

Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025

Companion paper to final RCP4 IPP determination

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Associated documents

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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	978-1-991287-77-9	Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025: Final Decision Attachment B - Capex
29 August 2024	978-1-991287-78-6	Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025: Final Decision Attachment C - Opex
29 August 2024	978-1-991287-79-3	Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025: Final Decision Attachment D - Quality standards and grid output measures
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	978-1-991287-74-8	Amendments to input methodologies for Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025. Final decision
29 August 2024	978-1-991287-81-6	[REVISED DRAFT] Transpower Individual Price-Quality Path Determination 2025
29 August 2024	ISSN 1178-2560	Transpower Input Methodologies Amendment Determination 2024
29 May 2024	N/A	Understanding how changes to line charges may impact your electricity bill webpage
29 May 2024	ISBN 978-1-991287-33-5	Default price-quality paths for electricity distribution businesses from 1 April 2025 - Draft reasons paper
29 May 2024		RCP4 Deliverability model
25 January 2024	ISBN 978-1-991085-71-9	Transpower's individual price-quality path for the next regulatory control period: Issues paper

9 October 2023	ISBN 978-1-991085-44-3	<u>Transpower's individual price-quality path for 2025 to 2030: Our process, decision-making framework, and approach for setting expenditure allowances, quality standards and the price path</u>
13 December 2023	ISBN 978-1-991085-65-8	<u>Report on the IM Review 2023: Part 4 Input Methodologies Review 2023 - Final decision</u>
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Chapter 1 Introduction

Purpose of this paper

- 1.1 This paper supports our determination of Transpower’s individual price-quality path determination (**Transpower’s IPP**) for the regulatory period commencing 1 April 2025 (**RCP4**).
- 1.2 On 29 August 2024, we released our final decisions and supporting reasons on the expenditure, quality standards and grid output measures, how we will calculate Transpower’s smoothed maximum allowable revenue (**SMAR**), and Transpower’s reporting obligations applicable to Transpower’s IPP for RCP4.¹ This paper discusses a limited number of outstanding matters necessary to finalise Transpower’s IPP.
- 1.3 In this paper, we discuss:
 - 1.3.1 how we have finalised Transpower’s forecast maximum allowable revenue (**forecast MAR**) and forecast SMAR for RCP4 (including updates to the forecast MAR based on the weighted average cost of capital (**WACC**) determination applicable for RCP4, forecast commissioned base capex, and forecast recoverable costs);
 - 1.3.2 our final decision on the implementation of the deliverability reopener mechanism following our technical consultation of 26 September 2024;² and
 - 1.3.3 our final decision on our updated method of forecasting the CPI used in converting the \$ constant 2022/2023 amounts in our final expenditure decisions of 29 August 2024 to nominal values in Transpower’s IPP following our technical consultation of 26 September 2024.³

Structure of this paper

- 1.4 This paper sets out:
 - 1.4.1 how we have dealt with outstanding matters identified for the setting of the price-quality path in our decisions of 29 August 2024 (Chapter 2); and

¹ Our final 29 August 2024 decisions can be found here: Commerce Commission [“Transpower’s individual price-quality path for the regulatory control period commencing 1 April 2025 – Decision and reasons paper”](#) (29 August 2024)

² Commerce Commission, [“Transpower deliverability reopener mechanism and CPI forecast assumptions for the regulatory control period from 1 April 2025 – Technical consultation paper”](#) (26 September 2024), Chapter 3.

³ Commerce Commission, [“Transpower deliverability reopener mechanism and CPI forecast assumptions for the regulatory control period from 1 April 2025 – Technical consultation paper”](#) (26 September 2024), Chapter 4.

- 1.4.2 our determination of the forecast MAR and forecast SMAR for each pricing year of RCP4, and how we have calculated them (Chapter 3).

Chapter 2 Outstanding matters from our August 2024 decisions

Purpose of this chapter

- 2.1 In this chapter we discuss how we have dealt with outstanding matters relating to Transpower's IPP since we published our final decisions and revised draft determination on 29 August 2024, including:
- 2.1.1 the WACC that will apply for RCP4;
 - 2.1.2 our revised deliverability reopener model; and
 - 2.1.3 our updated approach to converting \$ constant 2022/2023 expenditure amounts in our 29 August 2024 final decisions to nominal values.

