

Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025

Draft decision on non-recurrent amount for Incremental Rolling Incentive Scheme

Date of publication: 30 July 2024

Chapter 1 Introduction

- 1.1 This paper sets out our draft decision on an implementation aspect of the Incremental Rolling Incentive Scheme (**IRIS**) which is set out in the Transpower Input Methodologies (**Transpower IMs**).¹
- 1.2 The IRIS is an incentive scheme to encourage Transpower to achieve opex efficiency gains over time and to then share benefits of those gains with its customers when it sets its pricing. To do this, the IRIS requires a ‘link’ between regulatory periods so the progress on improving efficiency between periods can be measured. This link is a baseline value of expenditure from the preceding regulatory period against which the IRIS measures future expenditure.
- 1.3 To set this baseline expenditure value, we need to determine a ‘non-recurrent amount’ of non-repeating operating expenditure and/or savings (ie, so the baseline expenditure amount does not include past expenditure or savings which are not expected to be incurred again in a future period). The non-recurrent opex amount ensures that the assumptions in the opex IRIS model are consistent with how we set Transpower's opex allowance for an IPP and sets the link between regulatory periods. This non-recurrent opex amount then becomes one of the inputs in future calculations of Transpower’s IRIS rewards or penalties.
- 1.4 We are seeking views on our proposed approach to determining the ‘non-recurrent amount’ of opex in RCP3 for the purposes of calculating the ‘amount carried forward’ and the ‘base year adjustment to the opex incentive’ for RCP4 as required by the Transpower IMs.²
- 1.5 This paper outlines our proposed calculation of the ‘non-recurrent amount’ of the opex IRIS mechanism. We are not consulting on other parts of the IRIS mechanism, or other parts of our overall decision on Transpower’s Individual price-quality path for RCP4. We invite submissions on the calculation of the ‘non-recurrent amount’ as required by the Transpower IMs and we will not consider submissions made on other matters falling outside of this scope.
- 1.6 Our final decision on the non-recurrent amount will be determined in the Transpower RCP4 individual price-quality path and our reasons for our final decision will be published in our Transpower IPP 2025 Final decision package.

¹ *Transpower Input Methodologies Determination 2010* [2012] NZCC 17, as amended as at 10 July 2024.

² Clauses 3.6.3(5) and 3.6.4 of the *Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023* [2023] NZCC 8.

Our draft decision

- 1.7 Our draft decision is to determine a non-recurrent amount of \$(14.7) million (ie, a net reduction) for the purposes of the RCP4 IRIS calculations. Chapter 2 of this paper sets out how we have determined this amount.

Submissions on this paper

- 1.8 You are invited to provide your written views on this draft by 4pm, Friday 9 August 2024. Due to the limited and technical nature of this matter, we are not seeking cross-submissions.
- 1.9 Please address your email submissions to: Manager, Transpower and Gas c/o infrastructure.regulation@comcom.govt.nz and include “Transpower IPP 2025 – Non-recurrent amount draft decision” in the subject line of your email. We prefer responses to be provided in a file format suitable for word processing, in addition to PDF file format.

Requests for confidentiality

- 1.10 Please note that we intend to publish all submission on this Draft decision paper so that all information can be tested in an open and transparent manner. However, we recognise that there may be cases where parties that make submissions wish to provide information in confidence.
- 1.11 The protection of confidential information is something the Commission takes seriously. The process requires you to provide (if necessary) both a confidential and non-confidential/public version of your submission and to clearly identify the confidential and non-confidential/public versions.
- 1.12 When including commercially sensitive or confidential information in your submission, we offer the following guidance:
- 1.12.1 if it is necessary to include confidential material in a submission, the information should be clearly marked, with reasons why that information is confidential;
 - 1.12.2 where commercial sensitivity is asserted, submitters must explain why publication of the information would be likely to unreasonably prejudice their commercial position or that of another person who is the subject of the information;
 - 1.12.3 both confidential and public versions of the submission should be provided; and

1.12.4 the responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.³

1.13 We ask that you provide multiple versions of your submission if it contains confidential information or if you wish the published electronic copies to be ‘locked’. This is because we intend to publish all submissions on our website. Where relevant, please provide both an ‘unlocked’ electronic copy of your submission, and a clearly labelled ‘public version’.

