

TRANSPower NEW ZEALAND LIMITED

Submission to the  
Commerce Commission  
on  
Regulatory Provisions of the Commerce Act 1986:  
Discussion Paper

*February 2009*

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## 1. INTRODUCTION AND SUMMARY

This submission provides Transpower's response to the Commerce Commission's (Commission's) paper *Regulatory Provisions of the Commerce Act 1986: Discussion Paper* (Discussion Paper).

Transpower's submission focuses on the issues discussed in Chapter 8: Electricity Transmission Services. Appended to the submission are Transpower's responses to the questions posed in the Commission's report, focusing on the issues relevant to Transpower.

Transpower's view is as follows:

- Transpower considers that it should be subject to individual revenue-quality path regulation from 1 July 2011.
- The regulation should take the form of a multi-year (e.g. 3-5 year) ex ante revenue path established using building blocks analysis.
- A single regulator should be responsible for approving Transpower's proposed multi-year revenue path, including capital expenditure.
- The Commerce Commission's recommendation to the Minister on the type of regulation should be made no later than the end of 2009. The revenue path for 2011/2012 will need to be set by August 2010 to allow Transpower sufficient time to calculate and audit transmission prices for the following pricing year (commencing 1 April 2011) and meet its notice obligations to its customers.

## 2. TRANSPOWER-SPECIFIC ISSUES

### 2.1. Price-quality regulation

#### ***Transpower recommends individual price-quality path regulation option***

The Discussion Paper notes that the Commission must recommend to the Minister the type of price-quality regulation that should apply to Transpower once the administrative settlement between Transpower and the Commission expires on 30 June 2011. The options provided by the Commerce Act as amended in October 2008 are individual price-quality path regulation or default/customised price-quality path regulation.

Transpower believes that the regulatory constraints should be tailored to its particular circumstances. It therefore proposes that the Commission recommend to the Minister that individual revenue-quality path regulation apply to Transpower from 1 July 2011.

While the default/customised option might be less intrusive than individual regulation in some circumstances, such an approach is most appropriate when a business is in a "steady state", with relatively certain revenue requirements. It is most reliably implemented when the New Zealand industry comprises a number of comparable businesses, which can be used to determine the productivity factor. Transpower is not in a "steady state" position and has no domestic comparators.

Transpower considers that individual price-quality regulation can better provide for its particular circumstances, which include "lumpy" investment, major investment cycles

with large amplitudes, and other particular circumstances such as the fact that Transpower has no domestic comparators against which to benchmark performance.

### ***Transpower's preferred individual price-quality path regulation***

Transpower strongly prefers an individual multi-year revenue path (which may be three years initially and five years ultimately), set at the start of the regulatory period using an ex ante building blocks approach. The revenue path would be based on Transpower's multi-year forecast of operating and capital expenditure, cost of capital, depreciation and taxation, using, where appropriate, the transmission input methodologies developed by the Commission.

Transpower would need to justify its revenue path by linking expenditure to cost drivers, customer preferences, and good electricity industry practice, demonstrating robust controls on capital and operating expenditure and applying a cost-benefit test to planned expenditure when appropriate. Agreed network reliability and other service levels would be established and financial incentives for delivering efficiencies and meeting performance targets could be built into the capped revenue requirement. An overarching incentive framework, based on an ex post review of performance could be included as part of the individual price-quality path.

Individual investment projects would not be subject to regulatory approval. Rather, for large investments, Transpower would apply a national cost benefit analysis and other regulated investment criteria, and would use reasonable assumptions (e.g. for future demand) in its decision making. Any significant investment proposals would be subject to public consultation.

The regulator would review the reasonableness of Transpower's proposed plan in aggregate at the start of a regulatory period and set a cap on the maximum allowable revenue that Transpower could recover. Transpower would be able to move resources between years, between capital and operating expenditure and between projects as commercial, security and political circumstances evolved.

The building blocks approach proposed is fully consistent with, and builds on the processes used to set the terms of the administrative settlement currently in place between Transpower and the Commerce Commission. It would provide greater certainty for Transpower and its customers with respect to the revenue requirement and transmission prices over the five-year period. Smoothing price changes over the planning period in this way may also result in greater acceptance of price variations by customers and understanding of the reasons for those variations.

