

Transpower Input Methodologies Amendments Determination 2014

[2014] NZCC 22

Amendments made under s52X of the Commerce Act 1986 to input methodologies applicable to Transpower contained in Decision [2012] NZCC 17 and [2012] NZCC 2.

The Commission:

S Begg

P Duignan

Dr S Gale

E Welson

Date of Decision: 28 August 2014

Transpower Input Methodologies Amendments Determination 2014

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

PART 1 – GENERAL MATTERS

1. TITLE

This determination is the Transpower Input Methodologies Amendments Determination 2014.

2. DETERMINATIONS AMENDED

This determination amends the following determinations:

- (a) *Transpower Input Methodologies Determination, [2012] NZCC 17 (the **Transpower IM Determination**); and*
- (b) *Transpower Capital Expenditure Input Methodology Determination, [2012] NZCC 2 (the **Transpower Capex IM Determination**).*

3. COMMENCEMENT

- 3.1 Part 2 of this determination comes into force on the date on which notice of this determination is given in the New Zealand Gazette in accordance with section 52W of the Commerce Act 1986.
- 3.2 Part 3 of this determination come into force on 1 July 2015.

4. INTERPRETATION

- 4.1 Terms in bold type have the meaning given to those terms in the applicable determination.
- 4.2 Terms in bold type used in this determination that are defined in the Act, but not this determination, have the same meaning as in the Act.

PART 2 – AMENDMENTS WITH IMMEDIATE EFFECT

5. AMENDMENTS TO TRANSPOWER IM DETERMINATION

Amendments to recoverable costs

- 5.1 Paragraph 3.1.3(1)(b) is amended by deleting “and” from the end of the paragraph.
- 5.2 Subclause 3.1.3(1)(c) of the **Transpower IM Determination** is replaced with the following:
- “(c) a transmission alternative operating cost, subject to the requirements in subclause (3), not to exceed the-
- “(i) actual transmission alternative operating cost incurred by **Transpower**; or
- “(ii) upper limit of transmission alternative operating costs approved in accordance with subclause (3),
- “whichever is lower;”.
- 5.3 Subclause 3.1.3(1) of the **Transpower IM Determination** is amended by adding the new paragraphs (d) and (e), as follows:
- “(d) in relation to a **major capex project** that has been approved by the **Commission** under the **Capex IM**, and subject to the requirements in subclause (3), any operating costs –
- “(i) incurred after the date of approval of the **major capex project** and in relation to the **major capex project**;
- “(ii) are not otherwise able to be recovered as part of the **major capex allowance** on the basis that the costs are not **capital expenditure**; and
- “(iii) where the sum of the operating costs and the **major capex** approved by the **Commission** in relation to the **major capex project** does not exceed the **major capex allowance**; and
- “(e) an amount determined by the **Commission** and specified in an **IPP determination** following a reconsideration and amendment of the **IPP** under clauses 3.7.4(2)(a) and 3.7.5(1) for the prudent net additional operating costs, in excess of those provided in an **IPP determination**, incurred in responding to a **catastrophic event**.”.
- 5.4 Subclause 3.1.3(3) of the **Transpower IM Determination** is amended by:
- (a) inserting “and subclause (1)(d)” after “subclause (1)(c)”;
- (b) inserting “**determination**” after “**IPP**” in paragraph (b);
- (c) inserting “and” at the end of paragraph (b);
- (d) replacing “; and” at the end of subparagraph (c)(iii) with a full stop “.”; and
- (e) deleting paragraph (d).

- 5.5 Clause 1.1.4(2) of the **Transpower IM Determination** is amended by inserting the following definitions in their appropriate alphabetical order:

“**major capex** has the same meaning as defined in the **Capex IM**;

“**major capex allowance** has the same meaning as defined in the **Capex IM**;

“**major capex project** has the same meaning as defined in the **Capex IM**;”.

6. AMENDMENTS TO TRANSPOWER CAPEX IM DETERMINATION

Amendments to the definition of ‘forecast CPI’

- 6.1 Clause 1.1.5(2) of the **Transpower Capex IM Determination** is amended by replacing paragraph (b) of the definition of ‘forecast CPI’ with the following:

“(b) in respect of later quarters, the forecast last applying under paragraph (a) adjusted such that an equal increment or decrement made to that forecast for each of the following three years results in the forecast for the last of those years being equal to the target midpoint for the change in headline **CPI** set out in the Monetary Policy Statement referred to in paragraph (a);”.