Our WACC determination

- 2.2 On 25 September 2024, we published our determination of the WACC that will apply to Transpower's IPP (**WACC determination**).⁴
- 2.3 The WACC is a fundamental building block input to the calculation of the forecast MAR and to the forecast SMAR for each pricing year of RCP4.
- 2.4 The WACC rates that we have used in setting the forecast MAR and forecast SMAR for each RCP4 pricing year in Transpower's IPP are:
- 2.4.1 7.10%, being the 65th percentile vanilla WACC, which is used in setting the forecast MAR building block values; and
 - 2.4.2 6.44%, being the 65th percentile post-tax WACC, which is used in setting the forecast SMAR values.

Calculation of RCP4 base capex standard incentive rate and opex Incremental Rolling Incentive Scheme (IRIS) incentive rate

- 2.5 As part of the IM Review 2023, we amended the base capex standard incentive rate calculation to be based on the mid-point estimate of WACC instead of the 67th percentile estimate as previously specified.⁵

⁴ *Cost of capital determination for electricity distribution businesses' default price-quality path commencing 2025 and Transpower New Zealand Limited's 2025-2030 individual price-quality path [2024] NZCC 21.*

⁵ *See Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023 [2023] NZCC 39, cl 1.1.5(2).*

- 2.6 Using the base capex incentive formula specified in the Transpower Capex IM (including the mid-point estimate of WACC), we have calculated the base capex standard incentive rate for RCP4 to be 32.16%.⁶
- 2.7 Using the demonstration model in the IM Review 2023 which shows the changes to the opex Incremental Rolling Incentive Scheme (**IRIS**) provisions in the Transpower IM determination (**Transpower IM**),⁷ we have calculated the opex IRIS incentive rate for RCP4 to also be 32.16%.⁸
- 2.8 These are the incentive rates that will be applicable for any rewards or penalties that apply to base capex and opex underspends or overspends by Transpower in RCP4.

Technical consultation on the deliverability reopener for the IPP determination

- 2.9 In our 29 August 2024 final decisions, we introduced a deliverability price path reopener allowing Transpower to access additional expenditure allowances during RCP4, where it could show that it was recruiting employee FTEs above a forecast threshold.
- 2.10 However, we had identified that the draft deliverability reopener would need to be further modified. This is because the FTE attainment levels for a disclosure year ending 30 June would be more than a year behind the timing of the expenditure being adjusted.
- 2.11 As a consequence, we published a technical consultation paper on the deliverability reopener on 26 September 2024.⁹ We sought further stakeholder views on our revised approach to the deliverability reopener mechanism for the purposes of calculating expenditure adjustments in years two to five of RCP4.

Stakeholder views

- 2.12 We received one submission, from Transpower, on the technical consultation on the deliverability reopener. Transpower submitted that:¹⁰

⁶ The base capex incentive provisions are in Schedule B, clause B1 of the *Transpower Capital Expenditure Input Methodology Determination 2012*.

⁷ Commerce Commission, "[Part 4 IM Review 2023 Risks and incentives topic paper demonstration model Changes to Transpower opex IRIS – 13 Dec 2023.xlsx](#)" (13 December 2023).

⁸ The opex IRIS incentive provisions are in Part 3, Subpart 6 of the *Transpower Input Methodologies Determination 2010*.

⁹ Commerce Commission, "[Transpower deliverability reopener mechanism and CPI forecast assumptions for the regulatory control period from 1 April 2025 – Technical consultation paper](#)" (26 September 2024).

¹⁰ Transpower New Zealand Limited, "[Transpower submission on RCP4 Deliverability reopener mechanism](#)" (10 October 2024), paras 2 and 3.

We agree with the changes indicated in this technical consultation where FTE ratios, as opposed to FTE differences, underpins the calculation. This is aligned with the intent of the reopener mechanism of addressing the risks of recruitment shortage during RCP4 and Part 4.

