

Transpower deliverability reopener mechanism and CPI forecast assumptions for the regulatory control period from 1 April 2025

Technical consultation paper

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Associated documents

Publication date	Reference	Title
29 August 2024	978-1-991287-75-5	Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025 – Decision and reasons paper
29 August 2024	978-1-991287-80-9	Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025 – Final Decision Attachment E – Deliverability expenditure
29 August 2024	978-1-991287-76-2	Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025 – Final Decision Attachment A – Revenue path design
29 August 2024	978-1-991287-81-6	[REVISED DRAFT] Transpower Individual Price-Quality Path Determination 2025

Commerce Commission
Wellington, New Zealand

Chapter 1 Introduction

Purpose of this paper

- 1.1 In our RCP4 Final decision paper we decided to introduce a deliverability reopener and stated that, before we finalise the RCP4 IPP determination in November 2024, we would undertake this separate technical consultation on the deliverability reopener in Schedule EA of the RCP4 Individual Price-quality Path Determination.¹
- 1.2 We seek further stakeholder views on how the deliverability reopener mechanism achieves our policy intent.
- 1.3 We also describe how we propose to convert the \$ constant 2022/2023 values in our 29 August 2024 final expenditure decisions, to nominal values, for the purposes of the final RCP4 IPP determination. These proposed conversions will apply to the deliverability reopener, and all other base capex and opex inputs used for RCP4 revenue and incentive calculations.

Context – our draft decision on deliverability

- 1.4 This paper sets out our draft decision on the implementation of the deliverability reopener in our Transpower Regulatory Control Period 4 (**RCP4**) Individual Price Path (**IPP**) final decision, which we published on 29 August 2024.²
- 1.5 We are seeking views on our proposed revised approach to the deliverability reopener settings for the purposes of calculating expenditure adjustments in years two to five of RCP4. We note that we are not seeking submissions on our decision to introduce the deliverability reopener. The final decision to introduce the deliverability reopener was made in August 2024.³
- 1.6 As part of our final decision, we linked expenditure reductions to Transpower's ability to recruit the necessary staff to carry out the significant work programme uplift Transpower had proposed.
- 1.7 We also introduced a deliverability reopener to allow Transpower to access additional funds if it increased its full-time equivalent (**FTE**) staff recruitment above a minimum threshold we set in the draft decision.

¹ Commerce Commission, "[RCP4 Final Decision paper](#)" (29 August 2024) (**RCP4 Final Decision**), para 3.16

² <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-transmission/transpowers-price-quality-path/2025-transpower-individual-price-quality-path>

³ Commerce Commission, "[RCP4 Final Decision paper](#)" (29 August 2024) (**RCP4 Final Decision**)

- 1.8 Transpower provided us with updated FTE information prior to our final decision publication on 29 August 2024.⁴ Based on this updated information and the timing of FTE updates over RCP4, we recognised that our deliverability reopener mechanism needed to be modified. This technical consultation paper describes the deliverability reopener issue and our proposed solution.
- 1.9 Note that for the purposes of this paper and the implementation of the deliverability reopener, we refer to the capex and opex deliverability adjustment amounts for each disclosure year as ‘expenditure adjustments’.

Structure of this paper

- 1.10 In Chapter 2 we provide background to the issues described in this paper:
- 1.10.1 why we made deliverability expenditure adjustments in RCP4;
 - 1.10.2 how we designed the deliverability reopener; and
 - 1.10.3 the deliverability reopener settings in our August 2024 final decision.
- 1.11 In Chapter 3 we:
- 1.11.1 explain the deliverability reopener error;
 - 1.11.2 discuss the revised deliverability reopener model; and
 - 1.11.3 explain how the deliverability reopener process will work in practice.
- 1.12 In Attachment A, we describe our proposed revised drafting specification for Schedule EA of the final IPP determination.

