Summary of submissions

Cross-submissions on valuation method

Note: a number of submitters that made cross-submissions addressed matters that were not related to valuation. This summary covers cross-submissions about valuation and about the Authority's cross-submission process, but does not cover cross-submissions about other matters or the Authority's process for the TPM review generally.

Contents

Process

Process: scope of cross-submissions

No.	Submitter	Submission
1.	Entrust, Vector	It is concerning that the Authority has asked for cross-submissions on the valuation method, when the only submissions made on the valuation method were by a small number of parties who are seeking to make/protect windfall gains.
2.	IEGA, Pioneer, Trustpower, Vector, Mercury, Transpower, Entrust	It is concerning that the Authority has sought cross-submissions on one very specific aspect of its proposals, but is not seeking cross submissions on other issues. A number of submitters said that the Authority should have sought cross-submissions on the wealth transfers that will result from the Authority's proposals and/or the trade-off between wealth transfers and small welfare gains that will result from the Authority's proposals. Some submitters identified other issues that should be the subject of cross-submissions.
3.	Pioneer	The Authority is seeking cross-submissions on a matter that is outside the Authority's jurisdiction.

Process: length of consultation period

No.	Submitter	Submission
4.	Northern Federated Farmers	The Authority has not given submitters enough time or information to prepare cross-submissions. The Authority is at risk of failing to meet its obligations to consult, as set out in cases such as *Wellington International Airport Limited v Air New Zealand* [1993] 1 NZLR 671 (CA).
5.	Mercury, Entrust, Counties Power, Vector, Northern Federated Farmers	The Authority has not given submitters enough time to review and make cross-submissions on the high number of submissions the Authority received.
6.	Vector	The fact that the Commerce Commission typically provides two weeks to make cross-submissions does not mean that two weeks was enough time to make cross-submissions on the valuation method for the TPM. Unlike the current process, the Commerce Commission signals when it will invite cross-submissions well in advance, and the Commerce Commission's consultations do not usually generate the same volume of submissions as the Authority's consultation on the TPM guidelines.
7.	Vector	The highly technical nature of the valuation issue means that input from experts is very important. The Authority has not given submitters enough time to consult with their experts before making cross-submissions.
8.	Counties Power	The short timeframe that the Authority set for cross-submissions gives larger organisations, who are better able to mobilise their regulatory and analytical teams, an advantage in the consultation process over smaller organisations.

Process: other

No.	Submitter	Submission
9.	Vector	If the Authority wanted to consult further on a single issue, the Authority should have done so by consulting on a discussion document, rather than through a cross-submission process. The purpose of cross-submissions is to provide a right of reply or to correct the record on matters raised in other submissions, but the Authority has not provided enough time for that to occur.
10.	Transpower	If the guidelines allow Transpower to determine the appropriate valuation method, interested parties will have ample opportunity to provide their views to Transpower and raise any concerns with Transpower's proposed TPM.
11.	Trustpower	It would be premature for the Authority to decide on any particular valuation method at this point, given the lack of information provided to, and lack of

No.	Submitter	Submission
		meaningful consultation with, stakeholders to date.
12.	Transpower	Submitters have raised valid reasons to consider each of the DHC and IHC/RC methods, as well as drawbacks for each method. Full consultation on the valuation options is necessary. For example, the Commerce Commission carried out additional consultations and workshops on emerging technology and WACC as part of its review of input methodologies.
13.	Transpower	The Authority has not allowed enough time between calling for cross-submissions on the valuation method and making its decision in April, to properly consult on the appropriate valuation method. This will create unnecessary further delays in the process for reviewing the TPM, when Transpower could have dealt with submitters' concerns when it develops the TPM.
14.	Trustpower	The Authority has not drawn adequate attention to the extent to which different valuation methods can affect the charges that parties will have to pay. This is likely to result in limited engagement by submitters on a very important issue.
15.	Vector	The Authority should have forewarned submitters about the cross-submission process. The lack of notice means that stakeholders have not been able to properly allocate their resources so that they can provide quality feedback to the Authority. This is particularly a problem for submitters like Vector, who also had to prepare cross-submissions on the Commerce Commission's DPP for gas pipeline businesses, which were due on the same day.
16.	IEGA	The Authority should have given submitters information about why it has decided to seek cross-submissions on the valuation method. This would have assisted submitters to appropriately frame their responses.
17.	Northern Federated Farmers	The need for the current round of consultation demonstrates that there are serious flaws with the Authority's proposals.

