TRANSPOWER

Waikoukou
22 Boulcott Street
PO Box 1021
Wellington 6140
New Zealand
P 64 4 495 7000
F 64 4 495 6968
www.transpower.co.nz

Manager, Transpower and Gas
c/o infrastructure.regulation@comcom.govt.nz

26 June 2024

Transpower Individual Price-Quality Path for the regulatory period commencing 1 April 2025 (RCP4): Draft decision

1 Transpower welcomes the opportunity to respond to the Commerce Commission's (the Commission) draft decisions on Transpower's Individual Price-Quality Path (IPP) from 2025 (aka Regulatory Control Period 4, RCP4).

2 We appreciate the Commission's transparent and thorough approach to its review of our RCP4 proposal and we welcome the Commission's finding that the vast majority of our proposed expenditure is prudent and efficient. We have worked diligently over the last decade and more to improve our asset management framework and appreciate the Commission's (and the Independent Verifier's) conclusions that it is in a mature state.

3 The Commission's draft decision puts us in a good position to continue to deliver the services our customers expect. As the Commission has recognised, the delivery of our RCP4 work programme will be challenging in light of the need to increase the workforce. We also note the ongoing demand for electricity lines equipment and services is continuing to rapidly drive-up procurement costs.

4 We accept the majority of the Commission's draft decision; therefore our submission focuses on specific decisions that we have concerns with or where clarity may be beneficial.

5 In the appendices to this submission we respond to each of the specific concerns in line with the Commission's attachments A – E to its draft decision:

5.1 Appendix A – Revenue path design

5.2 Appendix B – Capex

5.3 Appendix C – Opex

5.4 Appendix D – Quality standards and grid output measures

5.5 Appendix E – Deliverability

6 In Appendix F, we provide a detailed explanation of our concerns with the Commission's proposed wash-up mechanism. In short, the design the Commission has proposed does

not provide the inflation protection that was behind the intent of the Commission decision.

7 We have also provided a marked-up version of the draft IPP. Our comments focus on technical drafting issues, clarity, and consistency with the policy intent of draft decision.

8 We support all the Commission's proposed Input Methodology amendments. We appreciate the Commission's careful consideration and conclusions on the implementation of indexation and the implications of Transpower paying an HVDC deposit in RCP3.

9 Please contact Joel Cook, Head of Regulation, if you have any questions on our submission.

Kind regards,

Alison Andrew
Chief Executive

Appendix A – Revenue path design

10 References in this Appendix all refer to 'Draft Decision Attachment A - Revenue path design for Transpower's IPP commencing 1 April 2025 - 29 May 2024'.

11 The specific areas of the Commission's draft decisions we address in this appendix relate to:

11.1 Redclyffe 220kV substation

11.2 Monthly commissioning of new assets

11.3 Non-recurrent expenditure amount

Redclyffe 220kV substation

12 We note the Commission's decision not to approve the Redclyffe 220kV substation rebuild as a Listed Project.[1]

13 While we still consider that our resilience workstreams are more closely replacement and refurbishment, we accept the Commission's position that purely resilience-based projects must be categorised as enhancement and development (E&D) expenditure.

14 On this basis, we will undertake the Redclyffe 220kV substation rebuild as an E&D project. If the project is below $30m we will fund it out of base capex, if the project is over $30m we will treat it as a major capex project (MCP). There are only limited technically and economically feasible options available for this project, therefore if we do undertake an MCP we expect only to undertake a short list consultation.

15 For the avoidance of doubt, as stated in our Resilience portfolio management plan (provided to the Commission),[2] our substation resilience workstream does not include RCP4 funding for Redclyffe. Therefore, if we fund the Redclyffe rebuild under base capex, this will leave other E&D projects unfunded. We expect to use the E&D reopener provision to seek funding for these projects.

Monthly commissioning of new assets

16 We encourage the Commission to continue to allow us to forecast capex commissioning on a mid-year basis.

17 The Commission notes that the revenue forecast includes a change from RCP3, using a "simplifying assumption in respect of the timing of capex commissioning".[3] We have assumed mid-year commissioning and note that this assumption is consistent with RCP3, where forecast revenue was calculated inclusive of the same assumption.

