



COMMERCE COMMISSION

DECISION NO. 714

Individual price-quality path determination applicable to Transpower pursuant to Part 4 of the Commerce Act 1986 (the Act).

The Commission:

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Reflecting all amendments as of 1 November 2011

Regulation Branch, Commerce Commission

Wellington, NEW ZEALAND

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**COMMERCE ACT (TRANSPOWER INDIVIDUAL PRICE-  
QUALITY PATH) DETERMINATION 2010  
(INCLUDING ALL CONSOLIDATED AMENDMENTS TO 1  
NOVEMBER 2011)  
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Pursuant to Part 4 of the Commerce Act 1986 the Commerce Commission makes the following determination:

## PART 1 GENERAL PROVISIONS

### 1.1 Title

This determination is the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010.

### 1.2 Commencement Date

This determination comes into force on 1 April 2011.

### 1.3 Application

(1) This determination applies to **Transpower** for the **regulatory period**.

(2) For the avoidance of doubt, nothing in this determination affects the application of the **administrative settlement**, which remains in force until its expiry so that **Transpower** can comply with its final reporting obligations.

### 1.4 Interpretation

In this determination, unless the context otherwise requires,—

- (a) terms that are defined in the **Act** but not in this determination have the same meanings as in the **Act**;
- (b) words appearing in this determination in bold type are defined terms and bear the meanings given to them in Part 2; and
- (c) a word which denotes the singular also denotes the plural and vice versa.

### 1.5 Individual price-quality path

**Transpower** must comply with the individual price-quality path, which consists of:

- (a) the price path in Part 3; and
- (b) the quality standards in Part 4.

### 1.6 Applicable input methodologies

The input methodologies set out in Part 3 of the **IM determination** apply to the individual price-quality path.

## PART 2 DEFINED TERMS

In this determination, unless the context otherwise requires,—

### A

**Act** means the Commerce Act 1986;

**administrative settlement** means the deed of settlement entered into by the **Commission** and **Transpower** on 24 June 2008 and the **thresholds notice**;

**annual compliance monitoring statement** means a statement made by **Transpower** under Part 5;

**applicable input methodologies** means the input methodologies referred to in clause 1.6;

**asset enhancement** means **capital expenditure** on a **project** or **programme** that enhances an asset or sub-component of the asset, and that involves:

- (a) replacing or adding to the asset; or
- (b) materially improving the design attributes of the asset; or
- (c) improving the original service potential of the asset; or
- (d) work on existing assets or investment in new assets, but not including work on **information systems and technology assets**, where the main purpose is to:
  - (i) improve the performance of the asset so that it performs at a level above an appropriate standard of service and/or good industry practice; or
  - (ii) increase its capacity, reliability, or quality of supply, consistent with **customer** needs;

**asset refurbishment** means **capital expenditure** driven by **Transpower's** policies, on a **project** or **programme** that refurbishes an asset, or sub-component of the asset, and that:

- (a) materially extends its original economic life; and
- (b) does not improve its original service potential; and
- (c) excludes work to ensure that it is able to perform its designated function for its normal estimated operating life;

**asset replacement** means **capital expenditure** driven by **Transpower's** policies on a **project** or **programme** that replaces substantially all of an asset, or sub-component of the asset, and where the replacement:

- (a) is due to the condition or performance of that asset; and
- (b) does not materially improve the original service potential beyond that attributable to using modern equivalent assets;

**auditor** means a person who:

- (a) is qualified for appointment as auditor of a company under the Companies Act 1993; and
- (b) has no relationship with, or interest in, **Transpower** that is likely to involve the person in a conflict of interest; and
- (c) has not assisted with the preparation of the **annual compliance monitoring statement** or **forecast MAR** calculation, as applicable, or provided advice or opinions (other than in relation to **independent assurance reports**) on the methodologies or processes used in preparing the **annual compliance monitoring statement** or **forecast MAR** calculation; and



- (d) has the necessary expertise to properly undertake an independent assurance engagement required by this determination; and
- (e) need not be the same person as the person who audits **Transpower's** financial accounts for any other purpose;

## B

**business support** means **capital expenditure** that is not directly incurred in relation to the **grid** and that is incurred in relation to:

- (a) information systems and technology assets other than those relating to the **grid**; or
- (b) office buildings; or
- (c) depots and workshops; or
- (d) office furniture and equipment; or
- (e) motor vehicles; or
- (f) tools, plant and machinery;

## C

**capital expenditure** means costs that -

- (a) have been incurred in the acquisition or development of an asset that is, or is intended to be, **commissioned**; and
- (b) are included or are intended to be included in a **closing RAB value**; and
- (c) exclude –
  - (i) any amount relating to a **new investment contract**;
  - (ii) any expenditure to the extent that it is applied in the provision of **unregulated services**; or
  - (iii) any expenditure to the extent that it is applied in the provision of **system operator services**;

**catastrophic event** has the meaning set out in the **IM determination**;

**closing RAB value** has the meaning set out in the **IM determination**;

**Code** means the Electricity Industry Participation Code made by the Electricity Authority under subpart 3 of Part 2 of the Electricity Industry Act 2010, as amended from time to time;

**Commission** has the meaning set out in s 2 of the **Act**;

**commissioned** has the meaning set out in the **IM determination**;

**commodity instrument that is not an effective hedge** means an instrument acquired by or entered into by **Transpower** in accordance with its policy on **capital expenditure** hedging in respect of an exposure to commodity prices, and the instrument does not qualify for hedge accounting in accordance with **GAAP** at the date of being entered into or acquired and that results in a gain or loss being incorporated into its Statement of Comprehensive Income or equivalent audited statement of income and expenses for financial accounting purposes;

**corporate tax rate** has the meaning set out in the **IM determination**;

**customer** means any generator, distribution business, consumer, or other entity in New Zealand that is connected, or applies to be connected, to the **grid**;

## D

**depreciation** has the meaning set out in the **IM determination**;

**directors' certificate** means a certificate signed by at least two directors of **Transpower** in the forms specified in Schedules A or B, as applicable;

**disclosure year** means a period of 12 months ending on 30 June;

## E

**easement** has the meaning set out in the **IM determination**;

**easement land** has the meaning set out in the **IM determination**;

**electricity transmission services** means electricity lines services ('electricity lines services' as defined in s 54C of the **Act**) supplied by **Transpower**;