We appreciate that key issues in the Commission's deliverability adjustment model surrounding the timing issue of the FTE number used have been resolved in the revised model and IPP determination settings

- 2.13 Transpower also suggested that we include a definition of 'FTE' in Transpower's IPP to be clear that our model refers to Transpower's insourced capabilities – both Transpower's employees and contractors - and not to outsourced services such as those carried out by its Service Providers (Grid and ICT), Engineering Consultants and other consulting services.¹¹

Our final decision on Transpower's deliverability reopener mechanism

- 2.14 Following our technical consultation, our final decision is to amend the equations in Transpower's IPP.¹² For our final decision we have used the settings provided in the consultation paper. The amended equations will use an FTE update at the end of disclosure year N (after 30 June) to make an expenditure adjustment (and revenue adjustment) for the next available pricing year related to disclosure year N+2.
- 2.15 We have also published our final deliverability model alongside this companion paper, demonstrating the operation of the deliverability adjustment equations, the expenditure adjustments per FTE, and the maximum expenditure adjustment for each year the reopener is available.¹³
- 2.16 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 at 30 June 2025 (ie, the 2025 FTE update), with the adjustment having a revenue effect from 1 April 2026 to 31 March 2027.
- 2.17 We have included a definition of 'FTE' in schedule EA of Transpower's IPP to be clear that our model refers to Transpower's insourced capabilities and not to outsourced services.¹⁴ We have made this change to provide clarity. This reflects our original intended meaning of FTE including how we have calculated the adjustment and how the reopener mechanism has been designed to operate.

¹¹ Transpower New Zealand Limited, "[Transpower submission on RCP4 Deliverability reopener mechanism](#)" (10 October 2024), para 5.

¹² *Transpower Individual Price-Quality Path Determination 2025* [2024] NZCC 26, Schedule EA.

¹³ Commerce Commission, "[Final deliverability model](#)" (20 November 2024).

¹⁴ *Transpower Individual Price-Quality Path Determination 2025*, Sch EA, cl 1.4.

Technical consultation on conversion of expenditure allowances to nominal values

- 2.18 For the purposes of calculating the revenue path in the revised draft determination, we converted our decisions on the opex and capex allowances from real values in 2022/2023 dollars to nominal values using input cost inflators prepared by independent consultants engaged by Transpower, and CPI factors. We calculated the CPI factors by applying actual CPI inflation rate data from Statistics New Zealand and forecasts of CPI using the Reserve Bank of New Zealand’s “CPI inflation annual percent change” forecast values for June years.¹⁵
- 2.19 We applied this method in calculating the nominal values used in the deliverability reopener and all other base capex and opex inputs used for RCP4 revenue and incentive calculations.

Proposed approach in technical consultation

- 2.20 In our 26 September 2024 technical consultation paper we sought stakeholder views on the method we used to calculate the forecast CPI used to convert the approved expenditure amounts from real values in 2022/2023 dollar amounts to nominal amounts.¹⁶
- 2.21 We proposed to apply the Reserve Bank quarterly data series for Transpower’s IPP,¹⁷ by applying the 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 the forecast or actual CPI for the nth quarter of the disclosure year in question and CPI_n^{-4} means the forecast or actual CPI for the equivalent quarter in the preceding disclosure year.

¹⁵ Commerce Commission, “[Transpower deliverability reopener mechanism and CPI forecast assumptions for the regulatory control period from 1 April 2025 – Technical consultation paper](#)” (26 September 2024), paras 4.3 and 4.4.

¹⁶ Commerce Commission, “[Transpower deliverability reopener mechanism and CPI forecast assumptions for the regulatory control period from 1 April 2025 – Technical consultation paper](#)” (26 September 2024), Chapter 4.

¹⁷ Commerce Commission, “[Transpower deliverability reopener mechanism and CPI forecast assumptions for the regulatory control period from 1 April 2025 – Technical consultation paper](#)” (26 September 2024), para 4.7.

Stakeholder views

- 2.22 Transpower submitted that it agreed with our proposed conversion of expenditure to nominal amounts by taking the average of quarterly inflation statistics.¹⁸ It considers this reflects that expenditure occurs throughout the year.¹⁹

Our final decision on converting allowances to nominal values

- 2.23 For the conversion from real values in 2022/2023 dollars to nominal amounts, our final decision is to apply the Reserve Bank quarterly data series using the 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 the forecast or actual CPI for the n th quarter of the disclosure year in question and CPI_n^{-4} means the forecast or actual CPI for the equivalent quarter in the preceding disclosure year.