18 We do not forecast commissioning monthly (especially four to six years into the future). Forecasting on a monthly basis would be an exercise in false precision and unlikely to significantly alter the revenue profile. Due to our comprehensive wash-up mechanism, any forecast error would be corrected for and returned to or recovered from customers in RCP5.

---

[1] Paragraph 7.13.

[2] Transpower, Resilience PMP 2023, page 55. At the time of preparing our proposal, September 2023, we had expected to complete the Redclyffe rebuild work in RCP3.

[3] Para 1.18

Non-recurrent expenditure amount

19 We note the Commission has not included within its draft decision an estimate of the non-recurrent amount for the purposes of Transpower's IRIS.

20 It would be helpful if the Commission could provide a timeline for its decision and consultation period on this issue.

Appendix B – Capex

21 References in this Appendix all refer to 'Draft Decision Attachment B - Capex for Transpower's IPP commencing 1 April 2025 - 29 May 2024'.

22 The specific areas of the Commission's draft decisions we address in this appendix relate to:

22.1 Other AC substation equipment

22.2 Corridor managementICT cybersecurity and transmission systems resilience expenditure

22.3 Business support capex

Other AC substation equipment

23 The Commission has decided to disallow a proportion of our proposed expenditure under AC substations.

24 We agree that information that supported our reasons for the expenditure was not provided to the Commission, as the expenditure was for a program not proposed as an "identified programme" under schedule F of the Capex IM.

25 While we consider that our proposed expenditure was prudent and efficient, we accept the Commission's draft decision. We will reprioritise work within the portfolio to deliver the same outcomes.

Corridor management

26 The Commissions draft decisions is to disallow our proposed costs to manage our transmission corridors. The Commission's decision appears to be based on the following reasons:

- this expenditure is not part of delivering transmission lines services;[4]
- the expenditure should be opex not capex;[5] and
- Transpower is seeking additional opex.[6]

27 We disagree with each of these findings and respond to each point in turn below. The Commission should reinstate our proposed RCP4 forecast expenditure for this workstream.

28 Transpower's **corridor management is an essential part of providing transmission lines services**.

29 Under the Resource Management Act (RMA), all local authorities in NZ are required to give effect to the National Policy Statement on Electricity Transmission (NPSET). The NPSET includes provisions for buffer corridors in District Plans in respect of electricity transmission assets. As owner of the National Grid, Transpower takes an active role in ensuring that local authorities give appropriate effect to the NPSET, using our corridor

[4] Paragraph 3.515/
[5] Paragraph 3.513
[6] Paragraph 3.512

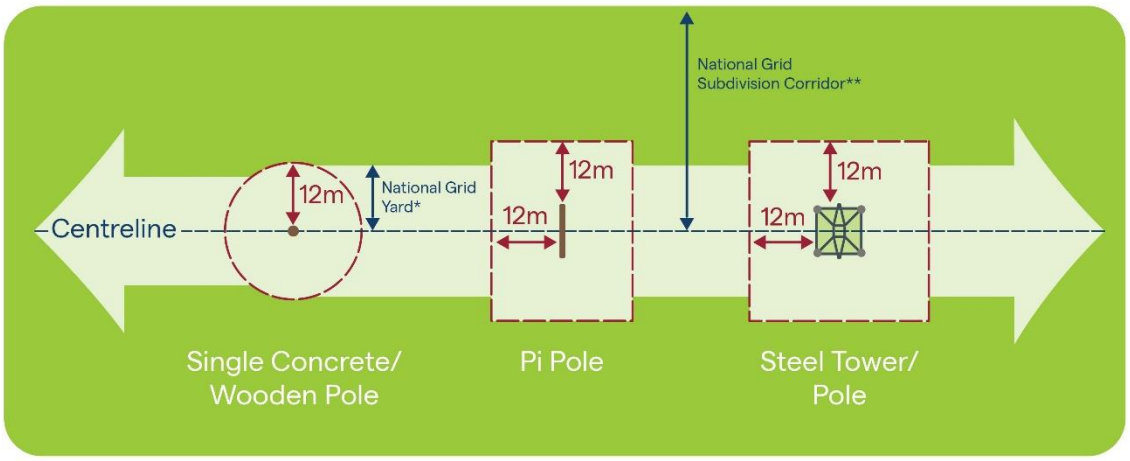
management policy as a basis for the inclusion of standard provisions (including rules) within District and Regional Plans, Regional Policy Statements throughout NZ.

