Transpower Input Methodologies Amendments Determination 2014

[2014] NZCC 22


The Commission:

S Begg
P Duignan
Dr S Gale
E Welson

Date of Decision: 28 August 2014
Pursuant to Part 4 of the Commerce Act 1986 (the Act) the Commerce Commission makes the following determination:

PART 1 – GENERAL MATTERS

1. TITLE

This determination is the Transpower Input Methodologies Amendments Determination 2014.

2. DETERMINATIONS AMENDED

This determination amends the following determinations:

(a) Transpower Input Methodologies Determination, [2012] NZCC 17 (the Transpower IM Determination); and

(b) Transpower Capital Expenditure Input Methodology Determination, [2012] NZCC 2 (the Transpower Capex IM Determination).

3. COMMENCEMENT

3.1 Part 2 of this determination comes into force on the date on which notice of this determination is given in the New Zealand Gazette in accordance with section 52W of the Commerce Act 1986.

3.2 Part 3 of this determination come into force on 1 July 2015.

4. INTERPRETATION

4.1 Terms in bold type have the meaning given to those terms in the applicable determination.

4.2 Terms in bold type used in this determination that are defined in the Act, but not this determination, have the same meaning as in the Act.
PART 2 – AMENDMENTS WITH IMMEDIATE EFFECT

5. AMENDMENTS TO TRANSPower IM DETERMINATION

Amendments to recoverable costs

5.1 Paragraph 3.1.3(1)(b) is amended by deleting “and” from the end of the paragraph.

5.2 Subclause 3.1.3(1)(c) of the Transpower IM Determination is replaced with the following:

“(c) a transmission alternative operating cost, subject to the requirements in subclause (3), not to exceed the-

“(i) actual transmission alternative operating cost incurred by Transpower; or

“(ii) upper limit of transmission alternative operating costs approved in accordance with subclause (3),

“whichever is lower.”.

5.3 Subclause 3.1.3(1) of the Transpower IM Determination is amended by adding the new paragraphs (d) and (e), as follows:

“(d) in relation to a major capex project that has been approved by the Commission under the Capex IM, and subject to the requirements in subclause (3), any operating costs –

“(i) incurred after the date of approval of the major capex project and in relation to the major capex project;

“(ii) are not otherwise able to be recovered as part of the major capex allowance on the basis that the costs are not capital expenditure; and

“(iii) where the sum of the operating costs and the major capex approved by the Commission in relation to the major capex project does not exceed the major capex allowance; and

“(e) an amount determined by the Commission and specified in an IPP determination following a reconsideration and amendment of the IPP under clauses 3.7.4(2)(a) and 3.7.5(1) for the prudent net additional operating costs, in excess of those provided in an IPP determination, incurred in responding to a catastrophic event.”.

5.4 Subclause 3.1.3(3) of the Transpower IM Determination is amended by:

(a) inserting “and subclause (1)(d)” after “subclause (1)(c)”;

(b) inserting “determination” after “IPP” in paragraph (b);

(c) inserting “and” at then end of paragraph (b);

(d) replacing “; and” at the end of subparagraph (c)(iii) with a full stop “.”; and

(e) deleting paragraph (d).
5.5 Clause 1.1.4(2) of the Transpower IM Determination is amended by inserting the following definitions in their appropriate alphabetical order:

"major capex has the same meaning as defined in the Capex IM;

"major capex allowance has the same meaning as defined in the Capex IM;

"major capex project has the same meaning as defined in the Capex IM;".

6. AMENDMENTS TO TRANSPower CAPEX IM DETERMINATION

Amendments to the definition of ‘forecast CPI’

6.1 Clause 1.1.5(2) of the Transpower Capex IM Determination is amended by replacing paragraph (b) of the definition of ‘forecast CPI’ with the following:

“(b) in respect of later quarters, the forecast last applying under paragraph (a) adjusted such that an equal increment or decrement made to that forecast for each of the following three years results in the forecast for the last of those years being equal to the target midpoint for the change in headline CPI set out in the Monetary Policy Statement referred to in paragraph (a);”.
Part 3 – AMENDMENTS WITH EFFECT FROM 1 JULY 2015

7. AMENDMENTS TO TRANSPower IM DETERMINATION

Amendments to related party transactions

7.1 The definition of ‘related party’ in clause 1.1.4(2) of the Transpower IM Determination is replaced with the following:

“related party means-

“(a) a person that, in accordance with GAAP, is a related party to Transpower, other than as a result of Transpower being a Crown-owned entity; or

“(b) any part of Transpower that does not supply electricity transmission services;”.

Amendments to physical asset life

7.2 Clause 2.2.6 of the Transpower IM Determination is amended by:

(a) deleting “, subject to subclause (2),” from subclause (1);

(b) deleting subclause (2); and

(c) consequentially renumbering the remaining subclauses and cross-references to those subclauses.

Amendments to depreciation

7.3 Subclause 2.2.3(2)(f) of the Transpower IM Determination is replaced with the following:

“(f) any other asset having a commissioning date in the disclosure year in question, the value determined in accordance with the formula—

“value of commissioned asset – unallocated depreciation.”.

7.4 Clauses 2.2.4(1) and (2) of the Transpower IM Determination are replaced with the following:

“(1) Unallocated depreciation is determined, subject to subclause (3) and clause 2.2.5, in accordance with the formula, in the case of -

“(a) an asset with an unallocated opening RAB value –

[1 ÷ remaining asset life] × unallocated opening RAB value; and

“(b) an asset having a commissioning date in the disclosure year in question –
(2) Depreciation is determined, subject to subclause (3), in accordance with the formula, in the case of-

(a) an asset with an opening RAB value-

\[ \left( \frac{1}{\text{remaining asset life}} \right) \times \text{opening RAB value}; \text{ and} \]

(b) an asset having a commissioning date in the disclosure year in question-

\[ \left( \frac{1}{\text{remaining asset life}} \right) \times \]

value allocated to electricity transmission services by adopting the value of commissioned asset and applying clause 2.1.1 to it as if it were an asset value

\[ \times \]

the fraction of the disclosure year from the commissioning date to the last day of the disclosure year.”.

