government's view on respective roles of Transpower and the regulator in relation to the development and review of the transmission pricing methodology

- 6.1.1. The Government intends to amend the Commerce Act to provide that Transpower will:
 - a. have the principal responsibility of developing, for the approval of the Commerce Commission, any amendments to the current transmission pricing methodology required to implement the provisions of this Government Policy Statement;
 - b. be able to initiate operational reviews of the approved transmission pricing methodology if it identifies amendments which could subsequently be made to an approved methodology that would better achieve the purposes set out in this Government Policy Statement; and
 - c. be required to report to the Ministers of Energy and Commerce and the Commerce Commission every ten years on whether it thinks the principles in this statement of government policy need to be changed in any manner to achieve the Government's overarching objectives for the sector.

OR if the Government decides not to transfer the network functions to the Commerce Commission

- 6.1.2. The Government's view is that it is both consistent with the efficient operation of the industry and the long term interests of consumers that:
 - a. the Electricity Authority permits Transpower to take the principal responsibility for the development, implementation and ongoing review of the current transmission pricing methodology in accordance with high level transmission pricing guidelines developed and published by the Electricity Authority having regard to this Government Policy Statement; and
 - b. following completion of the current transmission reform process the Electricity Authority should review the process currently set out in the Code to ensure that the process and decision-making criteria which apply to transmission pricing reform appropriately reflect the contents of this Government Policy Statement.

7. Government’s views on transmission pricing principles

7.1.1. The Government considers that:

- a. the transmission pricing methodology should allocate costs in accordance with the types of assets used, and in particular should provide that:
 - the costs of connection assets should be recovered from those connected to them;
 - charges for interconnection assets should be recovered from distributors and directly-connected load on a national postage-stamp basis; and
 - charges for the HVDC link (as defined in Part 1 of the Electricity Industry Participation Code) should be recovered from generators who inject into the grid in the manner Transpower determines will least interfere with nodal prices;
- b. the overall pricing structure should include a variable element that signals the impact of peak usage on transmission costs. This will promote the greater utilisation of existing assets by flattening demand and deterring peak demand growth, delaying or avoiding the need for further grid investment; and
- c. the transmission pricing methodology should:
 - be simple, understandable to a wide range of sector participants and readily able to be implemented; and
 - take into account practical considerations, transaction costs, and the desirability of consistency and certainty.

[OR if the Government decides not to transfer the network functions to the Commerce Commission](#)

7.1.2. The Government considers that the following transmission pricing principles comply with the objectives in section 15 of the Electricity Industry Act:

- a. the transmission pricing methodology should allocate costs in accordance with the types of assets used, and in particular should provide that:
 - the costs of connection assets are to be recovered from those connected to them;
 - charges for interconnection assets are to be recovered from distributors and directly-connected load on a national postage-stamp basis; and
 - charges for the HVDC link (as defined in Part 1 of the Electricity Industry Participation Code) are to be recovered from generators who inject into the grid in the manner Transpower determines will least interfere with nodal prices;
- b. the overall pricing structure should include a variable element that signals the impact of peak usage on transmission costs. This will promote the greater utilisation of existing assets by flattening demand and deterring peak demand growth, delaying or avoiding the need for further network investment; and
- c. the transmission pricing methodology should:

- be simple, understandable to a wide range of sector participants and readily able to be implemented; and
- take into account practical considerations, transaction costs, and the desirability of consistency and certainty.

8. Government's views on the process which needs to be followed when reviewing transmission pricing

- 8.1.1. The Government's considers that changes to transmission pricing reform need to follow best practice regulatory processes.
- 8.1.2. For substantial changes to the transmission pricing rules the Government would expect that the decision-maker:
 - a. supports its views on the problems with the current arrangements and preferred solutions with those of independent experts and/or to the extent practicable empirical evidence;
 - b. avoids setting its reform objective in a manner which excludes any meaningful options analysis;
 - c. adopts a staged approach to consultation with separate consultations on problem definition, the evaluation of alternatives, implementation issues and risks, and rule drafting;
 - d. uses an independent firm to conduct cost benefit analysis of various preferred options to guard against the risk of confirmation bias;
 - e. uses advisory groups or workshops to assist it to both develop and test options and implement reform;
 - f. incorporates in its consultation processes:
 - a cross-submission process so stakeholders have the opportunity to comment on the others views and refine their own views, and
 - hearings so stakeholders have the opportunity to engage first hand with decision-makers; and
 - g. provides ongoing feedback to stakeholders on how their submissions have fared in the development of the decision-makers thinking.