**energy not supplied** means the best estimate of energy that would have been supplied by **Transpower** had there been no **interruption**, minus energy actually supplied by **Transpower**;

**EV** means economic value;

**EV account** means, as applicable, the **HVAC EV** account or the **HVDC EV** account maintained by **Transpower** to record each **EV account entry** not yet returned to or recovered from **Transpower's HVAC customers** or **HVDC customers**, and to record interest calculated on the balance of each **EV** account for each **disclosure year** using the **WACC**;

**EV account entry** means, for any **disclosure year**, a debit or credit entry into either the **HVAC EV account** or the **HVDC EV account** to record:

- (a) an after-tax **HVAC ex-post economic gain or loss** or an after-tax **HVDC ex-post economic gain or loss** for the **disclosure year**, calculated in accordance with **Schedule E**;
- (b) an after-tax gain or loss in respect of an **instrument that ceases to be an effective hedge**; or
- (c) an after-tax gain or loss in respect of a **commodity instrument that is not an effective hedge**; or
- (d) an after-tax revenue adjustment amount calculated in accordance with clause 5.3(4)(d);

**EV adjustment** means, in relation to a **disclosure year**, an input to the **forecast MAR** determined in accordance with clause 5.3, for the purpose of returning to or recovering from **HVAC customers** or **HVDC customers** a portion of the **EV account** balance applying to those **customers**;

**ex-post economic gain or loss** means, for any **disclosure year**, the difference (expressed as a positive or negative amount) between the summation of the **HVAC revenue** and the **HVDC revenue** in respect of that **disclosure year**, and the **MAR** for that **disclosure year**;

## F

**forecast MAR** means:

- (a) for the **transition year**, the amount specified at clause 3.2; and
- (b) for **pricing years** in the **remainder period**, the amount for a **disclosure year** that is applied to the **relevant pricing year** and that is determined by the Commission in accordance with clause 3.3;

**forecast MAR calculation model** means the software and procedures that **Transpower** uses to carry out the calculations required under clause 3.3(2);

## G

**GAAP** means generally accepted accounting practice in New Zealand;

**grid** means the fixed assets used or owned by **Transpower** for the purpose of supplying **electricity transmission services**;

## H

**HVAC** means high voltage alternating current;

**HVAC circuit unavailability (unplanned)** means the percentage of time that the **HVAC** circuits are unavailable, where this is unplanned, and:

- (a) applies to **HVAC** transmission circuits operated as part of the **grid** at a voltage equal to or greater than 33kV;
- (b) is calculated as a percentage using;

*total number of minutes any circuits were out of service in a period X 100*

*(total number of minutes in period X total number of circuits at start of year)*

- (c) includes:
  - (i) all unplanned circuit **outages** originating on the **HVAC** system;
  - (ii) **catastrophic events**; and
  - (iii) forced **outages** caused by third parties;
- (d) excludes:
  - (i) outages of less than one minute duration;
  - (ii) **outages** at the request of, or caused by, a **customer**;
  - (iii) all **planned outages**;
  - (iv) correct operation of boundary equipment; and
  - (v) **HVDC outages**;

**HVAC customer** means, in relation to a **disclosure year**, any **customer** from whom **Transpower** receives **HVAC transmission revenue** in the **relevant pricing year**;

**HVAC revenue** means, in relation to a **disclosure year**, the **HVAC transmission revenue** for the **relevant pricing year**, excluding **pass-through costs** and **recoverable costs** passed on to **HVAC customers**;

**HVAC transmission revenue** means revenue (net of rebates) received by **Transpower** from **HVAC customers** in respect of the use by **Transpower** of **Transpower's HVAC** transmission system for the purpose of providing **electricity transmission services** to **customers**, but excludes any such revenue -

- (a) that compensates for the return on or of assets covered under a **new investment contract**; or
- (b) associated with the provision of **unregulated services**; or
- (c) relating to services provided as **system operator**;

**HVDC** means high voltage direct current;

**HVDC bi-pole unavailability (unplanned)** means the percentage of time that the **HVDC bi-pole** is not 100% available weighted by the unavailable megawatt capacity, where this is unplanned, and:

- (a) is calculated as a percentage using:

*total number of minutes that any HVDC poles were unavailable or derated X the reduction in capacity in megawatts) X 100*

*(total number of minutes in period X rated capacity of the HVDC poles in megawatts)*

- (b) includes:
  - (i) all **unplanned outages** of the **HVDC** link originating on the **Transpower HVDC** system;
  - (ii) **catastrophic events**; and
  - (iii) forced **outages** caused by third parties;
- (c) excludes:
  - (i) **outages** of less than one minute duration;
  - (ii) **outages** at the request of, or caused by, a **customer**;
  - (iii) all **planned outages**;
  - (iv) correct operation of boundary equipment; and
  - (v) **HVAC outages**;

**HVDC customer** means, in relation to a **disclosure year**, any **customer** from whom **Transpower** receives **HVDC transmission revenue** in the **relevant pricing year**;

**HVDC revenue** means, in relation to a **disclosure year**, **HVDC transmission revenue** for the **relevant pricing year**, excluding **pass-through costs** and **recoverable costs** passed on to **HVDC customers**;

**HVDC transmission revenue** means any revenue (net of rebates) received by **Transpower** from **HVDC customers** in respect of the use by **Transpower** of **Transpower's HVDC** transmission system for the purpose of providing **electricity transmission services** to **customers**, but excludes any such revenue -

- (a) that compensates for the return on or of assets covered under a **new investment contract**; or
- (b) associated with the provision of **unregulated services**; or
- (c) relating to services provided as **system operator**;

## I

**independent assurance report** means, as applicable, a report issued by an **auditor** that relates to;

- (a) an **annual compliance monitoring statement** (including the information requirements), in the form specified in Schedule C; or
- (b) a **forecast MAR** calculation prepared by **Transpower**, in the form specified in the applicable notice under s 53ZD of the **Act**;

**IM determination** means the Commerce Act (Transpower Input Methodologies) Determination 2010;

**information system and technology assets** means assets that are used in operating or supporting the operation of the **grid**, including:

- (a) **Transpower's** telecommunications network;
- (b) the **SCADA**;
- (c) devices which provide data to the **SCADA**; and
- (d) network systems;