Choice of valuation method

Choice of valuation method: market-like approaches

No.	Submitter	Submission
18.	Vector, Counties Power	A DHC method will not deliver outcomes that are market-like/consistent with competitive markets. This is because charges will be based on the age of an asset, rather than the level of service the asset provides.
19.	Pacific Aluminium	A DHC method would result in market-like outcomes. As Professor Yarrow pointed out in his report for Trustpower on the supplementary consultation paper,

No.	Submitter	Submission
		"market-like" prices do not need to be "optimum" or constant. Instead, reference should be made to pricing in markets that are competitive, but that share salient features with electricity networks. Such markets are characterised by long-term contracts, where the terms of contracts vary depending on the circumstances that apply at the time that each contract is entered into. As Professor Yarrow and the Authority in its working paper on the DME framework have described, typical features of such contracts are that: charges are higher in the earlier years of the asset's life than in later years; prices paid reflect conditions at the time that the contract was entered into (rather than current replacement values); and, typically, producers (rather than consumers) pay for transportation costs.
20.	Pacific Aluminium	Agrees with the submissions by Professors Bushnell/Wolak and Professor Yarrow for Trustpower that workably competitive markets for transmission services do not exist, and speculation as to how services might be priced in markets that do not exist is of limited value. However, it does not necessarily follow that this justifies the tax-like approach to transmission pricing that Professors Bushnell/Wolak advocate. Market-like prices convey information to grid users that informs the decisions they make. Infra-marginal transmission prices, i.e. the overall level of transmission charges for services received, therefore influence how resources are allocated over time.
21.	Meridian	An IHC method for existing investments, which does not take into account depreciation that has already been funded, would not be consistent with standard principles of price regulation, and would not be cost-reflective (as the Authority has defined that term).
22.	Houston Kemp for Trustpower	An IHC method for valuing existing assets is consistent with service-based pricing, although it is not supported by robust economic analysis.
23.	Meridian, Pacific Aluminium	As stated in Professor Littlechild's report on the supplementary consultation paper, adopting an IHC method for existing assets would not be service-based. Rather, an IHC method would result in arbitrary variations in the total charges paid in respect of assets over their lifetimes, depending on how much of an asset's life will have passed when the new TPM takes effect.
24.	Houston Kemp for Trustpower	Meridian's and Professor Littlechild's focus on the impact of the valuation method on charges and prices for assets is inappropriate. In a competitive market, a supplier would charge for services, and not individual assets.
25.	Counties Power	Prefers an IHC method over a DHC method. An IHC method is more market-like, and should therefore be preferred under the Authority's DME framework. An IHC method will also provide price stability.
26.	Houston Kemp for Trustpower	Submissions that oppose the adoption of an IHC method for existing assets on the basis that it would not be cost-reflective have not addressed how the selection of an IHC method or a DHC method would affect the extent to which charges are

No.	Submitter	Submission
		service-based.
27.	Vector	Tariffs for UCLL and UBA, as determined by the Commerce Commission under the Telecommunications Act, are the closest example of how a utility-type service would be priced in a competitive market. The Commerce Commission has applied a pricing structure that has regard to the modern equivalent asset for a service, and not to historical cost in the way for which Meridian, Contact Energy, and Pacific Aluminium advocate.
28.	Houston Kemp for Trustpower	The Authority's approach to valuation is not cost-reflective, because it sets charges that reflect the benefits that customers are imputed to receive from individual assets, and not the cost of those assets.
29.	Vector	The DHC method for existing investments, for which Meridian, Contact Energy, and Pacific Aluminium advocate, will result in vastly different charges for assets that deliver similar services. This is, at least in part, because a small number of lines account for a disproportionate portion of Transpower's RAB.
30.	Transpower	The submissions from Contact Energy, Meridian, and Pacific Aluminium highlight the potential for tension between backward-looking and forward-looking, or short-run and long-run, concepts of cost-reflectivity.

