

25 September 2024

Transpower New Zealand Limited
Waikoukou
22 Boulcott Street
Wellington 6011

For the attention of: Acting Chief Executive

Notice to supply forecast MAR and forecast SMAR calculations to the Commerce Commission under sections 53ZD(1)(d), (e) and (f) of the Commerce Act 1986

Background

1. On 29 August 2024 the Commerce Commission (**Commission**) published a revised draft determination of the Individual Price-Quality Path (**IPP**) that will apply to Transpower New Zealand Limited (**Transpower**) for **RCP4** from 1 April 2025 (**revised draft IPP determination**).^{1, 2}
2. Amongst other things, the **revised draft IPP determination** sets out our decisions on the approved **base capex allowances** and the **opex allowances** for **RCP4**. The **revised draft IPP determination** also sets out the method by which those allowances, and other amounts, would be combined to both determine the forecast maximum allowable revenue (**forecast MAR**) for each **pricing year** of **RCP4**, and to smooth the annual revenues over **RCP4** (**forecast SMAR**).
3. As part of the **IPP** reset for **RCP4**, we published on 29 August 2024:
 - 3.1 the Transpower Input Methodologies Amendments Determination 2024 [2024] NZCC 19;
 - 3.2 our final decision paper on the above amendments to the input methodologies;³

¹ [REVISED DRAFT] *Transpower Individual Price-Quality Path Determination 2025* [2024] NZCC [XX], published 29 August 2024.

² Bolding of words in this Notice denotes defined terms. These are set out in the 'interpretation' section of this Notice in Schedule C.

³ *Amendments to input methodologies for Transpower New Zealand Limited related to the Transpower individual price-quality path from 1 April 2025 – Decision paper*, published 29 August 2024.

- 3.3 the **revised draft IPP determination**; and
- 3.4 our final decisions and reasons papers for the RCP4 revenue path design, approved **base capex allowances, opex allowances**, quality standards and deliverability.^{4,5,6}

Purpose of this Notice

- 4. We issue this notice (**Notice**) under sections 53ZD(1)(d), (e) and (f) of the Commerce Act 1986 (**Act**), requiring **Transpower** to produce information and perform calculations that will inform our final **IPP** determination for **RCP4**.
- 5. Specifically, the information will inform and assist our function under section 53ZC of the **Act** in our initial setting of **Transpower's forecast MAR** and **forecast SMAR** for each **pricing year** of **RCP4**.
- 6. The detailed requirements for the requested information in this **Notice** and the required calculations are specified in Schedule A of this **Notice**.⁷
- 7. For the purpose of section 53ZD(1)(e) of the **Act**, the **revenue model** we require under clause 5 of Schedule A of this Notice is directly relevant to, and will assist us in investigating and in our initial setting of, the **forecast MAR** and **forecast SMAR** for each **pricing year** of **RCP4**.
- 8. We note that section 103 of the **Act** provides that no person shall:
 - 8.1 without reasonable excuse, refuse or fail to comply with a notice under section 53ZD of the **Act**;
 - 8.2 in purported compliance with such a notice, furnish information, or produce a document, or give evidence, knowing it to be false or misleading; or
 - 8.3 attempt to deceive or knowingly mislead the **Commission** in relation to any matter before it.
- 9. It is an offence to contravene section 103 of the **Act** and any person who does so is liable on conviction to a fine not exceeding \$100,000 in the case of an individual or \$300,000 in the case of a body corporate.

⁴ *Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025 – Decision and reasons paper*, published 29 August 2024, and

⁵ *Transpower's individual price-quality path for the regulatory control period from 1 April 2025 – Final Decision Attachment A – Revenue path design*, published 29 August 2024

⁶ *Transpower's individual price-quality path for the regulatory control period from 1 April 2025 - Final Decision Attachment D – Quality standards and grid output measures*, published 29 August 2024.

⁷ The information requested in this Notice will inform our initial setting of the numbers for Schedule A, Columns 3, 8 and 9 of the final **IPP** determination for **RCP4**. The process for updating the **forecast MAR** and **forecast SMAR** during **RCP4** is specified in clause 33 of the **revised draft IPP determination**, and that will result in updated numbers being determined for Schedule A, Columns 4, 5, 6, 7, 8 and 9 of the final **IPP** determination for **RCP4**, as applicable at the time of each update.

