

Transpower Post-Breach Inquiry  
Network Performance Group  
Networks Branch  
Commerce Commission  
By email to [electricity@comcom.govt.nz](mailto:electricity@comcom.govt.nz)

13<sup>th</sup> March 2006

Submission on Intention to Control Transpower

This cross-submission follows the first submission by Norske Skog Tasman of 23-Feb-06.

Since we wrote our first submission Transpower have replied to our earlier letter requesting information, and have also taken the time to answer further questions. This has helped us to clarify their point of view. There is nothing that we have learned from Transpower, or read in any of the submissions that causes us to change our views that Transpower should be placed under price control.

We agree that it is probably sensible to interpret Transpower's "price" as being their revenue requirement, rather than the interconnection charge. Regardless of this point the proposed price rise of 19% exceeds CPI-1% by a massive amount. We simply expect that the revenue requirement for 2006, will increase by no more than CPI-1% from the revenue requirement of 2005. This should result in slightly less than a CPI-1% rise in the interconnection charge, since demand is increasing. We do not understand why there needs to be much more to this investigation than this!

Norske Skog Tasman competes in an international commodity market, with a declining price of 2% per annum in real terms. We still have to invest in our paper mills in order to remain competitive. Our shareholders are therefore required to fund our investments. It is simply not possible to pass on these costs to our customers. Our shareholders reap benefits when newsprint prices rise, but suffer when newsprint prices fall. Transpower, on the other hand, has up till now been able to pass on all of their costs to their customers, and provide their shareholder with a stable return, based on their cost of capital. There is now an obvious (and from our perspective, welcome) tension between compliance with the threshold regime and earning the cost of capital for new investments.

We realise that Transpower will have difficulty passing the total costs of some investments onto customers under the threshold regime. We expect that Transpower and its shareholder may have to alter their expectations around returns and project funding mechanisms from now on. We also expect that there is scope for the X applied to Transpower to be altered to a negative

number if seen to be warranted by the Commerce Commission, though we trust that such redeterminations would not be taken lightly.

We understand that the Grid Investment test and the Electricity Commission's approval powers were enacted to ensure that Transpower only seeks revenue from approved projects. However we trust that the Commerce Commission will have noticed that Transpower has added almost \$100 million to its revenue requirement in 2006 for projects that have either not been approved by the Electricity Commission or where approval has not even been sought. This is very clearly unacceptable and contrary to the regulatory environment that Transpower is supposed to be subject to.

We are concerned that Transpower believe they should be able to set their own cost of capital, and justify their choice based on private studies by consultants. In our view Transpower's cost of capital should be established by the Commerce Commission, and we would have difficulty accepting that it should be more than the risk free rate, given the essentially risk free environment in which Transpower operates.

We are not impressed that of all of the investments in Transpower's Grid Upgrade Plan that they wish us to share in the cost of, the only project that is of any benefit to us at all are two new circuit breakers at the Kawerau switchyard. Therefore our opinion is that if the price rise goes ahead we will be required to pay approximately \$1.65 million per year, for virtually no benefit at all. Cost increases of this magnitude, for no gain, do not assist our international competitiveness. We realise that this complaint should be directed to the Electricity Commission when they review the transmission pricing methodology but we wish to make the point here nonetheless.

Finally we wish to state once more that we expect that the Commerce Commission will act as our advocate and ensure that Transpower does not increase its revenue requirement by any more than CPI-1%.

Kind Regards

Graeme Everett  
Energy Manager