Choice of valuation method: time profile of charges

No.	Submitter	Submission
31.	Counties Power	A DHC method will result in charges for the recent NIGU and NAaN investments being initially set too high, and then set too low. Charges for Pole 2 of the HVDC link will also be set too low. This is because the charges will follow the assets' depreciation curve, rather than reflect the benefits that the assets provide.
32.	Transpower	As a number of submissions have pointed out throughout the Authority's process, the combination of a beneficiaries-pay approach and a DHC valuation method would result in transmission charges falling as transmission becomes constrained, and as aggregate private benefits and LRMC increase. This would not provide dynamically efficient price signals, and would not be consistent with the beneficiaries-pay principle.
33.	Meridian	As Professor Littlechild said in his report on the supplementary consultation paper, in the context of transmission and distribution pricing, the risk of technological change (through, for example, solar and battery technology), supports charging for a greater proportion of the costs of assets in the near future, when the nature of demand for transmission and distribution services is clearer.
34.	Pacific	Houston Kemp for Trustpower has submitted that the AoB charge should be

No.	Submitter	Submission
	Aluminium	based on RC, on the basis that the quality of transmission services does not vary with the age of an asset, and depreciation should therefore not be taken into account when assessing the value of benefits that an asset provides. That submission wrongly implies that the determination of costs is the same thing as the determination of benefits. Under the Authority's definitions of "service-based pricing" and "cost-reflective pricing", the purpose of identifying benefits/beneficiaries is to identify who should meet the cost of delivering a service.
35.	Meridian	It is incorrect to assume that, in workably competitive markets, charges would not vary over time, and that different assets would be charged for on the same basis. Workably competitive markets do not produce any predictions about how charges might or might not vary over time, beyond the principle that prices will tend towards normal or NPV = 0 returns. This is reflected in Professor Littlechild's report on the supplementary consultation paper.
36.	Meridian	It is possible to design a levelled, service-based charge that does not change over time, while also taking into account depreciation that has been funded to date. This could be done by capping recovery at the present RAB value, and levelling the recovery of the remaining revenue over the remaining life of the asset. This would be consistent with the principle that, in workably competitive markets, charges tend towards NPV = 0 returns.
37.	Meridian	Submissions in favour of time-neutral charges are based on false scientism, and are not informed by pragmatism. For example, any realistic TPM would give rise to multiple potential boundary issues and include assumptions about asset life and ex-ante estimations of benefits. In addition, AoB charges for similar assets may vary greatly between different customers, depending on the benefits that other transmission customers receive from those assets.
38.	PwC for 13 EDBs (Alpine Energy, Aurora Energy, EA Networks, Eastland Network, Electra, Mainpower, Marlborough Lines, Nelson Electricity, Network Tasman, The	Support the option for Transpower to alter the time profile of capital recovery if charges under the IHC method would not reflect the services provided by an investment at different times in its life.

No.	Submitter	Submission
	Lines Company, Top Energy, Waipa Networks Westpower)	
39.	PwC for 13 EDBs (Alpine Energy, Aurora Energy, EA Networks, Eastland Network, Electra, Mainpower, Marlborough Lines, Nelson Electricity, Network Tasman, The Lines Company, Top Energy, Waipa Networks Westpower)	Support the use of a time-neutral valuation method, such as IHC.
40.	Pacific Aluminium	Support Professor Littlechild's submission for Meridian that the proposal to apply an IHC method/levelled charges does not reflect charges in competitive markets, particularly when benefits, demand, and technologies change over time.
41.	Counties Power	Pacific Aluminium's argument, that the logic that market-like charges vary by the level of service and not the age of the asset cannot be applied to transmission networks, is flawed. Charges for similar transmission infrastructure in New Zealand, such as the Southern Cross Cable, are also based on the service provided and do not vary with the age of the asset.
42.	Vector	The DHC approach for which Meridian, Contact Energy, and Pacific Aluminium advocate is not applied in other sectors of the economy. For example, airfares and the prices for mobile telephone services do not vary according to the age of the aeroplane or the age of the transmitting cellular towers.
43.	Pacific Aluminium	Transpower's submission that the AoB charge needs to be inclusive and time-neutral in order for the TPM to be durable uses "durability" as a proxy for "fairness". Fairness does not fall within the Authority's statutory objective, which is directed at economic efficiency.