Date, place and format of responses to this Notice

10. **Transpower** must:
- 10.1 provide a draft of the audited information required under this **Notice** by email, supported by a version of the **revenue model**, by not later than 4.30pm on Monday 7 October 2024;⁸
 - 10.2 provide the Director-certified and audited information required under this **Notice** by email not later than 4.30pm on Tuesday 29 October 2024;
 - 10.3 provide a publishable version of the information required under this **Notice** by email not later than 4.30pm on Monday 11 November 2024; and
 - 10.4 publish its **revenue model** on its website on Wednesday 20 November 2024 after the **Commission** has published its final decision on the **RCP4 IPP** determination on the **Commission's** website.
11. Numerical information must be provided in Microsoft Excel format, with formulas intact.
12. The emails must be addressed to Matt Clark (Manager, Transpower and Gas) c/o infrastructure.regulation@comcom.govt.nz, with the subject "Transpower – Response to section 53ZD Notice – forecast MAR and forecast SMAR calculations".

Independent assurance opinion

13. For the information required, including the information specified in Schedule A, **Transpower** must, under section 53ZD(1)(f) of the **Act**, provide an **independent assurance opinion** from an **assurance auditor** in accordance with Schedule B.

Use of supplied information and confidentiality

14. As part of our decision making and modelling for the **IPP** reset, we may publish, use and publicly refer to particular information **Transpower** provides in responding to this **Notice**.
15. If **Transpower** considers that, for confidentiality reasons, we should not publish or publicly refer to any particular part of its response, **Transpower** must:
- 15.1 specify the relevant part;
 - 15.2 give clear reasons why **Transpower** considers that part is confidential; and
 - 15.3 provide a PDF version of the response, redacting the part(s) **Transpower** considers to be confidential.

⁸ The draft of the audited information need not be fully signed off by the assurance auditor or the Transpower Directors at this stage, but it is to be released by the assurance auditor subject only to any necessary modifications.

16. If **Transpower** indicates that we should not publish or publicly refer to part of its response, we may consult with **Transpower** before deciding whether or not to do so.
17. However, please note that all responses we receive, including any parts that we decide not to publish, can be requested under the Official Information Act 1982. This means we would be required to release material (whether published or not) unless good reason existed under the Official Information Act 1982 to withhold it. We would normally consult before releasing any material that **Transpower** requests not to be published.

Dated at Wellington: 25 September 2024

Signed by:



Vhari McWha
Commissioner

Schedule A: forecast MAR and forecast SMAR calculations

Forecast EV account balance at the end of RCP3

1. Under section 53ZD(1)(d) of the **Act**, **Transpower** must prepare and provide a forecast of the balance of its **EV account** as at the end of the last **disclosure year** of **RCP3**, including:
 - 1.1 any forecast wash-up amounts for that last **disclosure year**; and
 - 1.2 taking into account the **EV account entry** resulting from the wash-up amount for the 2023-24 **disclosure year**.

Calculation of forecast EV adjustment amounts

2. Under section 53ZD(1)(d)(i) of the **Act**, **Transpower** must prepare and produce **forecast EV adjustments** for each **pricing year** of **RCP4**, calculated in accordance with clause 3.1.1(5) of the **Transpower IM determination**.
3. In forecasting item 'x' in the formula in clause 3.1.1(5) of the **Transpower IM determination**, **Transpower** must exclude any amount that may qualify for determination under clause 11 of the **revised draft IPP determination** as an **RCP4 HVDC transitional adjustment**.

Calculation of forecast MAR and forecast SMAR

4. Under section 53ZD(1)(d) of the **Act**, for each **pricing year** in **RCP4**, **Transpower** must prepare and provide:
 - 4.1 the **forecast MAR**, calculated in accordance with clause 6 of this Schedule A; and
 - 4.2 the **forecast SMAR**, calculated in accordance with clause 7 of this Schedule A.
5. Under section 53ZD(1)(e)(i) of the **Act**, **Transpower** must provide to the **Commission** a copy of its **revenue model** used to generate the **forecast MAR** and **forecast SMAR** amounts.
6. Under section 53ZD(1)(d)(ii) of the **Act**, in calculating the **forecast MAR** for each **pricing year** of **RCP4**, **Transpower** must:
 - 6.1 apply:
 - 6.1.1 the **forecast MAR building blocks**;
 - 6.1.2 the input methodologies in the **Transpower IM determination**, as applicable for **RCP4**;
 - 6.1.3 the input methodology in the **Capex IM determination**, as applicable for **RCP4**;
 - 6.1.4 the forecast **base capex** mid-year commissioning basis;

- 6.1.5 a forecast sum of **opening RAB values** for **RCP4** that takes into account the actual sum of **closing RAB values** in the **2023-24 disclosure year**; and
- 6.1.6 the 65th percentile estimate of vanilla **WACC**, as determined in the **WACC determination**;
- 6.2 advise whether **Transpower** considers that any update to the forecast amounts of **pass-through costs** and **recoverable costs** for **RCP4** is needed, and if updates are needed, **Transpower** must use the updated amounts and notify the **Commission** of the current forecast amounts and the **disclosure years** to which they relate;
- 6.3 for the purposes of the **opex allowance** used in the **forecast MAR building blocks**, apply the following variations:
- 6.3.1 apply the **opex allowance** amounts specified in Schedule C5, Column 7 of the **revised draft determination**; and
- 6.3.2 apply the **opex allowance** amounts specified in Table 1 below; and