Submissions on this paper

- 1.13 We seek your views on the matters discussed in this paper and the proposed drafting of Schedule EA of the RCP4 IPP determination by 4pm, Thursday 10 October 2024. Due to the limited and technical nature of this matter, we are not seeking cross-submissions.
- 1.14 Please address your email submissions to: Manager, Transpower and Gas c/o infrastructure.regulation@comcom.govt.nz and include “**Transpower IPP 2025 – Deliverability model**” in the subject line of your email.

⁴ Transpower, [Transpower letter RCP4 Draft Decision Deliverability adjustment FY2025-2026 \(16 August 2024\)](#).

- 1.15 We prefer submissions in both a format suitable for word processing (such as a Microsoft Word document), as well as a 'locked' format (such as a PDF) for publication on our website.

Requests for confidentiality

- 1.16 Please note that we intend to publish all submissions 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.
- 1.17 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.
- 1.18 When including commercially sensitive or confidential information in your submission, we offer the following guidance:
- 1.18.1 if it is necessary to include confidential material in a submission, the information should be clearly marked, with reasons why that information is confidential;
 - 1.18.2 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;
 - 1.18.3 both confidential and public versions of the submission should be provided; and
 - 1.18.4 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.⁵

⁵ 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.

- 1.19 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'.

Steps in the IPP process

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

Indicative date	Process step
29 August 2024	Published: Revised draft RCP4 IPP determination, subject only to revenue path updates to come later for the final Transpower RCP4 Weighted Average Cost of Capital (WACC) in October 2024
24 September 2024	Published: Technical consultation on RCP4 deliverability model
October 2024	Transpower RCP4 WACC published
October 2024	Final notice to provide information issued to Transpower to calculate the building blocks forecast MAR for RCP4 and the maximum allowable for each pricing year of RCP4
November 2024	Final IPP determination and companion paper published

Chapter 2 Background

Why we made a deliverability adjustment for RCP4

- 2.1 Early in our review of the RCP4 proposal we understood that Transpower’s ability to deliver its work programme was going to be dependent on its ability to recruit the full-time equivalent (**FTE**) staff to plan and carry out the work.⁶ This was reinforced by the Independent Verifier (**IV**) report making the same point.⁷
- 2.2 Transpower is forecasting significant increase in FTEs in order to deliver its forecast work programme. We considered there was a risk Transpower would not be able to recruit the necessary workforce to deliver the work, so sought information from Transpower about what it could deliver if it recruited less than it forecast.
- 2.3 We decided to reduce Transpower’s capex and opex in each year of RCP4 based on Transpower’s FTE recruitment levels (deliverability expenditure adjustments). The deliverability expenditure adjustments are the difference between what we consider to be prudent and efficient expenditure, and the expenditure we consider Transpower can deliver in that year, based on its FTE total.⁸
- 2.4 We also introduced a deliverability reopener mechanism alongside the expenditure adjustments, allowing Transpower to access additional expenditure, where it could show that it was recruiting FTEs above a forecast threshold.
- 2.5 We published the deliverability reopener model and IPP determination, setting out how Transpower could seek revenue adjustments for RCP4 years two to five as it attains FTE recruitment levels above the 50% FTE scenario settings we set in the draft decision.
- 2.6 Having received Transpower’s updated FTE attainment levels (as of 30 June 2024) we identified that the timing of Transpower’s updated FTE information, from year two of RCP4, would mean the deliverability reopener settings we published in our final decision needed to be modified.

The deliverability expenditure adjustment timing issue

- 2.7 In the RCP4 draft decision we made expenditure deliverability adjustments for capex and opex across all years of RCP4.

⁶ Commerce Commission, [“RCP4 Draft Decision paper” \(29 May 2024\) \(RCP4 Draft Decision\)](#), para 3.8.

⁷ GHD Advisory and Castalia, [“GHD Advisory and Castalia Independent verification report – RCP4 base expenditure and service measures 2025-2030 proposal. Transpower New Zealand Limited” \(12 September 2023\) \(IV Report\)](#), p 77-98.

⁸ Commerce Commission, [“RCP4 Final Decision paper” \(29 August 2024\) \(RCP4 Final Decision\)](#), p 14-15.

