

# The Treasury

## Submissions on a New Independent Infrastructure Body Information Release

February 2019

This document has been proactively released by the Treasury on the Treasury website at

<https://treasury.govt.nz/publications/information-release/independent-infrastructure-body-submissions>

### Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

### Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.



Waikoukou  
22 Boulcott Street  
PO Box 1021  
Wellington 6140  
New Zealand  
P 64 4 495 7000  
F 64 4 495 6968  
[www.transpower.co.nz](http://www.transpower.co.nz)

Transpower  
Contact: Jo Moorar  
Position: Environmental Strategy Specialist  
[1]

26 October 2018

Treasury  
Wellington

By email: [infrastructure@treasury.govt.nz](mailto:infrastructure@treasury.govt.nz)

### **A New Independent Infrastructure Body - Submission by Transpower New Zealand Limited**

We welcome the opportunity to submit on Treasury's proposal for a New Independent Infrastructure Body (IIB) (published October 2018).

Our submission outlines the highly regulated environment that Transpower operates in, our asset management expertise, and our recently released Auckland strategy and discussion document about a low carbon electricity system, Te Mauri Hiko – Energy Futures. Finally, it answers the questions asked by Treasury that are most relevant to Transpower's business.

*Preliminary comments: Official Information Act 1982 and Private Information*

Transpower is comfortable that all information in this submission could be appropriately released under the Official Information Act 1982, should a request be made. Further, nothing in this submission is private and warrants withholding for that reason.

#### **General comments**

Transpower New Zealand is the owner of the National Grid infrastructure and operator of the Grid in real time. Transpower has over 12,000 route kilometres of assets that need to be maintained. We have several greenfield substations investigations underway. Further, we have numerous projects underway to construct or relocate assets to facilitate growth and development of other infrastructure or housing, particularly in Auckland.

Transpower supports the comments in the Minister's foreword that there needs to be greater visibility of New Zealand's infrastructure needs. We also agree that we need to be on the same page about what our country's needs are, so that we can plan when and where investment should occur such that the infrastructure industry responds to the demand.

Transpower supports any steps to ensure greater certainty and consistency in the planning and delivery of projects. Despite Transpower's mature asset management practices, we have no control

over decisions by other infrastructure operators or developers that require us to construct or relocate our assets to enable their projects. Nor do we have any influence over when other infrastructure providers cancel or slow a project. However, these decisions impact on the efficient operation of Transpower's business. Transpower supports any steps to ensure greater certainty and consistency in the planning and delivery of projects.

### **Transpower is subject to comprehensive regulation**

We note the Cabinet decision 8.1.8 states: "*ensure the entity's mandate is complementary and does not duplicate the mandate of other agencies and workflows*". Transpower is a regulated supplier under Part 4 of the Commerce Act 1986, subject to price-quality regulation and information disclosure regulation administered by the Commerce Commission.

The individual price-quality regulation applies to all areas of our Grid infrastructure management, covering strategic setting, investment planning, asset management, and Grid performance. Every five years, Transpower submits a proposal for capital and operating expenditure to the Commerce Commission. This proposal follows the process and content rules under the Capital Expenditure Input Methodology (**Capex IM**) and applies other input methodologies (**IMs**) for financial information.

Specifically, the five yearly proposal details Transpower's vision for the Grid, asset and network health (the state of the Grid), and expenditure priorities via capital plans. The Commission approves Transpower's expenditure proposals by way of a price-quality determination which sets revenues (the price path) each year for the five-year period and annual quality standards. Transpower must report every year on our compliance with the price path and quality standards set by the Commission's determination.

Transpower will submit its next proposal for the regulatory control period 2020 – 2025 in December 2018. The proposal is a significant undertaking both for Transpower and the Commission. For our upcoming proposal, we have used a third party independent verifier to examine the justifications for expenditure prioritisation and support the Commission's evaluation of the proposal.