Table 1: Opex allowance

Disclosure Year	1 July 2025 to 30 June 2026	1 July 2026 to 30 June 2027	1 July 2027 to 30 June 2028	1 July 2028 to 30 June 2029	1 July 2029 to 1 June 2030
Opex allowance (\$m nominal)	421.1	419.3	440.8	445.0	437.6

- 6.4 for the purposes of the **base capex allowance** used in the **forecast MAR building blocks**, apply the following variations:
- 6.4.1 apply the **base capex allowance** amounts specified in Schedule C2, Column 7 of the **revised draft determination**; and
- 6.4.2 apply the **base capex allowance** amounts specified in Table 2 below.

Table 2: Base capex allowance

Disclosure Year	1 July 2025 to 30 June 2026	1 July 2026 to 30 June 2027	1 July 2027 to 30 June 2028	1 July 2028 to 30 June 2029	1 July 2029 to 1 June 2030
Base capex allowance (\$m nominal)	490.2	508.8	449.4	451.1	466.6

7. Under section 53ZD(1)(d)(ii) of the **Act**, in calculating the **forecast SMAR** amount for each **pricing year of RCP4**, **Transpower** must use:
- 7.1 the method described in clause 3.1.1 of the **Transpower IM determination**;
 - 7.2 the **forecast MAR** calculated under clause 6 of this Schedule A;
 - 7.3 the **IPP revenue growth rate** for each **disclosure year of RCP4** as specified in clause 8.3 of the **revised draft IPP determination**. For the **IPP revenue growth rate** for the 2027-28, 2028-29 and 2029-30 **pricing years** in clause 7.3 above, **Transpower** must use the fixed rate of 5% for each of those **pricing years** as set out in clause 8.3.2 of the **revised draft IPP determination**; and
 - 7.4 **Transpower** must advise if it considers any update of the **IPP revenue growth rate** for the 2025-26 and 2026-27 **pricing years** is required in order to solve for values for clause 8.3.1 of the **revised draft IPP determination** when applying clause 3.1.1(3) of the **Transpower IM determination**, and if **Transpower** forms the view that updates are required, **Transpower** must use the updated numbers and notify the **Commission** of the updated values.⁹

⁹ Noting the estimated IPP revenue growth rate in the revised draft IPP determination for 2025-26 and 2026-27 based on a forecast estimated WACC rates of 7.37% vanilla and 6.67% post tax is 15.11%.

Schedule B: independent assurance opinion

1. Under section 53ZD(1)(f) of the **Act**, **Transpower** must procure and provide to the **Commission** an **independent assurance opinion** from an **assurance auditor** in respect of the calculations and information required under Schedule A of this Notice that:
 - 1.1 is prepared in accordance with the **SAE 3100 (Revised)** and the **ISAE (NZ) 3000 (Revised)** or their successor standards, signed by the **assurance auditor**, either in his or her own name or that of his or her firm;
 - 1.2 is addressed to the directors of **Transpower**; and
 - 1.3 states:
 - 1.3.1 that it has been prepared in accordance with **SAE 3100 (Revised)** and **ISAE (NZ) 3000 (Revised)** or their successor standards;
 - 1.3.2 the work done by the **assurance auditor**;
 - 1.3.3 the scope and limitations of the assurance engagement;
 - 1.3.4 the existence of any relationship (other than that of **assurance auditor**) which the **assurance auditor** has with, or any interests which the **assurance auditor** has in, **Transpower** or any of its subsidiaries;
 - 1.3.5 whether the **assurance auditor** has obtained sufficient recorded information and explanations that he or she required and, if not, the information and explanations not obtained;
 - 1.3.6 whether, in the **assurance auditor's** opinion, as far as appears from an examination of them, proper records to enable the complete and accurate compilation of the **forecast MAR** and **forecast SMAR** calculations have been kept by **Transpower** and, if not, the records not so kept;
 - 1.3.7 whether in the **assurance auditor's** opinion, as far as appears from the examination, the information used in the preparation of the **forecast MAR** and **forecast SMAR** calculations has, where applicable, been properly extracted from **Transpower's** accounting and other records, sourced from its financial and non-financial systems; and
 - 1.3.8 whether in the **assurance auditor's** opinion, **Transpower** has complied, in all material respects, with this Notice in preparing the **forecast MAR** and **forecast SMAR** calculations and supporting information and, if not, the respects in which **Transpower** has not done so.