30 Transpower needs access to its transmission assets for routine inspection, maintenance, and upgrades, to resolve incidents, and for quick response in emergency situations. The majority (92%) of the existing overhead transmission line network is not protected by designations or easements. As a result, Transpower must protect its assets from inappropriate development of third parties (i.e. landowners, developers, quarries, commercial, industrial activities). Seeking these protections in local and regional plans is the most efficient way of obtaining the protection required for transmission assets. Without appropriate provisions in local and regional plans, Transpower would need to seek and negotiate designations and/or easements for its transmission lines, at much greater cost.

31 In this context, since 2008 Transpower has secured "protective" corridors and enabling provisions through implementing the NPSET into regional and district planning documents nationally. This work results in council plans having restrictive controls (land use rules) on what can and cannot be developed in transmission corridors and adjacent subdivisions.

32 The restrictive controls prevent inappropriate development and underbuild that might compromise our operations, limit access to the grid for maintenance and limit the extent to which the grid can be maintained or upgraded, or impact on safety e.g. preventing housing, schools etc and other incompatible activities from establishing under the transmission lines in the first instance.

33 Under this approach, Transpower seek setbacks for yards and corridors to control land use around its assets – refer to the National Grid Yard/Corridor diagram below:



* National Grid Yard: 10m for single concrete/wooden pole lines, 12m for all other line types

** National Grid Subdivision Corridor: 14m, 32m, 37m or 39m depending on line voltage

34 In summary, the NPSET corridor programme is a strategic programme to seek "protective" provisions in statutory planning documents under the (RMA). The provisions we seek in Plans enable use and protection of Transpower assets. Without such protective positions, accessing and maintaining Transpower's transmission lines will gradually but perceptively become much harder and, consequently, more expensive.

35 **Long-term grid protection costs are capitalised in accordance with GAAP**.[7] NZ IAS 38 states that:

An asset is a resource:

(a) controlled by an entity as a result of past events; and

(b) from which future economic benefits are expected to flow to the entity.[8]

And

An intangible asset shall be recognised if, and only if:

(a) It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) The cost of the asset can be measured reliably.[9]

36 The protective corridor is determined to be an intangible asset due to its protection characteristics.

37 **Transpower is not seeking 'additional opex.'** We are not seeking additional funding compared to what we spent in RCP3. As expenditure on corridor management is (and has historically been) capitalised it is not opex therefore it is not in our base year opex (and therefore not in our base-step-trend forecast). There are some short-term activities that are opex, and these are captured our base year opex. These short-term activities include responding to third parties (developers/ landowners) who request to build/ develop/ change land use around our assets (e.g. build houses/subdivide etc) is part of our asset protection workstream (post corridors being in place). These costs are included in Environmental Planning, Asset Management and Operations, opex (circa $[✂] per annum) and Operational Engineering (circa $[✂] per annum).

38 The Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023 requires us to follow GAAP.[10] Our RCP4 approach to this cost area is unchanged from our RCP3 approach, which the Commission approved. We have included this expenditure in E&D capex, as it does not fall neatly into any of the other existing categories defined in the Input Methodologies.

ICT cybersecurity and transmission systems resilience expenditure

39 The Commission's draft decision was to approve our proposed expenditure for ICT cybersecurity and transmission systems. The cost benefit analysis for these investments were set out in 'IC09 Cybersecurity' and 'IC04 Transmission systems'.

40 Of the total amount the Commission accepted in its draft decision, we had allocated $2.2m for cybersecurity and $9.2m for transmission systems to our resilience work

---

[7] Long term grid protection and enabling benefits include ensuring that the National Grid is recognised provided for and protected in Regional and District Plans prepared under the RMA (a statutory requirement). The protection lasts 10+ years. This cost is made up of a mix of external resource (RMA consultant planners, RMA legal and environmental specialists e.g. landscape architects, economists, agricultural advisors) and internal time which is capitalised to the project.

[8] NZ IAS 38 (xrb.govt.nz) Definitions page 8.

[9] NZ IAS 38 (xrb.govt.nz) Definitions page 10.