Transpower notes that, for the first regulatory period commencing in 2011, it will be developing its forecasting systems and this may result in some uncertainty with respect to its efficient capital expenditure profile (and possibly operating expenditure). To handle this uncertainty, Transpower suggests that the regulator incorporate into the framework a process for conducting an ex post review at the end of the period (which might be set to less than five years), and that future revenues be adjusted to take account of over or under recovery (in excess of a defined margin) that may result from forecasting error. Expenditure exceeding the capital expenditure allowance would be allowed to enter the regulatory asset base (at the time it was commissioned), if the regulator considered the expenditure to be prudent. Adjustments to the revenue requirement could be made through the EV accounts.

The ex post review would help ensure Transpower's revenue recovery approximates the NPV = 0 standard adopted by the Commerce Commission (albeit with

Transpower taking on some of the forecasting risk, and/or with some incentives for efficiency). There are a number of international examples of the application of this approach, which could be used as models for the method to be applied in New Zealand.

### ***Transmission investment approval regime***

Transpower has a strong preference to move away from the current process for approving capital expenditure. It would prefer the revenue path to include a multi-year allowance for capital expenditure approved ex ante (with scope for ex post review as noted above). The main problems with the current approach used to approve most transmission investment is that it is unnecessarily resource intensive, with a great deal of duplication of effort between Transpower and the Electricity Commission, it blurs accountabilities for system planning, grid performance and security of supply between Transpower and the Electricity Commission and, because of the increasing complexity and specificity of the requirements of the Electricity Governance Rules, it imposes very substantial and escalating compliance costs on Transpower, both financially and in terms of limited staff resources. The current arrangements also undermine the ability of the Transpower Board to reprioritise expenditure efficiently as circumstances evolve over time.

Transpower recommends that multi-year ex ante plans be reviewed and approved by a single regulator and that that regulator be responsible and accountable for oversight of all elements of the revenue path.

The above proposal would result in a single economic regulator responsible for approving Transpower's allowed revenue path. Having a single regulator responsible for all components of the revenue path would avoid regulatory duplication and help to promote regulatory certainty, efficient resource allocation and lower compliance costs.

### ***Quality provisions***

Transpower recommends that a single set of quality requirements apply to it. Currently, the Electricity Governance Rules and Regulations specify quality obligations. Transpower is exposed to penalties and liabilities for damage (both direct and indirect) for breaches of quality requirements under the Rules. Transpower could also be exposed to penalties under the Commerce Act, based on quality requirements contained in a revenue-quality path. Transpower recommends that further work be undertaken to determine a single set of quality obligations and the regulatory agency that is to be responsible for them.

Transpower also considers that the current suite of quality performance indicators needs to be reviewed to better reflect aggregate performance at a network level and to allow for ongoing trend monitoring as well as to ensure better linkage of the revenue allowance to output performance, possibly using the Australian performance incentive approach as a model.

### ***Timeframe for decision***

Transpower notes that the work undertaken to establish the current thresholds provides a strong basis for the move to a multi-year building blocks approach. Nevertheless, considerable work will be required to implement an individual revenue-quality path, particularly in relation to the multi-year forecasts of capital and operating expenditure. Transpower suggests that the Commerce Commission move quickly to recommend to the Minister that Transpower be subject to individual revenue-quality

regulation. An early recommendation would allow work to commence on determining the details of the regulatory approach.

Transpower considers that the Commission needs to make its recommendation as soon as possible in 2009. Transpower considers that the Commission's indicative timeframe of Q2 2010 for the recommendation and the determinations of input methodologies will be too late, unless a transitional arrangement can be implemented for the 2011/12 year. Unless the determinations are brought forward, it will not be possible for Transpower to undertake a building blocks analysis and determine a revenue path prior to the end of August 2010, which is when Transpower must finalise the revenue requirement used to calculate the prices that will apply to customers in the 2011/12 pricing year (i.e. from 1 April 2011). The prices must be calculated, audited, approved by the Transpower Board and notified to customers by, at the latest, mid-December 2010, in order to meet Transpower's notice obligations to its customers.

