



COMMERCE COMMISSION

DECISION NO. 737

Amendment made under s52Q of the Commerce Act 1986 (the Act) to the individual price-quality path determination applicable to Transpower pursuant to Part 4 of the Act.

The Commission:

Dr M Berry

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Date of Decision: 1 November 2011

Regulation Branch, Commerce Commission

Wellington, NEW ZEALAND

1 November 2011

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Commerce Act (Transpower Individual Price-Quality Path) Amendment Determination (No.1) 2011

Pursuant to Part 4 of the Commerce Act 1986, the Commerce Commission makes the following determination:

1. Title

This determination is the Commerce Act (Transpower Individual Price-Quality Path) Amendment Determination (No.1) 2011.

2. Commencement

This determination comes into force on 1 November 2011.

3. Amendments

- (1) This determination amends the Commerce Act (Transpower Individual Price-Quality) Determination 2010.
- (2) Part 2 (Defined Terms) is amended by omitting “clause 5.3(3)(d)” from paragraph (d) of the definition of **EV account entry** and substituting “clause 5.3(4)(d)”
- (3) Subclause 4.3(2) is amended by omitting paragraph (a) and substituting:

“(a) the information specified in clauses 5.5(2)(a) to (c); and”.

- (4) Subclause 4.3(3) is amended by omitting paragraph (a) and substituting:

“(a) the information specified in clauses 5.5(3)(a) to (c); and”.

- (5) Subparagraph 5.3(4)(d)(ii) is amended by inserting “in aggregate for the **regulatory period**” after “**minor capital expenditure**”.

- (6) Paragraph 5.5(2)(b) is amended by omitting “set out in” and substituting “specified in clauses”.

4. Implementing Commission’s setting of the forecast MARs under the IPP

- (1) Clause 3.3 is amended by omitting subclauses (1) through (3) and substituting:

“(1) The **forecast MAR** for the **remainder period** is:

“(a) for the **pricing year** from 1 April 2012 to 31 March 2013, \$783.8 million;

“(b) for the **pricing year** from 1 April 2013 to 31 March 2014, \$906.4 million;
and

“(c) for the **pricing year** from 1 April 2014 to 31 March 2015, \$958.9 million.”

- (2) Clause 3.3 is amended by renumbering subclause (4) as subclause (2) and the reference to clause 3.3(3) is amended to “clause 3.3(1)”.

- (3) Clause 4.2 is amended by omitting subclause (2) and substituting:

“(2) The quality targets for the **disclosure years** in the period from 1 July 2012 to 30 June 2015 are:

“(a) **loss of supply event frequency**:

“(i) maximum of 21 events >0.05 **system minutes**; and

“(ii) maximum of 3 events >1 **system minute**; and

“(b) **HVAC circuit unavailability (unplanned)**: maximum of 0.054% unavailability; and

“(c) **total impact of interruptions**: maximum of 16.69 **system minutes**.”

- (4) Clause 5.2 is amended by omitting subclause (7) and substituting:

“(7) **MAR** for the purposes of the calculation of the **ex-post economic gain or loss**:

“(a) using **applicable input methodologies**; and

“(b) using as the **operating expenditure allowance**:

“(i) for the **disclosure year** from 1 July 2011 to 30 June 2012, \$248.5 million; and

“(ii) for the **disclosure year** from 1 July 2012 to 30 June 2013, \$279.8 million; and

“(iii) for the **disclosure year** from 1 July 2013 to 30 June 2014, \$281.2 million; and

“(iv) for the **disclosure year** from 1 July 2014 to 30 June 2015, \$287.9 million; and

“(c) excluding **pass-through costs** and **recoverable costs**; and

“(d) using **minor capital expenditure** that is **commissioned** in the **disclosure year**, being the actual cost of **minor capital expenditure** in the **disclosure year**, and subject to the limitation that **minor capital expenditure** in aggregate for all **MAR** calculations in the **regulatory period** may not exceed the amount specified in clause 5.3(6).”

- (5) Clause 5.3 is amended by inserting new subclause (6):

“(6) The approved **minor capital expenditure** for the purposes of clauses 5.2(7), 5.3(4) and 5.3(5) is the aggregate of the following amounts:

“(a) for the **disclosure year** from 1 July 2011 to 30 June 2012, \$208.6 million; and

“(b) for the **disclosure year** from 1 July 2012 to 30 June 2013, \$301.9 million; and

“(c) for the **disclosure year** from 1 July 2013 to 30 June 2014, \$244.9 million; and

“(d) for the **disclosure year** from 1 July 2014 to 30 June 2015, \$278.4 million.”

