

## **Notice to Supply Information to the Commerce Commission Section 53ZD of the Commerce Act 1986**

To: Transpower New Zealand Limited  
PO Box 1021  
WELLINGTON

For the purpose of carrying out its functions and exercising its powers under Part 4 of the Commerce Act 1986 ('the Act'), the Commerce Commission ('Commission') requires, under sections 53ZD(d) and 53ZD(f) of the Act, that Transpower New Zealand Limited ('Transpower') provides the Commission with the information specified in this notice.

The purpose of this notice is to require Transpower to calculate the forecast maximum allowable revenue (forecast MAR) and perform associated calculations for the period from 1 April 2015 to 31 March 2020 (the second regulatory period, referred to in this notice as 'RCP2'), and report these to the Commission.

### **Interpretation**

In this notice, unless the context requires otherwise, words and terms bear the meanings in the Act, the *Transpower Input Methodologies Determination* [2012] NZCC 17, 29 June 2012 and *Transpower Capital Expenditure Input Methodology Determination* [2012] NZCC 2, 31 January 2012 (as amended in each case by the *Transpower Input Methodologies Amendments Determination 2014* [2014] NZCC 22, 28 August 2014) ('IMs'), and the *Transpower Individual Price-Quality Path Draft determination 2015* [2014] NZCC XX, 12 September 2014) ('IPP').

### **Introduction**

This notice requires two phases of calculation, certification and assurance reporting:

- (a) Phase One uses the Commission's current estimates of WACC rates that may be applicable in RCP2. This information is due by 24 October 2014, and must be certified by the Chief Executive Officer of Transpower; and
- (b) Phase Two replaces the estimated WACC rates used in the first phase with the final WACC rate to be determined by the Commission by 31 October 2014. This information is due by 14 November 2014. It is subject to an independent assurance opinion from an auditor and is to be certified by at least two Directors of Transpower.

The calculations required by this notice are based on -

- (a) the requirements (mainly definitions) determined by the Commission in the IMs

- (b) decisions made by the Commission under the IMs (inputs for the calculations as detailed in *Setting Transpower's individual price-quality path for 2015—2020* [2014] NZCC 23, 29 August 2014);
- (c) the form of calculation for the forecast MAR for RCP2 contained in Schedule D of the IPP;
- (d) for Phase One, estimates of the WACC rates specified in this notice; and
- (e) for Phase Two, the WACC rate to be determined by the Commission by 31 October 2014.

## Requirements

1. For Phase One, Transpower is required to provide to the Commission estimated forecast MAR calculations for each of the five pricing years of RCP2 using the estimated WACC rates for RCP2 set out in Table 1 of this notice. Separate calculations are required for each of the 67<sup>th</sup> percentile and 75<sup>th</sup> percentile estimated WACC rates.

**Table 1: WACC estimates for RCP2**

	Vanilla WACC	Post-tax WACC
67 <sup>th</sup> percentile	7.30%	6.53%
75 <sup>th</sup> percentile	7.55%	6.78%

2. For Phase Two, Transpower is required to provide to the Commission forecast MAR calculations for each of the five pricing years of RCP2 based on the final determined WACC rate for RCP2, which will be advised to Transpower by the Commission by 31 October 2014.
3. Transpower must apply the IMs with the necessary modifications and clarifications set out in Attachment A, when complying with this notice.
4. Transpower may not make modifications to the IMs other than those specified in Attachment A without prior consultation and agreement with the Commission.
5. Transpower must apply the IPP when complying with this notice.
6. Decisions made by the Commission with respect to inputs to the forecast MAR calculations are those specified in the Commission's decisions for RCP2, set out in Attachment J of *Setting Transpower's individual price-quality path for 2015—2020* [2014] NZCC 23 (29 August 2014).
7. For the avoidance of doubt, in carrying out the forecast MAR calculations required by this notice-

- 7.1 no amount of forecast capital expenditure of a 'listed project' shall be included in any calculation or reporting related to this notice. For this purpose a 'listed project' is one referred to in Table D1 of Attachment D of the Commission's decisions for the expenditure allowances for RCP2 in *Setting Transpower's individual price-quality path for 2015—2020* [2014] NZCC 23;
- 7.2 the corporate tax rate, to be applied to all relevant calculations for RCP2, is 28.0%;
- 7.3 where it has been specified that the RCP1 WACC is applicable (eg, in rolling forward a value from partway through RCP1 to the start of RCP2), the WACC determined for RCP1 shall be used;
- 7.4 the commissioning assumptions for base capex in the forecast MAR calculations shall be the same as those applied by Transpower when it complied with the request from the Commission to convert real base capex values specified by the Commission into nominal values for the Commission's base capex allowance decision for RCP2 as set out in *Setting Transpower's individual price-quality path for 2015—2020* [2014] NZCC 23;
- 7.5 Transpower may amend the commissioning assumptions for major capex projects from the commissioning assumptions used for those projects in RCP1, but the updated commissioning assumptions shall be the same as the approved assumptions used in the 2014 Annual Regulatory Report (in the case of Phase Two) or where that report has not yet been approved by the Board of Transpower (ie, possibly in the case of Phase One), the assumptions used at the time of the preparation of the 2014 Annual Regulatory Report;
- 7.6 the forecast interest during construction for capex projects ('IDC') shall be applied in accordance with the clarifications and necessary modifications set out in Attachment A; and
- 7.7 the forecast opening RAB value for RCP2 shall be based on:
- 7.7.1 the closing RAB value for the 2013/14 disclosure year; plus
  - 7.7.2 an estimate of the value of commissioned assets for the 2014/15 disclosure year; less
  - 7.7.3 an estimate of depreciation for the 2014/15 disclosure year; and
  - 7.7.4 any other forecast asset adjustments made under the IMs (ie, forecast found assets, lost assets, asset revaluations, and disposals) for the 2014/15 disclosure year.