[10] While the Independent Verifier proposed that it should be treated as opex, we note that Verifier's team did not include any certified accountants.

programme. In other words, we had excluded these amounts from our ICT capex and SaaS opex. These allocations can be seen in the Excel model 'OPX008' that we provided the Commission in March 2024. Tab 'SaaS,' rows 16 and 17, shows reductions to ICT SaaS for IC04 and IC09 to reallocate to resilience, and 'Data IST by portfolio' row 75 shows the reduction to ICT for IC09 that is reallocated to resilience.

41 We note the links between the investment cases and the resilience workstreams were not as clear as they could have been as our decision to reallocate these amounts to resilience was made after the investment cases were completed.

42 As the Commission's decision was that these amounts were prudent and efficient, it appears that these amounts were inadvertently disallowed (potentially due to being assessed as an additional proposal to the assessed investments in IC04 and IC09) and should thus be reinstated in its final decision.[11]

Business support capex

43 The Commission has decided to disallow the increase in business support capex from the amount the Independent Verifier reviewed. We accept the Commission's decision, while we are forecasting higher costs than the Commission's allowance, we will reprioritise expenditure within our overall allowance.

44 The increase related to business support ICT equipment (e.g., laptops and mobile phones). We used a base-step-trend model for this volumetric capex. The Independent Verifier reviewed forecast that used the base year of 2021/22.

45 We did not provide the underlying calculations for the revised forecast as business support capex was not an 'identified programme'.[12] The Commission did not seek any further information as part of its request for information process.

46 For future RCP proposals, we will provide the Commission with evidence of all increases from the forecasts the Independent Verifier reviews.

[11] This could be done by increasing the ICT capex allowance from $209.4m (including IDC $ 2022/23) to $213.6m, ICT SaaS from $57.4m to $62.6m and ICT Opex from $234.9m to $236.9m.
[12] As per Schedule F of the Capex IM.

Appendix C – Opex

47 References in this Appendix all refer to 'Draft Decision Attachment B - Opex for Transpower's IPP commencing 1 April 2025 - 29 May 2024'.

48 The specific areas of the Commission's draft decisions we address in this appendix relate to:

48.1 Business support opex – RCP5 preparation

Business support opex – RCP5 preparation

49 The Commission's draft decision is to not allow our proposed expenditure for preparing and undertaking Independent Verification process for RCP5.

50 The Commission's decision appears to be based on the following reasons:

- that it believes the driver to be "increased volume and complexity of key regulatory instruments…;"[13] and
- that the funding is additional to what we had in our base opex.[14]

51 We disagree with each of these points and respond to each point in turn below. The Commission should reinstate our proposed RCP4 forecast expenditure for RCP5 preparation.

52 The step change proposed **does not relate to the increased volume and complexity of key regulatory instruments.** This step change relates to only external costs associated with the preparation and independent verification of the RCP5 proposal. Responding to the increased volume and complexity of key regulatory instruments was the driver for an additional FTE over the RCP4 period (i.e. internal costs).

53 **The funding is not additional to what we have in the base year.** As we set out in the base-step-trend model we provided to the Commission, we removed the external costs for the RCP4 preparation from the base year as these were atypical specifically as they included most of the Independent Verifier costs. If we had not removed this amount from the base year, we would have been overfunded for RCP5 relative to our budget.

54 The Commission's decision does not provide any explicit funding for the independent verifier nor for the support required to prepare our RCP5 proposal. As these are regulatory requirements, we do not consider that this decision is in line with the Part 4 purpose.

[13] Paragraph 4.85.
[14] Paragraph 4.86.

Appendix D – Quality standards and grid output measures

55 References in this Appendix all refer to 'Draft Decision Attachment D – Quality Standards and Grid Output Measures for Transpower's IPP commencing 1 April 2025 - 29 May 2024'.