Distribution pricing

9. Proposed repeal of LFC regulations on a phased basis

- 9.1.1. The Government has received advice from a number of stakeholders, including the Electricity Price Review Panel, that the New Zealand Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (LFC regulations) are hindering the ability to change distribution pricing structures to more accurately reflect the costs of distribution networks.
- 9.1.2. As a consequence the Government proposes to amend the LFC regulations so the fixed prices distributors and retailers must offer low-use residential consumers would gradually rise over a specified period until the advantage enjoyed by those consumers compared with those on other tariffs is gone.

10. Government's views on distribution pricing reform

- 10.1.1. The Government expects distributors will reform their tariff structures to introduce more service-based pricing and reduce the current reliance on consumption based pricing.
- 10.1.2. This transition should occur in parallel with the removal of the price cap in the LFC regulations.
- 10.1.3. When distributors reform their tariff structures, they will:
 - a. Actively engage with consumers, retailers and other stakeholders and take into account their feedback on their proposals;
 - b. Ensure an efficient and fair allocation of network costs across all users of the network, acknowledging stakeholder views;
 - c. Take into account practical considerations, transaction costs, and the desirability of consistency and certainty for consumers; and
 - d. Manage transitions in a manner which complies with clause 4.1.1 of this policy statement.

BACKGROUND: The Minister of Energy has appointed an advisory panel (the **Panel**) to advise her on how regulatory frameworks could be improved to facilitate the delivery of fair and efficient electricity prices. The Panel is now consulting on a paper (**Options Paper**) which address the problems it identified in its First Report. Included in the package of reform options is a proposal to issue a government policy statement (**GPS**) on transmission pricing (**Option E1**) and on distribution pricing (**Option E2**). The Panel have invited stakeholders to, comment on a GPS Transpower drafted “for discussion purposes”, and make suggestions on the content of a policy statement that would provide enduring guidance on distribution pricing. The Options Paper does not support a transfer of network rule-making functions to the Commerce Commission (**Comcom**) (see **Option F2**).

Trustpower supports Option E1 and Option E2 and disagrees with the Panel on Option F2. Trustpower is a member of a group of diverse stakeholders (**TPM Group**) who are concerned about the TPM reform which has been undertaken by the Electricity Authority (**EA**). The TPM Group support Option E1 and E2 and agree with Trustpower on Option F2. Trustpower is also aware that there are other companies outside the TPM Group that share its views. Therefore it asked Law+Policy Ltd (**L+P**) to draft a GPS on network pricing which could be endorsed in whole or in part by submitters on the Options Paper. This diagram accompanies that draft GPS and records L+P’s advice. It has been prepared for Trustpower.

Legislative change will be required to implement a transfer of network rule-making functions and to make a GPS binding on the relevant regulator. Currently both the EA and Comcom are required to have regard to a GPS, but this obligation does not preclude them setting aside its guidance if they consider the GPS is incompatible with their interpretation of their statutory objectives. Nevertheless, a GPS under current legislation could be useful vehicle to (a) signal an intention to transfer network rule-making if the Panel changes its mind (b) set out how the Government thinks the EA should interpret its statutory objective in the context of transmission pricing and its preferences on the next steps in the TPM reform and (c) outline the Government’s intentions in relation to the LFC regulation and expectations on distribution pricing reform including in relation to the desired degree of cost reflectivity, timeframes and how distributional impacts should be managed.

The annual reports of the EA (and its predecessor) show that attempts to reform price and non-price network access terms have been underway since industry regulation commenced and are still ongoing. There is also growing evidence of border issues between the EA and Comcom.

Transfer of network regulation should be in the GPS

- The Panel think a transfer of network rule-making functions to Comcom would be complex and time-consuming to implement and could delay the resolution of transmission and distribution issues.
- However, the EA continuing down its present pathway is also likely to result in a multi-year delay (for the reasons noted on page 50 of the First Report).
- DPM reform may also prove problematic as the EA is seeking to deploy the same approach.
- A transfer to the Comcom will ensure that there is a consistent and coherent approach to the establishment of price-quality paths and price and non-price access terms.
- A GPS could:
 - (1) Set out the Government’s transfer intentions ahead of the legislation
 - (2) mitigate risks of TPM/DPM delay by providing clarity on the desired methodology and implementation timeframes.

