

## **Notice to supply information to the Commerce Commission under section 53ZD of the Commerce Act 1986**

To: Transpower New Zealand Limited  
PO Box 1021  
WELLINGTON

The Commerce Commission (Commission) requires Transpower New Zealand Limited (Transpower) to provide it with the information specified in this notice, issued under s 53ZD(d)(i) and (ii) of the Commerce Act 1986 (the Act).

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## General

1. We need this information for the purpose of carrying out our functions and exercising our powers under Part 4 of the Act. Specifically, this information is required for the purpose of setting Transpower's operating expenditure (opex) and capital expenditure (capex) allowances which will be used to determine Transpower's forecast allowable revenue for the pricing years of the regulatory period from 1 April 2020 to 31 March 2025 (RCP3), as well as the quality standards that will apply for RCP3.
2. For the purposes of this notice, we have referred to certain opex portfolios in RCP3 as 'identified programmes', which is consistent with how this term is defined in respect of base capex in the *Transpower Capital Expenditure Input Methodology Determination* [2012] NZCC 2 (Capex IM). The criteria for determining the identified programmes for RCP3, including for the relevant opex portfolios, were specified by us to Transpower on 28 March 2018.
3. Under s 52P(3) of the Act, in 2019 the Commission will determine the regulatory period that will apply for RCP3. However, for forecast information required by this notice, Transpower must present the forecast information based on a standard five year regulatory period for RCP3 and, where applicable, a subsequent standard five year regulatory period (RCP4).
4. The forecast information required by this notice must be calculated and presented based on Transpower's information disclosure years ending 30 June, with all necessary translations of the forecast information to give the forecast values for the 31 March pricing years in the RCP3 price-quality path.
5. The requirements of this notice to supply information to us may be satisfied by reference to relevant information that is already publicly available if the information is readily accessible, meets the information format requirements of this notice, and is clearly referenced in Transpower's base capex proposal or opex proposal for RCP3.<sup>1</sup>

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<sup>1</sup> Transpower is required under clause 2.1.1 of the Capex IM to submit to us by 3 December 2018, and publish, an integrated transmission plan. Transpower is also required under clause 2.2.1(3) of the Capex IM to submit to us by 3 December 2018 a base capex proposal prepared in accordance with Part 7 and Schedule F of the Capex IM, which will include Transpower's proposal of base capex and grid output measures for RCP3. The forecast opex information submitted to us by Transpower in response to this notice is the opex proposal referred to in the Capex IM.

## Interpretation

6. In this notice, unless the context otherwise requires, bolded terms have their meaning as set out below or as defined in the Capex IM:

**asset criticality** is a measure of the consequence of a major asset failure, which **Transpower** measures across the dimensions of service performance, public safety, workplace safety, environment and direct cost. The potential outage impact of an asset is measured in comparison with all other assets on a relative basis such as MWh or outage cost;

**asset criticality framework** provides the approach to developing and utilising criticality measures and the model;

**asset health** is a measure that represents an asset's proximity to the end of its useful life. The end of useful life is the period of an asset's life when it will need replacement or major refurbishment to extend life;

**asset health and criticality framework** means a framework that combines **asset health** and **asset criticality** measures with a view to making informed **capex/opex** tradeoffs and decisions to either replace or refurbish an asset, including the timing of future capex before replacement or refurbishment becomes a critical issue. **Transpower** combines **asset health** and **asset criticality** measures through a solution prioritisation process that is part of its Asset Planning Decision Making Framework;

**asset health framework** provides the approach to developing and utilising asset health measures and models;

**base capex categories** has the same meaning as set out in the **Capex IM**, which include the categories used to define **identified programmes** for **RCP3** that have been specified by us under clause 2.2.1(2) of the **Capex IM**;

**base-step-trend** is an approach to forecasting expenditure that is recurring and therefore typically used when forecasting **opex**. It typically starts with selecting an historic base year that is representative of recurring expenditure, potentially adjusted for significant, non-recurring items. This base year expenditure is then projected forward, adjusted for step changes and trends due to ongoing drivers;

**capex** means **capital expenditure**;

**Capex IM** means the *Transpower Capital Expenditure Input Methodology Determination [2012] NZCC 2* as amended by the *Transpower Capital Expenditure Input Methodology Amendments Determination 2018* and as it will apply to **RCP3**;<sup>2</sup>