- 2.8 In order to make these adjustments, we sought information from Transpower on the capex it could deliver, and opex it would incur, for different FTE uplift scenarios (FTEs above existing FTE levels delivering RCP3). We asked for information for the 50%, 75%, 90% and 100% FTE uplift scenarios.⁹
- 2.9 Transpower provided detailed expenditure information for each scenario and the progress it was making in its annual recruitment year-on-year, and its forecast FTE totals at the end of each year.
- 2.10 At the time Transpower informed us of its FTE attainment total to date (as of 24 January 2024). Our analysis of the Transpower FTE scenario information indicated it was on track for the 50% FTE uplift scenario, and we set the draft decision deliverability reopener settings over RCP4 accordingly.
- 2.11 Under our draft decision, Transpower could apply from year one (before 31 August 2025) to year four (before 31 August 2028) of RCP4, for a reopener that will increase expenditure and the revenue it can recover, for the remainder of the period. We set out the deliverability reopener mechanism in our draft RCP4 IPP determination.
- 2.12 On 16 August 2024 Transpower provided us with updated FTE recruitment information for the disclosure year ending 30 June 2024.¹⁰ Our draft decision deliverability expenditure adjustments were based on FTE attainment levels reached on 31 January 2024.
- 2.13 The Transpower updated FTE information demonstrated that it was on track to attain approximately 90% of its year-end target. As a consequence, in the final decision we revised the year one deliverability expenditure adjustment but retained the draft decision deliverability expenditure adjustments for years two to five (which were the 50% FTE scenario settings).¹¹
- 2.14 Following receipt of Transpower's 16 August 2024 information we identified that, as it stood with the draft decision deliverability reopener, the FTE revenue adjustment would be a year behind the revenue need. As a consequence, we have decided to carry out this short technical consultation on a revised deliverability reopener mechanism to address this.
- 2.15 We discuss how we have resolved the deliverability adjustment timing issue in the next chapter.

⁹ These scenarios reflect Transpower's FTE recruitment attainment on a year-on-year basis. For example, the 50% FTE scenario reflects Transpower attaining 50% of its FTE recruitment target in a given year.

¹⁰ [Transpower letter RCP4 Draft Decision Deliverability adjustment FY2025-2026 \(16 August 2024\)](#).

¹¹ Note that the deliverability expenditure adjustments set out in our draft decision have been retained in the final decision and are not subject to this technical consultation.

Chapter 3 Our proposed revised deliverability reopener model

Purpose and structure of this chapter

- 3.1 This chapter describes the revised deliverability reopener model and discusses:
- 3.1.1 the issue we identified with the deliverability reopener model following receipt of the Transpower 16 August 2024 letter;¹²
 - 3.1.2 how the proposed revised deliverability reopener mechanism works; and
 - 3.1.3 an example of how the deliverability reopener process will work in practice.
- 3.2 In practice, over RCP4, the expenditure adjustments will be converted annually to the forecast maximum allowable revenues (**MARs**) and forecast smoothed maximum allowable revenues (**SMARs**) for the relevant pricing years relating to that disclosure year, in accordance with the method set out in the IPP Final Determination.

The deliverability reopener error

- 3.3 Following receipt of Transpower's 16 August 2024 information we identified the deliverability model contained an error in the expenditure adjustment equations in the IPP draft determination, setting FTE expenditure adjustments a year behind the identified need.
- 3.4 We have amended the deliverability reopener equations to fix this issue. The amended equations now ensure that an FTE update results in an expenditure adjustment in the disclosure year following the year in which Transpower reports its FTE update.
- 3.5 Table 3.1 sets out the revised IPP determination table settings for Schedule EA in 2022/2023 constant \$ terms. Note that the RCP4 year one FTE count is based on the draft decision settings (the 50% FTE scenario).

¹² Transpower, [Transpower letter RCP4 Draft Decision Deliverability adjustment FY2025-2026 \(16 August 2024\)](#).