Our next steps

1.14 The indicative dates for our next steps in the IPP reset process are set out below:

| Indicative date | Process step |
|-----------------------|---|
| August 2024 | Final decisions on expenditure allowances, quality standards, compliance obligations, IPP-specific information disclosure requirements, non-recurrent amount, and the revenue path design published |
| | Revised draft RCP4 IPP determination published for information only, subject only to revenue path updates to come later for the final Transpower RCP4 WACC in October 2024 |
| September 2024 | Draft information request provided to Transpower to calculate the forecast maximum allowable revenue (forecast MAR) for RCP4 |
| October 2024 | Final information request issued to Transpower to calculate the building blocks forecast MAR for RCP4 and the maximum allowable for each pricing year of RCP4 |
| October 2024 | Transpower RCP4 WACC published |
| November 2024 | Final IPP determination and companion paper published |

³ Parties can also request that we make orders under section 100 of the Act in respect of information that should not be made public. Any request for a section 100 order must be made when the relevant information is supplied to us, and it must identify the reasons why the relevant information should not be made public. We will provide further information on section 100 orders if requested by parties. A key benefit of such orders is to enable confidential information to be shared with specified parties on a restricted basis for the purpose of making submissions. Any section 100 order will apply for a limited time only as specified in the order. Once an order expires, we will follow our usual process in response to any request for information under the Official Information Act 1982.

Chapter 2 Our method for calculating the non-recurrent amount

- 2.1 The Transpower IMs, as amended in the Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023 (the **Transpower IM Amendment Determination**), require us to determine a ‘non-recurrent amount’ in the 2024/25 disclosure year of RCP3 based on the one-off factors in actual opex for the 2022/23 disclosure year of RCP3.⁴
- 2.2 This amount will be used in RCP4 for the purposes of calculating opex incentive amounts for the Incremental Incentive Rolling Scheme (**IRIS**) by:
- 2.2.1 setting any ‘amount carried forward’ for application in the disclosure years of RCP4,⁵ and
 - 2.2.2 adjusting the baseline of opex expenditure in respect of the second disclosure year of RCP3, for application in the disclosure years of RCP4.⁶
- 2.3 As set out in clause 3.6.3(5) of the Transpower IMs, the non-recurrent amount is an amount that accounts for one-off expenditure or savings in actual opex for the third disclosure year of the current regulatory period (which is the disclosure year 2022/23 of RCP3).
- 2.4 In calculating the non-recurrent amount, we have considered the information and sources of data we would need as well as how to calculate this amount.
- 2.5 We consider it is appropriate to use information Transpower has provided to us to support its base-step-trend methodology of calculating the RCP4 opex allowance. The reason for this is that Transpower made adjustments to its 2022/23 actual opex by each category to remove atypical costs to form its ‘base year’ for that methodology. We consider the base year adjustments represent the one-off costs incurred or underspent by Transpower in the 2022/23 disclosure year.

⁴ Refer to the requirement to determine the ‘non-recurrent amount’ under clause 3.6.3(5) of the Transpower IMs.

⁵ Refer to the application of the ‘non-recurrent amount’ in clause 3.6.3(4) in calculating the ‘amount carried forward’ for the 2024/25 disclosure year of RCP3. This amount carried forward is applied in the IRIS ‘opex incentive amount’ calculation for each of the disclosure years of RCP4 under clause 3.6.2(1)(a).

⁶ The ‘base year adjustment to the opex incentive’ for the 2021/22 disclosure year is calculated under clause 3.6.4(1) of the Transpower IMs. This amount is then applied in the IRIS ‘opex incentive amount’ calculation for each of the disclosure years of RCP4 in the calculation under clause 3.6.2(1)(b).

- 2.6 To determine the total non-recurrent amount for 2022/23, we have taken a sum of the total base year opex adjustments in each opex category as proposed by Transpower in its RCP4 proposal and as reviewed in our opex draft decision.⁷
- 2.7 Our draft calculation of the 2022/23 non-recurrent amount of expenditure is a total of \$(14.7) million (ie, a net reduction), which we propose to determine in the RCP4 final IPP determination.⁸ This amount primarily removes non-recurrent amounts spent on grid maintenance. There are also upwards adjustments to:
- 2.7.1 account for forecast FTEs not filled in the year;
 - 2.7.2 adjust costs of FTEs that were filled halfway through the year so that it represents a full year of expenditure; and
 - 2.7.3 reflect project delays.
- 2.8 The breakdown of non-recurrent amounts (both reduction and increase) is as follows:
- 2.8.1 \$(17.6) million in maintenance opex;⁹
 - 2.8.2 \$0.9 million in Asset Management and operation opex;
 - 2.8.3 \$0.2 million in business support opex;
 - 2.8.4 \$1.0 million in ICT adjustment opex; and
 - 2.8.5 \$0.8 million in insurance opex.
- 2.9 These are the same numbers we have assessed to be prudent and efficient in our draft decision opex assessment, where we accepted Transpower's proposed base-year adjustment numbers without any further changes in our base-step-trend analysis in setting our draft opex decisions for RCP4.

⁷ See the analysis for our draft decision in *Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025, Draft Decision Attachment C – Opex, 'Base year efficiency'*, p 13 to 17.

⁸ A negative amount in the non-recurrent amount reflects removal of one-off expenditure incurred in 2022/2023. Any positive amounts in the non-recurrent amount reflects a removal of one-off savings in 2022/2023.

⁹ This includes a \$(8.4) million reduction for impacts of Cyclone Gabrielle.