Part 3 – AMENDMENTS WITH EFFECT FROM 1 JULY 2015

7. AMENDMENTS TO TRANSPOWER IM DETERMINATION

Amendments to related party transactions

7.1 The definition of ‘related party’ in clause 1.1.4(2) of the **Transpower IM Determination** is replaced with the following:

“**related party** means-

- “(a) a **person** that, in accordance with **GAAP**, is a related party to **Transpower**, other than as a result of **Transpower** being a Crown-owned entity; or
- “(b) any part of **Transpower** that does not **supply electricity transmission services**.”

Amendments to physical asset life

7.2 Clause 2.2.6 of the **Transpower IM Determination** is amended by:

- (a) deleting “, subject to subclause (2),” from subclause (1);
- (b) deleting subclause (2); and
- (c) consequentially renumbering the remaining subclauses and cross-references to those subclauses.

Amendments to depreciation

7.3 Subclause 2.2.3(2)(f) of the **Transpower IM Determination** is replaced with the following:

- “(f) any other asset having a **commissioning date** in the **disclosure year** in question, the value determined in accordance with the formula—
“**value of commissioned asset – unallocated depreciation.**”

7.4 Clauses 2.2.4(1) and (2) of the **Transpower IM Determination** are replaced with the following:

- “(1) Unallocated depreciation is determined, subject to subclause (3) and clause 2.2.5, in accordance with the formula, in the case of -
 - “(a) an asset with an **unallocated opening RAB value** –
[1 ÷ **remaining asset life**] × **unallocated opening RAB value**; and
 - “(b) an asset having a **commissioning date** in the **disclosure year** in question –

$[1 \div \text{remaining asset life}] \times \text{value of commissioned asset} \times \text{the fraction of the disclosure year from the commissioning date to the last day of the disclosure year.}$

“(2) Depreciation is determined, subject to subclause (3), in accordance with the formula, in the case of -

“(a) an asset with an **opening RAB value-**

$[1 \div \text{remaining asset life}] \times \text{opening RAB value; and}$

“(b) an asset having a **commissioning date** in the **disclosure year** in question—

$[1 \div \text{remaining asset life}]$

x

value allocated to electricity transmission services by adopting the value of commissioned asset and applying clause 2.1.1 to it as if it were an asset value

x

the fraction of the disclosure year from the commissioning date to the last day of the disclosure year.”.

7.5 Clause 1.1.4(2) of the **Transpower IM Determination** is amended by inserting the following definition in appropriate alphabetical order:

“**RCP1 pseudo asset** means the asset calculated in accordance with clause 2.2.9(2);”.

7.6 The definition of **depreciation** in clause 1.1.4(2) of the **Transpower IM Determination** is replaced with the following:

“**depreciation**, in relation to a **disclosure year**, means the allowance for that **disclosure year** to account for the diminution in an asset's remaining service life potential in the **disclosure year** in question determined in accordance with clause 2.2.4(2);”.

7.7 The definition of **remaining asset life** in clause 1.1.4(2) of the **Transpower IM Determination** is replaced with the following:

“**remaining asset life** means term remaining of an asset's **physical asset life**, for the purposes of:

“(a) clauses 2.2.4(1)(a) and 2.2.4(2)(a), at the commencement of the **disclosure year** in question; and

“(b) clauses 2.2.4(1)(b) and 2.2.4(2)(b), at the asset's **commissioning date;**”.

7.8 The definition of **unallocated depreciation** in clause 1.1.4(2) of the **Transpower IM Determination** is replaced with the following:

“**unallocated depreciation** means an allowance to account for the diminution in an asset's remaining service life potential in the **disclosure year** in question determined in accordance with clause 2.2.4(1);”

7.9 Clause 2.2.6(1) is amended by:

(a) inserting a new paragraph (j), as follows:

“(j) the **RCP1 pseudo asset**, 31 years.”

(b) replacing the full stop at the end of paragraph (i) with “; and”.