- 3.6 This is necessary for modelling purposes because Transpower has yet to attain FTEs for the year ending 30 June 2025. The full 100%-50% FTE attainment range over 2025/2026 is required for the calculation of the deliverability reopener for the 2027/2028 year.¹³

Table 3.1 Proposed revised IPP determination settings

FTE uplift scenarios and deliverability model expenditure amounts (all in constant \$ 2022/2023)	RCP3	RCP4				
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
100% FTE uplift scenario	1003	1050	1055	1054	1056	1043
Proposal Base Capex (\$m)	412.8	468.7	483.4	417.6	411.7	415.4
Proposal Opex (\$m)	359.1	386.9	389.3	401.5	397.8	382.2
50% FTE uplift scenario	970	993	996	995	996	990
50% FTE deliverable Capex (\$m)	399.2	443.5	456.3	394.2	388.3	394.2
50% FTE deliverable Opex (\$m)	350.6	372.1	373.2	384.4	380.5	366.7
100% - 50% FTE scenario range	33	57	59	59	60	53
Approved Base Capex (\$m)		451.0	482.6	422.5	416.3	420.2
Approved Opex (\$m)		384.6	386.9	399.1	396.9	381.3
Maximum deliverability adjustment capex (\$)			26,387,902	28,251,835	28,018,478	26,006,558
Maximum deliverability adjustment opex (\$)			13,750,169	14,671,443	16,369,130	14,593,560

- 3.7 The year one deliverability expenditure adjustment is based on a proportional projection of Transpower's progress using the 30 June 2024 FTE total. Projecting this FTE total forward resulted in us setting the 2025/2026 FTE total at 1,039 FTEs.
- 3.8 We have largely 'automated' the deliverability reopener mechanism such that Transpower will demonstrate its actual FTE recruitment success rate in the most recently completed disclosure year, for the Commission to determine the additional expenditure adjustment Transpower can access.

How we propose to draft the deliverability reopener in the final IPP determination

- 3.9 The deliverability reopener model is based on data and revenues with different time references as follows:
- 3.9.1 the Transpower expenditure per FTE scenario information has been provided to us on a Transpower disclosure year end-of-year basis – the Transpower disclosure year is 1 July to 30 June;
 - 3.9.2 the FTE update information and reopener applications will be based on an FTE count as of 30 June over RCP4; and

¹³ Note that the capex and opex adjustment amounts in the final IPP determination will be set out on a nominal basis. Table 3.1 sets out these expenditure adjustment amounts on a constant \$ 2022/2023 basis.

- 3.9.3 the IPP determination deliverability reopener calculations ultimately affect revenues over a 1 April to 31 March pricing year.

Our revised deliverability reopener mechanism

- 3.10 Attachment A of this paper sets out our revised IPP determination table settings for Schedule EA which are those in Table 3.1 above, but in nominal \$ terms.
- 3.11 Note that the RCP4 year one FTE count in the IPP determination deliverability reopener model is based on the draft decision settings. This is necessary for modelling purposes because Transpower has yet to attain FTEs for the year ending 30 June 2025. The full 100%-50% FTE attainment range over 2025/2026 is required for the calculation of the deliverability reopener for the 2027/2028 year.
- 3.12 The revised deliverability reopener model uses the simple ratio analysis approach we applied to calculate the year one deliverability expenditure adjustments in the final decision. This is essentially the same as the current approach with the equation amended to work as intended, that is:
- 3.12.1 the 50% and 100% FTE scenario settings are fixed for each disclosure year of RCP4 and are based on the scenario information provided by Transpower.
 - 3.12.2 the actual FTE attainment in year N is used to set the FTE projection in year N+2. If Transpower attains FTEs between the 50% and 100% FTE scenarios in year N, the same proportion of FTEs are assumed to occur in year N+2 to 'unlock' additional expenditure in that year.
 - 3.12.3 in years two to five, if the model projects Transpower will exceed the 50% FTE scenario setting, Transpower will become eligible for an expenditure increase calculated as:
 - 3.12.3.1 the number of FTEs exceeding the 50% FTE scenario setting, multiplied by the base capex per FTE rate; plus
 - 3.12.3.2 the number of FTEs exceeding the 50% FTE scenario setting, multiplied by the opex per FTE rate.
 - 3.12.4 in any given adjustment year, the expenditure uplift is calculated based on the number of additional FTEs above the 50% FTE scenario setting. Therefore, there is no risk of double-compensation for the same hiring; and
 - 3.12.5 the total expenditure uplift is subject to a cap, based on the 100% FTE scenario setting.