**forecast MAR** has the meaning as defined in the **IPP determination**;

**identified programme** means **base capex categories** or **opex** portfolios for which expenditure is forecast to be undertaken during **RCP3** and which are consistent with the criteria specified by the **Commission** to **Transpower** on 28 March 2018;

**initiatives plan** has the meaning as defined in the **IPP determination**;

**IPP determination** means the *Transpower Individual Price-Quality Path Determination 2015 [2014] NZCC 35* as determined by the **Commission** on 28 November 2014 and amended as of 8 December 2017;

**obligation** means a legally enforceable duty owed by **Transpower**, whether arising under legislation, in tort or in contract;

**operating expenditure allowance** means the monetary amount of **opex** to be used when calculating the maximum allowable revenue or **forecast MAR** in applying our determination of **Transpower's** price-quality path;

**opex** means **operating expenditure**;

**pricing year** means a 12 month period ending on 31 March for which a **forecast MAR** is determined;

**quality measure** means each of the quality measures specified by the **Commission** in determining **Transpower's** price-quality path;<sup>3</sup>

**quality target** means each of the quality targets specified by the **Commission** in determining **Transpower's** price-quality path;<sup>4</sup>

**RCP1** means the regulatory period that commenced on 1 July 2012 and that ended on 30 June 2015;

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<sup>2</sup> The Commission published its decisions and reasons on its review of the Capex IM in *Transpower capex input methodology review: Decisions and reasons*, 29 March 2018. Our Capex IM amendments generally apply from 1 April 2020, the start of RCP3. We are currently undertaking technical consultation on the implementation of our amendment decisions in our revised draft amendment determination. We expect to publish our final determination by the end of May 2018.

<sup>3</sup> As set out for RCP2 in Part 4, Table 4.1, Column 1 of the IPP determination for revenue-linked grid output measures and in Part 4, clause 17 for grid output measures to which the grid output mechanism does not apply.

<sup>4</sup> As set out for RCP2 in Part 4, Table 4.1, Column 4 of the IPP determination for revenue-linked grid output measures.

**RCP2** means the regulatory period that commenced on 1 April 2015 and ends on 31 March 2020;

**RCP3** means the regulatory period forecast to commence on 1 April 2020 and end on 31 March 2025;

**RCP4** means the regulatory period following **RCP3** which is forecast to commence on 1 April 2025 and end on 31 March 2030;

**report on outputs and performance objectives** means the information required under clause E6 of the **Capex IM**;

**smoothed forecast MAR** sets the **forecast MAR** for each pricing year across the forecast regulatory control period in a neutral net present value way based on a constant growth rate and taking into account the transition from the preceding regulatory control period to the forecast regulatory control period. Given the impact of the **commissioning of major capex projects** on the **forecast MAR**, **Transpower** is considering whether to propose to do this by smoothing **revenue** at a constant growth rate excluding the revenue impact of **major capex projects**, and then adding the revenue effect of **major capex projects**; and

**Transpower IM Determination** means the *Commerce Act (Transpower Input Methodologies) Determination 2010* [2012] NZCC 17, determined by the **Commission** on 29 June 2012 and amended as of 28 February 2017.

## Information requirements

### General information

7. Provide a summary document that shows where we can find the information provided by **Transpower** in response to the requirements set out in this notice.

### Company structure and nature of regulated services

8. Provide a summary of **Transpower's** company structure and its regulated services, including:
  - 8.1 a current group structure map, including all companies and subsidiaries, as well as a high-level description of the main functions of each and their relationship with **Transpower**, and any proposed material changes planned to be made to the group structure for or in **RCP3**;
  - 8.2 a current organisation chart, including a description of operating units, the main organisational functions and their relationships, and staff numbers;
  - 8.3 any already-confirmed material changes planned to be made to the organisation structure for or in **RCP3** that would alter current **operating expenditure** patterns for **RCP3**; and
  - 8.4 a description of any proposed material changes to regulated services or outputs provided in **RCP2** and which are planned to be made for or in **RCP3**.

