

Tēnā koutou,

We wrote to you in late September with an outline of our expected engagement with you during the emerging views phase of the Part 4 Input Methodologies (IM) Review. Our programme has developed since then and we are pleased to provide you with this update. We hope it will help you plan how you can continue to participate in the IM Review.

The image below provides a simple summary of our current and forthcoming engagement.

Workstream	Nov	Dec	Jan	Feb	Mar	<b>LEGEND</b> 
Incentives and risk allocation	Staff paper + workshop					
CPPs and in-period adjustments to price paths	Workshops [2]					
Long term demand risk for gas		Emerging views paper				
Cost of capital		Publish expert reports + invite response/submissions				
Transpower	Workshop					

All feedback, submissions, and expert reports provided to us in the context of this engagement will form part of the record for the IM Review. We intend to publish material provided to us to enable other stakeholders to engage with it throughout the IM Review.

### ***Incentives and risk allocation***

Thank you to those who joined us to discuss expenditure incentives including IRIS and totex at our workshop on 7 November “*Forecasting and incentivising efficient expenditure for EDBs*”. We were pleased to see the strong industry interest in this event. A recording of the workshop and the slide deck presented will be uploaded to our [website](#) shortly.

We will soon be asking for feedback to key questions relating to existing expenditure incentives, the potential for a totex approach, and regulatory sandboxes as a means of encouraging innovation over a period.

As indicated in our staff paper and at the workshop, we expect to publish a model that demonstrates the financial equivalence of the treatment of opex and capex in the respective IRIS incentive mechanisms. This will be accompanied by a short explanatory paper. We expect to publish these in mid-November, with a request that feedback on our queries and the [incentives staff paper](#) is provided within a fortnight of the publication date.

### ***CPPs and in-period adjustments to price paths***

At the workshop earlier this week we presented an overview of our current direction of analysis on key issues relating to CPPs and in-period adjustments to price paths. This is being followed by a technical workshop on this subject on 29<sup>th</sup> November. Look out for our separate email this week with details of the workshop and how to RSVP. Following this technical workshop we will be asking for submissions in response to key questions, again over a period of a fortnight.

### ***Issues relating to the long-term demand for gas***

In December 2022, we expect to publish a paper setting out our emerging views relating to the issue of managing long-term demand risk for gas pipelines. We will be asking for submissions on this paper by late January and cross submissions by early February.

### ***Cost of capital***

We thank those parties that voluntarily provided us with information in response to our confidential debt survey. The responses are currently being analysed and provide us with an augmented evidence basis for our decision making, enabling us to better reflect the New Zealand debt markets.

In December, we also anticipate that we will publish the expert report that we have commissioned on matters relating to the cost of capital. The expert report will cover the topics of:

- Asset beta and notional leverage
- WACC percentile
- Credit rating

The report will be published for your information and we will invite you to provide submissions, and/or your own expert reports, in response. Providing us with your submissions and any expert reports during the emerging views phase will better enable us to engage with them in coming to our draft decisions on the IM Review.

### ***Transpower Capex IM***

We look forward to seeing those of you who have RSVP'd to the Transpower Capex Input Methodologies Workshop coming up this Friday, 11 November 9am - 12pm. We have now published the [slides](#) for this workshop. For those unable to attend the workshop, we will record it and make the recording available on our website.

In the workshop we intend to focus on selected issues raised by Transpower and others in the Process and Issues paper submissions about the Transpower capital expenditure input methodologies. Specifically, we will be discussing project staging, sustainability, inputs to the grid investment test, uncertainty and resilience.

We look forward to ongoing dialogue with you as we carry out the IM Review in a period of change for the energy and airport sectors. Stakeholder contributions to the process help to promote confidence that the rules and processes that underpin our regulation will remain fit for purpose as New Zealand transitions to a low-carbon economy, responds to the impacts of climate change, and adjusts to a future post-COVID economic norm.

Ngā mihi  
Charlotte



**Charlotte Reed ([She/Her](#))**

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