Further, during a regulatory control period our Capex IM governs how we apply and obtain approval for large, individual capital projects >\$20M (called Listed projects and Major Capex projects). The Capex IM details cost-benefit analysis and decision rules, consultation processes, and evaluation processes that are to be undertaken.

Every process for the five-year proposal and every individual application, is transparent; and our applications, submissions and the Commission's decisions are publicly available.

Our information disclosure regulation (**ID**) requires annual disclosure of capital and operating expenditures (historic and forecast) and quality outcomes. These disclosures are comprehensive, and cover revenue, expenditure, regulatory asset base, together with performance against quality targets.

In short, Transpower is subject to extensive regulation – involving testing and independent verification of all aspects of the Grid, including its asset management, project planning and procurement. We consider the expectations of the IIB, for electricity transmission, will be largely met by referring to the work and decisions from the Commerce Commission. The exception to this situation is the detailed information about individual projects, or sites, which we consider should be usefully included in the project pipeline (see question 8 below).

## **Efficiencies / long-term strategies**

With mature asset management practices embedded, we are now focussed on gaining increased efficiencies across our business and ensuring we are well-positioned to respond to future challenges. The development of long-term strategies (out to 30 years and beyond) is part of this work.

Further, we have recently released our Auckland Strategy – our strategy is about ensuring we have the right assets in place for Auckland, while providing a resilient and secure energy supply. By looking at our assets holistically, we have the potential to remove 60km of 110kV lines in the long-term (subject to extensive work at substations). We have established an Auckland focused team to ensure we deliver all necessary projects to Auckland – our own, and those that are ancillary to other infrastructure projects.

Our recent publication, Te Mauri Hiko – Energy Futures<sup>1</sup>, highlights opportunities and challenges for Energy Sector transition to a low carbon economy. It looks out over a 30-year period, and forecasts significant potential new generation sites could be required (as could associated Grid connections). We are now starting to work through the changes to our business that would be required to enable us to efficiently respond to this level of new Grid connection and sector development.

## **Responses to questions asked**

### ***Question 1: What do you think are essential features of the new IIB, so it can deliver on its core purpose to strengthen infrastructure strategy, planning, investment and delivery?***

Transpower considers that the IIB should be set up so that it has a range of expertise and experience. We consider that appointments need to include a mix of economic, policy/strategy and delivery representatives, and those with current infrastructure industry experience. Those appointed need to be independent, or capable of acting independently. They also need to be influential with the broad range of parties involved in the infrastructure sector.

We support the IIB having an advisory and recommendatory role, rather than having decision-making power. We do not consider it appropriate for the IIB to make decisions or set directions about particular projects, or the priority of projects. In this regard, the IIB should focus on central-co-ordination, not central planning. This is particularly the case for infrastructure operators, like Transpower, who operate in highly complex businesses in highly regulated environments.

We consider that the IIB needs to be available to assist (potentially actively) those infrastructure bodies and those councils/council-controlled organisations that do not have the core skills to efficiently plan and deliver infrastructure. However, where infrastructure operators are well advanced in their asset management and project planning/procurement the IIB should take a light touch. Further, where the IIB observes best practice by certain infrastructure operators, it could encourage collaboration and the sharing of ideas and expertise.

Transpower considers that the IIB should not duplicate the functions of other bodies that are working well, newly formed entities (the Ministry of Housing and Urban Development and Independent Climate Change Commission) or expected to be formed (such as the Urban Development Authority). However, we are less concerned about duplication in the policy area –

---

<sup>1</sup><https://www.transpower.co.nz/sites/default/files/publications/resources/TP%20Energy%20Futures%20-%20Te%20Mauri%20Hiko%2011%20June%2718.pdf>

particularly if several bodies are identifying barriers to good infrastructure development (including the need for legislative or other change).

Importantly, Transpower does not consider that the IIB should have any functions that overlap with our duplicate the Commerce Commission process. As outlined earlier, this process is comprehensive, regulating many aspects of Transpower's business.