In the period from 2012 to 2017, the EA has developed nine different versions of an asset based beneficiaries pay TPM but no other options. A further option is on its way despite strong opposition to its proposals on economic, equity and workability grounds. At the heart of the EA’s approach is its view that a more granular allocation of the cost of each transmission asset best aligns with its statutory objective. A GPS setting out the Government’s views on how it interprets the EA’s statutory objective could clarify if socialized or individualized pricing best aligns with the EA’s operational efficiency objective and provide timely guidance on the next stages of the current reform process. It could also address the need for fair transitions for both investors and consumers and outline the respective roles of the regulator and Transpower in TPM reform.

GPS should clarify TPM roles

- The EA’s TPM reform process has involved very specific direction to Transpower about how the TPM should be structured.
- This direction appears to go beyond the “guidelines” provided for in the Code and has in effect involved the EA developing the TPM itself.
- Trustpower’s experts have advised Transpower should have the primary role as it knows its assets and customers best.
- A GPS could clarify the respective roles of Transpower and the regulator so Transpower does not end up having to implement a methodology it considers impracticable and unworkable (which took the EA 6.5 years to design!)

GPS should require fair transitions

- The EA’s (a) ability to change the Code at any time (including after long life investments have been made) and (b) view that it need not consider transition or distributional issues do not sit well with the Government’s desire to electrify the economy whilst safeguarding the interests of consumers.
- A GPS could address these matters directly by (a) setting an intervention thresholds based on robust benefit assessment and (b) providing that the regulator was required to provide for appropriate transitions in the cases of significant reform.

GPS should set TPM pricing principles

- The EA believes its preferred cost allocation will improve investment efficiency (including in relation to network upgrades) and usage
- There are disputes about whether (a) network investment efficiency can be improved over and beyond existing processes administered by the Comcom and (b) the proposed approach will provide a clear enough price signal to impact other investment and usage decisions.
- There are also concerns about the equity of (a) providing price shocks each time the grid needs upgrading (b) applying the methodology to a selection of existing assets rather than just to new upgrades.
- Government’s view on how a regulator’s statutory objective should be interpreted in the context of transmission pricing would provide guidance on these issues.

GPS should outline preferred TPM process

- The Panel’s First Report and Options Paper contain a number of references to the poor process which has been followed in TPM reform to date (see pages 49-50 of the First Report and page 22 of the Options Paper)
- Yet surprisingly the Panel’s option did not include any suggestions as to how the EA might improve its rule-making processes in the future.
- Process is a very important *ex ante* accountability measure for a regulator with as wide a power as the EA and so it is recommended that the GPS sets out the Government’s expectations on how TPM reform should be carried out.

Originally the focus in DPM reform was increased standardisation. More recently the focus has shifted to the lack of benefits based pricing. Distributor’s ability to reform tariffs has been impacted by the LFC regulation. There are also concerns about the degree of rate shock associated with the EA’s pricing preferences. A GPS providing guidance on these matters could avoid DPM becoming as costly and contentious as TPM reform.

GPS should confirm LFC intentions

- The First Report and Options Paper acknowledge that the regulated price cap on fixed charges for low users is impeding distribution reform.
- The EA believes reform can occur without repeal of the LFC regulations, but many in the industry disagree including those with legal obligations under the regulations.
- A GPS could provide clear guidance on the Government’s future intentions and note that it would be consistent with the efficient operation of the industry if distribution pricing reform occurred in parallel with the phased removal of the LFC regulations.

GPS should set out DPM reform preferences

- Some distributors are concerned that the EA’s preferred cost allocation is complex and will lead to difficult “bright lines” and equity issues.
- The Panel is presently undecided about whether it will recommend principles for a fair allocation of distribution costs between household and business consumers. Another equity issue is the allocation between urban and rural (which seems to have received less focus from the Panel but is of concern to some distributors).
- In this context we think it would be helpful if the Government expressed its views on the need for (a) more service based pricing and (b) distributors to engage with stakeholders, take into account practical considerations, and manage transitions when reforming their network tariffs.