

# Complexity & compliance costs

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Jeremy Cain, Regulatory Affairs & Pricing Manager

TRANSPower



# Context

- Part 4 and the IMs brought together and introduced new concepts
- the Commission developed and introduced the new Part 4 and IMs regime in a very short period of time
- many lessons learned through the operation of the regime
- first major review of IMs provides opportunity to improve
  - simplify where this improves effectiveness or reduces costs
  - identify and remove unnecessary compliance activity
- complexity and compliance costs are a product of the IMs, price paths, ID and their interaction
- Evolving market conditions provide imperative to improve

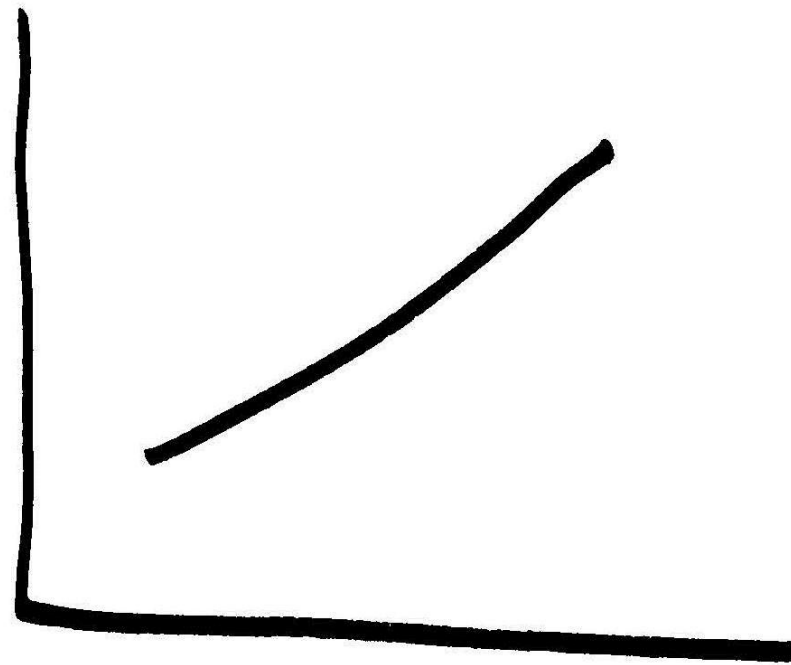


# A two-way street

- The Commission has asked regulated suppliers to identify where IMs create unnecessary complexity and compliance costs
- regulated suppliers use the IMs each day so understand how complexity manifests and where high compliance costs exist
- in addition, the Commission, as originator and customer, needs to review what regulation:
  - remains used and value, and therefore justified
  - is redundant or low value, and not justified



EFFECTIVENESS



SIMPLICITY



# Observations

Aspiration of “as simple as possible, but no simpler”; however

- cumbersome & complex ‘easier’ than elegant & effective
- regulation tends to become more, not less complex over time
- though vital to health of regime, ‘housekeeping’ often not a priority for regulators and suppliers struggle for traction.

Makes it important to

- have a view as to the end game when contemplating new regulation
- carefully assess the costs and benefits of interventions
- remove or reform outdated, ineffective or over-complex regulation
- That imperative is accentuated by evolving market



# Compliance costs





# Issues for Transpower

- 4 issues identified in PD paper
- departures from normal business practices create complexity, cost
- trend away from mechanistic to ex post administrative judgement (RCP2 IRIS, MCEA)?
- lack of IM decision framework or 'interpretive reopener' a source of uncertainty, prolongs unnecessary compliance cost
- clarity of purpose and fit with 'end game'

To note:

- (1) we have contributed to complexity in some areas
- (2) the Commission has already taken steps to reduce cost / complexity (e.g. depreciation in year of commissioning)



# Some examples\*

Problem		Description
1	Base capex allowance set on commissioned value	Setting base capex allowance on the basis of commissioned value (not expenditure) adds complexity to financial systems, base capex projects, the RCP2 FX adjustment. Extra cost, no benefit.
2	Debt price determination window	Short, prescribed 'debt window' raised costs for suppliers and consumers for RCP2, expect issue to be a bigger issue for RCP3. Extra cost, no benefit.
3	IRIS no longer mechanistic	Change to IRIS for RCP2 means key determinant of financial outcome is ex post administrative judgement. Created uncertainty, complicates decision making, adversely affects incentives and efficiency.
4	Construction of the IMs	Construction and expression of the IMs: at times is confusing and interaction between IMs, ID and IPP has created interpretation issues and increased compliance costs
5	IDC cap	Ambiguous drafting caused uncertainty and protracted dialogue with Commission. Example of where 'interpretive reopener' could help.

\* Not comprehensive, excludes Capex IM and ID





Change is hard



# Takeaways

- The times, they are a-changin...suppliers and regulators also need to change
- having a view as to the end game when contemplating new regulation or reviewing current regulation is critical
- value in adopting overt objective to:
  - simplify where this improves effectiveness or reduces costs
  - identify and remove unnecessary compliance activity
  - carefully assess the costs and benefits of any new obligation
- create 'interpretive reopener' and adopt voluntary 'service standards' to improve transparency and accountability
- some quick wins to reduce complexity & compliance cost (and low cost ways to improve accessibility of IMs more e.g. more use of 'plain English', develop IM 'dummies guide' etc)