### RCP2 opex

9. Provide the following information concerning **RCP2 opex**:
  - 9.1 a description of the key drivers of **opex** in **RCP2**;
  - 9.2 the actual and estimated efficiency savings achieved for each **opex** category, including forecast amounts until the end of **RCP2**;
  - 9.3 a description and the amount spent on innovation initiatives in **RCP2**, including how customers will benefit in the long term from those initiatives; and
  - 9.4 evidence demonstrating if, and how, **Transpower** has:
    - 9.4.1 pursued and is pursuing **opex** process improvements, including those identified in **Transpower's RCP2 opex proposal**;
    - 9.4.2 ensured and is seeking to ensure appropriate least-whole-of-life cost and efficient interventions;
    - 9.4.3 pursued and is pursuing cost reduction strategies, with relevant examples provided from its **opex** categories; and

- 9.4.4 ensured and is seeking to ensure that both internal and external suppliers of goods and services have incentives to perform well and identify cost savings.

### RCP3 opex

10. Provide the following forecast **opex** information in **Transpower's RCP3 opex proposal**:
- 10.1 a description of **Transpower's** objectives for its **opex** and representative examples from its **opex** categories that demonstrate the ways in which the **opex proposal** is consistent with an expenditure outcome which represents the efficient costs of a prudent supplier, having regard to Good Electricity Industry Practice (GEIP) as the appropriate planning and performance standard for a prudent supplier;<sup>5</sup>
- 10.2 an explanation of how the **RCP3 opex proposal** is consistent with:
- 10.2.1 the **RCP3 integrated transmission plan**, including the **report on outputs and performance objectives**; and
- 10.2.2 the **RCP3 base capex proposal**;
- 10.3 an overview that gives context to, and explains:
- 10.3.1 linkages between **Transpower's** historical **opex**, quality performance and **capex**, and **Transpower's** forecast **opex**, proposed quality standards and **grid outputs** and **capex** for **RCP3**, including an explanation of how the **capex** programme during **RCP1** and **RCP2** has impacted on the forecast **opex** for **RCP3**; and
- 10.3.2 any factors driving a material change in levels of **opex** for each of the **opex** categories forecast for **RCP2** and those forecast for **RCP3**;
- 10.4 an overview of the methods used to develop the **opex** forecast for each **opex** category and for **opex** in aggregate, which must include:
- 10.4.1 details of the forecasting approach used for each **opex** category, eg, bottom up, base-step-trend, benchmarking analysis;

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<sup>5</sup> 'Good electricity industry practice' is defined in Part 1 of the Electricity Industry Participation Code 2010 as:

***good electricity industry practice** in relation to transmission, means the exercise of that degree of skill, diligence, prudence, foresight and economic management, as determined by reference to good international practice, which would reasonably be expected from a skilled and experienced **asset** owner engaged in the management of a transmission network under conditions comparable to those applicable to the **grid** consistent with applicable law, safety and environmental protection. The determination is to take into account factors such as the relative size, duty, age and technological status of the relevant transmission network and the applicable law [bold terms in original].*



- 10.4.2 an explanation on why the forecasting approach used is considered appropriate;
- 10.4.3 when a **base-step-trend** forecasting approach is used, an explanation on why the expenditure in the selected historic base year is representative of recurring expenditure, including information on non-recurring expenditure that has been removed from the base year expenditure;
- 10.4.4 when a **base-step-trend** forecasting approach is used, an explanation on how any included forecast step changes and trend assumptions reflect efficient costs;
- 10.4.5 details of how the effects of uncertainties are incorporated in forecasts;
- 10.4.6 details of how synergies between **opex** portfolios and between **opex** and **capex** are taken into account;
- 10.4.7 details of the challenge and approval process employed for sign-off of **opex** forecasts; and
- 10.4.8 details of the differences, if any, and improvements in the forecasting approach used to develop forecasts compared to that used for the **RCP2 opex proposal**;
- 10.5 a description of **Transpower's** approach to treating forecast efficiencies in its **RCP3 opex proposal**;
- 10.6 a description and quantification of any contingency amounts that are included in the **RCP3 opex proposal**, the methodology for calculating those contingency amounts, and how the contingency amounts apply to specific identified programmes, where relevant;
- 10.7 an explanation of the deliverability of proposed levels of **opex** for each **opex** category, as well as any factors likely to affect this, including:
  - 10.7.1 a description of plans for resourcing and delivering proposed levels of **opex** for each **opex** category;
  - 10.7.2 identification of key risks associated with resourcing and delivering proposed levels of **opex** for each **opex** category, including explanation of each risk's potential to affect-
    - (a) forecast levels of **opex**;
    - (b) forecast **grid outputs**; and
  - 10.7.3 a description of the processes that will be implemented to manage or mitigate these key risks;