- 2.24 Although the Transpower IM does not prescribe whether to use the “CPI inflation annual average percent change” (ie, quarterly data) or the “CPI inflation annual percent change” inflation rate actual and forecast values for June years, we consider the quarterly data series is used in our financial modelling for EDB DPP4 price-quality path and was also used by Transpower in its RCP4 proposal. Therefore, for consistency we consider it is appropriate to change the data series from annual to quarterly for Transpower’s IPP.
- 2.25 Applying this approach, the CPI factors used to convert our final expenditure decisions to nominal values are:
- 2.25.1 RCP3 disclosure year 2024: 4.40% actual CPI;
 - 2.25.2 RCP3 disclosure year 2025: 2.27% forecast CPI;
 - 2.25.3 RCP4 disclosure year 2026: 2.20% forecast CPI;
 - 2.25.4 RCP4 disclosure year 2027: 2.00% forecast CPI;
 - 2.25.5 RCP4 disclosure year 2028: 2.00% forecast CPI;
 - 2.25.6 RCP4 disclosure year 2029: 2.00% forecast CPI; and
 - 2.25.7 RCP4 disclosure year 2030: 2.00% forecast CPI.

¹⁸ Transpower New Zealand Limited, “[Transpower submission on RCP4 Deliverability reopener mechanism](#)” (10 October 2024), para 6.

¹⁹ Transpower New Zealand Limited, “[Transpower submission on RCP4 Deliverability reopener mechanism](#)” (10 October 2024), para 6.

- 2.26 The numbers in paragraphs 2.25.1 and 2.25.2 are updated CPI factors in RCP3 disclosure years, so they do not appear in Transpower's IPP. In Transpower's IPP we have changed the forecast CPI value in Schedule C8 for disclosure year 2026 from 2.00% (annual basis) to 2.20% (quarterly basis), consistent with paragraph 2.25.3.

Chapter 3 RCP4 forecast MAR and forecast SMAR

Purpose of this chapter

- 3.1 This chapter sets out the background to the key decisions in our 29 August 2024 final decisions and how these have been applied in informing the decisions we are now making on Transpower’s final revenue cap for RCP4.

Background

- 3.2 Consistent with the Transpower IM, the forecast SMAR acts as the cap on total revenues that Transpower may input into the Transmission Pricing Methodology to calculate the transmission prices for each pricing year. The forecast SMAR is calculated based on the forecast MAR.
- 3.3 In this section, we summarise the calculation method and the results of the calculation of the forecast SMAR values for RCP4.
- 3.4 We also set out the calculation of the total building blocks forecast MAR value for each pricing year, which is used in the calculation of the forecast SMAR. This calculation is based on the calculation model set out in Schedule D of Transpower’s IPP.
- 3.5 In our 29 August 2024 final decisions, we made the following key decisions relating to Transpower’s RCP4 price path and how it would be calculated:²⁰
- 3.5.1 smooth Transpower’s annual revenue, consistent with the Transpower IM by:
 - 3.5.1.1 forecasting costs, including pass-through costs, recoverable costs, and an estimate of the economic value account (**EV account**) balance as at 30 June 2025, and building these into the forecast MAR;
 - 3.5.1.2 smoothing the resulting forecast MAR over RCP4 using growth rates of equal amounts in years one and two of RCP4 and 5% for each of years three to five to produce an annual forecast SMAR; and

²⁰ Commerce Commission [“Transpower’s individual price-quality path for the regulatory control period from 1 April 2024 – Final Decision Attachment A – Revenue path design”](#) (29 August 2024), para 1.4.

- 3.5.1.3 annually washing up during RCP4 any variation between the forecast SMAR and Transpower’s actual revenue, and including the result of the wash-up plus any incentive amounts in Transpower’s EV account each year, and then accumulating the balance of the EV account over RCP4, with the closing RCP4 balance to be returned or recovered in Transpower’s forecast revenues in RCP5;²¹
 - 3.5.2 maintain the financial building blocks and inputs of the financial model used in RCP3, and now also include a revaluation building block for the purposes of calculating forecast revenue for pricing purposes and calculating the annual revenue wash-ups;
 - 3.5.3 include an additional transitional adjustment mechanism for an EV account entry arising from a deposit payment in RCP3 on the high-voltage direct current (**HVDC**) Cook Strait cable replacement project; and
 - 3.5.4 amend the revaluation approach in the Transpower IM to allow Transpower to apply depreciation to the regulatory asset base (**RAB**) before applying a revaluation.²² This amends the revaluation implementation approach specified in the 2023 IM Review.
- 3.6 This approach is largely consistent with the RCP3 calculation methodology except for the revaluation building block and the transitional adjustment mechanism in the EV account, with only the revaluation building block representing a noticeable change to the RCP3 price path calculation methodology.

