

Mr Rodney Doyle
Chief Advisor
Transpower Post-Breach Inquiry
Network Performance Group
Networks Branch
Commerce Commission
By email to electricity@comcom.govt.nz

23 February 2006

Dear Rodney

Submission on Intention to Control Transpower

This cross-submission follows the first submission by Dongwha Patinna NZ Limited of 23 February 2006.

Transpower agree the company breached the thresholds but argue the breaches are "explainable." Transpower report in their Economic Value Statements an accumulated economic gain attributable to customers at 30 June 2005 of approximately \$101 million. This is equivalent to excess charges of \$151 million, ie \$101 million grossed up for tax. This is a measure of excess profits. Transpower claim this accumulated excess profits was necessary to cover rising operating costs for the ageing asset base, some interim grid augmentation and planning, capacity building and some investment (particularly in easements) in anticipation of approval for some very large grid upgrade investments.

Dongwha believe these explanations are questionable and the retention of the surplus unjustified because:

- Recovery of new investment costs should be subject to the transmission pricing methodology being developed under Part F and not necessarily treated the same as recovery of costs for existing sunk assets (eg building blocks approach). It is not Transpower's right to seek recovery for new investment related costs on the same basis as the existing sunk assets.
- Preparatory work and capacity building for possible large grid upgrade investments should be capitalised as part of that yet to be approved work rather than immediately expensed. If this is not the case, current consumers are likely to be paying for benefits received by future customers.
- We believe the estimate of excess profits to date by Transpower is likely to be light because some costs are unlikely to be the lowest efficient costs possible (eg Transpower's claimed WACC), the question of whether some claimed expenses should be capitalised as noted above (in particular the treatment of easements procured for yet to be approved investments) and questions regarding the appropriate allocation of costs between customers and shareholders.

MEUG are making a detailed commentary on the above three points.

Details of which parties will be the contractual counterparties to Transpower and the formula for recovering approved new investment are still work-in-progress. At best it was presumptuous of Transpower to retain excess returns of \$101 million plus raise charges partly to cover costs relating to yet to be approved new investments. Those excess returns should have been rebated to customers and Transpower should have worked through the Part F process as to how new investment costs are to be recovered.

Dongwha does not view control by the Commerce Commission of any company lightly. In this case the benefits to the market are clear. Transpower will also benefit by having greater clarity over its ability to recover efficient costs. We agree that Transpower should be controlled.

Yours sincerely

Simon Callaghan
Logistics Manager