- 10.8 a description of the rationale for forecast expenditure of each **opex** category that is not an **identified programme**; and
  - 10.9 an operational copy of the model used to generate outputs required for the **RCP3 opex proposal** (eg, forecast **opex** for each of the **opex** categories for all disclosure years in **RCP3**);
11. Provide a summary of the progress **Transpower** has made regarding the business improvement initiatives we recommended in our 2014 decisions and reasons paper *Setting Transpower's individual price-quality path for 2015 – 2020*, and the **RCP2 initiatives plan**, including information on:
- 11.1 the extent to which those initiatives informed the **RCP3 base capex proposal** and **opex proposal**;
  - 11.2 how the initiatives may need to be developed further in **RCP3** in order to be more fully implemented for **Transpower's RCP4 base capex proposal** and **opex proposal**; and
  - 11.3 the state of improvement on:
    - 11.3.1 improving processes, **policies** and data maturity that underpin expenditure forecasts;
    - 11.3.2 improving cost estimating processes;
    - 11.3.3 undertaking economic evaluation of **policies**; and
    - 11.3.4 undertaking strategies to mitigate resource availability risks.

#### **RCP3 identified programmes – opex**

12. Provide the following information for each of **Transpower's identified programmes** in the **RCP3 opex proposal**:
- 12.1 a description of the **identified programme**, including its aims, objectives and benefits;
  - 12.2 an explanation as to deliverability, including factors likely to specifically affect that **identified programme**;
  - 12.3 a description of the methodology used to generate the forecast of the **opex** for that **identified programme**, including:
    - 12.3.1 **key assumptions** and how they were applied;
    - 12.3.2 any relevant cost benchmarking undertaken by or for **Transpower**; and
    - 12.3.3 any information available on internal historical cost trends for specific cost components relied upon, eg, unit costs;

- 12.4 a list of all key **documents** taken into account in forecasting **opex** for that **identified programme**, including key **documents** relating to deliverability, **policies** and consultants' reports;
- 12.5 an explanation of the extent to which forecast **opex** for that **identified programme** implements the **key assumptions**, recommendations from any consultants' reports, and **policies** relating to the planning of the **grid**, and the forecasting of **capex** and **opex** for that purpose, including in relation to:
  - 12.5.1 long term **grid** development;
  - 12.5.2 **grid** maintenance; and
  - 12.5.3 **grid** operation;
- 12.6 an explanation of the extent to which forecast non-network **opex** for that **identified programme** implements the **key assumptions**, recommendations from relevant consultants' reports, and **policies** relating to the other aims and objectives of **Transpower**;
- 12.7 an explanation of all material departures from any:
  - 12.7.1 relevant **policies**;
  - 12.7.2 planning standards; or
  - 12.7.3 conclusions and substantive recommendations contained in consultants' reports;
- 12.8 an assessment of the impact of the **identified programme** on **base capex**, **major capex**, assets and quality, including a description of any significant tradeoffs between **opex**, **base capex**, **major capex** and quality that **Transpower** considered in the development of the **identified programme**;
- 12.9 a description of relevant regulatory **obligations** that have a material effect on the **identified programme**;
- 12.10 an explanation of any material step change from historical costs in any cost component for the same or a similar type of **programme**, and an explanation of the effect of the step change on forecast **opex** for the **identified programme**; and
- 12.11 a schedule of key models used, accompanied by explanations of the models and how they were relied upon for the **identified programme**.

### Quality standards

- 13. Provide a summary of the progress **Transpower** has made regarding the performance measures development initiatives we recommended in Attachment I of

our 2014 decisions and reasons paper, *Setting Transpower's individual price-quality path for 2015 – 2020*,<sup>6</sup> and the **RCP2 initiatives plan**,<sup>7</sup> including information on:

- 13.1 the extent to which those initiatives had an impact on the **RCP3 base capex proposal** and **opex proposal**; and
  - 13.2 how the performance measures may need to be developed further in **RCP3** in order to be more fully implemented for **Transpower's RCP4 base capex proposal** and **opex proposal**.
14. The above summary may include a copy of the information in **Transpower's** annual compliance statement for the 2017-18 **disclosure year** disclosed in accordance with clause 20.1.17 of the **IPP determination** and any additional information necessary to explain further development which is forecast for the remainder of **RCP2** and in **RCP3**.