### ***Possible transitional option***

While it would not be Transpower's first preference, the heavy workload faced by the Commerce Commission over the next two years may make it expedient to roll over the existing thresholds for another year, if this were permitted by the legislative provisions. Such an extension would also allow Transpower more time to develop a multi-year forecasting and planning regime. The thresholds could be reviewed and adjusted as necessary to ensure they continued to be appropriate. Given that such a rollover would apply for a single further year, the work involved to set the constraints would be considerably less than that required for a multi-year regulatory period.

## **2.2. Memorandum of Understanding with the Electricity Commission**

The Discussion Paper states that the Commerce Commission and the Electricity Commission updated the Memorandum of Understanding on 13 November 2008 to reflect the amendments made to the Commerce Act and Transpower's administrative settlement accepted by the Commerce Commission on 13 May 2008.

Transpower notes its continuing concerns about the overlap in jurisdiction between the Commerce and Electricity Commissions. These concerns would no longer apply if a single regulator were to assume the role of sole economic regulator for Transpower with responsibility for determining all of the inputs to the individual revenue-quality path to apply to Transpower from 1 July 2011.

## **2.3. Information disclosure**

Transpower notes that it is no longer required to use optimised deprival valuation (ODV) for information disclosure purposes. Thus, the Handbook for Optimised Deprival Valuation of System Fixed Assets is no longer applicable to Transpower (contrary to the statement in paragraph 511 of the Discussion paper).

Transpower is required to disclose an extensive amount of information under the Electricity Information Disclosure Regulations 2004. These require Transpower to produce a full set of financial statements for the lines business, including balance sheet, income statement, cash flow statement and a full set of IFRS compliant notes. Transpower questions the value of this information, given the substantial compliance costs associated with producing it and the difficulties associated with using the information to make any meaningful comparison of Transpower's performance relative to other businesses.

Transpower notes that, under the terms of its administrative settlement with the Commerce Commission, it reports its compliance with the thresholds in an annual compliance statement. This requires detailed disclosure of Transpower's performance within an EV framework. Transpower considers that this information is sufficient to allow interested persons to assess whether or not the purpose of the Act is being met. Transpower considers that the compliance reporting framework could be developed to accommodate any changes that may occur to its price-quality regulation arrangements in the future.

## ANNEX 1: TRANSPOWER'S RESPONSES TO COMMERCE COMMISSION QUESTIONS

1	<p><b>Do you have any views on the new purpose statement in section 52A of the Act and how this might impact on the Commission's role?</b></p> <p>The addition of the new subsection 1(a) is important to Transpower, viz.:  “have incentives to innovate and to invest, including in replacement, upgraded, and new assets”.</p> <p>Transpower welcomes the inclusion of this provision, as it recognises the fact that ensuring that a regulated company is able to earn an economic return (and hence have appropriate incentives to innovate and invest) is as important for the long-term benefit of consumers as, say, preventing excess returns.</p>
2	<p><b>In what ways do you consider the new purpose statement in section 52A to be materially different from that in section 57E?</b></p> <p>Transpower considers the explicit reference to providing incentives to suppliers to innovate and invest is materially different from the requirements in section 57E and that the new purpose statement directs the Commission to place a greater weighting on investment than under the previous regime.</p>
3	<p><b>Do you agree with the regulatory framework principles proposed above? If not, please explain.</b></p> <p>Yes. Transpower agrees with using workable competition as a benchmark. Transpower supports the focus of the principles on the promotion of allocative, productive and dynamic efficiency.</p>
4	<p><b>Are there other economic or regulatory framework principles that the Commission might apply in performing its functions under Part 4 of the Act? If so, please discuss.</b></p> <p>Yes. The Commission should also consider the overall commercial environment in which a regulated business operates, especially the degree to which the regulated business's customers are able to exercise market power themselves.</p>
5	<p><b>Do you agree with the implementation principles proposed above? If not, please explain.</b></p> <p>Yes.</p>
6	<p><b>Are there other implementation principles that the Commission might apply in performing its functions under Part 4 of the Act? If so, please discuss.</b></p> <p>Yes. Transpower notes that regulatory certainty is also a desirable characteristic of a regulatory regime, and particularly important for Transpower given its large investment programme and sunk assets.</p> <p>A further implementation principle should be ensuring that the roles and responsibilities of the regulator(s) and the regulated business(es) are clear. Transpower notes its concerns, for example, with the blurred responsibility between Transpower and the Electricity Commission for security of supply and grid planning. The overlap in the responsibilities of the Commerce and Electricity Commissions is also of concern.</p>