Choice of valuation method: over-recovery of costs

No.	Submitter	Submission
44.	Vector	A DHC method is likely to concentrate the costs of assets covered by the AoB charge on a small number of grid users. This is likely to increase the risk of under-recovery.
45.	Pacific Aluminium	Agree with Meridian's submission that applying an IHC method to existing assets will create a pseudo-residual charge, by producing an AoB charge that exceeds the Commerce Commission's revenue allowance in respect of that asset. This is one way that Transpower could over-recover in respect of some existing investments. Transpower could also under-recover in respect of new investments. This would not be consistent with service-based or cost-reflective pricing.
46.	Meridian, Pacific Aluminium	An IHC method for existing investments would breach the fundamental principle that Transpower's total revenue should be set on the basis of an NPV = 0 return. This is particularly a problem for Pole 2 and Pole 3 of the HVDC link.
47.	Meridian, Venture Southland, Pacific Aluminium	An IHC valuation method would result in over-recovery from some parties because it disregards depreciation that has already been paid for.
48.	Transpower	Assuming that there is a way to determine whether Transpower has over-recovered in respect of individual assets, "over-recovery" may not necessarily be inefficient. Factors that need to be taken into account when assessing the efficiency implications of such an outcome include: • whether charges for an individual asset are still service-based or within the bounds of incremental to standalone cost. It may not be possible to determine whether charges for a particular service exceed standalone cost if, arguably, no "service" can be provided by particular assets in isolation from the rest of the grid. • that "over-recovery" through the AoB charge will reduce the amount to be recovered through the residual charge.
49.	Counties Power	Concerns that Meridian, Contact Energy, and Pacific Aluminium may end up paying twice for assets under an IHC method are illogical. Historical transmission charges are irrelevant because, under the current TPM, the costs of transmission assets have been shared, and not paid for by specific users of the grid.
50.	Houston Kemp for Trustpower	If an IHC method for valuing assets results in over-recovery or under-recovery for individual assets, that does not establish that the price for transmission services would be inefficiently high or low. Efficient prices for services must be above incremental cost, but not exceed standalone cost. An IHC method for valuing

No.	Submitter	Submission
		assets would result in charges for Meridian that meet those requirements. In any case, regulation by the Commerce Commission under Part 4 of the Commerce Act prevents Transpower from recovering more than its efficient costs, and ensures that Transpower complies with the NPV = 0 principle described in NERA's report for Meridian.
51.	Transpower	It is inappropriate to apply the NPV = 0 principle to individual assets for investments, and it is not clear that submissions expressing concern about "over-recovery" for individual assets have merit. In particular: • It has not yet been established that an IHC method would lead to South Island generators paying more than the total cost that the Commerce Commission approved for individual investments. • There is no way to determine whether the costs of any particular interconnection investment has been over- or under-recovered, because, to date, Transpower has collected a pool of revenue for all interconnection assets. • Many network businesses would violate the NPV = 0 principle if compliance with the principle was assessed on an asset-by-asset basis. Some network businesses would be required by legislation to violate the principle (for example, Chorus is required to set the same prices for copper and fibre in rural and urban locations, and the effect of section 113 of the Electricity Industry Act on rural and urban distribution prices).
52.	Vector	Meridian's and Contact Energy's submissions expressing concern that they will overpay / Transpower will over-recover for the HVDC link need to be considered in the context of the rest of the grid. Meridian and Contact Energy have clearly benefited from using the interconnected AC grid, but have not contributed to the costs of those assets.
53.	Meridian	Overpayments could occur where an estimate of an asset's life is extended. Meridian estimates that overpayments of $310 million and $85 million could be made in respect of Pole 2 and Pole 3 of the HVDC link.
54.	Transpower	Whether adopting a particular valuation method will result in "over-recovery" from South Island generators depends on a number of factors, such as how revenue is allocated, and the aggregate private benefit that South Island generators are deemed to receive from Poles 2 and 3 of the HVDC link.

Relationship between valuation method and wider TPM

No.	Submitter	Submission

No.	Submitter	Submission
55.	Pacific Aluminium	Other submitters have not focused on how the valuation method for the AoB charge may affect the extent to which the TPM as a whole would promote the Authority's statutory objective. If an IHC method is applied to the AoB charge, the residual is likely to grow over time. This will have distortionary effects, and low-growth regions will end up subsidising high-growth regions. It is likely that other submitters have not focused on this issue because it is not relevant to their own priorities (for example, generators will not be required to pay the residual charge).
56.	Transpower	The approach to the valuation method must take into account the effect of the valuation method on the efficiency and durability of the TPM, and whether the valuation method is practicable in terms of Transpower's internal systems and records.
57.	Houston Kemp for Trustpower	The Authority's decision to seek cross-submissions on the relatively contained issue of asset valuation methods could be interpreted as indicating that there is broad agreement on other components of the Authority's proposals. That is not the case.
58.	Mercury	The fact that the Authority finds itself needing to address complex and highly challenging questions about how assets should be valued is a predictable outcome of the Authority's attempts to develop TPM guidelines that address historical issues, while also providing efficient signals for future investments.
59.	Houston Kemp for Trustpower	The issues that submitters have raised about the valuation of assets is the result of the framework that the Authority has adopted for its review of the TPM guidelines. There is a conflict between the Authority's pursuit of service-based pricing and the Authority's granular, asset-based approach to pricing (which is inherently not service-based). The issues are also the result of the Authority's decision to apply its proposals to existing investments, which will give rise to significant wealth transfers.
60.	Pioneer, IEGA, Trustpower	The valuation method is controversial because of the significant wealth transfers that will result from the Authority's proposals. IEGA and Trustpower submitted that the Authority should consider wealth transfers under the Authority's statutory objective.
61.	Transpower	The valuation method is just one feature of the new TPM guidelines that could have significant redistributive effects. It is important that the Authority does not focus on just one component of the TPM guidelines that could affect one particular group of customers.
62.	Transpower	The valuation method is very important to the prices that the Authority's proposals will produce. However, it appears that most submitters do not understand or appreciate the importance of the issue, as reflected by the lack of meaningful engagement on the issue.

