Commerce Commission responses to MEUG questions on draft IPP decisions (MEUG email of 17 June 2019)

	Question	Response
1	Are the year by year RCP2 MAR on slide [24] exclusive or inclusive of changes in MAR as listed and major capex have been added to the RCP2 RAB? Can those incremental annual effects on RCP2 to date and forecast for the current RCP2 year be provided? The reason for this question is to ensure we understand the with and without listed/major-capex increments and total MAR between RCP2 and RCP3. RCP3 is clear given the information on MAR in Table X1, p7 (nominal without listed/major-capex) and increments expected with listed/major-capex in Table J7 [paragraph J83].	The year by year revenue amounts for RCP2 as set out on slide 24 are inclusive of the revenue effects of major capex projects and listed projects that were approved up to November 2018 in RCP2. The forecast revenue numbers for RCP3 as set out on slide 24 include the revenue effects in RCP3 of all approved major capex and listed capex in the RCP3 opening RAB and the revenue effects of the RCP3 draft decisions on base capex. The forecast revenue numbers do not include the impact of major capex or listed projects that may be separately consulted on and may be approved during RCP3. The incremental annual effects of major capex and listed projects capex in RCP2 can be found in the RM01 Revenue Model under the tab "Revenue summary and variance" on Transpower's website at: https://www.transpower.co.nz/keeping-you-connected/industry/rcp3/rcp3-proposal-securing-our-energy-future-2020-%E2%80%93-2025.

<table>
<tr><th></th><th>Question</th><th>Response</th></tr>
<tr><td>2</td><td>Is it possible to split the RCP3 annual MAR into HVAC and HVDC components?

Our interest is because it's HVAC we are most interested in because most of that flows through to interconnection charges.

The headline reduction in MAR on 1 April 2020 of 9.4% is a combination of reductions in HVAC and HVDC costs with the HVAC component decreasing 5.3% (Figure [X2]).

It's difficult to assess year 2 onwards in RCP3 of relative HVAC and HVDC changes without having expected nominal and real $ costs for those components if we do not have revenue smoothing.

Even with revenue smoothing, understanding whether there is large year by year volatility in underlying HVAC and HVDC costs and might assist us estimate any end of RCP3 wrap-up effects.</td><td>The split of the unsmoothed MAR, and a comparison with the draft smoothed SMAR can be found in the following table:

<table>
<tr><th colspan="5">RCP3 HVAC/HVDC revenues ($m)</th></tr>
<tr><th></th><th colspan="2">SMAR</th><th colspan="2">Building blocks MAR</th></tr>
<tr><th>Year</th><th>HVAC</th><th>HVDC</th><th>HVAC</th><th>HVDC</th></tr>
<tr><td>2020/21</td><td>742</td><td>100</td><td>728</td><td>113</td></tr>
<tr><td>2021/22</td><td>749</td><td>99</td><td>745</td><td>97</td></tr>
<tr><td>2022/23</td><td>755</td><td>98</td><td>754</td><td>91</td></tr>
<tr><td>2023/24</td><td>762</td><td>97</td><td>775</td><td>92</td></tr>
<tr><td>2024/25</td><td>769</td><td>96</td><td>777</td><td>95</td></tr>
</table>

Note: as indicated in our draft decisions and reasons paper, we have made some simplifying assumptions when determining estimated revenue results. These should not materially affect the numbers in the table.</td></tr>
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	Question	Response
3	[J82] Table J7 discusses the yet-to-be proposed and approved but expected to be submitted Major Capex Proposal "South Island reliability - HVDC 2 replacement cables and 1 new cable". If approved and commissioned (in part or whole) in RCP3 will the incremental revenue be part of HVDC charges and therefore recoverable from South Island generators (subject to a de minimis) or HVAC and therefore recoverable in interconnection charges?	The expenditure forecasts Transpower has provided to us show this investment as largely occurring in 2030-33. We have not considered the impact of bringing the revenue effects of this project forward into RCP3 since, as a major capex project, it would be subject to a separate approval process. At this stage we do not have information about how the revenue from this planned project might be allocated if the project was to be proposed, approved and commissioned.
4	Knowing expected MAR for HVAC with and without listed/Major-Capex will assist narrow down likely change in interconnection charges. Missing is a view as to what the denominator might do, i.e. forecast coincident peak. Did Transpower provide any estimate in its proposal or has the CC made an assessment?	We have not modelled scenarios for forecast regional coincident peak demand. Transpower has published information in respect of its proposal in the RM01 Revenue Model under the tabs "Customer charges" and "Charges by GXP-GIP". The Revenue Model can be found on Transpower's website at: https://www.transpower.co.nz/keeping-you-connected/industry/rcp3/rcp3-proposal-securing-our-energy-future-2020-%E2%80%93-2025.