#### **Transmission alternatives**

15. Provide for each **identified programme** in **Transpower's RCP3 base capex proposal** descriptions of representative credible **transmission alternatives** that are likely to be available for **Transpower's** consideration to deliver each **identified programme**.

#### **Policies, processes and consultants' reports**

16. Provide the following information in relation to **policies** and processes and consultants' reports:
- 16.1 a schedule listing and describing key **policies** and processes applicable to:
    - 16.1.1 **opex** portfolios;
    - 16.1.2 asset management, including ensuring lowest lifecycle costs for assets;
    - 16.1.3 business planning;
    - 16.1.4 insurance (including self-insurance);
    - 16.1.5 procurement related to **opex**;
    - 16.1.6 monitoring and reporting on forecast versus actual performance (including efficiency gains) achieved for **opex** categories;
    - 16.1.7 programs and initiatives that have been the subject of **Transpower's** internal approval system;

<sup>6</sup> *Setting Transpower's individual price-quality path for 2015-2020* is the document published by the Commission on 29 August 2014 that provides our decisions and reasons on how Transpower's RCP2 individual price-quality path is to operate, and Transpower's expenditure allowances and grid output measures for RCP2.

<sup>7</sup> The RCP2 initiatives plan is determined in clause 27 of the IPP determination.

- 16.1.8 capital works, including the demarcation between **capex** and **opex**, the trade-off between **capex** and **opex** and the decision processes for investing in **capex** or **opex**; and
- 16.1.9 any other **policies** that materially shape the **RCP3 opex proposal**;
- 16.2 a description and estimated quantified impact on the **RCP3 opex proposal** of any material changes to key **policies** and processes applicable to **opex** that **Transpower** has made since our 2014 decisions and reasons paper, *Setting Transpower's individual price-quality path for 2015 – 2020*, was published;<sup>8</sup>
- 16.3 a schedule of consultant engagements where **Transpower** has sought specialist industry opinion as part of the **RCP3 base capex proposal** and **opex proposal**, and summaries of:
  - 16.3.1 all final and draft reports relied upon, including recommendations; and
  - 16.3.2 any other substantive written advice and recommendations received from the consultants as a result of those engagements (ie, excluding non-substantive emails or other correspondence, such as those concerning engagement process matters).

#### **Asset health and criticality framework**

- 17. Provide the following information in relation to **Transpower's asset health and criticality framework**:
  - 17.1 a summary listing and describing key **policies** and processes that are part of **Transpower's asset health and criticality framework**;
  - 17.2 a summary of key models used in determining **asset health** and **asset criticality** across the **grid**;
  - 17.3 an explanation of how **asset health** measures have been used to inform the **RCP3 base capex proposal** and **opex proposal** and how these have impacted on forecast **capex/opex** tradeoffs;
  - 17.4 an explanation of how **asset criticality** measures have been implemented in **Transpower's** investment decision making, including how these have impacted on the **RCP3 base capex proposal**, including the forecast **capex/opex** tradeoffs; and

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<sup>8</sup> *Setting Transpower's individual price-quality path for 2015-2020* is the document published by the Commission on 29 August 2014 that provides our decisions and reasons on how Transpower's RCP2 individual price-quality path is to operate, and Transpower's expenditure allowances and grid output measures for RCP2.

- 17.5 a description of the plan of how and when **Transpower** will further progress the implementation of **asset criticality** measures, including **Transpower's** current targeted stage of implementation of this for its **RCP4 base capex proposal** and **opex proposal**.

#### **Consideration of revenue-linking of asset health grid output measures**

18. To enable us to apply clauses A5 to A7 of the **Capex IM** to consider whether it is feasible and appropriate to revenue-link one or more **asset health grid output measures** for **RCP3**, provide **Transpower's** analysis of:
- 18.1 recognised **asset health** measures that could meet the criteria for consideration by the **Commission** under clauses A5 and A6 of the **Capex IM** as **revenue-linked grid output measures** if they were proposed by **Transpower** under clause 2.2.2(1)(c) of the **Capex IM**; and
- 18.2 estimated values for **caps, collars** and **grid output incentive rates and grid output targets** that could meet the criteria for consideration by the **Commission** under clause A7 of the **Capex IM** if they were proposed by **Transpower** in respect of the above measures under clause 2.2.2(1)(d) of the **Capex IM**.