No.	Submitter	Submission
63.	Transpower	The valuation method issue should not be considered in isolation from the rest of the TPM guidelines. There are close links between the valuation method and the connection charge, the type of pricing signal that the AoB charge can and should send, and how charges are allocated between generation and load and between load and different parts of New Zealand. Fairness/over-recovery issues arise in relation to a number of features of the guidelines. It would be inappropriate for the Authority to focus on one type of unfairness that affects one particular group of customers, but not others. If the Authority considers the "unders and overs" of its proposals, it should do so in a holistic way.
64.	Venture Southland	The valuation method will have a big impact on the AoB charge. This makes it difficult to assess the implications of the Authority's proposals.

Specificity of guidelines for valuation method

No.	Submitter	Submission
65.	Transpower	Agree with Meridian that the TPM guidelines should retain a demarcation between the Authority's and Transpower's roles, on the basis of whether Transpower or the Authority has better information and expertise.
66.	Transpower	Clause 15 of the guidelines should be amended to enable Transpower to seek a determination from the Authority on the valuation method, if Transpower is unable to decide between two or more valuation methods. This is particularly so in situations where decisions on TPM design will give rise to very large wealth transfers, with much smaller impacts on the efficient operation of the electricity industry.
67.	Meridian	Do not support giving Transpower the discretion to select a valuation method.
68.	IEGA	It is sufficient for the guidelines to require Transpower to adopt a time-neutral valuation methodology for both the AoB charge and the residual charge. The guidelines should also require Transpower to explain any difference between the valuation method that applies to transmission charges, and the valuation method that the Commerce Commission adopts.
69.	PwC for 13 EDBs (Alpine Energy, Aurora Energy, EA Networks, Eastland Network, Electra,	It may be appropriate for Transpower to refine the IHC method, or adopt an alternative approach that better meets the Authority's statutory objective and any other guidance set by the Authority.

No.	Submitter	Submission
	Mainpower, Marlborough Lines, Nelson Electricity, Network Tasman, The Lines Company, Top Energy, Waipa Networks Westpower)	
70.	Transpower	It would be premature for the Authority to decide on any particular valuation method at this point. Not enough information about the implications of the different options is available. Specifying a particular valuation method in the guidelines could foreclose more efficient and/or durable options.
71.	Transpower	Submitters have raised a number of valid issues. However, those issues can only be properly resolved through the comprehensive quantitative analysis that Transpower will undertake when developing the TPM. The outcome of that analysis will depend on what decisions are made about other components of the TPM guidelines. The Authority should not attempt to address those issues at this stage.
72.	Northpower, Trustpower, IEGA, Northern Federated Farmers	The Authority should allow Transpower to determine the appropriate valuation method.
73.	Vector	The Authority should avoid being over-prescriptive in relation to the valuation method. This will give Transpower a greater opportunity to ensure that the TPM does not result in asset renewals that cause sudden, significant increases in transmission charges, and to limit windfall gains.
74.	Northern Federated Farmers	The guidelines should set out high level principles for determining the valuation method, and leave it to Transpower to determine the appropriate valuation method.
75.	Transpower	The guidelines should specify IHC as the default valuation method, while giving Transpower the discretion to propose an alternative valuation method if the alternative meets certain criteria.
76.	Transpower	Transpower was surprised by Meridian's comment that the Authority would be at risk of legal challenge if it treats HVDC assets in a way that is inconsistent with Part 4 of the Commerce Act. Transpower is not aware of any legal obligation to set bespoke transmission charges for individual assets that are explicitly linked to

No.	Submitter	Submission
		the Commerce Commission's determination of the values of those assets.