7.5 Clause 1.1.4(2) of the Transpower IM Determination is amended by inserting the following definition in appropriate alphabetical order:

“RCP1 pseudo asset means the asset calculated in accordance with clause 2.2.9(2);”.

7.6 The definition of depreciation in clause 1.1.4(2) of the Transpower IM Determination is replaced with the following:

“depreciation, in relation to a disclosure year, means the allowance for that disclosure year to account for the diminution in an asset's remaining service life potential in the disclosure year in question determined in accordance with clause 2.2.4(2);”.

7.7 The definition of remaining asset life in clause 1.1.4(2) of the Transpower IM Determination is replaced with the following:

“remaining asset life means term remaining of an asset's physical asset life, for the purposes of:

(a) clauses 2.2.4(1)(a) and 2.2.4(2)(a), at the commencement of the disclosure year in question; and

(b) clauses 2.2.4(1)(b) and 2.2.4(2)(b), at the asset's commissioning date;”.

7.8 The definition of unallocated depreciation in clause 1.1.4(2) of the Transpower IM Determination is replaced with the following:
"unallocated depreciation means an allowance to account for the diminution in an asset's remaining service life potential in the disclosure year in question determined in accordance with clause 2.2.4(1);”.

7.9 Clause 2.2.6(1) is amended by:

(a) inserting a new paragraph (j), as follows:

"(j) the RCP1 pseudo asset, 31 years."

(b) replacing the full stop at the end of paragraph (i) with “; and”.

7.10 New clause 2.2.9 is added to the Transpower IM Determination as follows:

"2.2.9 Adjustment to asset values and establishment of RCP1 pseudo asset"

“(1) Each asset with a commissioning date in the period commencing

”(a) on the first day of the disclosure year 2012; and
"(b) ending on the last day of the disclosure year 2015,

“shall have its values calculated pursuant to-

”(c) clause 2.2.3(1); and
"(d) clause 2.2.3(3),

“for the disclosure year 2016 adjusted by the amounts necessary to produce the value for each asset as if depreciation had applied for the disclosure year in which the asset’s commissioning date occurred.

“(2) The ‘RCP1 pseudo asset’ is an asset established as of the first day of the disclosure year 2016 with -

”(a) an unallocated opening RAB value equal to the sum of adjustments for all assets made under subclause (1) in respect of clause 2.2.3(1); and
"(b) an opening RAB value equal to the sum of all adjustments for all assets made under subclause (1) in respect of clause 2.2.3(3).”.

Amendments to definition of ‘commissioned’

7.11 Subclause 1.1.4(2) of the Transpower IM Determination is amending by replacing the definition of commissioned with the following:

“commissioned means used by Transpower to provide electricity transmission services, save that in relation to-

“(a) land that is not easement land; or

“(b) an easement;

‘commissioned’ means acquired by Transpower where –
"(c) the land or easement is base capex, or

"(d) the acquisition was approved by the –

"(i) Electricity Commission under Part F of the Electricity Governance Rules 2003;

"(ii) Commission under s 54R(3)(b) of the Act; or

"(iii) Commission in accordance with any input methodology determined pursuant to s 54S of the Act,

"and ‘commission’ shall be construed accordingly;”.

7.12 Clause 1.1.4(2) of the Transpower IM Determination is amended by inserting the following definitions in their appropriate alphabetical order:

"base capex has the meaning given in the Capex IM;”.

Amendments to reconsideration of individual price-quality path input methodology

7.13 Subclause 1.1.4(2) of the Transpower IM Determination is amended by

(a) deleting the definition of quality targets; and

(b) inserting the following definitions in their appropriate alphabetical order:

"cap has the same meaning as defined in the Capex IM;

"Capex IM means the Transpower Capital Expenditure Input Methodology Determination [2012] NZCC 2, as amended;

"collar has the same meaning as defined in the Capex IM;

"grid output has the same meaning as defined in the Capex IM;

"grid output incentive rate has the same meaning as defined in the Capex IM;

"grid output target has the same meaning as defined in the Capex IM;

"revenue-linked grid output measure has the same meaning as defined in the Capex IM;”.

7.14 Paragraph 3.7.1(1)(c) of the Transpower IM Determination is amended by replacing subparagraph (i) with the following:

"(i) action required to rectify its adverse consequences cannot be delayed until a future regulatory period without the grid outputs associated with the revenue-linked grid output measures being outside the range specified by the relevant cap and collar in the remaining disclosure years of the regulatory period;”.

7.15 Subclauses 3.7.4(3) and 3.7.5(1), and paragraph 3.7.5(2)(b), of the Transpower IM Determination are amended by replacing “quality targets” with “grid output targets, caps, collars and grid output incentive rates associated with revenue-linked grid output measures”.

7.16 Paragraph 3.7.4(6)(a) is amended by deleting “major capex’ and” and replacing “have” with “has”.

7.17 Subparagraph 3.7.5(2)(g)(i) of the Transpower IM Determination is amended by replacing “major capex” with “major capex”.

7.18 Subclause 3.7.5(3) of the Transpower IM Determination is amended by replacing “quality targets” with “grid output targets associated with revenue-linked grid output measures”.

Sue Begg, Deputy Chair

Date at Wellington this 28th day of August, 2014.

COMMERCE COMMISSION