#### **Procurement**

19. Provide a description of the procurement processes that **Transpower** will use to help deliver **identified programmes** in the **RCP3 opex proposal**, including:
- 19.1 the size, experience, and capability of available service providers;
- 19.2 the value proposition for outsourcing in each **identified programme**;
- 19.3 the processes used to select, evaluate and award outsourced work; and
- 19.4 examples of the performance targets and monitoring arrangements **Transpower** uses for procurement arrangements.
20. Identify and explain any key risks associated with procurement with the potential to affect the delivery of an **identified programme** in the **RCP3 opex proposal**.

#### **Escalation factors and foreign exchange assumptions**

21. Provide the following information in respect of each escalation factor relied on to account for changes in input prices used in the **RCP3 base capex proposal** and **opex proposal** in responding to this notice:
- 21.1 a description of each escalation factor and the rationale for its use;
- 21.2 the methodology underlying the calculation of the escalation factor's quantum, by reference to inputs and assumptions;

- 21.3 the weighting given to the escalation factor and description of how that weighting was determined, including any assumptions relied upon; and
  - 21.4 for escalation factors that relate to labour or material inputs, an explanation of whether additional contingency factors were applied and, if so, a description of the uncertainties that the contingency factors account for and how the contingency factors were calculated.
22. In respect of the foreign exchange assumptions used in responding to this notice, provide the following information:
- 22.1 a list of the foreign exchange rates, and the source of those rates, used to prepare the **opex proposal**; and
  - 22.2 an estimate of the forecast exposure to foreign exchange movements for each foreign currency for each year of **RCP3** and a description of how these estimates were produced.

#### **Instantaneous reserve event charges**

23. Provide an estimate of instantaneous reserve event charges for each year of **RCP3**, and a description of the methodology used to develop the estimates.

#### **Insurance**

24. Provide the following information in relation to any proposed self-insurance allowance:
- 24.1 an explanation of the **base-step-trend** method used to forecast the self-insurance allowance;
  - 24.2 a description of the methodology used to calculate the self-insurance risk premium for any material new insured risks (ie, step changes in the proposed self-insurance allowance attributable to increases in the scope of insured risks); and
  - 24.3 a report from an actuary, who is qualified to provide such advice, on-
    - 24.3.1 the reasonableness of any 'step' in the self-insurance **base-step-trend** calculation attributable to changes in market trends in insurance premiums; and
    - 24.3.2 the methodology used to quantify the effect of any material new insured risks.

#### **Cost allocation**

25. Provide the following information in relation to the allocation of **Transpower's** costs:
- 25.1 relevant policy documents that describe the cost allocation methodology, consistent with clause 3.2.1 of the **Transpower IM determination**, used by

**Transpower** for allocating **opex** between **electricity transmission services**, other regulated services and unregulated services;

- 25.2 a description of how that cost allocation methodology is used for allocating **opex** between the services that are planned to be undertaken in **RCP3**;
- 25.3 a description of all material changes from the cost allocation methodology used for **Transpower's RCP2 opex proposal** and the methodology used in the **opex** forecasts for **RCP3**, and the reasons for those changes; and
- 25.4 the impact, if any, between the **opex** values that would have been allocated for **RCP3** using the methodology used in the **RCP2 opex proposal** and the **opex** values allocated in the **opex** forecasts for **RCP3**.

#### **Quantitative information**

- 26. Provide the following quantitative information:
  - 26.1 a mapping of the cost categories used for **opex** as part of **Transpower's RCP2 opex** proposal onto the **RCP3 opex** categories and a list of all **opex** categories that are **identified programmes**;
  - 26.2 a comparison of actual **opex** and the **opex** allowances for each of the **opex** categories for each **disclosure year RCP2**, where actual **opex** values are available;
  - 26.3 forecast **opex** and **opex** allowances for each **opex** category for each **disclosure year** of **RCP2** where actual **opex** is not available; and
  - 26.4 forecast **opex** for each **opex** category for each **disclosure year** of **RCP3**.