3.13 On this basis, the formulae for the deliverability reopener will be:¹⁴

3.13.1 the base capex increase for disclosure year DY_{n+2} based on the FTE update (ie, FTE actual) for disclosure year DY_n calculated using the following formula:

$$\text{base capex increase } DY_{n+2} = \left(\frac{(\text{FTE actual } DY_n - \text{FTE } 50\% \text{ } DY_n)}{(\text{FTE } 100\% \text{ } DY_n - \text{FTE } 50\% \text{ } DY_n)} \right) \times (\text{FTE } 100\% \text{ } DY_{n+2} - \text{FTE } 50\% \text{ } DY_{n+2}) \times (\text{base capex per FTE } DY_{n+2})$$

3.13.2 the opex increase for disclosure year DY_{n+2} based on the FTE update (ie, FTE actual) for disclosure year DY_n calculated using the following formula:

$$\text{opex increase } DY_{n+2} = \left(\frac{(\text{FTE actual } DY_n - \text{FTE } 50\% \text{ } DY_n)}{(\text{FTE } 100\% \text{ } DY_n - \text{FTE } 50\% \text{ } DY_n)} \right) \times (\text{FTE } 100\% \text{ } DY_{n+2} - \text{FTE } 50\% \text{ } DY_{n+2}) \times (\text{opex per FTE } DY_{n+2})$$

3.14 We consider this will be a relatively automatic process for Transpower once it has certified its FTE update for each of the disclosure years ending 30 June 2025 to 30 June 2028.

Other assumptions and settings

3.15 The revised deliverability reopener model also incorporates the following assumptions and settings:

3.15.1 for the model to work as intended, the FTE scenario count we set at the draft decision (the 50% FTE attainment scenario) must be set out in the final determination for all disclosure years of RCP4 and for the final disclosure year of RCP3. This is because the model equations 'look forward' two years. So, for an expenditure adjustment for 1 April 2026 to 31 March 2027, the 100% and 50% FTE counts for 2024/2025 disclosure year need to be defined.

3.15.2 when a deliverability reopener is made in any year, the deliverability reopener model settings in the IPP determination do not change. For example, the year one FTE count we set in the final decision at 1,039 FTEs is based on Transpower's FTE attainment trajectory at the end of the 2023/2024 disclosure year. This year one FTE setting is not used in subsequent deliverability reopener calculations.

3.15.3 there is no claw back mechanism - for example, the FTE count we set for year one is 1,039. If Transpower's actual FTE count on 30 June 2026 is less than this, there is no mechanism to revise revenue down.

¹⁴ Refer to our suggested updated drafting of Schedule EA of the revised draft RCP4 IPP determination which includes more detail on the formulae and the related decision rules which Transpower will be required to apply.