	Question	Response
5	What are the expected inflation rates used for RCP3 to allow us to convert the Table X1, and Tables, J5, J6, J7 and J8 data from nominals to real terms?	Tables J5 to J7 of our draft decisions and reasons paper set out the major capex project and listed project information. Expenditure amounts were based on the expenditure forecasts which Transpower provided in regulatory template RT01 Expenditure Forecasts, which also set out the amounts in real terms. This was published on Transpower's website at: https://www.transpower.co.nz/keeping-you-connected/industry/rcp3/rcp3-proposal-securing-our-energy-future-2020-%E2%80%93-2025). The revenue impact is based on the commissioning forecasts in RT01 Expenditure Forecasts, and Transpower's RM01 Revenue Model. The forecast SMAR amounts in Table X1 were generated by smoothing the forecast MAR for each year of RCP3. Some, but not all, of the building blocks have embedded cost escalation assumptions. For example, Transpower has set out the price escalators used to forecast future nominal values for RCP3 opex and base capex entering the RAB in one of the regulatory template documents provided as part of its proposal (RT03 Cost Escalation Model). As noted in our draft decisions and reasons paper, we have used simplifying assumptions to generate these forecasts, and have not updated Transpower's inflators with more current values.

	Question	Response
6	[X7] says CC were "… conscious that RCP3 sits in the context of potentially challenging grid investment decisions faced by Transpower in future periods beyond RCP3 …" and latter notes the CC proposes to "… approve modest expenditure by Transpower in RCP3 that would allow Transpower to prepare for those later periods." Is it possible to list, or at least point to where those are discussed in the draft decision, where those modest expenditures in anticipation of possible increases in demand have been approved?	Transpower's preparation for these later periods relates to upcoming challenges it will face in relation to large scale renewal and replacement capex, due to aging conductors and other assets. In Table I4 of the draft decisions and reasons paper, $18.5m is identified under predictive maintenance as relating to additional testing and data collection, which will help support the efficiency of conductor replacement projects in RCP4 and RCP5. Also, to further support the efficiency of future work, one of our focus areas is Transpower's asset management practices, and its development of asset health and criticality models. Our draft decision includes a number of reporting requirements to support this, including a requirement to develop a roadmap for developing its risk modelling, annual reporting on progress, and a mid-RCP review by an independent expert.
7	[I161] says draft decision is to approve proposed $220.6m of Business Support Opex but preceding paragraph says the CC accepts EMCa proposal for a reduction. Please reconcile.	The proposed allowance of $220.6m is net of the reduction. Transpower proposed $226.5m, which we have set out a draft decision to reduce by $5.9m. On reflection, the text in the draft decision might have better said "$220.6m of the proposed opex" rather than "the $220.6m proposed opex".

	Question	Response
8	[K25.3] Is there information, such as over RCP2, on what was and is the threshold for Transpower board approval of projects and how many per year has the board made final decisions on? MEUG supports the new initiative for Transpower to report on significant capex projects upon the completion of the project, i.e. a post-project review. We won't want too many or too few; hence knowing what actual threshold and frequency of projects the Transpower Board considers is of interest.	Expected number of RCP3 post-project analyses, based on RCP2 data: 1. Approximately 12 programmes over $20m each (may sample for variety of types of projects if the number of projects becomes unmanageable for review). 2. 16 E&D projects; 9 over $5 million (again, may sample for variety if the number of projects becomes unmanageable), plus 7 smaller projects that would have a lesser scope of post-project analysis (mainly focus on project process). 3. Two listed projects.