**instrument that ceases to be an effective hedge** means a financial instrument entered into or acquired by **Transpower** in accordance with its policy on **capital expenditure** hedging that qualifies as an effective hedge at the date of entering into or acquiring the instrument, but that ceases during the **disclosure year** to qualify for hedge accounting in accordance with **GAAP**, and such ceasing to qualify results in a gain or loss being incorporated into its Statement of Comprehensive Income or equivalent audited statement of income and expenses for financial accounting purposes;

**interruption** means an interruption in the conveyance of electricity from **grid** assets owned by **Transpower** to the assets owned or operated by a 'designated transmission customer' (as that term is defined in the **Code**) at a point of connection;

## L

**loss of supply event** means an event which results in one or more **interruptions** and:

- (a) includes:
  - (i) all **unplanned interruptions** to supply originating in the **grid** of greater than one minute duration;
  - (ii) any **Transpower** caused contribution to **unplanned interruptions** originating in another party's system;
  - (iii) automatic under-frequency load-shedding;
  - (iv) automatic under-voltage load-shedding;
  - (v) load restrictions resulting from **unplanned interruptions** on the **grid**, but excluding load reductions achieved completely by the use of controllable load or interruptible load; and
  - (vi) **catastrophic events**;
- (b) excludes:
  - (i) **planned interruptions**;
  - (ii) **interruptions** to the auxiliary load used for internal purposes by electricity generators;
  - (iii) any **interruptions** to connection of less than one minute duration;
  - (iv) any **interruptions** to connection originating on another party's system and where the **grid** operated correctly;
  - (v) any reduction in load where this is achieved by reducing controllable load, including hot water heating and irrigation loads; and
  - (vi) any reduction in load as the result of the operation of interruptible load;

## M

**major capital expenditure** means any **capital expenditure** that is not **minor capital expenditure**;

**MAR** means, in relation to a **disclosure year**, **Transpower's** maximum allowable revenue from the supply of **electricity transmission services**, calculated following the **disclosure year** by **Transpower** in accordance with the building blocks calculation in Schedule E using:

- (a) **applicable input methodologies**; and
- (b) the **operating expenditure allowance**, as determined by the **Commission**; and
- (c) **commissioned minor capital expenditure**, being the lesser of the actual cost of **minor capital expenditure** and the **minor capital expenditure** amount determined by the **Commission**; and

- (d) **commissioned major capital expenditure**, being the sum of each **project** value, with the **project** value in each case being the lesser of the actual **major capital expenditure** and the **project** value approved by the **Commission**; and
- (e) excluding **pass-through costs** and **recoverable costs**; and
- (f) using, for all other building blocks, actual costs for the **disclosure year**;

**minor capital expenditure** means **capital expenditure** on:

- (a) **asset replacement**; or
- (b) **asset refurbishment**; or
- (c) during the year ending 30 June 2012, **asset enhancement projects** forecast to cost less than \$1.5 million, or **asset enhancement programmes** forecast to cost less than \$5 million; or
- (d) during the period from 1 July 2012 to 30 June 2015, **asset enhancement projects** forecast to cost less than \$5 million, or **asset enhancement programmes** forecast to cost less than \$5 million; or
- (e) **information and system technology assets**; or
- (f) **business support**;

## N

**new investment contract** has the meaning set out in the **IM determination**;

## O

**opening RAB value** has the meaning set out in the **IM determination**;

**opening EV account balances** means the balances recorded in the **EV accounts** as at 30 June 2011, including the after-tax **ex-post economic gains and losses** for the year ending 30 June 2011 calculated in accordance with Schedule 1 Clause 9 of the **administrative settlement**, and any interest accrued to 30 June 2011 on those balances;

**operating expenditure** means expenditure relating to the supply of **electricity transmission services** that:

- (a) includes expenditure incurred in relation to departmental costs, investigations costs, communications and control costs; information system and technology operations; instantaneous reserve 'event charges' (as that term is defined in the **Code**); operating lease costs; transmission and substation maintenance; insurance premiums; black start and over-frequency arming costs; and any ancillary services costs that are not **recoverable costs**; and
- (b) excludes, **capital expenditure**; **depreciation**; finance lease costs; tax payable; revaluations; **pass-through costs**; **recoverable costs**; any operating costs associated with transmission alternative services that have been approved by the Electricity Authority (or any other regulatory body); expenditure that is the result of an insurance event and has been recovered by insurance income (or is expected to be recovered); and costs associated with supplying **unregulated services** and expenses related to services provided as **system operator**;

**operating expenditure allowance** means, for each **disclosure year**, the level of **operating expenditure** approved by the **Commission** for the purposes of calculating the **forecast MAR** or the **MAR**, as applicable;

**outage** has the meaning set out in clause 12.130 of the **Code**, as amended from time to time;

## P

**pass-through costs** has the meaning set out in the **IM determination**;

**physical asset life** has the meaning set out in the **IM determination**;

**planned interruption** means any **interruption** that is not an **unplanned interruption**;

**planned outage** has the meaning set out in Part 1 of the **Code**;

**price** has the meaning set out in the **IM determination**;

**pricing year** means a 12 month period ending on 31 March;

**programme** means **projects** and/or expenditure activities, within a **capital expenditure** category, which are grouped together on the basis of having a common purpose;

**project** means a temporary endeavour requiring concerted effort, which is undertaken to create a defined outcome;

## R

**recoverable costs** has the meaning set out in the **IM determination**;

**regulatory period**, or **RCPI**, means the period 1 April 2011 to 31 March 2015;

**relevant pricing year**, in relation to a **disclosure year**, means the **pricing year** commencing on 1 April immediately before the start of that **disclosure year**;

**remainder period** means the period 1 April 2012 to 31 March 2015;

**remaining asset life** has the meaning set out in the **IM determination**;

## S

**SCADA** means the Supervisory Control and Data Acquisition System;

**stranded asset** means, in a **disclosure year**, an asset:

- (a) that has an **opening RAB value** for the **disclosure year**; and
- (b) for which, on application from **Transpower**, the **Commission** determines a **remaining asset life** of one year;

**system maximum demand** is the single highest half-hourly input (in megawatts) to the **grid** during a **disclosure year**;

**system minutes** means **energy not supplied** resulting from an **outage** calculated in accordance with the following formulae:

a/b, where:

'a' is **energy not supplied** (in megawatt minutes); and

'b' is **system maximum demand**;

**system operator** has the meaning set out in s 5 of the Electricity Industry Act 2010;

## T

**term credit spread differential allowance** has the meaning set out in the **IM determination**;

**thresholds notice** means the Commerce Act (Transpower Thresholds) Notice 2008;



**total impact of interruptions** is a measure of annual total **energy not supplied** resulting from **planned** and **unplanned interruptions** of supply to **customers**. It is expressed in **system minutes** and the measure-

(a) includes:

- (i) all **unplanned** and **planned interruptions** to supply originating on the **grid** of greater than one minute impact;
- (ii) any **Transpower** caused contribution to **interruptions** originating in a **Transpower customer** system;
- (iii) automatic under-frequency load-shedding;
- (iv) automatic under-voltage load-shedding;
- (v) load restrictions resulting from **unplanned interruptions** on the **grid** but excluding load restrictions achieved completely by the use of controllable load or interruptible load;
- (vi) **catastrophic events**;

(b) excludes:

- (i) **interruptions** to the auxiliary load used for internal purposes by electricity generators;
- (ii) any **interruptions** to connection of less than one minute impact;
- (iii) any **interruptions** to connection originating on another party's system and where the **grid** operated correctly;
- (iv) any reduction in load where this is achieved by reducing controllable load such as hot water heating and irrigation loads; and
- (v) any reduction in load as the result of the operation of interruptible load;

**TPM** means the transmission pricing methodology set out in the **Code**;

**transition year** means the **pricing year** from 1 April 2011 to 31 March 2012;

**Transpower** has the meaning set out in s 54B of the **Act**;

## U

**unplanned interruption** has the meaning set out in Part 1 of the **Code**;

**unplanned outage** has the meaning set out in part 1 of the **Code**;

**unregulated services** means any good or service that is not regulated under Part 4 of the **Act**;

## V

**value of commissioned asset** has the meaning set out in the **IM determination**;

## W

**WACC** means, for the purpose of calculating a **forecast MAR** or a **MAR**, the weighted average cost of capital for a **disclosure year** that is published by the **Commission** in accordance with the **IM determination**; and

**working days** has the meaning set out in s 2 of the **Act**.

## PART 3 PRICE PATH

### 3.1 Maximum revenue

**Transpower's** maximum revenue for each **pricing year** in **RCP1** is the **forecast MAR**.

### 3.2 Transition year

The **forecast MAR** for the **transition year** is \$644 million.

### 3.3 Remainder period

(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) By 30 November in each year of the **remainder period**, the **Commission** will determine any appropriate updates to each **forecast MAR** determined under clause 3.3(1) for the **pricing years** in the period from 1 April 2013 to 31 March 2015, following receipt of the relevant information from **Transpower** pursuant to clause 5.4, in accordance with Schedule D, and by amendment to the **forecast MARs** in Schedule F.

### 3.4 Demonstrating compliance with price path

- (1) In order to comply with the price path specified in this Part 3 for a **disclosure year**, **Transpower** must demonstrate that the forecast **HVAC revenue** and forecast **HVDC revenue** that are used for the purpose of setting charges under the **TPM** for the **relevant pricing year** do not, in aggregate, exceed the **forecast MAR**.
- (2) **Transpower** must comply with clause 3.4(1) by providing the **Commission** with a **directors' certificate** in relation to the application of the price path for the **relevant pricing year**, in the form set out in Schedule A, at the time it announces its charges for the **relevant pricing year**.
- (3) In order to continue to comply with clause 3.4(1) for a **disclosure year** if, at any stage after the initial setting of charges under the **TPM**, **Transpower** amends its forecast **HVAC revenue** or forecast **HVDC revenue** for the purpose of setting charges under the **TPM** for the **relevant pricing year**, **Transpower** must provide the **Commission** with a further **directors' certificate** in relation to the application of the price path for the **relevant pricing year**, in the form set out in Schedule A, at the time that it announces the amendments for the **relevant pricing year**.

## PART 4 QUALITY STANDARDS

### 4.1 Quality measures:

- (1) The quality measures for the **disclosure years** in **RCP1** are:
  - (a) **loss of supply event frequency:**
    - (i) number of **loss of supply events** >0.05 **system minutes**; and
    - (ii) number of **loss of supply events** >1 **system minute**; and
  - (b) **HVAC circuit unavailability (unplanned)**; and
  - (c) **HVDC bi-pole unavailability (unplanned)**; and
  - (d) **total impact of interruptions**.

### 4.2 Quality targets:

- (1) The quality targets for the **disclosure year** ending 30 June 2012 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 0.056% unavailability; and
  - (c) **total impact of interruptions**: maximum of 16.69 **system minutes**.
- (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**.

### 4.3 Quality standards:

- (1) **Transpower** is required to disclose information to the **Commission** regarding the quality of the **electricity transmission services** it supplies, in accordance with this clause 4.3.
- (2) The quality standards for the **disclosure year** ending 30 June 2012 are that **Transpower** must provide to the **Commission**:
  - (a) the information specified in clauses 5.5(2)(a) to (c); and
  - (b) for each **interruption** over 1 **system minute**, within 5 **working days** of supply being restored, a report that includes:
    - (i) the reason or reasons, based on reasonable enquiry, for the **interruption**; and
    - (ii) **Transpower's** initial response to the **interruption**; and
    - (iii) an estimate of the impact of the **interruption** in **system minutes**.
- (3) The quality standards for the **disclosure years** in the period 1 July 2012 to 30 June 2015 are that **Transpower** must provide to the **Commission**:
  - (a) the information specified in clauses 5.5(3)(a) to (c); and
  - (b) for each **interruption** over 1 **system minute**, within 5 **working days** of supply being restored, a report that includes:
    - (i) the reason or reasons, based on reasonable enquiry, for the **interruption**; and
    - (ii) **Transpower's** initial response to the **interruption**; and

- (iii) an estimate of the impact of the **interruption in system minutes**.