Request to Transpower to provide information on the calculation of the RCP4 forecast MAR and forecast SMAR

- 3.7 On 25 September 2024, we issued an information gathering Notice under section 53ZD of the Commerce Act 1986 (**the Act**) to Transpower, requiring it to apply our key decisions of 29 August 2024 (including those set out above) to calculate its forecast MAR and forecast SMAR for each pricing year of RCP4.²³

²¹ Amounts will be carried forward from year to year in the Economic Value (**EV**) account at the WACC rate, to compensate Transpower for the time value of money.

²² Transpower Input Methodologies Amendment Determination 2024 [2024] NZCC 19 and Commerce Commission, “[Amendments to input methodologies for Transpower New Zealand Limited related to the Transpower individual price-quality path from 1 April 2025 – Decision paper](#)” (29 August 2024), para 3.7.

²³ Commerce Commission, “[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](#)” (2 October 2024).

- 3.8 We required Transpower to provide us with specified information to enable us to verify those calculations, including an updated copy of its revenue model, an assurance opinion from an independent assurance auditor, and accompanied by director certification.
- 3.9 We specifically required Transpower to provide its:
- 3.9.1 calculation of the forecast MAR and forecast SMAR values for each pricing year in RCP4 in accordance with the Transpower IM determination (including all relevant IM amendments in force for RCP4); and
 - 3.9.2 forecast of the closing RCP3 EV account balance.

Final decision on initial annual allowable revenues

- 3.10 In its response to our s 53ZD Notice, Transpower provided an updated forecast MAR and forecast SMAR for each pricing year of RCP4 after applying our 29 August 2024 decisions. Our final decision is to set the forecast SMAR values in Table 3.1 using the numbers in Transpower’s response to the s 53ZD Notice.

Table 3.1 Forecast smoothed maximum allowable revenues determined for pricing years (nominal)

	2024/2025 (\$m) (RCP3)	2025/2026 (\$m)	2026/2027 (\$m)	2027/2028 (\$m)	2028/2029 (\$m)	2029/2030 (\$m)	Total RP4 forecast SMAR (\$m)
Forecast SMAR (RCP3/RCP4)	840.2	976.7	1,135.5	1,192.2	1,251.8	1,314.4	5,870.7

- 3.11 These forecast SMAR values are the initial starting points of allowable revenue for RCP4. As we noted in our 29 August 2024 final decision, in setting the annual revenue growth rate in Transpower’s IPP, we noted that it is likely that additional commissioned capex will be approved during RCP4 based on applications by Transpower, which we expect will increase the allowable revenue when and if we approve them.²⁴
- 3.12 We detail below how the forecast SMAR has been calculated.

²⁴ Commerce Commission, [“Transpower’s individual price-quality path for the regulatory control period from 1 April 2024 – Final Decision Attachment A – Revenue path design”](#) (29 August 2024), para 2.39.

Forecast SMAR calculation methodology

3.13 Clause 3.1.1(1) and (2) of the Transpower IM sets out the requirement that Transpower’s maximum revenue it may recover is to be capped at an amount not exceeding the forecast SMAR.

3.14 Clause 3.1.1(3)(b)-(d) of the Transpower IM then states:

- (3) For the purpose of setting the ‘**forecast SMAR**’:
 - (a) ... ;
 - (b) the present value of the aggregated **forecast SMAR** values for the **regulatory period** must equal the present value of the aggregated **forecast MAR** values for the **regulatory period**;
 - (c) the **IPP revenue growth rate** must be applied when calculating the **forecast SMAR** for each **pricing year** of the **regulatory period** after the first **pricing year**; and
 - (d) the respective present values in (b) must be calculated using the **WACC**.