56 The specific areas of the Commission's draft decisions we address in this appendix relate to:

56.1 Grid Performance 1 (GP1) and Grid Performance 2 (GP2) – number of interruptions and duration of interruptions

56.2 AP1 (HVDC) and AP2 (HVAC) availability measures

56.3 AP1 target allowances for tower painting and attachment point work

56.4 Proposed new measure AP1.2 HVDC operational availability measure

56.5 Consideration of criticality in for AH Asset Health measure

Grid Performance 1 (GP1) and Grid Performance 2 (GP2) – number of interruptions and duration of interruptions

57 The Commission's draft decision is to set the GP1 target based on eight years of data, and GP2 based on 25 years of data. It states that it has done this to set more challenging targets for Transpower and to ensure performance targets are not lower than they were in the past.[15]

58 GP1 and GP2 are inherently linked and need to be considered together to effectively measure the impact of unplanned interruptions. Setting the targets using different periods breaks this link and leads to a situation where our expected revenue incentive over RCP4 is negative, rather than the regulatory design for zero.[16]

59 An increase in the average duration of interruptions is not necessarily an indication of poor performance. Higher average durations can be due to:

59.1 A reduction in the number of short duration interruptions, which means there are fewer short duration outages in the distribution, resulting in an increasing average duration even if all other performance remains the same

59.2 Having a smaller number of interruptions which can make the average duration more volatile or sensitive longer duration interruptions

59.3 Changing weather patterns can cause interruptions that may be beyond our direct control, or be challenging to respond quickly, e.g. if we cannot immediately mobilise field crews to sites to restore service.

60 Transpower has focused on reducing the number of equipment-related[17] and human-error-related interruptions over the last few years. This has reduced the number of

[15] Paragraph 4.56.

[16] Assuming the eight years of historical data are a good indicator for performance over RCP4, we would start RCP4 with an expectation of a net zero revenue incentive return for GP1 and a negative revenue return of over $7m for GP2 over RCP4.

[17] This is why we proposed setting the GP1 target, cap/ collar, and quality standard for these interruption types based on the recent a five-year period.

shorter duration interruptions. Therefore, overall, the number of interruptions reduces but the average duration increases.

61 We encourage the Commission to set GP2 targets, caps/ collars, and quality limits on the same basis as GP1 i.e., based on eight years of historical data.

62 Schedule F of the draft IPP lists all the points of service (PoS) for our customers and the service level attributed to that PoS. In the draft we have identified several changes that need to be made to the detail: for accuracy on the descriptor of the PoS, the associated performance measure, and Customer code.

AP1 (HVDC) and AP2 (HVAC) availability measures

63 We note that the Commission has decided not to accept our proposal to introduce pooling for AP1 or remove the quality standard for AP2 (our alternative proposal of pooling for AP2). We understand the Commission's reasonings for not introducing pooling alongside the deadband, however the Commission's current proposals mean that across all our service measures we still have a relatively high probability of randomly breaching a quality standard regardless of whether we have failed to follow good electricity industry practice.

64 For example, following the Commission's logic of setting AP1, multiplying the 3% chance of failure each year, across five measures, results in only a 47% chance of meeting the quality standards.[18] On this basis the Commission could consider widening the deadband to mitigate the risk of false positive breaches occurring.[19]

AP1 target allowances for tower painting and attachment point work

65 The draft decision characterises the 0.5% allowance within the AP1 targets for tower painting and attachment point replacements as being based on a 'worst-case outage estimate'.[20] This characterisation is incorrect as we have used a prudent estimate approach for allowances within the target.

66 We have drawn attention to this point to ensure this mischaracterisation does not influence future conclusions on appropriate AP1 targets.

67 We have only used 'worst case outage estimates' for the project specific allowances that sit outside of the target, being pole 2 refurbishment, HVDC control system and HMI software upgrade, and HVDC cable maintenance.

Proposed new measure AP1.2 HVDC operational availability measure

68 We agree with the objective for new reporting "to differentiate between the two types of (HVDC) capacity and ensure customers are well informed and clear on what the figures measure."[21]

69 We have proposed redrafting to the measurement approach for AP1.2 in the draft determination at clause 27.1.4. Our redraft aligns with the business process Transpower

---

[18] This is calculated as (0.97^5)^5; 97% probability of success in meeting the quality standard across five years, across five measures.

[19] We still consider that pooling alongside the deadband for AP2 (and AP1) better meets the intent that a quality standard should be used to identify a clear trend of poor performance across years.

[20] Paragraph 4.78 – 4.80.