## **PART 5 ANNUAL COMPLIANCE MONITORING STATEMENT AND INFORMATION REQUIREMENTS**

### **5.1 Requirement to provide annual compliance monitoring statement and associated information**

- (1) **Transpower** must provide to the **Commission** and publish on **Transpower's** website, no later than the close of business on the Friday of the third complete week of the month of October following the end of each **disclosure year**, an **annual compliance monitoring statement** that includes a statement in writing confirming whether or not **Transpower** has complied in respect of that **disclosure year** with the information requirements, including relevant calculations, set out in this Part 5 in relation to the price path in Part 3, the quality standards in Part 4 and the quality incentive mechanism referred to in clause 5.6.
- (2) The **annual compliance monitoring statement** provided under clause 5.1(1) must be accompanied by the associated information specified in this Part 5 for the **disclosure year** and for comparative years, and any further information necessary to fully support and explain **Transpower's** compliance with this determination.

### **5.2 Information requirements relating to price path**

- (1) The information requirements referred to in clause 5.1 are as set out in this clause 5.2 for **Transpower's** price path.
- (2) **Forecast MAR calculation model:**
  - (a) any material variations made during the **disclosure year** to the **forecast MAR calculation model**.
- (3) **Revenues:**
  - (a) for each **disclosure year**:
    - (i) the **forecast MAR** for the **relevant pricing year** determined by the **Commission** in accordance with Part 3; and
    - (ii) the **MAR** for the **disclosure year** calculated in accordance with clause 5.2(7) and Schedule E; and
    - (iii) the update of any **forecast MAR** that is calculated at the end of the **disclosure year** in accordance with clause 5.4 and Schedule D;supported by sufficient detail to demonstrate that each **forecast MAR**, each **MAR** or each update of a **forecast MAR** has been calculated in accordance with the relevant requirements and definitions set out in this determination; and
  - (b) for the **relevant pricing year**:
    - (i) the **HVAC revenue**; and
    - (ii) the **HVDC revenue**.
- (4) **Capital expenditure:**
  - (a) for each **disclosure year**, a list of **minor capital expenditure** (broken down by each expenditure category in the definition of that term in Part 2) and **major capital expenditure** separately, and including:
    - (i) **minor capital expenditure** that was **commissioned** and **major capital expenditure** that was **commissioned** during the **disclosure year**; and
    - (ii) an explanation of any material variation between **minor capital expenditure** or **major capital expenditure** that was forecast to be **commissioned** during the



**disclosure year and minor capital expenditure and major capital expenditure that was commissioned during the disclosure year; and**

- (b) a forecast for each of the remaining **disclosure years** in the period from 1 July 2011 to 30 June 2015, calculated by providing **minor capital expenditure** and **major capital expenditure** separately, including **major capital expenditure** approved by the **Commission** during the current **disclosure year** that will be **commissioned** during a subsequent **disclosure year**; and
  - (c) in the last **annual compliance monitoring statement** for the period from 1 July 2011 to 30 June 2015, all relevant material necessary to assess any application within the **annual compliance monitoring statement** for ex-post approval of **minor capital expenditure** in excess of the aggregate level of approved **minor capital expenditure**, including a description in each instance, of why each relevant **project** or **programme**:
    - (i) was unable to be reasonably foreseen by **Transpower**; and
    - (ii) is required to maintain the security of supply of the **grid**; and
    - (iii) could not be reasonably deferred; and
  - (d) for each **disclosure year**, a list of assets determined by the **Commission** to be **stranded assets**.
- (5) **Operating expenditure** for each **disclosure year** (broken down by each expenditure category in the definition of **operating expenditure**), including:
- (a) actual **operating expenditure** during the **disclosure year**; and
  - (b) an explanation of any material variation between **operating expenditure** that was forecast by Transpower for the **disclosure year** and actual **operating expenditure** during the **disclosure year**.
- (6) **Ex-post economic gain or loss, HVAC ex-post economic gain or loss, and HVDC ex-post economic gain or loss** for each **disclosure year**, including:
- (a) details of how each **ex-post economic gain or loss** has been calculated in accordance with the building blocks calculation in Schedule E; and
  - (b) the allocation of the resulting **EV account entry** to each of the **EV accounts** for **HVAC customers** and **HVDC customers**; and
  - (c) a reconciliation of the opening and closing balances of the **EV accounts**, including details of the calculation of interest and any other adjustments to the balances of the **EV accounts**; and
  - (d) details of any changes to **Transpower's** policy of hedging **capital expenditure** during the **disclosure year**; and
  - (e) details of all gains and losses in the **disclosure year** that are recorded in the **EV accounts** in respect of any **instrument that ceases to be an effective hedge** or in respect of any **commodity instrument that is not an effective hedge**.
- (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).
  - (8) **Pass-through costs and recoverable costs** for each **disclosure year**, including:
    - (a) the **pass-through costs and recoverable costs** incurred by **Transpower** during the **disclosure year**;
    - (b) the **pass-through costs and recoverable costs** recovered by **Transpower** from **customers** as part of its revenue for the **relevant pricing year**; and
    - (c) the allocation of adjustment amounts arising from the differences between the amounts in subclauses (a) and (b) above, applied in the forecast of **pass-through costs and recoverable costs** in the setting of transmission charges under the **TPM** in the next **relevant pricing year**.
- 5.3 Information requirements and calculations relating to EV adjustments
- (1) The information requirements referred to in clause 5.1 are as set out in this clause 5.3 for calculating **EV adjustments**.
  - (2) For the purposes of calculating the **forecast MAR** for each **pricing year** of the **remainder period**, the **EV account** balances are:
    - (a) the **opening EV account balances**; less
    - (b) **EV adjustments** applied to the **forecast MAR** for the **transition year**; plus
    - (c) forecast interest on the **opening EV account balances**, for each **disclosure year** in the period 1 July 2012 to 30 June 2015 plus five additional years, applying the **WACC** and applying the **EV adjustment** calculation requirement in subclause (4)(a) below.
  - (3) For the purposes of calculating an update of a **forecast MAR** for a **disclosure year** of the **remainder period**, the **EV account** balances are:
    - (a) the **EV account** balances, excluding the balances calculated under subclause (2); plus
    - (b) forecast interest for each **disclosure year** of the **remainder period** on the **EV account** balances in subclause (3)(a), in accordance with the interest rate specified in the definition of **EV account**.
  - (4) **Transpower** must:
    - (a) calculate **EV adjustments** that attribute one-eighth of the balances calculated in subclause (2) to the **forecast MAR** for each **disclosure year** in the **remainder period**;
    - (b) at the end of each **disclosure year**, calculate **EV adjustments** that attribute the balances calculated in subclause (3) to the update of the **forecast MAR** for the next **pricing year** commencing after the time of calculation;
    - (c) gross up the **EV adjustments** applied to the **forecast MAR** for each **disclosure year** in terms of subclauses (4)(a) or (4)(b) to a forecast pre-tax input to the **forecast MAR** calculation using the **corporate tax rate**; and
    - (d) for **commissioned capital expenditure** in excess of the level of expenditure approved by the **Commission** and, in the case of **minor capital expenditure**, where the **capital expenditure** has not been fully subject to **Transpower's** internal approval processes, make each **EV account entry** necessary to fully offset the revenue impact of such **capital expenditure** over the life of the asset:



- (i) for each **major capital expenditure project**, on an annual basis; and
  - (ii) for **minor capital expenditure** in aggregate for the **regulatory period**, in the **disclosure year** that ends on 30 June 2015.
- (5) Where **Transpower** applies for, and the **Commission** provides, ex-post approval of **minor capital expenditure** after the **regulatory period**, **Transpower** must make an **EV account entry** at the time of that approval to adjust the **EV account entry** in clause 5.3(4)(d) to fully offset the revenue impact of that adjustment over the life of the applicable assets, with such adjustment to exclude the revenue impact over the **regulatory period**.
- (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.

#### 5.4 Information requirements relating to forecast MAR updates

- (1) The information requirements referred to in clause 5.1 are as set out in this clause 5.4 for **Transpower's forecast MAR** updates.
- (2) **Transition year:** No **forecast MAR** updates apply.
- (3) **Remainder period:**
  - (a) an update to each of the future **forecast MARs** in the **remainder period** in Schedule F, calculated in accordance with the building blocks in Schedule D and the **forecast MAR calculation model** in order to reflect the revenue impact of **major capital expenditure** approved by the **Commission**; and
  - (b) for each update under subclause (a):
    - (i) identification of each **major capital expenditure project** approved by the **Commission** in the **disclosure year** if the **project** is forecast to be **commissioned** during the period from 1 July 2012 to 30 June 2015; and
    - (ii) for each such **project**, separately detailing the forecast date that the **project** will be **commissioned** and the incremental revenue impact of the **project** on each applicable future **forecast MAR**.
  - (c) for each update under subclause (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 subclause (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.

#### 5.5 Information requirements relating to quality measures and targets

- (1) The information requirements referred to in clause 5.1 are as set out in this clause 5.5 for **Transpower's** quality measures and targets.
- (2) **Disclosure year** ending 30 June 2012:
  - (a) actual performance for each of the quality measures in clauses 4.1(1)(a)-(d);
  - (b) reasons for any failure to meet the quality targets specified in clauses 4.2(1)(a)-(c);

- (c) for all **interruptions** over 1 **system minute**, a report that sets out:
- (i) the reason or reasons for the **interruption**;
  - (ii) **Transpower's** response to the **interruption**;
  - (iii) any change to **Transpower's** policies as a result of the **interruption**; and
  - (iv) the impact of the **interruption** in **system minutes**.
- (3) **Disclosure years** in the period 1 July 2012 to 30 June 2015:
- (a) actual performance for each of the quality measures in clauses 4.1(1)(a)-(d);
  - (b) reasons for any failure to meet the quality targets to be set out in 4.2(2);
  - (c) for all **interruptions** over 1 **system minute**, provide a report that sets out:
    - (i) the reason or reasons for the **interruption**; and
    - (ii) **Transpower's** response to the **interruption**; and
    - (iii) any change to **Transpower's** policies as a result of the **interruption**; and
    - (iv) the impact of the **interruption** in **system minutes**.
- 5.6 Information requirements relating to quality incentive mechanism
- (1) The information requirements referred to in clause 5.1 are as set out in this clause 5.6 for **Transpower's** quality incentive mechanism.
- (2) **Disclosure year** ending 30 June 2012:
- (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:

Parameter	Quality Incentive Mechanism				Total Impact of Interruptions Total system minutes
	Loss of Supply Event Frequency	Availability			
	Number of events >0.05 system minutes	Number of events >1.0 system minute	HVAC circuit unavailability (unplanned) %	HVDC bi-pole unavailability (unplanned) %	
Quality measure target	21	3	0.056	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%

(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 Interrupti ons Total system minutes
	Number of events >0.05 system minutes	Number of events >1.0 system minute	HVAC circuit unavailability (unplanned) %	HVDC bi- pole unavailability (unplanned) %	
Quality measure target	21	3	0.054	Not in <b>RCP1</b>	16.69
Quality measure cap (on rewards for improved performance)	10	1	0.029	Not in <b>RCP1</b>	4.31
Quality measure collar (on penalties for poor performance)	31	5	0.083	Not in <b>RCP1</b>	29.07
Weighting (impact on revenue)	25%	25%	25%	Not in <b>RCP1</b>	25%

5.7 Information requirements relating to comparative years

- (1) The information requirements referred to in clause 5.1 are as set out in this clause 5.7 for comparative years.
- (2) Historical information, as set out under this clause 5.7(4), for the **disclosure year** and the prior four years.
- (3) Forecast information, as set out under this clause 5.7(4), for the remaining **disclosure years** in the **regulatory period**.
- (4) Including information of the types set out in:
- clause 5.2(3)(b)(i) and (ii), being both the historical and forecast information;
  - clause 5.2(4)(a)(i), being the historical information only;
  - clause 5.2(4)(b), being the forecast information only;
  - clause 5.2(5)(a), being both the historical and forecast information;
  - clause 5.2(6), being the historical information only;
  - clause 5.2(8)(a) to (c), being the historical information only; and
  - clause 5.5(2)(a), clause 5.5(3)(a) and clause 4.1(1)(a) to (d), being both the historical and forecast information.



5.8 Independent assurance reports and certification requirements

**Transpower** must provide to the **Commission**, at the same time it provides its **annual compliance monitoring statement** and associated information under this Part 5:

- (a) a directors' certificate in respect of the **annual compliance monitoring statement** (and associated information) in the form set out in Schedule B; and
- (b) an **independent assurance report** in respect of the **annual compliance monitoring statement** (and associated information) in the form set out in Schedule C, which may be qualified only if:
  - (i) the **auditor** considers that the **annual compliance monitoring statement** or associated information fails to have been prepared, in any material respect, in accordance with this determination; and
  - (ii) the **independent assurance report** explains with full reasons the respects in which the **annual compliance monitoring statement** or associated information so fails.