7.10 New clause 2.2.9 is added to the **Transpower IM Determination** as follows:

“2.2.9 Adjustment to asset values and establishment of RCP1 pseudo asset

“(1) Each asset with a **commissioning date** in the period commencing

“(a) on the first day of the **disclosure year** 2012; and

“(b) ending on the last day of the **disclosure year** 2015,

“shall have its values calculated pursuant to-

“(c) clause 2.2.3(1); and

“(d) clause 2.2.3(3),

“for the **disclosure year** 2016 adjusted by the amounts necessary to produce the value for each asset as if **depreciation** had applied for the **disclosure year** in which the asset's **commissioning date** occurred.

“(2) The ‘RCP1 pseudo asset’ is an asset established as of the first day of the **disclosure year** 2016 with -

“(a) an **unallocated opening RAB value** equal to the sum of adjustments for all assets made under subclause (1) in respect of clause 2.2.3(1); and

“(b) an **opening RAB value** equal to the sum of all adjustments for all assets made under subclause (1) in respect of clause 2.2.3(3).”

Amendments to definition of ‘commissioned’

7.11 Subclause 1.1.4(2) of the **Transpower IM Determination** is amending by replacing the definition of **commissioned** with the following:

“**commissioned** means used by **Transpower** to provide **electricity transmission services**, save that in relation to-

“(a) **land** that is not **easement land**; or

“(b) an **easement**;

“‘**commissioned**’ means acquired by **Transpower** where –

“(c) the land or easement is **base capex**, or

“(d) the acquisition was approved by the –

“(i) **Electricity Commission** under Part F of the Electricity Governance Rules 2003;

“(ii) **Commission** under s 54R(3)(b) of the **Act**; or

“(iii) **Commission** in accordance with any input methodology determined pursuant to s 54S of the **Act**,

“and ‘commission’ shall be construed accordingly;”.

7.12 Clause 1.1.4(2) of the **Transpower IM Determination** is amended by inserting the following definitions in their appropriate alphabetical order:

“**base capex** has the meaning given in the **Capex IM**;”.

Amendments to reconsideration of individual price-quality path input methodology

7.13 Subclause 1.1.4(2) of the **Transpower IM Determination** is amended by

(a) deleting the definition of **quality targets**; and

(b) inserting the following definitions in their appropriate alphabetical order:

“**cap** has the same meaning as defined in the **Capex IM**;

“**Capex IM** means the *Transpower Capital Expenditure Input Methodology Determination* [2012] NZCC 2, as amended;

“**collar** has the same meaning as defined in the **Capex IM**;

“**grid output** has the same meaning as defined in the **Capex IM**;

“**grid output incentive rate** has the same meaning as defined in the **Capex IM**;

“**grid output target** has the same meaning as defined in the **Capex IM**;

“**revenue-linked grid output measure** has the same meaning as defined in the **Capex IM**;”.

7.14 Paragraph 3.7.1(1)(c) of the **Transpower IM Determination** is amended by replacing subparagraph (i) with the following:

“(i) action required to rectify its adverse consequences cannot be delayed until a future **regulatory period** without the **grid outputs** associated with the **revenue-linked grid output measures** being outside the range specified by the relevant **cap** and **collar** in the remaining **disclosure years** of the **regulatory period**;”.

- 7.15 Subclauses 3.7.4(3) and 3.7.5(1), and paragraph 3.7.5(2)(b), of the **Transpower IM Determination** are amended by replacing “**quality targets**” with “**grid output targets, caps, collars and grid output incentive rates associated with revenue-linked grid output measures**”.
- 7.16 Paragraph 3.7.4(6)(a) is amended by deleting “‘major capex’ and” and replacing “have” with “has”.
- 7.17 Subparagraph 3.7.5(2)(g)(i) of the **Transpower IM Determination** is amended by replacing “major capex” with “**major capex**”.
- 7.18 Subclause 3.7.5(3) of the **Transpower IM Determination** is amended by replacing “**quality targets**” with “**grid output targets associated with revenue-linked grid output measures**”.



Sue Begg, *Deputy Chair*

Date at Wellington this 28th day of August, 2014.

COMMERCE COMMISSION