[21] Paragraph 5.43.

uses to inform industry on the operational capacity of the HVDC link.[22] Transpower currently provide the HVDC capacity limit information to WITS (Wholesale Information Trading System)[23] which is publicly available.

70 Importantly, the information to industry does account for the Wellington load and the load is inherent to how the operational limit is calculated in the HVDC controls.

71 The draft decision for the measure to exclude Wellington load will create cost and resource towards a novel data gathering and assessment process and produce information that is not consistent what market participants see.

Consideration of criticality in for AH Asset Health measure

72 For the avoidance of doubt the Asset Health limits in Table 4.4 of the draft IPP determination are criticality weighted for four asset classes.[24]

[22] This aligns with the Capex IM A5 Criteria for considering grid output measures 'd) the extent to which the proposed grid output measure aligns with the business processes used by Transpower in its supply of electricity transmission services.'

[23] HVDC | WITS (electricityinfo.co.nz)

[24] Conductors, insulators, outdoor circuit breakers, and power transformers.

Appendix E – Deliverability

73 References in this Appendix all refer to 'Draft Decision Attachment E– Deliverability for Transpower's IPP commencing 1 April 2025 - 29 May 2024'.

73.1 Deliver risk adjustment mechanism

Deliver risk adjustment mechanism

74 We support the introduction of a delivery mechanism.

75 The proposed mechanism will work in combination with additional reporting requirements and the service measures (particularly the asset health measures) to ensure that the Commission can monitor our performance against our proposed deliverables.

76 While we report on our workplan most years in our Asset Management Plan, we consider that the new reporting requirements will give stakeholder greater visibility and focus on our delivery achievement.

Appendix F – Wash-up – inflation

77 The Commission's proposed amendment to Transpower's wash-up mechanism[25] - modelled on the approach for electricity distribution businesses (EDBs) - results in outcomes that are contrary to the policy objective. A revenue wash-up like that applied to the EDBs is not transferrable to Transpower due to preexisting differences in the regulatory regimes.

78 The policy intent is to provide inflation compensation through indexation of the RAB and "an ex-ante revenue allowance for the period that targets a real return (i.e., equal to the real WACC)."[26] This real return, provided for via a nominal WACC return offset by the revaluation amount, is indifferent to inflation and therefore should be consistent across all inflation outcomes.

79 The Commission's approach does not achieve this as its wash-up mechanism incorrectly calculates inflation exposure on the capital charge.

Our recommended approach

80 We consider that the Commission can achieve its policy intent by making the following changes to its draft determination:

> Determine the 'CPI disparity on cost of capital' [term A*] and apply a new term [A2] being the sum of the WACC [A1] and the 'CPI disparity on the cost of capital [A*] against the wash-up building blocks.

81 This proposal achieves the policy intent as it provides a perfectly normal return for the notional benchmark firm across all inflation scenarios.

82 Accompanying our submission is a demonstration model which tests the wash-up approach against the notional benchmark firm with a similar investment profile to Transpower, across various inflation scenarios. This demonstration model also includes a revenue wash-up approach (like that applied to EDBs).[27]

83 In our marked-up version of the draft determination we have proposed amendments to Schedule E.

Why the Commission's draft decision does not achieve policy intent

84 As the Commission noted in its 2023 Transpower Input Methodologies final decision paper[28] to achieve the object of an ex-ante real return, the regulated supplier has two separate expectations:

---

[25] Being the insertion of the CPI disparity on total capital charge (term G2) and revaluation (K2).

[26] Part-4-IM-Review-2023-Final-decision-Risks-and-Incentives-topic-paper-13-December-2023.pdf (comcom.govt.nz) para 4.83.1.

[27] We tested another approach in our model - excluding the CPI wash-up from the capital charge and revaluation building blocks. However, it does not provide a perfectly normal return for the notional benchmark firm. This is because, while the effect of inflation on the capital charge and revaluation are opposite, they are not exactly equal for two reasons: (a) The Fisher effect on the nominal WACC (being the compounding relationship between CPI and interest rates); and (b) the different RAB bases for the capital charge and revaluation amount.

[28] Part-4-IM-Review-2023-Final-decision-Risks-and-Incentives-topic-paper-13-December-2023.pdf (comcom.govt.nz) Paragraph 3.389.