#### **EV accounts and EV adjustments**

8. EV account balances and EV adjustments for the purposes of the requirements of this notice are to be disclosed both in aggregate and separately for the HVAC and HVDC EV accounts.

9. The EV account balances shall be forecast to be rolled forward to 30 June 2015 in accordance with the IPP for RCP1 (*Commerce Act (Transpower Individual Price-Quality Path) Determination 2010*, Decision No.714). For that purpose, the EV account balances as at 30 June 2014 are to include all EV account entries applicable to the 2013/14 disclosure year and the WACC rate to be applied is the WACC rate determined for RCP1.
10. For the 2014/15 disclosure year, Transpower is to assume there are no EV account entries as defined in the *Commerce Act (Transpower Individual Price-Quality Path) Determination 2010*, Decision No.714.
11. The forecast EV adjustments for RCP2 for inclusion in the forecast MAR calculations are to be calculated as set out in the IPP.
12. For RCP2, Transpower is to assume there are no EV account entries as defined in the IPP.
13. The EV account balances shall be forecast to be rolled forward in RCP2, with appropriate amendments year to year for the forecast EV adjustments, based on the forecast WACC rate for RCP2 (ie, for Phase One) or determined WACC rate for RCP2 (ie, for Phase Two).

#### **Calculations**

14. Transpower shall calculate the estimated forecast MAR (Phase One) or forecast MAR (Phase Two) using the form of calculation for RCP2 contained in Schedule D of the IPP.
15. The estimated forecast MAR (and forecast MAR, as applicable) for the purposes of the requirements of this notice is to be disclosed both as an aggregate amount for each disclosure year of RCP2 and separately for HVAC and HVDC consumers for each disclosure year.
16. Transpower shall provide supporting calculations that identify the sources of data and the calculations for each building block of the forecast MAR calculation.
17. No change may be made for Phase Two assumptions, models or inputs compared with those used to produce the estimated forecast MAR in Phase One, other than in respect of the WACC input and any directly consequential changes to building block calculations for that input, without consultation with the Commission and the provision of appropriate documentation and reasons for the change.
18. Transpower shall provide its estimate of the pass-through costs and recoverable costs for each disclosure year of RCP2, which will be applied in combination with the forecast MAR to give the total estimated revenue amount to be used in the transmission pricing methodology under the Electricity Industry Participation Code made by the Electricity Authority.
19. The estimated pass-through costs and recoverable costs for the purposes of the requirements of this notice are to be disclosed both as aggregate amounts for each

disclosure year of RCP2 and separately for HVAC and HVDC consumers for each disclosure year.

#### **CEO certification of Phase One estimated calculations and information**

20. For Phase One, the estimated forecast MAR calculations and supporting information provided to the Commission must be accompanied by a certificate signed by the Chief Executive Officer of Transpower in the following form:

I, [insert full name of CEO] being the Chief Executive Officer of Transpower New Zealand Limited, certify that, having made all reasonable enquiries, to the best of my knowledge and belief, the Phase One estimated forecast MAR calculations (and associated information) for the period 1 April 2015 to 31 March 2020 and dated [insert date] comply in all material respects with the requirements of the Commerce Commission notice of 12 September 2014

[Signature of Chief Executive Officer]

[Date]

#### **Independent assurance report for Phase Two calculations and information**

21. For Phase Two, Transpower must procure an independent assurance report by an auditor (as defined in the IPP in respect of the Phase Two calculations and information provided to the Commission that-
- 21.1 is prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE3100) and International Standard on Assurance Engagements 3000 (ISAE(NZ)3000) or their successor standards, signed by the auditor, either in his or her own name or that of his or her firm; and
  - 21.2 is addressed to the directors of Transpower and to the Commission as the intended users of the assurance report.
22. The independent assurance report must state-
- 22.1 that it has been prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE3100) and International Standard on Assurance Engagements 3000 (ISAE(NZ)3000) or their successor standards;
  - 22.2 the work done by the auditor;
  - 22.3 the scope and limitations of the assurance engagement;
  - 22.4 the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, Transpower or any of its subsidiaries;
  - 22.5 whether the auditor has obtained sufficient recorded information and explanations that he or she required and, if not, the information and explanations not obtained;