The deliverability reopener process

- 3.16 The first opportunity for Transpower to seek additional expenditure using the deliverability reopener will be on or before 31 August 2025, based on known actual FTEs as of 30 June 2025 (ie, the 2025 FTE update), and then having a revenue effect from 1 April 2026 to 31 March 2027.
- 3.17 The process for the first reopener (for RCP4 year 2) will be as follows:
- 3.17.1 on 30 June 2025 the Transpower 2024/2025 disclosure year ends;
 - 3.17.2 on or prior to 31 August 2025, Transpower will:
 - 3.17.2.1 provide to the Commission its FTE update as of 30 June 2025, certified by Transpower's CEO;
 - 3.17.2.2 apply the deliverability reopener equations in the IPP determination to determine the expenditure adjustment for a revenue update over 1 April 2026 to 31 March 2027. This update will have effect on the forecast SMARs in the revenue path for the 2026/2027 pricing year and later pricing years of RCP4, as applicable; and
 - 3.17.2.3 apply to us for a reopening of the revenue path for 2026/2027 to 2029/2030 pricing years;
 - 3.17.3 by November 2025, we will consider Transpower's calculation of its revised FTE count relationship to the expenditure adjustments and revised revenue path, decide to approve or reject the change, and reopen the price-quality path.
- 3.18 Transpower will repeat this revenue update process annually until the 2028 disclosure year ends on 30 June 2028.
- 3.19 If Transpower's actual FTE count at the end of a disclosure year falls below the 50% FTE attainment level for that year, there will be no expenditure adjustment applied.

Chapter 4 Conversion of \$ constant 2022/2023 amounts to nominal values

Purpose and structure of this chapter

- 4.1 This chapter describes the Consumer Price Index (**CPI**) method we will use to convert the expenditure amounts in our final decisions of 29 August 2024 from \$ constant 2022/2023 to nominal amounts. This is for the purposes of the deliverability reopener and for the setting of the RCP4 forecast MAR and forecast SMAR amounts in the final RCP4 IPP determination in November 2024.

Method used for nominal amounts in the revised draft RCP4 IPP determination

- 4.2 In our revised draft RCP4 IPP determination which we published with our final decisions, we included the following tables of CPI values and nominal expenditure amounts:¹⁵
- 4.2.1 Schedule C2: Standard incentive rate base capex summary – commissioned basis (including capitalised operating leases) – nominal values in Columns 2 and 7;
 - 4.2.2 Schedule C4: Standard incentive rate base capex summary – expenditure basis (excluding capitalised operating leases) – nominal values in columns 2 and 7;
 - 4.2.3 Schedule C5: Summary of opex allowances (excluding capitalised operating leases) – nominal values in columns 2 and 7;
 - 4.2.4 Schedule C6: Summary of forecast opex for IRIS (including capitalised operating leases) – nominal values in columns 2 and 7;
 - 4.2.5 Schedule C8: Forecast CPI – column 2; and
 - 4.2.6 Schedule EA – ‘Base capex per FTE (\$)’, ‘Opex per FTE (\$)’, ‘Maximum base capex increase (\$)’ and ‘Maximum opex increase (\$) values’.

¹⁵ Commerce Commission, “[REVISÉD DRAFT] Transpower Individual Price Quality Path Determination 2025” (29 August 2024) (REVISÉD Draft Determination).

- 4.3 Our final nominal forecast input values for RCP4 opex and capex allowances are based on constant \$2022/2023 values. Consistent with the approach in past IPP resets, we converted those values to nominal values for the purposes of the revenue path in the revised draft RCP4 IPP determination. For this purpose, we used Transpower provided independent input cost inflators and the following CPI factors:
- 4.3.1 RCP3 disclosure year 2024: 3.3% actual CPI;
 - 4.3.2 RCP3 disclosure year 2025: 2.3% forecast CPI;
 - 4.3.3 RCP4 disclosure year 2026: 2.0% forecast CPI;
 - 4.3.4 RCP4 disclosure year 2027: 2.0% forecast CPI;
 - 4.3.5 RCP4 disclosure year 2028: 2.0% forecast CPI;
 - 4.3.6 RCP4 disclosure year 2029: 2.0% forecast CPI; and
 - 4.3.7 RCP4 disclosure year 2030: 2.0% forecast CPI.
- 4.4 The approach we adopted in the above CPI factors was to apply the Reserve Bank of New Zealand “CPI inflation Annual” inflation rate actual and forecast values for June years, which is consistent with the Transpower disclosure years.¹⁶
- 4.5 However, the Transpower financial model uses the Reserve Bank “CPI inflation Quarterly” inflation rate actual and forecast values for June years.¹⁷
- 4.6 Although neither data series is prescribed for the current purpose in the Transpower input methodologies (**IMs**), the quarterly data series is used in our financial modelling for the EDB DPP4 price-quality path. Therefore, for consistency we consider it would be good practice to change the data series at this time from annual to quarterly for RCP4.