**Question 2: What relationship should the IIB have with government?**

Transpower considers that it would be advantageous for the IIB to report to Parliament, rather than to a Minister. For the reasons discussed later in this submission, we consider the IIB's work should look out to at least a 20-30 year horizon, well beyond a political term. Its work should also be outcome focussed, rather than asset focussed (where the asset may be supported by a particular government only).

*Question 2(i): In particular, what level and form of independence does the body need to be credible and influential?*

To be credible and influential, we consider that the IIB needs the right people on the Board and Executive – they all need to be influential and well-respected.

*Question 2(ii): Should the level and form of independence vary according to each different function? If yes, elaborate.*

The IIB could potentially have varying levels of independence, depending on the function it is exercising. However, our concern is that this level of complexity could be confusing for all parties interacting with the IIB.

If considered beneficial, varying levels of independence could be applied to the IIB at a later date, once it is well-established.

**Question 3: How important is each of the functions on a scale of 1 (not very important) to 5 (essential)?**

The most important functions from Transpower's perspective are:

- Proposed Function 2 “Develop a shared understanding of New Zealand’s long-term infrastructure strategy” (5/5 on the scale of importance).
- Proposed Function 5 “Publish long-term capital intentions” and Proposed Function 6 “Act as a shop-front for the market, including publishing a pipeline of infrastructure projects” (5/5). (Note the difference between these two functions is not readily apparent.) We discuss a project pipeline later in this submission.
- Proposed Function 4 “Identify and comment on the barriers to delivering good infrastructure outcomes.”

The strategy function is important – New Zealand infrastructure operators are facing increased uncertainties with unprecedented growth and uptake of new disrupting technologies. Further challenges arise due to our Paris Commitments, and drive for a zero-carbon economy.

Infrastructure operators also need to respond to major events - both planned (eg. America's Cup) and unplanned (Canterbury and Kaikoura earthquakes). Major events can significantly disrupt the sector, and need to be allowed for.

Transpower considers that the IIB could have a useful function in terms of publicly identifying and socialising the regulatory barriers to better infrastructure outcomes (eg. the barriers in the Resource Management Act).

Transpower can see value in the remaining functions. However, apart from the project pipeline, it is unlikely to make use of any shop-front procurement functions of the IIB, given our highly specialised high voltage requirements, already mature asset management and procurement practices. Other infrastructure operators will however be in a different position, and could benefit from the other functions identified.

Transpower recognises that it would be logical to carry out Proposed Function 1 “Assess the condition of New Zealand’s infrastructure assets” prior to the other strategy and planning functions. This audit would inform the IIB’s functions 2-5. The Project delivery support functions (6-8) could however occur in tandem with Proposed Function 1.

***Question 4: Are there any other functions, in addition to those proposed, which the IIB should carry out?***

Transpower considers that in addition to a strategy function (Proposed Function 2), the IIB could have a planning function (potentially an expansion of Proposed Function 7). The shop front functions all relate to the build-phase of a project. However, infrastructure operators may also benefit from support at the earlier stages of a project, including initial planning, optioneering, and public facing RMA processes, including hearings.

***Question 5: How could the new IIB best achieve each individual function?***

*Proposed function 2 “Develop a shared understanding of New Zealand’s long-term infrastructure strategy”*

Transpower considers that the IIB’s strategy should be long-term - out to at least 20-30 years, but subject to 5 yearly-reviews.

The IIB will require strong collaborative skills during the development of a draft strategy – it will need to obtain information from infrastructure operators and assist in filling gaps where they exist.

Transpower also considers that there should be a formal process of consultation on the proposed strategy – potentially involving submissions, meetings and conferences/workshops.

We do not consider that there should be an obligation on infrastructure operators to align plans to the strategy – a requirement to do so would require the IIB to be experts in each individual infrastructure operation (which is not necessary and also unachievable). In this regard, the role of the IIB should be one of central co-ordination, not central planning.