Interaction with the Commerce Commission's role

No.	Submitter	Submission
77.	Meridian	A decision to adopt an IHC method for historical assets, particularly the HVDC assets, would be at risk of legal challenge. The proposed treatment of HVDC assets would be inconsistent with Part 4 of the Commerce Act, and/or unlawful according to the *Vodafone TSO* case. If the Authority adopts an IHC method for existing investments, the Authority must specify in the guidelines that the AoB charges for those assets must account for depreciation of those assets, as reflected in the present RAB values.
78.	Venture Southland	A valuation method for existing investments that reflects depreciation that has already been funded would be consistent with Part 4 of the Commerce Act. Such an approach would offer the benefits of well-established and tested valuation processes, a robust regulatory framework, and a degree of independence for dealing with valuation matters.
79.	Pacific Aluminium	A valuation method that produces an AoB charge that differs from the regulated revenue allowance for particular assets will not be durable. To be durable, the TPM should be capable of continuing to achieve its objectives over time, without requiring further amendments to the Code. If the methodology for determining Transpower's revenue changes, and that change does not automatically flow through to the appropriate beneficiaries via the AoB charge, the Code will need to be amended.
80.	Meridian	Adopting an IHC approach that does not take into account depreciation that has already been funded would amount to a revaluation of assets, without treating the gain to Transpower from that revaluation as income. The Commerce Commission and the courts have rejected such an approach.
81.	Vector	Meridian's submission that "switching methodologies part way through the asset's life will result in excessive returns and will not be cost-reflective" is misguided. There is no risk that Transpower will earn an excessive return or a windfall gain, because Transpower's revenue is regulated by the Commerce Commission.
82.	Transpower	Some submitters appear to have confused the issue of the actual valuation method to be chosen with how the valuation method would be applied. Submitters' objections appear to be based on the assumption that Transpower will use the valuation method specified in the TPM to calculate the full cost of eligible investments for the purposes of the AoB charge, without reference to

No.	Submitter	Submission
		Transpower's MAR. However, if this approach would result in Transpower recovering more than its MAR, charges would be scaled back under clause 29 of the proposed guidelines. Scaling back the residual could be advantageous if it is considered more efficient to recover transmission costs through the AoB charge than through the residual charge. Alternatively, Transpower could use the valuation method to apportion Transpower's MAR between different assets. There would be no possibility of AoB charges exceeding Transpower's MAR under this approach. This would mean that, as PwC has pointed out, the scaling provisions in clause 29 of the proposed guidelines would not be necessary. Under this approach, if different valuation methods are adopted for different assets, charges for some assets would be skewed upwards, and charges for other assets would be skewed downwards.
83.	Vector	Submissions from Meridian, Contact Energy, and Pacific Aluminium regarding the need to align the valuation method in the TPM with the valuation method the Commerce Commission applies under Part 4 of the Commerce Act, ignore differences between Part 4 of the Commerce Act and the Code. Part 4 of the Commerce Act and the TPM guidelines as set out in the Code, are directed at different purposes, and cover different costs. The Commerce Commission uses the RAB to prevent Transpower from earning excessive returns; whereas the purpose of the TPM is to ensure the recovery of the full economic costs of Transpower's services. The Code makes clear that the full economic costs of Transpower's services include costs relating to investments that are not subject to approval by the Commerce Commission, as well as the costs of providing transmission services (such as capital maintenance, operating, and overhead costs). There is no requirement in the Code that Transpower sets tariffs on the basis of the RAB values of assets.
84.	Transpower	Submissions that refer to commentary from the High Court on the revaluation of assets are not relevant, and demonstrate that some submitters are confused about the differences between regulation under Part 4 of the Commerce Act and under the TPM, for example: revaluations of assets for the purposes of the TPM will not increase Transpower's overall revenues; the Commerce Commission treats wealth transfers as directly relevant to the promotion of the long-term benefit of consumers under Part 4 of the Commerce Act; and input methodologies and asset valuations under Part 4 of the Commerce Act determine Transpower's maximum allowable revenue, but do not place any limits on how Transpower should determine prices for individual customers.
85.	Pioneer	The Authority should refer the issue of the valuation method for transmission assets, and any consequential wealth transfers, to the Commerce Commission. The Commerce Commission can then consider those issues alongside other matters relevant to ensuring workably competitive markets, such as: the potential