7	<p><b>Do you have any views on the potential form and the extent of the role of input methodologies as applied to the regulatory instruments under Part 4?</b></p> <p>Transpower agrees with the Commission's view (para. 204) that specifying requirements and criteria for capital and operating expenditure forecasts will be an important part of determining customised price path proposals. Transpower notes that specifying such requirements and criteria will also be important when setting an individual revenue-quality path.</p> <p>Transpower agrees with the Commission's conclusion that different input methodologies may apply to different sectors and/or particular methodologies may not apply to all sectors. Transpower notes, however, that there will be benefits (in terms of the value of precedent and improved certainty) from applying common methodologies across sectors to the extent possible.</p> <p>Transpower agrees with the Commission's conclusion (para. 213) that it may need a separate input methodology determination(s) for Transpower.</p>
8	<p><b>What matters should be covered by the “processes and rules” referred to in section 52T(1)(c)?</b></p> <p>Transpower notes that the processes and rules could also cover the circumstances of any ex post reviews of capital or operating expenditure at the end of the regulatory period.</p>
9	<p><b>Do you have any views on the proposed process to determine input methodologies? If so, please explain.</b></p> <p>The process seems reasonable. However, the timeframe for determining the input methodologies for Transpower needs to be compressed if the Commission is to establish an individual revenue-quality path for Transpower by 30 June 2011. In particular, Transpower must notify its customers by December 2010 of price changes for the 2011/12 year that will apply from 1 April 2011, and the revenue requirement on which these prices are based must be determined by August 2010.</p>
10	<p><b>How should the financial capital maintenance approach apply to input methodologies?</b></p> <p>Once the starting regulatory asset base has been established on a reasonable basis, the financial capital maintenance approach provides an acceptable framework going forward. However, given the objective of providing businesses with incentives to outperform the price/revenue path, and the asymmetric (large negative) consequences of not providing sufficient revenue for efficient investment, on average and over time, one might expect businesses to be allowed to earn some revenue such that <math>NPV &gt; 0</math>.</p>
11	<p><b>What do you consider to be the main interdependencies between the key components of the Regulatory Guidelines?</b></p> <p>The components of the regulatory guidelines all interact to determine whether a regulated business can earn an economic return on its commercial activities. The magnitudes of the interdependencies will vary depending on the nature of the particular business.</p>
12	<p><b>How might cost allocation methodologies prevent inefficient cross-subsidisation from occurring, while not unduly deterring investment by a supplier of regulated services in the provision of other services?</b></p> <p>The avoidable cost allocation method can prevent inefficient cross-subsidisation from</p>