3.15 The forecast SMAR values for RCP4 have been determined using Transpower’s financial model that applies revenue calculation rules which are consistent with the method set out in clause 33.3 of Transpower’s IPP for future updates of the forecast SMAR:²⁵

- 33.3 The calculation of an update of the **forecast SMAR**, must, where applicable, use:
 - 33.3.1 the update of the **forecast MAR** calculated in accordance with clauses 33.1 and 33.2;
 - 33.3.2 the conversion of the updated **forecast MAR** for each remaining complete **pricing year** in **RCP4** to **forecast SMAR** calculated by–
 - (a) inputting building block values for each **disclosure year** of the **regulatory period** into Schedule D;
 - (b) converting the **forecast MAR** building blocks to **pricing year** values by applying the cash flow timing factors in ‘Column 4’ of Schedule D; and
 - (c) converting the **forecast MAR** to the **forecast SMAR** for each **pricing year** using the methodology set out in clause 3.1.1(3)(b)-(d) of the **Transpower IM**;

²⁵ Transpower provided us with an audited updated revenue model on 21 October 2024 in response to our s 53ZD information gathering notice, Commerce Commission, “[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](#)” (2 October 2024).

33.3.3 for the purposes of clause 33.3.2, the updated present value of the incremental **forecast SMAR** for the remaining complete **pricing years** in **RCP4** must equal the present value of the updated incremental **forecast MAR** for the remaining complete **pricing years** in **RCP4**; and

33.3.4 the **IPP revenue growth rate** for each **pricing year** of **RCP4** as specified in clause 8.3.

Key inputs – forecast SMAR

- 3.16 The IPP revenue growth rates for each pricing year of RCP4 are set out in clause 8.3 of Transpower’s IPP. We required Transpower to calculate equal revenue growth rates for pricing years one and two based on an assumed fixed growth rate of 5.00% for years three, four and five. Applying clause 3.1.1(3)(b) of the Transpower IM then resulted in a derived revenue growth rate for each of pricing years one and two of RCP4 of 16.25%.
- 3.17 The 65th percentile estimate of post-tax WACC applied in setting the forecast SMAR in the smoothed price path for RCP4 is 6.44%.

Key inputs – forecast MAR

- 3.18 As noted above, the forecast SMAR is underpinned by the forecast MAR calculations. In calculating the forecast MAR for each pricing year of RCP4 commencing 1 April 2025, we have used a building blocks calculation model. We set out below the key inputs we have used.
- 3.19 The 65th percentile estimate of vanilla WACC applied in calculating the forecast capital charge building block in the forecast MAR is 7.10%.²⁶
- 3.20 The opex allowances for each pricing year in nominal values are summarised in Table 3.2. These are specified in Schedule C5 of Transpower’s IPP.

Table 3.2 RCP4 opex allowances (nominal)

	2025/2026 (\$m)	2026/2027 (\$m)	2027/2028 (\$m)	2028/2029 (\$m)	2029/2030 (\$m)
Opex allowance	421.1	419.3	440.8	445.0	437.6

- 3.21 The base capex allowances for each pricing year in nominal values (after applying a half-yearly commissioning assumption) are summarised in Table 3.3. These are specified in Schedules C1 and C2 of Transpower’s IPP.

²⁶ Note this is now lower than the estimated 65th percentile vanilla WACC we used for the purposes of the revised draft determination on 29 August 2024.

Table 3.3 RCP4 capex allowances – commissioned basis (nominal)

	2025/2026 (\$m)	2026/2027 (\$m)	2027/2028 (\$m)	2028/2029 (\$m)	2029/2030 (\$m)
Base capex allowance	460.5	585.4	437.0	437.2	630.4

3.22 The corporate tax rate for the calculation of the tax building block for each pricing year of RCP4 is 28%.

3.23 The above inputs have been incorporated into the building block values calculated for the setting of the forecast MAR. We set out the building block values in Attachment A of this paper. The calculations were carried out in accordance with the forecast MAR calculation schedule in Transpower’s IPP, Schedule D, which will also later be used by Transpower during RCP4 to calculate any updates of the forecast MAR.