No.	Submitter	Submission
		impacts of emerging technologies on the future financial value of Transpower's assets; the Commerce Commission's review of input methodologies and emerging technologies; and the Commerce Commission's consideration of new grid investments. The Commerce Commission's consideration of new grid investments includes consideration of alternatives to transmission investments, which puts the Commerce Commission in a much stronger position than the Authority to review and make changes to asset valuations over time.
86.	Counties Power	The Commerce Commission's and the courts' rejection of the IHC method, (referred to in Meridian's submission), occurred in a different regulatory context, which was to determine the returns that Transpower may recover on its regulated assets. It is not necessarily the case that the DHC method is appropriate in the context of the TPM, where the objective is to send better price signals that will improve efficiency.
87.	IEGA	There is a lack of coherence between the Authority's and the Commerce Commission's approaches towards transmission, distribution, and emerging technologies (which includes consideration of valuation methodologies).

Valuation method for existing and new investments

No.	Submitter	Submission
88.	Vector	Although Vector objects to the inclusion of sunk assets in the AoB charge, the same valuation method should apply to existing investments and new investments. Adopting a DHC method for existing investments will create an inconsistency between the AoB charge and the connection charge. The connection charge is calculated on an RC basis, and the Authority has taken the view that the connection charge is market-like, service-based, and cost-reflective.
89.	Trustpower	Meridian previously argued that the basis for charging for existing investments and new investments should be consistent, but is now advocating for different valuation methods for existing investments and for new investments. Using different valuation methods would be likely to create the same issues about which Meridian expresses concern in its submission on the second issues paper (and which Trustpower refuted in its submission on the supplementary consultation paper).
90.	PwC for 13 EDBs (Alpine Energy, Aurora Energy, EA	Support the application of IHC to existing and new investments, rather than RC for new investments and DRC for existing investments.

No.	Submitter	Submission
	Networks, Eastland Network, Electra, Mainpower, Marlborough Lines, Nelson Electricity, Network Tasman, The Lines Company, Top Energy, Waipa Networks Westpower)	
91.	Meridian	The IHC method is fine for new investments, but the DHC method should be used for existing investments.
92.	Meridian	Theoretical concerns about boundary issues between charges for existing assets and new assets should not outweigh the fundamental principle of regulatory economics, as described by NERA, that the total revenue collected for an asset should reflect a normal or NPV = 0 return.

Other submissions

No.	Submitter	Submission
93.	Vector	A DHC method is likely to concentrate the costs of assets covered by the AoB charge on a small number of grid users. This is unlikely to be durable.
94.	Meridian	A valuation method that fails to take into account depreciation that has already been funded by HVDC charges in the past will not be durable.
95.	Vector	Adopting a DHC method for existing investments, for which Meridian, Contact Energy, and Pacific Aluminium advocate, will produce perverse outcomes. Transmission customers will face sudden and significant increases in their transmission charges if Transpower replaces an asset at the end of its life, even though transmission customers would continue to receive the same level of service. If those transmission customers increase their participation in the Commerce Commission's grid investment test processes (as the Authority intends), this could result in the Commerce Commission denying Transpower the opportunity to renew assets. This could lead to Transpower maintaining assets beyond their useful condition.

No.	Submitter	Submission
96.	Transpower	Agree with Pacific Aluminium that further analysis needs to be carried out to determine whether any particular valuation method would better advance the Authority's statutory objective.
97.	Entrust	As the biggest supporter of the Authority's proposals, Meridian's threat that the Authority's approach to valuing the HVDC assets "may be subject to legal challenge" undermines the Authority's position that its proposals will reduce disputes and improve the durability of the TPM.
98.	Transpower	Contact Energy's suggestion that the Authority should adopt a DHC method if the analysis in Appendix I of Transpower's submission on the second issues paper does not hold is not correct. The analysis in Appendix I of Transpower's submission on the second issues paper is just one relevant consideration to take into account.
99.	Mercury	Do not have a firm view on the application of the IHC method or of the DHC method.
100.	Houston Kemp for Trustpower	If the Authority has adopted an interpretation of its statutory objective that requires the Authority to pursue efficiency gains without regard to the interests of those who have invested under the current TPM, the Authority has no basis to be concerned about windfall losses that parties like Meridian may experience as a result of the valuation method that is adopted.
101.	Meridian	It is very difficult to assess the historical costs of older assets for the purposes of recreating a levelled charge that would have applied from the start of the asset's life. Regulatory economics typically avoids taking such an approach. The Authority's suggestion that Transpower should use a "suitable proxy" where historical cost information is not available would be extremely controversial. Instead, the appropriate inputs are the depreciated RAB values that have been endorsed through the Commerce Commission's processes.
102.	Entrust	Meridian appears to be making submissions that are driven by self-interest, and do not have any principled basis. For example, Meridian appears to want Transpower to use lower depreciated asset values for "some" area of benefit assets because Meridian does not want to face higher transmission charges than it otherwise would. Meridian also opposes the current treatment of the HVDC link on the basis that it is discriminatory, but favours discriminating between old interconnection assets and new interconnection assets.
103.	Vector	Meridian's submission on the supplementary consultation paper that it "is broadly comfortable" with an IHC method being applied to new assets is self-serving. There is no reason why the arguments Meridian has raised about existing assets that would be covered by the AoB charge would not apply to new assets commissioned in the future, which would presumably also be included in Transpower's RAB. In addition, Meridian seems to be comfortable with AoB