	occurring, while not unduly deterring investment by a regulated service supplier in the provision of other services.
13	<p><b>Do you consider that the classification and description of the different types of regulated assets is appropriate? Please explain.</b></p> <p>The classification seems to cover all asset classes at a high level.</p>
14	<p><b>Are there any other asset valuation methodology options the Commission should consider for valuing these or other asset types? Please discuss.</b></p> <p>Not from Transpower's perspective.</p>
15	<p><b>An asset valuation methodology may be employed for different sectors and under different regulatory instruments. It will also need to be cognisant of any relevant regulatory purpose statements. In this context, what are your preferred options and what are their relative pros and cons?</b></p> <p>Transpower's experience of the use of ODV, within what was ostensibly an NPV = 0 framework, was that it often led to an NPV &lt; 0 outcome.</p> <p>Transpower supports the use of non-indexed depreciated historical cost (DHC) for its own business for the following reasons:</p> <ul style="list-style-type: none"> <li>• it allows Transpower to invest with certainty and facilitates the monitoring of financial and economic performance;</li> <li>• DHC is administratively simple and transparent;</li> <li>• it best matches cash flows to the need to fund the major investments Transpower is undertaking;</li> <li>• DHC reduces Transpower's exposure to the risk of regulatory change over the life cycle of its assets.</li> </ul> <p>Transpower is happy with the approach to valuing its assets agreed with the Commerce Commission in the administrative settlement: namely using ODV to establish the starting regulatory asset value for its system fixed assets, and then applying (non indexed) historical cost accounting principles, and generally following GAPP going forward. Transpower considers that this approach should be continued when the administrative settlement with the Commission expires on 30 June 2011.</p>
16	<p><b>What issues do you consider relevant in terms of potential mechanisms for promoting efficiency and accountability of investments?</b></p> <p>Transpower envisages that its individual price-quality path would include ex ante approval of a revenue envelope based, inter alia, on an ex ante assessment of efficient forecast capital and operating expenditure. Transpower proposes that an ex post assessment mechanism be used to ensure that any significant forecasting variances (beyond a margin) are adjusted for at the end of each regulatory period as well as to inform the setting of the subsequent efficient revenue envelope. The framework would require Transpower to apply a cost-benefit test (at an appropriate level of detail) to justify capital expenditure that is included in its forecasts and to implement asset management processes that are satisfactory to the regulator.</p>
17	<p><b>What are the pros and cons of the various ex post or ex ante optimisation techniques, prudency reviews, or capital expenditure reviews, in light of the section 52A and 52R purpose statements, when applied to different sectors, and under different regulatory instruments?</b></p> <p>Transpower's experience of ex post optimisation as applied in the ODV methodology,</p>

	<p>under what was ostensibly an NPV = 0 framework, is that it often led to Transpower not earning a commercial return on investments. This reduced the incentive to invest, including in replacement, upgraded and new assets (producing an outcome contrary to that sought by section 52A(1)(a) of the Commerce Act).</p> <p>Transpower believes that overseas experience suggests that ex ante approval of expenditure, with the ability to move resources between years, between capex and opex and between projects as commercial, security and political circumstances evolve, is the arrangement most likely to meet the objectives of sections 52A and 52R of the Commerce Act.</p> <p>Transpower also believes that given uncertainties in its investment requirements and the developmental state of its long-term capital forecasting, that it would be desirable to include an ex post capital expenditure review, mainly designed to correct for forecasting error. The review could also consider prudence issues, given the use of historical cost for valuing its assets. An ex post review might not be desirable for all sectors.</p>
18	<p><b>What are the pros and cons of potential approaches to depreciation, in light of the section 52A and 52R purpose statements, when applied to different sectors, and under different regulatory instruments?</b></p> <p>Transpower considers that the approach to depreciation agreed in its administrative settlement with the Commerce Commission is a satisfactory approach for Transpower.</p>
19	<p><b>How might the Commission assess the likelihood of, and then deal with the prospect of, asset stranding?</b></p> <p>Transpower considers that a regulated business should be allowed to recover the costs of stranded assets. Otherwise, as noted by the Commission, it will not expect to earn a normal return on its investments. Transpower suggests that businesses be allowed to adjust cash flows (using accelerated depreciation) to achieve a return of capital as asset stranding or impairment becomes apparent, as currently permitted by the terms of Transpower's administrative settlement with the Commission. Transpower also supports an ex post adjustment through the EV accounts for stranding (or asset write-off) if it is not anticipated at the time the revenue requirement is set.</p>
20	<p><b>What are the pros and cons of potential approaches to indexing the regulatory asset base, in light of the section 52A and 52R purpose statements, when applied to different sectors, and under different regulatory instruments?</b></p> <p>Transpower has a strong preference for its regulatory asset base not to be indexed for the reasons noted in response to question 15.</p>
21	<p><b>What industry-specific or instrument-specific issues do you consider to be relevant when determining guidelines for the cost of capital for services subject to regulation under Part 4?</b></p> <p>Transpower considers that the same methodology should be used for determining the cost of capital across industries, but assuming that the capital asset pricing model (CAPM) is used, the parameters used in the CAPM are likely to vary across industries. Asymmetric risks may differ between industries. The nature of the regulatory regime (e.g. the asset valuation methodology) may also affect the cost of capital.</p>
22	<p><b>What are the pros and cons of the potential approaches to tax, in light of the section 52A and 52R purpose statements, when applied to different sectors, and under different regulatory instruments?</b></p> <p>Transpower agreed to use the tax payable approach during the period of its administrative settlement. At the time, it noted that with the adoption of NZ IFRS, it would no longer be</p>