Schedule C: Interpretation

1. In this Notice, unless the context requires otherwise:
 - 1.1 a word that denotes the singular also denotes the plural, and vice versa; and
 - 1.2 words in bold type have the following meanings:
 - 1.2.1 **Act** means the Commerce Act 1986;
 - 1.2.2 **assurance auditor** has the meaning set out in the **revised draft IPP determination**;
 - 1.2.3 **base capex** has the meaning given in the **Capex IM determination**;
 - 1.2.4 **base capex allowance** has the meaning given in the **Capex IM determination**;
 - 1.2.5 **Capex IM determination** means the *Transpower Capital Expenditure Input Methodology Determination 2012* [2012] NZCC 2, including amendments in effect at the date of this Notice and those set out in the *Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023* [2023] NZCC 39 which will apply for **RCP4**;
 - 1.2.6 **closing RAB value** has the meaning set out in the **Transpower IM determination**;
 - 1.2.7 **Commission** means the Commerce Commission;
 - 1.2.8 **disclosure year** has the meaning set out in the **Transpower IM determination**;
 - 1.2.9 **EV account** has the meaning set out in the **Transpower IM determination**;
 - 1.2.10 **EV account entry** has the meaning set out in the **revised draft IPP determination**;
 - 1.2.11 **forecast EV adjustment** has the meaning set out in the **revised draft IPP determination**;
 - 1.2.12 **forecast MAR** has the meaning set out in the **revised draft IPP determination**;
 - 1.2.13 **forecast MAR building blocks** means the items in Column 1 of Schedule D of the **revised draft IPP determination**;
 - 1.2.14 **forecast SMAR** has the meaning set out in the **revised draft IPP determination**;

- 1.2.15 **independent assurance opinion** means the opinion required under Schedule B of this Notice;
- 1.2.16 **IPP** means individual price-quality path;
- 1.2.17 **IPP revenue growth rate** has the meaning set out in the **revised draft IPP determination**;
- 1.2.18 **ISAE 3000 (NZ) (Revised)** means the International Standard on Assurance Engagements (New Zealand) 3000 (Revised) – Assurance engagements Other than Audits or Reviews of Historical Financial Information (ISAE (NZ) 3000 (Revised));
- 1.2.19 **opening RAB value** has the meaning given in the **Transpower IM determination**;
- 1.2.20 **opex allowance** has the meaning given in the **revised draft IPP determination**;
- 1.2.21 **pass-through cost** has the meaning given in the **Transpower IM determination**;
- 1.2.22 **pricing year** has the meaning given in the **Transpower IM determination**;
- 1.2.23 **RCP3** has the meaning set out in the **revised draft IPP determination**;
- 1.2.24 **RCP4** has the meaning set out in the **revised draft IPP determination**;
- 1.2.25 **recoverable cost** has the meaning given in the **Transpower IM determination**;
- 1.2.26 **revenue model** means the revenue model **Transpower** uses to calculate its **forecast MAR** and **forecast SMAR**;
- 1.2.27 **revised draft IPP determination** means the revised draft determination of the **IPP** that will apply to **Transpower** for **RCP4**;
- 1.2.28 **SAE 3100 (Revised)** means the Standard on Assurance Engagements 3100 (Revised) - Compliance Engagements (SAE 3100 (Revised));
- 1.2.29 **Transpower** means Transpower New Zealand Limited;
- 1.2.30 **Transpower IM determination** means the *Transpower Input Methodologies Determination 2010* [2012] NZCC 17, including amendments in effect at the date of this Notice and those set out in the *Transpower Input Methodologies (IM Review 2023)*

Amendment Determination 2023 [2023] NZCC 38 and in the *Transpower Input Methodologies Amendment Determination 2024* [2024] NZCC 19, which will apply for **RCP4**; and

1.2.31 **WACC** means–

- (a) for the purpose of calculating a **forecast MAR**, the 65th percentile for the vanilla mid-point estimate of weighted average cost of capital determined by the **Commission** in accordance with clause 3.5.5(1) of the **Transpower IM determination**; and
- (b) for the purpose of calculating the **forecast SMAR**, the 65th percentile for the post-tax mid-point estimate of weighted average cost of capital determined by the **Commission** in accordance with clause 3.5.5(2) of the **Transpower IM determination**.

1.2.32 **WACC determination** means the *Cost of capital determination for electricity distribution businesses' 2025-2030 default price-quality path and Transpower New Zealand Limited's 2025-2030 individual price-quality path* [2024] NZCC 21 which we have determined and published in September 2024.