No.	Submitter	Submission
		assets that are located far from Meridian's generation assets to be charged for on the basis of historic cost, if Meridian can ensure that it pays the minimum amount of transmission charges for the older, well-depreciated transmission assets that serve Meridian's generation assets.
104.	Transpower	Pacific Aluminium's submission that the analysis in Appendix I of Transpower's submission on the second issues paper assumed that the AoB charge will only apply to new / recently commissioned assets, and therefore does not hold, is incorrect. The same applies to related conclusions in Pacific Aluminium's submissions. The analysis in Appendix I was based on existing/sunk investments, to show that the Authority had not demonstrated that it is necessary to adopt a DHC method for sunk investment to avoid "double" or "over-recovery".
105.	Transpower	Refute any inference from submissions that Transpower has a financial interest in the adoption of higher or lower valuations, or is biased / has predetermined its preferred valuation method.
106.	Transpower	Some submitters' concerns that the Authority's proposals will disadvantage the upper North Island would be exacerbated by a DHC valuation method.
107.	Transpower	Submissions on the valuation issue generally reflect the financial interests of the parties making them. For example, the valuation issue became more prominent when the Authority proposed to charge the residual to load only, and not to generation.
108.	Pacific Aluminium	Support submissions by Professor Littlechild that, in relation to the proposal to apply an IHC method to historical assets, the Authority has incorrectly assumed that no single customer has made a significant contribution to any individual asset.
109.	Pacific Aluminium	The Authority should carefully consider Transpower's submission that the optimisation clause in the guidelines is not necessary, on the basis that the flexibility Transpower would have under the guidelines to determine the valuation method effectively allows Transpower to optimise investments/alter the time profile of charges. This does not appear to be what the Authority intended.
110.	Houston Kemp for Trustpower	The Authority should conduct a robust assessment of the costs and benefits of using an IHC method to value existing assets. That assessment should weigh up the efficiency benefits of the price signals the IHC method would send, against the cost of increased uncertainty that would result from the creation of windfall gains and losses for existing investments made by transmission customers.
111.	Trustpower	The choice of the valuation method is controversial because the Authority: has decided to apply the AoB charge retroactively; is requiring charges to be service-based (which will result in significant wealth transfers); is requiring charges to be calculated on an asset-specific basis; and has excluded the impact of wealth transfers from matters covered by the Authority's interpretation of its statutory

No.	Submitter	Submission
		objective. The choice of valuation method would not be as controversial if the Authority amended its proposals so that only new transmission assets are covered by the AoB charge, and/or the AoB charge is calculated on a basis that is not asset-specific.
112.	Transpower	Meridian's comment that the Authority would be susceptible to legal challenge if it adopts a valuation method for HVDC assets that is inconsistent with Part 4 of the Commerce Act suggests that the Authority's proposals are susceptible to challenge from both supporters and opponents of its proposals.
113.	Trustpower	The concerns raised by Meridian and other submitters about the valuation method relate primarily to equity, rather than efficiency.
114.	Meridian	There are a number of problems with Axiom's and PwC's suggestion that the AoB charge could use the same valuation method that Transpower uses for connection assets. For example, the pooled approach would not achieve NPV = 0 on an asset-by-asset basis; the approach would reduce the benefit of participation in decision-making processes for transmission investments (because participants would no longer know the total amount to be recovered in respect of a new investment); and a number of difficult and controversial decisions would need to be made.