	able to use the partial basis it had used when accounting for deferred tax for financial reporting purposes. The use of the tax payable approach has resulted in a significant accumulated deferred liability being included on its balance sheet. Aligning the regulatory and financial books would now be difficult as a consequence.
<b>23</b>	<p><b>What are the pros and cons of potential approaches to cost allocation, in light of the section 52A and 52R purpose statements, when applied to different sectors, and under different regulatory instruments? Consider the potential approaches at both the business unit level and when establishing pricing methodologies.</b></p> <p>Transpower considers that the avoidable cost methodology provides a satisfactory basis for allocating costs between its regulated and on-regulated businesses. Transpower agrees with the criticism that fully allocated/distributed costs methods are essentially arbitrary.</p>
<b>24</b>	<p><b>What implications do the statutory constraints on setting (and resetting) default price-quality paths have for selecting the appropriate asset valuation methodology?</b></p> <p>Not applicable to Transpower, assuming it is subject to individual price-quality regulation.</p>
<b>25</b>	<p><b>Do you consider the Commission should focus on particular types of information during the monitoring and analysis of disclosed information?</b></p> <p>Transpower has no comment at this point.</p>
<b>26</b>	<p><b>How prescriptive should information disclosure requirements be in order for suppliers to reasonably demonstrate compliance and for the Commission to assess whether compliance has been achieved?</b></p> <p>Transpower has no comment at this point.</p>
<b>27</b>	<p><b>What areas of information should the Commission require to be disclosed to satisfy the section 53A purpose statement?</b></p> <p>Transpower has no comment at this point.</p>
<b>28</b>	<p><b>Do you agree with the view that the financial capital maintenance concept should apply to information disclosure regulation to meet the section 53A purpose statement?</b></p> <p>Transpower has no comment at this point.</p>
<b>29</b>	<p><b>Should input methodologies seek to take account of how negotiate/arbitrate regulation might be applied in the future? If so, how might this be achieved?</b></p> <p>No comment – not relevant to Transpower.</p>
<b>30</b>	<p><b>What matters (other than the supplier's price and quality standards) do you consider the Commission could require parties to agree to by negotiation or be bound to by arbitral award?</b></p> <p>No comment – not relevant to Transpower.</p>
<b>31</b>	<p><b>Under what conditions might it be appropriate for the Commission to apply 'claw-back' when determining a customised price-quality path?</b></p>