Dr Mark Berry, *Chair*



Pat Duignan



Sue Begg, *Deputy Chair*

Dr Stephen Gale



Dated at Wellington this 1st day of November 2011

COMMERCE COMMISSION

## **SCHEDULE A DIRECTORS' CERTIFICATE – PRICE PATH**

We, [insert full name of first director] and [insert full name of second director], being directors of Transpower New Zealand Limited (Transpower), certify that, having made all reasonable enquiries, to the best of our knowledge and belief, the attached schedule of forecast total revenues applied in the Transpower transmission pricing methodology under the Electricity Industry Participation Code for the pricing year commencing [insert pricing year] complies with the requirements of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 \*[except in the following respects].

\*[insert description of non-compliance if applicable]

[Signatures of directors]

[Date]

\*Delete if inapplicable.

## **SCHEDULE B DIRECTORS' CERTIFICATE – ANNUAL COMPLIANCE**

We, [insert full name of first director] and [insert full name of second director], being directors of Transpower New Zealand Limited (Transpower), certify that, having made all reasonable enquiries, to the best of our knowledge and belief, the attached annual compliance monitoring statement (and associated information) for the period [insert disclosure year] and dated [insert date] complies with the requirements of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 \*[except in the following respects].

\*[insert description of non-compliance if applicable]

[Signatures of directors]

[Date]

\*Delete if inapplicable.

## **SCHEDULE C INDEPENDENT ASSURANCE REPORT – ANNUAL COMPLIANCE**

To the readers of the annual compliance monitoring statement (and associated information) of Transpower New Zealand Limited (Transpower) for the disclosure year ended [insert disclosure year date]:

We have been engaged to provide an independent assurance report on the annual compliance monitoring statement (and associated information) in respect of the individual price-quality path prepared by Transpower for the period [insert disclosure year] and dated [insert date] for the purposes of Part 5 of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 (the Determination).

### **Directors' and Auditor's Responsibilities**

Transpower's directors are responsible for the preparation of an annual compliance monitoring statement and associated information in accordance with the Determination and for such internal controls as the directors determine are necessary to enable the preparation of an annual compliance monitoring statement and associated information that is free from material misstatement.

We are qualified as an auditor as defined in the Determination. Our responsibility is to express an independent opinion on whether Transpower's annual compliance monitoring statement and associated information has been prepared in accordance with the Determination.

### **Basis of opinion**

We conducted an assurance engagement in accordance with the framework for Assurance Engagements and the Standard on Assurance Engagements 3100 (SAE 3100) issued by the New Zealand Institute of Chartered Accountants.

The objectives of an assurance engagement carried out under SAE 3100 are to:

- (1) obtain assurance about whether, in all material respects, an entity has complied with requirements contained in legislation, regulation, agreements, contracts or similar, or internally imposed standards, codes or practices; and
- (2) express a conclusion on that compliance in the form of an opinion.

The professional standards require that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance about whether the annual compliance monitoring statement (and associated information) is free from material misstatement.

Considering materiality requires that we understand the factors that might influence the decisions of the intended users of the information contained in the annual compliance monitoring statement (and associated information) when determining the nature and extent of our evidence-gathering procedures.

An assurance engagement involves performing procedures to obtain appropriate evidence about the amounts and disclosures in the annual compliance monitoring statement (and associated information). The procedures selected depend on judgement, including the assessment of the risks of material misstatement, whether due to fraud, error or other reasons. In evaluating those risks we consider the



internal controls that are relevant to Transpower's preparation of the annual compliance monitoring statement (and associated information) in order to design assurance procedures that are appropriate in the circumstances. We do not express an opinion on the effectiveness of Transpower's internal controls.

An assurance engagement also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, if any, by Transpower in preparing the annual compliance monitoring statement (and associated information), as well as evaluating the overall presentation and disclosure in the statement.

In relation to the information requirements in Part 5 that relate to the price path in Part 3 of the Determination, our assurance engagement includes examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [insert page references] of the annual compliance monitoring statement and the associated information contained on pages [insert page references].

[Insert description of relevant assurance procedures and sources of data that are applicable to the independent assurance opinion on Part 5 of the Determination].

In relation to the quality standards in Part 4 of the Determination, our assurance engagement includes examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [insert page references] of the annual compliance monitoring statement.

[Insert description of relevant assurance procedures and sources of data that are applicable to the independent assurance opinion on Part 4 of the Determination].

In relation to the information requirements in respect of the quality incentive mechanism in Part 5 of the Determination, our assurance engagement includes examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [insert page references].

[Insert description of relevant assurance procedures and sources of data that are applicable to the independent assurance opinion on the information requirements on the quality incentive mechanism in Part 5 of the Determination].

Our assurance engagement also includes an assessment of the significant estimates and judgments, if any, made by Transpower in the preparation of the annual compliance monitoring statement (and associated information) and an assessment of whether the basis of preparation has been adequately disclosed.

## Opinion

We have obtained all the information and explanations we required to express our opinion.

In our opinion:

- (1) [insert opinion wording in respect of the requirements in Part 5 that are necessary to demonstrate compliance with the price path in Part 3 of the Determination];
- (2) [insert opinion wording in respect of the requirements in Part 5 that are necessary to demonstrate compliance with the quality standards in Part 4 of the Determination];
- (3) [insert opinion wording in respect of the requirements in Part 5 that are necessary to demonstrate compliance with the information requirements for the quality incentive mechanism in Part 5 of the Determination]; and

- (4) the annual compliance monitoring statement (and associated information) prepared by Transpower for the disclosure year ending [insert disclosure year date] and dated [insert date], has been prepared and presented, in all material respects, in accordance with the Determination.

**\*[Qualification on Opinion]**

\*[Our opinion is qualified as follows:]

\*[Insert the nature of and reason(s) for the qualification together with the impact on the annual compliance monitoring statement (and associated information) for the disclosure year].

Our independent assurance engagement was completed on [insert date] and our opinion is expressed as at that date.

[Signature of auditor]

[Name of auditor]

[Name of firm]

[Address of firm]

[Date]

**Independence**

We have no relationship with, or interests in Transpower other than [insert relationship and/or interests including a statement verifying that no conflict of interest exists].

