



ISBN 978-1-869453-94-7  
Project no. 14.11/14120

Public version

## **Technical consultation on final draft Transpower individual price-quality path determination**

**Publication Date: 12 September 2014**

<b>Related documents:</b>		
<b>Publication date</b>	<b>Status</b>	<b>Document name</b>
12 September 2014	Available on our <a href="#">website</a>	[Final draft] Transpower Individual Price-Quality Path Determination [2014] NZCC XX.
29 August 2014	Available on our <a href="#">website</a>	Commerce Commission “Setting Transpower’s individual price-quality path for 2015—2020: Decisions and reasons on how Transpower’s individual price-quality path will operate, and Transpower’ expenditure allowances and grid output measures, for the 2015—2020 regulatory period” (29 August 2014).
3 July 2014	Available on our <a href="#">website</a>	Commerce Commission “Draft decision on additional revenue-linked grid output measures for Transpower’s individual price-quality path: Supplement to 16 May 2014 reasons for draft decision paper” (3 July 2014).
30 May 2014	Available on our <a href="#">website</a>	[Draft] Transpower Individual Price-Quality Path Determination NZCC XX.
30 May 2014	Available on our <a href="#">website</a>	Commerce Commission “Reporting compliance with Transpower’s individual price-quality path for 2015—2020: Companion paper to the draft Transpower Individual Price-Quality Path Determination and reasons for draft compliance reporting decisions” (30 May 2014).
16 May 2014	Available on our <a href="#">website</a>	Commerce Commission “Setting Transpower’s individual price-quality path for 2015—2020: Reasons for draft decision” (16 May 2014).
10 February 2014	Available on our <a href="#">website</a>	Commerce Commission “Invitation to have your say on Transpower’s individual price-quality path and proposal for the next regulatory control period: Issues paper” (10 February 2014)

Regulation Branch  
Commerce Commission

## Purpose of this paper

1. This paper sets out:
  - 1.1 the technical consultation process for our final draft Transpower individual price-quality path determination (the determination) for the next regulatory period (RCP2);<sup>1</sup>
  - 1.2 an overview of the modifications we have made to the determination since we published our first draft on 30 May 2014; and
  - 1.3 what remains to be done before we publish the final determination, including Transpower's forecast maximum allowable revenues (forecast MAR) on 28 November 2014.

## How you can provide your views

2. We seek your views on whether the final draft determination gives effect to our 29 August 2014 decisions, subject to any further amendments to input methodologies (see paragraph 11),<sup>2</sup> and for the calculation of the forecast MAR.
3. Where interested parties are of the view that the final decisions have not been accurately reflected in the final draft determination, we request that submissions include any drafting amendments that are considered necessary. We have published a Microsoft Word version of the final draft determination for this purpose.
4. Submissions are due by **5pm on 26 September 2014**.<sup>3</sup>
5. Please email all submissions to [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz) with the subject line 'final draft Transpower individual price-quality path determination submission' and your name.

## We have made modifications since our first draft determination

6. We published our first draft determination on 30 May 2014 for consultation.<sup>4</sup>
7. We received a submission from Transpower with suggested drafting to better give effect to our 16 May 2014 draft decisions.<sup>5</sup> We have made modifications having regard to Transpower's submission, and in instances where our final decisions changed from our draft decisions. Table 1.1 summarises the key modifications we have made since our first draft determination.

---

<sup>1</sup> The determination is on our website: <http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-individual-price-quality-regulation/transpowers-price-quality-path-from-2015-to-2020/>

<sup>2</sup> Our final decisions paper is on our website: <http://www.comcom.govt.nz/dmsdocument/12336>.

<sup>3</sup> Please note this date is later than the date indicated in the introduction of our final reasons paper.

<sup>4</sup> Our first draft determination is on our website: <http://www.comcom.govt.nz/dmsdocument/11942>.

Our draft decisions paper is on our website: <http://www.comcom.govt.nz/dmsdocument/11897>.

<sup>5</sup> Transpower's submission is on our website: <http://www.comcom.govt.nz/dmsdocument/12088>.

**Table 1.1: Summary of key modifications since first draft determination**

Topic	Description of modification	Final decision reference	Determination reference
<b>Listed projects</b>	<p>We have removed provisions relating to the process requirements for listed projects. We now consider these are better placed in the <i>Transpower Capital Expenditure Input Methodology Determination</i> [2012] NZCC 2 (Capex IM). We will consult on an amendment to the Capex IM which will set out the process requirements.</p> <p>The listed projects clauses will be finalised by 28 November and will incorporate any drafting changes necessary to give effect to the input methodologies in place at that time.</p>	Attachment D: Listed projects mechanism	Clause 12 and 22.1
<b>Incremental Rolling Incentive Scheme (IRIS)</b>	<p>We are still engaged in a consultation process to finalise the form of any potential amendment to the IRIS contained within the Transpower IM determination. The drafting of clause 11 reflects our proposed IRIS amendments.</p> <p>This clause will be finalised in November 2014 and will incorporate any technical drafting changes necessary to give effect to the relevant input methodologies in place at that time.</p> <p>We have also removed the schedule relating to the calculation and disclosure of any IRIS recoverable costs. We consider this is better placed as an information disclosure requirement and intend to amend Transpower's information disclosure determination accordingly.</p>	Paragraph B54	Clause 11 and Schedule D of first draft determination
<b>Revenue-linked asset health grid output measures</b>	<p>We have added six revenue-linked asset health grid output measures (AH1-6). These measures have volumetric output targets as a proxy for asset health. Three of these measures are reported annually while the other three are measures for the whole of RCP2.</p> <p>We have also provided additional clarity for the grid performance and asset performance grid output measures.</p>	Paragraph 4.12	Clauses 14, 16 and Table 4.1