	<p>Transpower considers that at least for the first regulatory period, ex post review could apply to its forecasts of investment and possibly operating costs, to mitigate the risks to the regulator and Transpower that the forecasts are not accurate. Transpower therefore proposes:</p> <p>a) an ex post assessment of capital expenditure and adjustment of revenue – subject to a defined process aimed at a reasonableness test;</p> <p>b) possibly an ex post review of aspects of operating expenditure, but with no or limited reopening provisions during the period (i.e. Transpower would have to take the revenue risk of, say, commodity price movements within the period, but an adjustment following an ex post review would be considered);</p> <p>c) a margin could apply to any adjustment, so that Transpower bears some forecasting risk and/or has incentives to improve efficiency.</p>
<b>32</b>	<p><b>What do you understand “comparative benchmarking on efficiency” to mean?</b></p> <p>Assessing a business' performance against equivalent businesses in the same or different jurisdictions (using normalised datasets). Transpower notes the difficulty of such benchmarking, particularly when there are no domestic comparators.</p>
<b>33</b>	<p><b>The provisions for setting and resetting default price-quality paths suggest that a CPI-X form of price path be implemented, do you agree?</b></p> <p>No comment.</p>
<b>34</b>	<p><b>Do you consider that the Commission should prioritise customised price-quality path proposals before or after it receives complete proposals? If after, should the prioritisation occur before or after its preliminary assessment of whether proposals comply with the relevant input methodologies?</b></p> <p>No comment.</p>
<b>35</b>	<p><b>Given the Commission’s discretion in setting individual price-quality paths, what initial views do you have as to the form this instrument should take?</b></p> <p>For Transpower, an ex ante approval of a five-year revenue envelope based on forecast capex and opex requirements (i.e. using a building blocks approach). An ex post capital expenditure review would apply and some limited ex post review of operating expenditure might also be appropriate. Individual large capital expenditure items may be subject to separate regulatory evaluation and approval.</p>
<b>36</b>	<p><b>Do you consider that individual price-quality regulation should be the preferred form of price quality regulation for single supplier sectors? Please explain.</b></p> <p>Transpower considers this would be appropriate for Transpower given that its individual capital investments are “lumpy” and long-lived, investments are prone to run in major cycles with substantial amplitudes, and costs are subject to large movements in foreign exchange and commodity prices. For other businesses, or Transpower in different circumstances, a default option may be appropriate.</p>
<b>37</b>	<p><b>Do you have any views on the Commission’s proposed approach to determining which electricity distribution businesses are subject to price-quality regulation? If so, please explain.</b></p> <p>Questions 37 to 51 do not apply to Transpower.</p>
<b>38</b>	<p><b>What factors should be considered when determining information disclosure</b></p>

	<p><b>requirements for EDBs under the new regulatory provisions? To what extent does the new purpose statement for information disclosure regulation (section 53A) require amendment to the current information disclosure requirements?</b></p> <p>N/A</p>
39	<p><b>Given that consumer-owned EDBs are only subject to information disclosure regulation, do you think that different information disclosure requirements should apply to those EDBs?</b></p> <p>N/A</p>
40	<p><b>Do you have any views on the Commission's proposed approach to applying the thresholds to Wellington Electricity? Please explain.</b></p> <p>N/A</p>
41	<p><b>What are the possible impacts of applying the current thresholds to Vector following the sale of its Wellington network?</b></p> <p>N/A</p>
42	<p><b>Are there any additional issues that you believe the Commission should consider when transitioning the thresholds? If so, please explain.</b></p> <p>N/A</p>
43	<p><b>Are there any particular circumstances in which you consider that the Commission should adjust starting prices for electricity distribution businesses?</b></p> <p>N/A</p>
44	<p><b>What are appropriate productivity measures for electricity distribution businesses?</b></p> <p>N/A</p>
45	<p><b>Do you consider the reference to inflation allows for the use of alternative price indices? If so, what indices may be appropriate? Does this relate to the overall form of the price cap or does it allow the Commission to include an input price differential when specifying the X factor?</b></p> <p>N/A</p>
46	<p><b>Under what conditions might it be appropriate to include productivity growth information from overseas in setting the X factor? What adjustments might be necessary if overseas data were used?</b></p> <p>N/A</p>
47	<p><b>Under what circumstances should alternative X-factors be used?</b></p> <p>N/A</p>
48	<p><b>What factors do you consider are relevant when prescribing quality standards under a default price-quality path?</b></p>