- an ex-ante expectation of maintaining its financial capital in real terms over timeframes longer than a single regulatory period; and
- an ex-ante expectation of earning its risk-adjusted cost of capital (i.e., a 'normal return').

85 As we noted in our cross-submission on the RCP4 issues paper,[29] indexing Transpower's RAB to (actual) inflation achieves the first expectation. However, to achieve the second expectation, RAB indexation must run in parallel with a suitable wash-up mechanism.

86 The Commission's draft decision has made amendments to Transpower's existing wash-up mechanism with the intention of achieving the second expectation, with the Commission noting that "[W]e consider that some form of inflation wash-up will achieve the intent of the IM change for RAB indexation, to adequately protect Transpower against inflation risk by ensuring that all components of the building blocks have sufficient adjustment mechanisms to account for the difference between forecast and actual inflation."[30]

87 The Commission's approach treats the capital charge as exposed to inflation (and adjusts for this via the proposed CPI disparity on total capital charge[31]). However, the inflation exposure within the capital charge is on the value of the RAB itself (via the nominal WACC return), and not the capital charge, which is the product. The net result is that (where inflation does not follow forecast) the adjustment made to the revaluation[32] is significantly larger than the adjustment to the total capital charge.

88 The Commission's draft decision can lead to a different real rate of return depending on outturn inflation:

- where inflation is *lower* than forecast the notional benchmark firm would earn an *above normal* return and
- where inflation is *higher* than forecast the notional benchmark firm would earn a *below normal* return.

89 For example, consider a scenario under the condition that actual inflation is higher than forecast inflation:

- RAB = 100; WACC = 5%; Forecast inflation = 2%; actual inflation = 7%.
- Two building blocks apply: the capital charge and revaluation.[33]

  Ex-ante revenue is calculated as:

  [A1] Capital charge on RAB is 5 = 5% * 100

  [E1] Revaluation is -2 = -2% * 100

  Revenue is 3; RAB is indexed by 2.

  Ex-post revenue is calculated as:

  [A1] Capital charge on RAB is 5 = 5% * 100

---

[29] Transpower-cross-submission-on-RCP4-Issues-paper-13-March-2024.pdf

[30] Draft-Decision-Attachment-A-Revenue-path-design-for-Transpower27s-IPP-commencing-1-April-2025-29-May-2024.pdf Paragraph 4.24.

[31] 5BDRAFT5D-Transpower-Individual-Price-Quality-Path-Determination-2025-29-May-2024.pdfclause 32.3

[32] 5BDRAFT5D-Transpower-Individual-Price-Quality-Path-Determination-2025-29-May-2024.pdf Schedule E; K2.

[33] Which together proxy a real rate of return.

[G2] CPI disparity on total capital charge is 0.15 = (5* (1 + 0.05) / (1 + 0.02)) – 5

[K2] Revaluation is -7 = 7%* 100

Revenue is -1.85; RAB is indexed by 7.

90 While the regulated supplier has been sufficiently compensated for inflation via RAB indexation, it has not been provided with a normal return on its RAB (in this example, it has been provided with a negative real return). Additionally, the under compensation is realised by lower cashflows in the short-term.

Why the EDB style revenue wash-up is not suitable for Transpower

91 We include the revenue wash-up within the model to demonstrate that our approach is consistent with policy intent.[34] However, the revenue wash-up is not appropriate for Transpower for several reasons:

91.1 Inflation protection via a total revenue adjustment is only provided on the supplier's forecast expenditure profile and forecast RAB.

91.2 Transpower has a more granular wash-up mechanism, and both Transpower and the Commission[35] consider this wash-up mechanism as otherwise fit for purpose and working well.

91.3 An introduction of the revenue wash-up would lead to increased administrative burden and adjustments to other parts of Transpower's Individual Price-Quality Path and Input Methodologies, for example:

- An amendment to the capex incentive mechanism; and
- Amendments to the treatment of pass-through and recoverable costs.

91.4 It would also not suitably resolve for the tax depreciation building block within the tax allowance.

[34] As it produces the same outcome as a tax-adjusted revenue wash-up approach.

[35] Draft-Decision-Attachment-A-Revenue-path-design-for-Transpower27s-IPP-commencing-1-April-2025-29-May-2024.pdf Paragraph 4.9.