Transpower does not consider that the IIB should be constrained by existing strategies or policy statements – where these are out of date/have been identified as no longer being fit for purpose.

*Proposed function 5/6 “Proposed Function 5 “Publish long-term capital intentions” and Proposed Function 6 “Act as a shop-front for the market, including publishing a pipeline of infrastructure projects”*

To be of value, the project pipeline will need to contain up-to-date information at a project by project, site by site level (rather than at a portfolio level). The IIB will need to regularly engage with each infrastructure operator to obtain that information.

Each infrastructure operator should be able to provide information (discussed under question 8) on a regular basis – say 6 monthly, or when key decisions are made (if more frequent). If an infrastructure operator has not provided the information the pipeline should record that no information, or no update, has been provided.

There are opportunities for the IIB to also have an active role in improving co-ordination between infrastructure agencies to better realise the public good benefits of infrastructure investment, and to obtain efficiency gains. As an example, Transpower attends regular meetings with infrastructure operators in the Onehunga area of Auckland (including Auckland Council, NZTA, Panuku Development, Auckland Transport, and Housing New Zealand). We all have planned or future work in the area and are seeking to co-ordinate that work in a way that realises both benefits and efficiencies for the community and infrastructure sector.

***Question 6: How could the new IIB best work with local government and the market to help them plan long term infrastructure?***

Transpower considers that the market needs certainty and consistency of delivery.

The published pipeline of infrastructure projects (containing the information discussed under question 8 below) is key to providing that certainty.

***Question 7: How could the new IIB best engage with the market?***

Before engaging with the market, the IIB will need to understand the needs of each sector. We do not see this function as being helpful to our very specific technical needs, where Transpower procures very specific high voltage equipment and requires a highly trained/specialised workforce.

***Question 8: What information should a published pipeline of infrastructure projects include?***

Most new infrastructure projects impact on the assets of other infrastructure operators.

By way of example, in 2017 Transpower had \$350M worth of projects underway in Auckland alone to relocate Transpower assets due to infrastructure and housing developments – all of these projects would be nationally or regionally significant. However, in recent times, at least two of those projects have been halted or paused indefinitely.

Similarly, some projects start out with time being of the essence, only to be put on a much slower track at various stages (such as if funding is available on a staged basis).

Transpower's project approach is to have a back-up project ready in the event another is halted for whatever reason. What is concerning is the lost opportunity costs that Transpower has to bear when projects are halted or slow down periodically.

Uncertainty about whether these customer projects will proceed also creates difficulties for work planning and asset management more generally. By way of example, maintenance may be deferred if a project involves the same asset. The deferred maintenance would have to be rescheduled, potentially at a greater cost if the relevant workforce for the maintenance project is no longer mobilised. These projects can compromise our ability to deliver own work and are generally inefficient.

Further difficulty occurs when we "hear" of projects – but have difficulty obtaining information about where they are, and timing of those projects. It is not unusual for infrastructure operators to not understand the impact (and risks) of National Grid assets to their own project, and believe it is straightforward to simply shift or underground our assets.

The published pipeline should contain the following information about the primary infrastructure project, and the ancillary infrastructure impacted by it:

*Primary project*

- Location of the project, with sufficient level of certainty that other infrastructure operators can determine whether their assets are, or may be, affected?
- Degree of certainty that the project will go ahead? Has funding been secured for the entire project, or only up until a certain stage?
- The stage of the project – eg. is it at investigation, consenting, detailed design, build?

*Ancillary project*

- Details of other infrastructure operators who have an interest in the project, due to the impact on their assets.
- Degree of complexity associated with the impact of the other infrastructure operators assets (eg. can they be moved or not? Is consenting likely to be contentious and timely?)
- Identification of optimum time to consult with the other infrastructure operator.

Yours Faithfully

[1]

Raewyn Moss  
GM Auckland Development & Transformation