Results of revenue calculations for RCP4

3.24 Table 3.4 is a summary of the RCP4 forecast MAR and forecast SMAR values.

Table 3.4 RCP4 forecast MAR and forecast SMAR values (nominal)

	2025/2026 (\$m)	2026/2027 (\$m)	2027/2028 (\$m)	2028/2029 (\$m)	2029/2030 (\$m)	Total (\$m)
Forecast MAR Value	1,076.0	1,112.9	1,161.7	1,230.4	1,271.6	5,852.6
Cashflow effect of smoothing of the price path	-99.3	22.5	30.5	21.5	42.8	-
Forecast SMAR value (applying the IPP revenue growth rate)	976.7	1,135.5	1,192.2	1,251.8	1,314.4	5,870.7

Updates to the building block values since our August 2024 revised draft determination

3.25 This section briefly discusses key changes to the final forecast MAR building block values compared to those we used to estimate the August 2024 revised draft price path.

Impact on the capital charge building block of finalising the WACC rate

- 3.26 The WACC applicable for RCP4 is approximately 25 basis points lower (on both a vanilla and post-tax basis) than our estimate of the WACC rate we used in the revised draft determination in August 2024.²⁷ We estimate, all else being equal, this lower WACC has resulted in a reduction of approximately \$79 million in the total of the RCP4 forecast MAR values.

	65 th percentile vanilla WACC	65 th percentile post-tax WACC
29 August 2024 revised draft determination estimate	7.37%	6.67%
WACC determination as applicable to RCP4	7.10%	6.44%

Forecast CPI used in converting constant dollar expenditure to nominal values

- 3.27 As discussed in Chapter 2, we have decided to update our approach for calculating forecast CPI for the purposes of converting the 29 August 2024 real expenditure allowances to nominal values.
- 3.28 This has resulted in changes to the CPI values applied in the opex allowances and base capex allowances for revenue calculation and for incentive purposes. This has resulted in an increase in the opex allowances and base capex allowances compared to the allowances set out in our revised draft determination. The increased expenditure allowances will be reflected in an increase in revenue (all else being equal).

Updates to base capex allowance

- 3.29 We have also updated the base capex allowance in Schedule C2 of Transpower's IPP to take into account Transpower's asset commissioning assumptions on approved expenditure and the updated CPI calculation method we have applied.

²⁷ We used a WACC estimate calculated as at April 2024 using the most recent ID WACC determination (determined in August 2023) and adjusted for changes from the 2023 IM Review. We took this approach as the WACC applicable for RCP4 had not been determined at the time we released our final decision on 29 August 2024.

- 3.30 The expenditure in Schedule C2 of the revised draft determination in August 2024 was set out on an expenditure basis, without applying any timing assumptions for commissioning dates. As part of the s 53ZD Notice to Transpower, we required Transpower to calculate the base capex allowance on an assets commissioned basis and assume all assets are commissioned at mid-year.²⁸ This is an estimate that will be washed up for the revenue effect of actual commissioning dates during RCP4.
- 3.31 The base capex allowance in nominal terms has increased since our August 2024 estimates due to differences in the capex commissioning profile. Transpower has explained that this is driven by the forecast commissioning of the expenditure we approved as part of our 29 August 2024 decisions and forecast commissioning of capex that has been (or will be) spent in RCP3 but is expected to be commissioned in RCP4.
- 3.32 The updated base capex allowance (taking account of the updated capex commissioning assumptions applied by Transpower) has resulted in an increase in forecast revenue of approximately \$5 million compared to the revenue we had calculated in the revised draft determination.

Revaluation

- 3.33 The forecast revaluation of the RAB in RCP4 has decreased in the final calculations by \$27.3 million, from \$576.6 million to \$549.4 million, as a result of the IM amendment made as part of the RCP4 IPP reset, which requires Transpower to apply depreciation before revaluing its Regulatory Asset Base. We had signalled this likely result as part of the IM amendments reasons paper.²⁹

Forecast recoverable costs

- 3.34 The forecast recoverable costs include forecast opex incentive amounts recoverable by Transpower through its revenue with respect to the incremental rolling incentive scheme (**IRIS**) in Part 3, Subpart 6 of the Transpower IM.
- 3.35 In the revenue model which it submitted as part of its RCP4 proposal in 2023, we required Transpower to model the revenue path using the draft decision of the 2023 IM Review, as the final decision on the IM Review had not yet been released at that time. We continued to use Transpower's IRIS incentive estimates up until the revised draft determination in August 2024.