- 22.6 whether in the auditor's opinion, as far as appears from the examination, the information used in the preparation of the Phase Two forecast MAR calculations has, where applicable, been properly extracted from Transpower's accounting and other records, sourced from its financial and non-financial systems;
- 22.7 whether, in the auditor's opinion, as far as appears from an examination of them, proper records to enable the complete and accurate compilation of the Phase Two forecast MAR calculations have been kept by Transpower and, if not, the records not so kept; and
- 22.8 whether in the auditor's opinion, Transpower has complied, in all material respects, with this notice in preparing the Phase Two forecast MAR calculations and supporting information and, if not, the respects in which it has not done so.

#### **Directors' certification of Phase Two calculations and information**

23. For Phase Two, the forecast MAR calculations and supporting information provided to the Commission must be accompanied by a certificate signed by at least two directors of Transpower in the following form:

We, [insert full name of first director] and [insert full name(s) of additional director(s)], being directors of Transpower New Zealand Limited, certify that, having made all reasonable enquiries, to the best of our knowledge and belief, the forecast MAR calculations (and associated information) for the period 1 April 2015 to 31 March 2020 and dated [insert date] comply with the requirements of the Commerce Commission notice of 12 September 2014.

[Signatures of directors]

[Date]

#### **Format of calculations**

24. Transpower must provide the Commission with the information specified in these requirements in electronic Microsoft Word, Microsoft Excel or Adobe PDF format in a manner capable of a 'copy and paste' function being applied to it.
25. Where information is provided in Microsoft Excel format and information on the spreadsheets has been computed or derived from other values on the spreadsheet, the underlying formulae for the cells must be accessible to the Commission.

**Date and Place of Response**

26. Transpower must supply the specified calculations, supporting information, certification, and independent assurance report, as applicable, to the Commission's office at 44 The Terrace, Wellington (Attention: Paolo Ryan) by no later than 5pm on the date specified for each phase below:

26.1 Phase One, 24 October 2014; and

26.2 For Phase Two, 14 November 2014.

Dated at Wellington: 12 September 2014

Signed by:

A handwritten signature in blue ink that reads "Sue Begg". The signature is written in a cursive style with a large initial 'S'.

Sue Begg

Deputy Chair

## Attachment A

1. The necessary modifications to the IMs as contemplated by clauses 3.2.1(1), 3.3.1 and 3.4.1(1) of the Transpower IMs, are those specified in Table A1.

**Table A1: Clarifications and necessary modifications of input methodologies for RCP2**

Clarification or necessary modification to Transpower IMs for RCP2	Description <sup>1</sup>
1. Adjustment for IDC in excess of the cap in the 'asset valuation' IM in the Transpower IMs	An adjustment to the forecast depreciation building block to adjust for the excess of Transpower's IDC rate over the WACC rate maximum cap.
2. Amendments to major capex project forecast commissioning dates	Transpower may adjust the forecast commissioning dates for major capex projects from the assumptions previously used in RCP1, but the final commissioning date for an asset under each project may not be forecast later than the 'commissioning date assumption' for the project under the Capex IM.
3. Forecast tax asset values	The forecast tax asset is the same as the forecast of the tax book value that will be used for tax return purposes, and the forecast regulatory tax asset value is that value adjusted for any cost allocation to activities other than electricity transmission services.
4. Forecast depreciation and forecast closing RAB values	A weighted average remaining asset life may be applied for the purposes of Part 2, Subpart 2 of the Transpower IMs where capex on a project that is forecast to be commissioned during a disclosure year comprises a combination of asset descriptions and where the mix of the capex within the project is required to be estimated.
5. Forecast dismantling costs	Dismantling costs that were not included in the opening RAB value for the 2011/12 disclosure year and that are forecast to be incurred by Transpower in RCP2 may be included in the forecast depreciation for the year in which those dismantling costs are forecast to be incurred.
6. 2011 pseudo assets forecast depreciation and forecast closing RAB value	The forecast depreciation of the 2011 pseudo assets for the purpose of calculating the forecast closing RAB value is calculated taking into account depreciation on pseudo assets as defined in the Thresholds Notice. <sup>2</sup>

<sup>1</sup> The clarifications and necessary modifications listed all applied in RCP1, and the existing interpretations of these clarifications and necessary modifications are unchanged for RCP2. The description provided in Attachment A is for identification only and is not intended to alter those interpretations.

<sup>2</sup> The 2011 pseudo asset is forecast to reach the end of its asset life in the 2015/16 disclosure year.