¹⁶ See Reserve Bank Monetary Policy Statement, August 2024, page 51, Appendix 1: Statistical tables, Table 7.1 Key forecast variables, in the column headed ‘CPI inflation Annual’.

¹⁷ See Reserve Bank Monetary Policy Statement, August 2024, page 51, Appendix 1: Statistical tables, Table 7.1 Key forecast variables, in the column headed ‘CPI inflation Quarterly’.

Our proposed CPI approach for the final RCP4 IPP determination

- 4.7 We propose to apply the Reserve Bank quarterly data series using the following formula:

$$((CPI_1 + CPI_2 + CPI_3 + CPI_4) \div (CPI_1^{-4} + CPI_2^{-4} + CPI_3^{-4} + CPI_4^{-4})) - 1$$

where CPI_n means forecast or actual CPI for the nth quarter of the disclosure year in question and CPI_n^{-4} means forecast or actual CPI for the equivalent quarter in the preceding disclosure year.

- 4.8 Applying this approach, the CPI factors used to convert our final expenditure decisions to nominal values are:

- 4.8.1 RCP3 disclosure year 2024: 4.40% actual CPI;
- 4.8.2 RCP3 disclosure year 2025: 2.27% forecast CPI;
- 4.8.3 RCP4 disclosure year 2026: 2.20% forecast CPI;
- 4.8.4 RCP4 disclosure year 2027: 2.00% forecast CPI;
- 4.8.5 RCP4 disclosure year 2028: 2.00% forecast CPI;
- 4.8.6 RCP4 disclosure year 2029: 2.00% forecast CPI; and
- 4.8.7 RCP4 disclosure year 2030: 2.00% forecast CPI.

- 4.9 The numbers in paragraphs 4.8.1 and 4.8.2 are in RCP3 disclosure years, so they will not appear in the RCP4 IPP determination. In the final RCP4 IPP determination we will change the forecast CPI value in Schedule C8 for disclosure year 2026 from 2.0% (annual basis) to 2.2% (quarterly basis).

- 4.10 In the final RCP4 IPP determination, we will also change the base capex and opex numbers in Schedules C2, C4, C5, C6 and EA for all disclosure years of RCP4 to reflect the quarterly CPI basis.

Attachment A Proposed revised drafting specification for Schedule EA of the RCP4 IPP determination

Purpose and structure of this attachment

A1 This attachment describes our proposed revised draft drafting specification for Schedule EA of the IPP determination.

Schedule EA: Deliverability reopener

Disclosure year ending:	RCP3	RCP4				
	30 June 2025	30 June 2026	30 June 2027	30 June 2028	30 June 2029	30 June 2030
FTE 100%	1003	1050	1055	1054	1056	1043
FTE 50%	970	993	996	995	996	990
Base capex per FTE (\$ nominal)			497,030	546,503	543,944	579,511
Opex per FTE (\$ nominal)			260,956	285,447	319,930	327,843
Maximum base capex increase (\$ nominal)			29,427,487	32,208,568	32,544,573	30,782,881
Maximum opex increase (\$ nominal)			15,450,302	16,823,010	19,141,637	17,414,609