#### **Forecast revenue calculation workbook**

- 27. Provide a copy of **Transpower's** revenue calculation workbook that includes:
  - 27.1 an estimate of the **forecast MAR** for each **disclosure year** in **RCP3** calculated in accordance with the building blocks set out in Schedule D of the **IPP determination**;
  - 27.2 an estimate of the **smoothed forecast MAR** for each **disclosure year** in **RCP3** that smooths the price path based on the above building blocks calculation; and
  - 27.3 an estimate of the **smoothed forecast MAR** for each **disclosure year** in **RCP3** that smooths the above building blocks calculation and also takes into account the smoothing of the transition between the **forecast MAR** which was set for the final **pricing year** of **RCP2** in the **IPP determination** and the estimated **forecast MAR** for the first **pricing year** of **RCP3**.
- 28. Provide the above **forecast MAR** and **smoothed forecast MAR** under each of three scenarios:



- 28.1 Scenario 1: using the values set out in the **RCP3 opex proposal** and **RCP3 base capex proposal**, and taking account of the forecast commissioning of **major capex** that has already been approved;
- 28.2 Scenario 2: using the values in Scenario 1, and also taking into account an estimate of the price path impacts of **RCP3** forecast commissioned **base capex** in respect of **listed projects** that are forecast to be approved in **RCP3**; and
- 28.3 Scenario 3: using values in Scenario 2, and also taking into account an estimate of the price path impacts of **RCP3** forecast commissioned **major capex** in respect of **major capex proposals** that are forecast to be approved in **RCP3**.
29. Provide, in real and nominal terms, a comparison of the effect on **Transpower's** forecast revenue of the estimates of the **forecast MAR** and the estimates of the **smoothed forecast MAR** under each above scenario, showing for each scenario:
- 29.1 the estimated effect of the transition of **Transpower's** revenue from the final **pricing year** of **RCP2** to the first **pricing year** of **RCP3**; and
- 29.2 the estimated effect of the transition of **Transpower's** revenue from the final **pricing year** of **RCP3** to the first **pricing year** of **RCP4**.
30. For the above calculations, also provide a summary of key assumptions made in estimating the forecast revenue for the first **pricing year** of **RCP4**, including assumptions made on the method of smoothing of the price path for the transition between the estimated **forecast MAR** for the final **pricing year** of **RCP3** and the estimated **forecast MAR** for the first **pricing year** of **RCP4**.
31. Provide a summary of the results of **Transpower's** consultation with customers on the revenue effects described under each above scenario, including information on the extent to which customers support or disagree with these revenue effects and any actions **Transpower's** customers have proposed to mitigate, in their view, any undesirable revenue outcomes.
32. Provide a summary of all key changes, if any, to the specifications of **Transpower's** revenue calculation workbook from the version provided to the **Commission** in April 2018 to the version used for the above calculations.

## Supporting information

### Cover letter

33. The information required by this notice must be provided to us under cover of a letter on **Transpower's** company letterhead, signed by a person with the appropriate authority.

**Certification**

34. In relation to the information provided to us in accordance with this notice, no fewer than two directors of **Transpower** must each certify in writing, that having made all reasonable enquiries, it is their belief that:
- 34.1 the information was derived from and accurately represents, in all material respects, the operations of **Transpower**; and
  - 34.2 the disclosures comply, in all material respects, with the requirements of this notice.
35. For the avoidance of doubt, certification requirements for **Transpower's base capex proposal** are set out in Part 9 of the **Capex IM**.

**Information format**

36. The information required by this notice must be supplied to us in electronic 'unlocked' MS Excel or MS Word format as appropriate, so that we can easily transfer information (ie, able to be 'copied and pasted').

**Publication of supplied information and confidentiality**

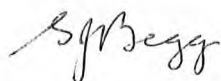
37. We may publish the information provided by **Transpower**.
38. Any data or information provided to us in response to this notice that **Transpower** considers is confidential and should not be published, must be provided in an appendix or separate electronic file that is clearly marked as confidential.
39. **Transpower** must provide us with reasons why the particular data or information is confidential.
40. In the event that we agree that this data or information is confidential, **Transpower** must provide us with both confidential and public versions of its disclosure. The responsibility for ensuring that confidential information is not included in a public version of a disclosure rests entirely with **Transpower**.

**Date of response**

41. **Transpower** must supply the specified information to us by email to:  
[regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz) by no later than 5 pm on 3 December 2018.
42. If you have any queries on this notice, please send them to the attention of Florian Steinebach, Senior Analyst, Regulation Branch at:  
[regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz).

Dated at Wellington: 14 May 2018

Yours sincerely,



Sue Begg

Deputy Chair