\*Delete if inapplicable.

## SCHEDULE D FORECAST MAR BUILDING BLOCKS

Forecast MAR Building Block	Formula	Description
Average RAB	A	Forecast <b>opening RAB value</b> plus half of the forecast <b>commissioned</b> value of approved <b>capital expenditure</b>
<b>WACC</b>	B	<b>WACC</b>
Capital charge	$C = A \times B$	Average RAB multiplied by WACC, as each described above
Term credit spread differential	D	Forecast <b>term credit spread differential allowance</b> , calculated in accordance with Part 3 Subpart 5 of the IM determination
<b>Operating expenditure</b>	E	<b>Operating expenditure allowance</b>
<b>Depreciation</b>	F	Forecast <b>depreciation</b> , calculated in accordance with the asset valuation input methodology in Part 3 Subpart 3 of the <b>IM determination</b>
Tax	G	Forecast regulatory tax allowance, as specified in the treatment of taxation input methodology in Part 3 Subpart 4 of the <b>IM determination</b>
<b>EV adjustment</b>	H	<b>EV adjustment</b> , as calculated in accordance with clause 5.3
<b>Forecast MAR</b>	$I = C + D + E + F + G + H$	
<b>Pass-through costs</b>	J	Forecast <b>pass-through costs</b>
<b>Recoverable costs</b>	K	Forecast <b>recoverable costs</b>
Forecast revenue	$L = I + J + K$	Total forecast revenue used by <b>Transpower</b> for the purpose of setting charges under the <b>TPM</b>

## SCHEDULE E WASH-UP BUILDING BLOCKS

<b>MAR Wash-up Building Block</b>	<b>Formula</b>	<b>Description</b>
RAB	M	<b>Opening RAB value</b> , plus the <b>value of commissioned assets</b> that are weighted to take into account the date they are <b>commissioned</b>
<b>WACC</b>	N	<b>WACC</b>
Capital charge	$O = M \times N$	RAB multiplied by <b>WACC</b> , as each described above
Operating revenue	P	Total operating revenues, being the sum of <b>HVAC revenue</b> and <b>HVDC revenue</b>
<b>Operating expenditure</b>	E	<b>Operating expenditure allowance</b>
Term credit spread differential	Q	Term credit spread differential allowance, as specified in the cost of capital input methodology in Part 3 Subpart 5 of the IM determination
<b>Depreciation</b>	R	<b>Depreciation</b> , calculated in accordance with the asset valuation input methodology in Part 3 Subpart 3 of the <b>IM determination</b>
Net operating profit before tax	$S = P - E - Q - R$	Pre-tax profit for regulatory purposes
Tax	T	Regulatory tax allowance, as specified in the treatment of taxation input methodology in Part 3 Subpart 4 of the <b>IM determination</b>
Net operating profit after tax	$U = S - T$	After-tax profit for regulatory purposes
<b>EV account entry</b>	$V = O - U$	After-tax <b>ex-post economic gain or loss</b>

**SCHEDULE F FORECAST MAR SUMMARY**

<b>Forecast MAR applied to pricing years in RCP1 ending</b>	<b>Forecast MAR calculated based on the disclosure year ending</b>	<b>Initial forecast MAR</b>	<b>First update of forecast MAR (incremental impact)</b>	<b>Second update of forecast MAR (incremental impact)</b>	<b>Total forecast MAR</b>	<b>Status</b>
31 March 2012 (Year 1) (transition year)	30 June 2012	\$644 million	N/A	N/A	\$644 Million	Clause 3.2 of this determination
31 March 2013 (Year 2) (remainder period)	30 June 2013	\$783.8 million	N/A	N/A	\$783.8 million	Clause 3.3 of this determination
31 March 2014 (Year 3) (remainder period)	30 June 2014	\$906.4 million	To be updated November 2012 (D)	N/A	\$906.4 million+D	Clause 3.3 of this determination - subject to future determination
31 March 2015 (Year 4) (remainder period)	30 June 2015	\$958.9 million	To be updated November 2012 (E)	To be updated November 2013 (F)	\$958.9 million+E+F	Clause 3.3 of this determination - subject to future determination



## SCHEDULE G EXPLANATORY NOTE

The purpose of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 ('the Determination') is to set an individual price-quality path for Transpower New Zealand Limited ('Transpower') for the four pricing years beginning 1 April 2011, pursuant to Part 4 of the Commerce Act 1986 ('the Act').

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.

In respect of the quality path, the Determination requires that Transpower discloses information in relation to the quality of the electricity transmission services that it supplies, by reference to certain quality measures and targets.

In order to comply with this Determination, Transpower is required to provide the Commission in writing with an annual compliance monitoring statement and associated information pursuant to the Commission's powers under sections 53N and 98 of the Act that:

- (1) states whether it has complied with the price path, and demonstrating this by showing whether the forecast revenues (exclusive of pass-through costs and recoverable costs) that it used for the purpose of setting charges under the transmission pricing methodology in the Electricity Industry Participation Code exceeded, in aggregate, the forecast MAR that applied to the relevant disclosure year;
- (2) states whether it has complied with the quality standards;
- (3) supports the forecast maximum allowable revenue calculations that Transpower is required to perform under the Determination;
- (4) is signed off with a directors' certificate on the price path requirements, quality standard requirements and associated information requirements in the annual compliance monitoring statement; and
- (5) is covered by an independent assurance report that expresses an opinion on whether the compliance monitoring statement and associated information have been prepared in accordance with the Determination.

The Determination succeeds the administrative settlement between Transpower and the Commission that commenced on 13 May 2008 and that will expire once the Commission has assessed Transpower's final compliance report in respect of the financial year ending on 30 June 2011. The administrative settlement sets out Transpower's maximum allowable revenue in relation to the period to 30 June 2011, which relates to Transpower's pricing year that ended on 31 March 2011.

The Commission conducted a comprehensive process of consultation before making this Determination. A Reasons Paper providing detailed background to, and analysis of, this Determination, can be found at:

<http://www.comcom.govt.nz/electricity-transmission>

Copies of this Determination are available for inspection free of charge at the Commission (during ordinary office hours), on the Commission's website at the above link, or for purchase at a reasonable price at the Commission.