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10 October 2024

Transpower IPP 2025 - Deliverability reopener mechanism

1. Transpower welcomes the opportunity to respond to the Commerce Commission's (the Commission) technical consultation on deliverability reopener mechanism to be applied in Regulatory Control Period 4 (RCP4).

Deliverability adjustment

2. 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.
3. 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.
4. We note that Transpower workforce plans numbers are made up of Transpower's employees and contractors (together referred to as full time equivalent (FTE)) required to deliver its electricity transmission services.¹ These employees and contractors provide insourced capabilities provided by Transpower. They exclude outsourced services such as those carried out by our Service Providers (Grid and ICT), Engineering Consultants and other consulting services. FTEs referred to in RFI008, which was used as the basis for the Commission's model, is consistent with this definition.
5. For clarity, we suggest the Commission include an FTE definition for the purposes of the delivery risk adjustment schedule in the IPP determination, such as:

"'FTE' means a Transpower's employee or contractor required to deliver its electricity transmission services. It excludes outsourced services such those carried out by our Service Providers (Grid and ICT), Engineering Consultants and other consulting services."

¹ This excludes staff that support the delivery of system operator services and are covered by the system operator services agreement with the Electricity Authority and as described in the Scope section of Transpower workforce plan document (DP004_C).

Conversion to nominal amounts

6. We agree with the Commission on the proposed conversion of expenditure to nominal amounts. The average of quarterly inflation statistics reflects that expenditure occurs throughout the year.
7. The Commission proposal is now consistent with what it uses for EDBs, and with the Transpower Input Methodology 2012 (consolidated 2020).²
8. To be clear, although the 2023/24 annual CPI estimate mentioned in the Commission consultation is higher using the proposed calculation, this approach does not provide Transpower with an increase in nominal revenue.
9. Over the long run there should be minimal differences between the approaches, however the average of quarters better matches cash flows over the short term when used to 'inflate' constant values.
10. The table below shows the annual increases using the two methods over the first four years of RCP3.

Approach	2020/21	2021/22	2022/23	2023/24	RCP3 (to date) compound increase
Average of quarters	1.9%	6.3%	6.8%	4.4%	20.8%
June year	3.3%	7.3%	6.0%	3.3%	21.5%

11. During its next Input Methodology review, the Commission could update the Transpower Input Methodology to include a definition for the 'inflation rate.'

Please contact me if you have any questions on our submission.

Kind regards,



Head of Regulation

² Commerce Commission, Transpower Input Methodologies Determination 2010 (consolidated January 2020), Appendix Part 3: clause 3.6.6 (5).