²⁸ Commerce Commission, "[Transpower RCP4 Notice to supply forecast MAR and forecast SMAR calculations under s53ZD](#)" (2 October 2024).

²⁹ See Commerce Commission, "[Amendments to input methodologies for Transpower New Zealand Limited related to the Transpower individual price-quality path from 1 April 2025](#)" (29 August 2024), paras 3.42-3.44 in which we noted we would expect to see an increase of around \$6.1 million in revaluation in each year of RCP4 resulting from the amended revaluation method.

- 3.36 In the revenue model provided by Transpower in its response to the s 53ZD Notice, Transpower modelled a complete IRIS calculation, including using requirements prescribed under the final decision of the IM Review 2023 that had not been modelled previously. This included modelling of the IRIS non-recurrent amount.³⁰ The updated IRIS calculation has resulted in the inclusion of \$134.9m for forecast IRIS recoverable costs in RCP4. This additional incentive amount recoverable by Transpower increases the forecast MAR by the same amount and has the effect of increasing the forecast SMAR by a similar amount.
- 3.37 The detailed calculations of the IRIS incentive amounts are publicly available in accordance with the s 53ZD Notice in the revenue model published alongside this companion paper.

³⁰ For our decision on the IRIS non-recurrent amount, see Commerce Commission, "[Transpower's individual price-quality path for the regulatory control period from 1 April 2024 – Final Decision Attachment A – Revenue path design](#)" (29 August 2024), para 3.39.

Attachment A Summary of building blocks calculation of forecast MAR

A1 Table A1 in this attachment shows a summarised view of the building blocks calculation of the forecast MAR for each pricing year of RCP4.

Table A1 Forecast MAR building block values

Forecast MAR building block (as per Schedule D of the RCP4 IPP determination)	Forecast MAR building block value by pricing year as calculated per Schedule D of the RCP4 IPP determination (\$m)				
	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030
[Column 1]	[Column 5]	[Column 5]	[Column 5]	[Column 5]	[Column 5]
WACC (65th percentile vanilla WACC)	7.10%	7.10%	7.10%	7.10%	7.10%
WACC return on forecast opening RAB value	370.3	396.6	425.1	450.3	474.3
WACC return on forecast VCA_{JUL}	-	-	-	-	-
WACC return on forecast VCA_{AUG}	-	-	-	-	-
WACC return on forecast VCA_{SEP}	-	-	-	-	-
WACC return on forecast VCA_{OCT}	-	-	-	-	-

WACC return on forecast VCA_{NOV}	-	-	-	-	-
WACC return on forecast VCA_{DEC}	10.3	11.1	10.4	10.2	14.3
WACC return on forecast VCA_{JAN}	8.6	9.3	8.7	8.6	12.0
WACC return on forecast VCA_{FEB}	-	-	-	-	-
WACC return on forecast VCA_{MAR}	-	-	-	-	-
WACC return on forecast VCA_{APR}	-	-	-	-	-
WACC return on forecast VCA_{MAY}	-	-	-	-	-
WACC return on forecast VCA_{JUN}	-	-	-	-	-
Total forecast Capital charge (disclosure year basis)	389.2	417.0	444.2	469.1	500.5

Total forecast Capital charge (revenue date basis)³¹	377.5	404.4	430.8	454.9	485.4
Forecast revaluation	(96.0)	(102.9)	(110.3)	(117.0)	(123.1)
Forecast depreciation	273.3	291.3	306.2	320.8	338.6
Operating expenditure	422.6	420.8	442.4	446.6	439.2
Forecast tax	23.3	20.4	17.0	23.7	30.6
Forecast TCSD	3.2	3.4	3.6	3.8	4.1
Forecast EV adjustment	44.7	44.7	44.7	44.7	44.7
Forecast pass-through costs	22.4	23.0	23.5	24.1	24.7
Forecast recoverable costs	5.1	7.8	3.8	28.7	27.5
Total MAR inclusive of forecast pass-through costs and forecast recoverable costs	1,076.0	1,112.9	1,161.7	1,230.4	1,271.6

³¹ Note these values reflect a forecast capital charge in revenue date basis by applying a timing adjustment factor to the year-end disclosure year basis forecast capital charge building block.