Topic	Description of modification	Final decision reference	Determination reference
<b>Asset health grid output measures that are not linked to revenue</b>	We have added three additional asset health grid output measures that are not linked to revenue (AH1RL, AH4RL, AH5RL). The measurement basis for these measures is the average remaining life of the relevant asset portfolio.	Paragraph 4.26 and paragraph 6.49	Clause 17
<b>Asset health pilot reporting requirements</b>	We have added additional reporting requirements relating to the asset health grid output measures that are not linked to revenue. We have also added the requirement for Transpower to propose an asset health modelling plan.	Paragraph 4.26 and paragraph 6.49	Clause 28
<b>Reporting timeframes</b>	We have modified the date for reporting the annual compliance statement, and for updating Transpower's forecast MAR, in line with our 29 August 2014 final decision. This reporting date is now the Friday of the third complete week of October each year and we will make updates to the forecast MAR by the second Wednesday of November each year.	Paragraph 6.25	Clauses 9, 10, 19 and 22
<b>Cash-flow timing assumptions</b>	We have modified the cash-flow timing assumptions used in the forecast MAR and MAR wash-up calculations. <sup>6</sup> We also intend to amend Transpower's information disclosure determination to align the return on investment (ROI) calculation with these modified cash-flow timing assumptions used in the determination.	Paragraph C52	Schedules D and E
<b>Points of service and HVAC circuits</b>	We have modified the points of service and HVAC circuits to reflect the grid as Transpower expects it to be as at 1 July 2015.	-	Schedules F and H
<b>Incorporation of opex and base capex allowances, and related decisions</b>	We have incorporated the opex and base capex allowances that were included in our 29 August 2014 decision. We have also added the forecast consumer price index (CPI), foreign exchange rates, and the amount of base capex exposed to foreign exchange.	Attachment J: Summary of decisions required by the Capex IM	Clause 21 and 23

<sup>6</sup> Please see Transpower's submission on our draft decision for additional detail on the cash-flow timing assumptions used in the determination: <http://www.comcom.govt.nz/dmsdocument/12009>.

Topic	Description of modification	Final decision reference	Determination reference
<b>Other measures</b>	We have removed clause 21 of the first draft determination which related to the reporting of 'other measures'. In line with our 29 August 2014 decision, we have incorporated the reporting requirements related to 'performance measure development initiatives' (previously the other measures) into clause 27, which also deals with business improvement initiatives.	Paragraph I23	Clause 27
<b>Definitions</b>	We have clarified a number of definitions, removed some that are no longer required, and inserted some that needed to be drawn across from the RCP1 determination to give effect to economic value (EV) adjustments in RCP2.  We have also maintained our approach of not defining terms in the determination that are defined in the input methodologies. We have included an appendix showing the location of the defined terms used in this determination. This approach is consistent with that used for the <i>Transpower Information Disclosure Determination 2014</i> [2014] NZCC 5.	Paragraph 3.37	Clause 4
<b>Forecast MAR and MAR wash-up</b>	We have specified the regulatory profit/(loss) before tax, for the purposes of the forecast MAR and the MAR wash-up, to remove the double deduction of the term credit spread differential allowance in the calculation of the regulatory tax allowance.	Paragraph C44	Schedules D and E, and clauses 21.1.9, 22.2.7

## **What remains before we publish our final determination on 28 November**

8. The key dimension of Transpower's individual price-quality path for RCP2 that remains outstanding is the calculation of the forecast MAR.
9. We have issued a statutory notice requiring Transpower to apply the inputs and calculation methods set out in our decision of 29 August 2014, together with relevant input methodologies, to forecast its MAR for each year of RCP2. A response to this notice is due by 14 November 2014.
10. We will then consider Transpower's response to our statutory notice and determine the forecast MAR for each year of RCP2. By 28 November 2014 we will publish our final determination setting Transpower's individual price-quality path for RCP2.

### **Certain input methodologies may be amended**

11. We are currently consulting on amendments to three input methodologies that are relevant to Transpower's individual price-quality path. The amendments relate to:
  - 11.1 the IRIS;<sup>7</sup>
  - 11.2 the weighted average cost of capital (WACC) percentile;<sup>8</sup> and
  - 11.3 the approval of base capex relating to 'listed projects.'<sup>9</sup>
12. We intend that any amendments to the input methodologies that will apply to Transpower's individual price-quality path for RCP2 will be published by 31 October 2014.
13. We will then further consider any necessary drafting modifications to the determination that may arise due to input methodology amendments.

---

<sup>7</sup> Commerce Commission, "Proposed amendments to input methodologies: incremental rolling incentive scheme" (18 July 2014).

<sup>8</sup> Commerce Commission, "Proposed amendment to the WACC percentile for electricity lines services and gas pipeline services" (22 July 2014).

<sup>9</sup> For more information on listed projects see Attachment D of our final decision.