1. In this schedule:

- 1.1 'base capex per FTE', 'maximum base capex increase', 'maximum opex increase', or 'opex per FTE' means, for a disclosure year, the amount specified in the table for the disclosure year;
 - 1.2 'base capex increase' means an increase in base capex allowance for a disclosure year that is part of a delivery risk adjustment and calculated in accordance with this schedule;
 - 1.3 'opex increase' means an increase in opex allowance for a disclosure year that is part of a delivery risk adjustment and calculated in accordance with this schedule;
 - 1.4 'FTE actual DY_n ' is the number of full-time equivalent employees employed by Transpower as at 30 June in DY_n ;
 - 1.5 DY_n —
 - 1.5.1 means a particular disclosure year; or
 - 1.5.2 if following immediately after a term specified in Column 1 of the table, indicates the amount specified in the table for DY_n ; or
 - 1.5.3 if following immediately after 'FTE actual', indicates the 'FTE actual' as disclosed by Transpower for DY_n ,
 - 1.6 and variations of the subscript (for example, DY_{n+1} or DY_{n+2}) indicate disclosure years relative to DY_n .
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- 1.7 *Examples*
 - 1.8 DY_{n+1} means the disclosure year after DY_n
 - 1.9 'FTE 100% DY_{n+2} ' means the FTE 100% amount specified in the table for the disclosure year that is 2 years after DY_n
 - 1.10 'maximum base capex increase DY_{n+2} ' means the maximum base capex increase amount specified in the table for the disclosure year that is 2 years after DY_n
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2. **Transpower** is not eligible for a **delivery risk adjustment**:
 - 2.1 in the first **disclosure year** of RCP4 (and clauses 3 to 7 do not apply in respect of that **disclosure year**);
 - 2.2 in respect of a **disclosure year** that has commenced at the time that **Transpower** applies for the **delivery risk adjustment**; or
 - 2.3 in respect of a **disclosure year** (DY_{n+2}) unless **Transpower** has disclosed to the **Commission** the 'FTE actual DY_n ' on or before 31 August of the previous **disclosure year** (DY_{n+1}).
3. In DY_{n+2} , **Transpower** is eligible for a **delivery risk adjustment**:
 - 3.1 based on **Transpower's** number of full-time equivalent employees as at 30 June in DY_n ; and
 - 3.2 as calculated in accordance with clauses 4 to 7 of this schedule.
4. If 'FTE actual DY_n ' is equal to or greater than 'FTE 100% DY_n ', then, for DY_{n+2} :
 - 4.1 the **base capex** increase equals 'maximum **base capex** increase DY_{n+2} '; and
 - 4.2 the **opex** increase equals 'maximum **opex** increase DY_{n+2} '.
5. Unless or until an 'FTE actual DY_n ' is equal to or greater than 'FTE 100% DY_n ', the **delivery risk adjustment** for DY_{n+2} must be calculated under clauses 6 and 7 of this schedule.
6. For DY_{n+2} –
 - 6.1 the **base capex** increase is calculated using the following formula:

$$\left(\frac{(\text{FTE actual } DY_n - \text{FTE 50\% } DY_n)}{(\text{FTE 100\% } DY_n - \text{FTE 50\% } DY_n)} \right) \times (\text{FTE 100\% } DY_{n+2} - \text{FTE 50\% } DY_{n+2}) \times (\text{base capex per FTE } DY_{n+2})$$
 - 6.2 the **opex** increase is calculated using the following formula:

$$\left(\frac{(\text{FTE actual } DY_n - \text{FTE 50\% } DY_n)}{(\text{FTE 100\% } DY_n - \text{FTE 50\% } DY_n)} \right) \\ \times (\text{FTE 100\% } DY_{n+2} - \text{FTE 50\% } DY_{n+2}) \times (\text{opex per FTE } DY_{n+2})$$

7. The amounts calculated under clause 6 must be modified as necessary to meet the following requirements:
- 7.1 the **base capex** increase for DY_{n+2} must not exceed 'maximum **base capex** increase DY_{n+2} ';
 - 7.2 if 'FTE 50% DY_n ' is greater than 'FTE actual DY_n ', the **base capex** increase for DY_{n+2} is zero;
 - 7.3 the **opex** increase for DY_{n+2} must not exceed 'maximum **opex** increase DY_{n+2} '; and
 - 7.4 if 'FTE 50% DY_n ' is greater than 'FTE actual DY_n ', the **opex** increase for DY_{n+2} is zero.