

5 July 2019

Dane Gunnell
Manager, Price-quality Regulation
Commerce Commission
By email to regulation.branch@comcom.govt.nz

Dear Dane

EDB and Transpower IM amendments

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission reasons paper "Proposed amendments to input methodologies (IM) for electricity distributors (EDB) and Transpower New Zealand Limited" published 29th May 2019.¹ This submission comments on 2-aspects of draft EDB IM amendments determination.²
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.

New recoverable cost for approved expenditure on innovation projects

3. The submission below is made notwithstanding that MEUG will oppose adding an innovation project allowance when submitting on the draft DPP determination paper later this month.
4. The draft IM has a new definition for "innovation project" as "means a project that is focussed on a technology, process, or approach, where that technology, process, or approach is novel for an EDB in that type of situation."
5. The use of the word "novel" in the definition we think waters down the intended meaning of the project being innovative. MEUG suggests the word "novel" be replaced by "innovative".
6. EDB have already been innovating and we expect that will continue. There will be some EDB that decide in some situations to be a fast follower of successful innovations by others. MEUG does not believe the intention of the proposed innovation project

¹ https://comcom.govt.nz/_data/assets/pdf_file/0031/149863/Proposed-amendments-to-input-methodologies-for-electricity-distributors-and-Transpower-New-Zealand-Limited-Reasons-paper-29-May-2019.pdf

² https://comcom.govt.nz/_data/assets/pdf_file/0030/149862/DRAFT-Electricity-distribution-services-Input-Methodologies-amendments-determination-2019-29-May-2019.pdf

allowance is to fund existing innovation investment practices or early adopters of proven technologies, processes and approaches. The definition needs tightening up to give certainty to consumers that will end up paying for approved innovation project allowances and EDB considering whether to make an application for approval. MEUG suggests the last part of the definition make it clear the innovation is new to New Zealand EDB and not the imprecise phrase “an EDB in that type of situation.”

7. The marked up amended definition of “innovation project” proposed by MEUG follows:
- “means a project that is focussed on a technology, process, or approach, where that technology, process, or approach is ~~novel~~ innovative and new for any EDB in ~~that type of situation~~ New Zealand.”

New reopeners for major unforeseen connection expenditure

8. A common requirement for defining “unforeseeable major connection project” and “foreseeable major connection project” (cl. 4.5.5A(h) and cl.4.5.5B(h) respectively is:
- “any proposed additional revenue sought will be apportioned appropriately through the EDB’s pricing methodology.”
9. The EDB’s pricing methodology may differ markedly from the voluntary pricing principles published by the Electricity Authority. A scenario might occur where the EDB’s pricing methodology has been a contributing factor leading to the major connection expenditure being unforeseen. It would be bizarre if continuation of an inefficient pricing methodology was reinforced by the EDB’s application for a reopener requiring the EDB to appropriately apportion revenue sought through that unsuitable pricing methodology.
10. An EDB seeking a re-opener must have been prudent when forecasting for the current DPP regulatory period (refer cl. 4.5.5A(d) and cl.4.5.5B(f)). MEUG suggests the EDB must also attest in seeking a re-opener that it is fully complying with the pricing principles published by the Electricity Authority or has a development plan to move to compliance at a rate expected of a reasonable and prudent EDB. Cl. 4.5.5A(h) and cl.4.5.5B(h) should therefore be restated accordingly.
11. To avoid any misunderstanding, note that MEUG agrees in principle with the proposal to include re-opener provisions for foreseeable and unforeseeable major connection projects.

Yours sincerely



Ralph Matthes
Executive Director