(6) Clause 5.4, subclause (3) is amended by inserting new paragraphs (c) and (d):

- “(c) for each update under paragraph (a), use as the **operating expenditure allowance**:
- “(i) for the **pricing year** from 1 April 2013 to 31 March 2014, \$281.2 million; and
- “(ii) for the **pricing year** from 1 April 2014 to 31 March 2015, \$287.9 million; and
- “(d) for each update under paragraph (a), use for each **relevant pricing year** the approved **minor capital expenditure**:
- “(i) for the **disclosure year** from 1 July 2011 to 30 June 2012, \$208.6 million; and
- “(ii) for the **disclosure year** from 1 July 2012 to 30 June 2013, \$301.9 million; and
- “(iii) for the **disclosure year** from 1 July 2013 to 30 June 2014, \$244.9 million; and
- “(iv) for the **disclosure year** from 1 July 2014 to 30 June 2015, \$278.4 million.”

(7) Clause 5.6 is amended by inserting new subclause (3):

“(3) **Disclosure years** in the period 1 July 2012 to 30 June 2015:

- “(a) the impact that **Transpower's** actual performance would have had on **Transpower's forecast MAR** under the quality incentive mechanism outlined in clause 5.6(2)(b), had that quality incentive mechanism applied to **Transpower's forecast MAR** in the **relevant pricing year**;
- “(b) **Transpower** must use the targets, caps, collars and weightings for each quality measure as set out in the following table:

Quality Incentive Mechanism					
Parameter	Loss of Supply Event Frequency		Availability		Total Impact of Interruptions
	Number of events >0.05 system minutes	Number of events >1.0 system minute	HVAC circuit unavailability (unplanned) %	HVDC bi-pole unavailability (unplanned) %	Total system minutes
Quality measure target	21	3	0.054	Not in RCP1	16.69
Quality measure cap (on rewards for improved performance)	10	1	0.029	Not in RCP1	4.31
Quality measure collar (on penalties for poor performance)	31	5	0.083	Not in RCP1	29.07
Weighting (impact on revenue)	25%	25%	25%	Not in RCP1	25% ”

- (8) Schedule C (Independent Assurance Report – Annual Compliance) is amended in paragraphs (1) through (3), inclusive, of the Opinion section by omitting “with modifications as necessary for the Transition Year requirements and reference, if applicable, to relevant information for the Remainder Period”
- (9) Schedule F (Forecast MAR Summary) is amended:
- (a) by replacing the Initial forecast MAR for 31 March 2013 (Year 2) (remainder period) with “\$783.8 million”;
 - (b) by replacing the Initial forecast MAR for 31 March 2014 (Year 3) (remainder period) with “\$906.4 million”;
 - (c) by replacing the Initial forecast MAR for 31 March 2015 (Year 4) (remainder period) with “\$958.9 million”;
 - (d) by replacing the Total forecast MAR for 31 March 2013 (Year 2) (remainder period) with “\$783.8 million”;
 - (e) by replacing the Initial forecast MAR for 31 March 2014 (Year 3) (remainder period) with “\$906.4 million+D”;
 - (f) by replacing the Initial forecast MAR for 31 March 2015 (Year 4) (remainder period) with “\$958.9 million+E+F”; and
 - (g) by omitting “- subject to future determination” from the Status for 31 March 2013 (Year 2) (**remainder period**).
- (10) Schedule G (Explanatory Note) is amended by omitting the second paragraph and substituting :
- “In respect of the price path, the Determination sets out Transpower's maximum allowable revenue (which is the forecast maximum allowable revenue) for each year in the regulatory period from 1 April 2011 – 31 March 2015.”

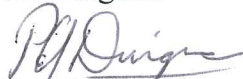
Dr Mark Berry, *Chair*




Sue Begg, *Deputy Chair*



Pat Duignan



Dr Stephen Gale



Dated at Wellington this 1st day of November 2011.

COMMERCE COMMISSION

Explanatory Note

This determination amends the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 to implement the Commission's decisions on the forecast MARs, the operating expenditure allowances, the approved minor capital expenditure amounts, and the quality standards for the remainder period of the regulatory period in accordance with the price and quality standard setting procedures set out in the initial determination, and to correct some minor errors and clarify certain definitions and provisions.