	N/A
49	<p><b>Do you have any views on the content and evaluation of customised price-quality path proposals for electricity distribution businesses? Please explain.</b></p> <p>N/A</p>
50	<p><b>What measures do you consider appropriate to promote energy efficiency under the regulatory instruments applicable to electricity distribution businesses, particularly given the Electricity Commission's role regarding pricing methodologies?</b></p> <p>N/A</p>
51	<p><b>Do you have any views on the proposed process for determining default price-quality paths? If so, please explain.</b></p> <p>N/A</p>
52	<p><b>What factors do you consider relevant in developing information disclosure requirements for Transpower under the new legislative regime?</b></p> <p>Transpower questions the value of the information it is required to disclose under the Electricity Information Disclosure Regulations, particularly given the difficulty of using the information to compare Transpower's performance with other businesses.</p> <p>Transpower considers that the information required in its annual compliance statement, which requires disclosure of Transpower's performance within an EV framework, provides the information needed to assess whether or not the purposes of the Act are being met. This framework could be developed with the implementation of an individual revenue-quality path.</p>
53	<p><b>What are the pros and cons of default/customised price-quality regulation and individual price quality regulation?</b></p> <p>Default/customised price-quality regulation is potentially less intrusive and more "light handed", but individual price-quality regulation is potentially better able to provide for the particular circumstances that apply to electricity transmission – these include "lumpy" investment, major investment cycles with large amplitudes, a heavy impact from changes to exchange rates and commodity prices, and particular circumstances that affect elements of operating expenditure.</p>
54	<p><b>Do you have any views as to which should apply to Transpower from July 2011? If so, please explain.</b></p> <p>Yes, individual price-quality regulation. (See response to question 53 above.)</p>
55	<p><b>What measures to promote energy efficiency do you consider are appropriate under the potential mechanisms for Transpower?</b></p> <p>Transpower is already promoting demand-side management and grid support contracts. A possible option under individual price-quality regulation could be to require Transpower to demonstrate the benefits of grid support contracts and demand-side management arrangements that it enters into and possibly to provide targets for such arrangements.</p>
56	<p><b>Do you have any views on the timing of and content of the recommendation to the Minister?</b></p>

	<p>The Commerce Commission should recommend that the Order-in-Council declare that Transpower be subject to individual price-quality regulation.</p> <p>A recommendation needs to be made as soon as possible in 2009 to provide sufficient time to enable the new individual price-quality arrangements to be agreed and implemented ahead of the expiry of Transpower's administrative settlement on 30 June 2011, noting the need to inform Transpower customers of price changes by December 2010 and to finalise its revenue requirement for the calculation of 2011/12 transmission prices by 31 August 2010.</p>
57	<p><b>Do you have any comments on the indicative list of gas pipeline businesses subject to regulation under Part 4? Do you have any views as to how this list can be maintained? If so, please explain.</b></p> <p>No comment.</p>
58	<p><b>Do you have any views on the suitability of the information disclosure requirements established under the Gas (Information Disclosure) Regulations 1997 for the purposes of information disclosure regulation under the Act?</b></p> <p>No comment.</p>
59	<p><b>Do you have any comments on the above discussion?</b></p> <p>No comment.</p>
60	<p><b>Under what circumstances should starting prices be adjusted for gas pipeline businesses?</b></p> <p>No comment.</p>
61	<p><b>What do you consider to be appropriate productivity measures for gas pipeline businesses?</b></p> <p>No comment.</p>
62	<p><b>Do you consider the reference to inflation allows for the use of alternative price indices, and if so, what indices may be appropriate for gas pipeline businesses? Does this relate to the overall form of the price cap or does it allow the Commission to include an input price differential when specifying the X factor?</b></p> <p>No comment.</p>
63	<p><b>Under what conditions might it be appropriate to include productivity growth information from overseas in setting the X factor? What adjustments might it be necessary to make to overseas data if it were to be included?</b></p> <p>No comment.</p>
64	<p><b>To what extent might an S-factor approach for gas pipeline businesses be consistent with the statutory provisions?</b></p>

	No comment.
<b>65</b>	<b>What dimensions of service quality are directly relevant to gas pipeline businesses?</b>  No comment.
<b>66</b>	<b>Do you consider that the Commission should revoke the Authorisations for Vector and Powerco prior to 30 June 2012 so that they are subject to default price-quality paths from the same date as other regulated gas pipeline businesses?</b>  No comment.
<b>67</b>	<b>What areas of information do you consider are relevant when developing information disclosure requirements for regulated airport companies?</b>  No comment.
<b>68</b>	<b>What are your initial views on the suitability of the current information disclosure requirements under the Airport Regulations?</b>  No comment.
<b>69</b>	<b>Do you have any views on the indicative timelines and milestones outlined above?</b>  Transpower would prefer a recommendation to the Minister on the form of regulation applying to Transpower as soon as possible in 2009 and a price-quality path determination by mid-2010. This would provide sufficient time for the new arrangements to be implemented prior to the expiry of Transpower's administrative settlement on 30 June 2011.