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24 April 2018

Keston Ruxton
Regulation Branch
Commerce Commission
Wellington
By email: regulation.branch@comcom.govt.nz

Dear Keston

Revised Capex IM determination: Technical Review

We appreciate the opportunity to submit to the Commerce Commission's revised determination of our Capital Expenditure Input Methodology (Capex IM). The review has changed several framework policy settings and we view this step in the review process as vital to ensure shared understanding of policy intent and that the drafting delivers on the intent.

We comment and mark-up the drafting in the determination, attached as an Appendix. Most of the comment relates to the three policy areas below, plus re-draft or comment throughout the Capex IM for clarity and consistency.

Approval of major capex projects (staged)

The draft Capex IM contemplates a major capex project (staged) being approved independently of its stages, which is inconsistent with the concept of staged approval. We propose de-coupling the definitions of **major capex project** and **major capex project (staged)** and re-drafting the definition of the former to be either one project or a set of staging projects (i.e. sub-projects of a major capex project (staged)). Our suggestion also simplifies the drafting throughout the rest of the Capex IM.

Base capex allowance adjustment mechanism

We propose a re-draft of the new definition **base capex allowance adjustment mechanism** to remove specificity for amounts and thresholds. Our re-draft recognises, and is intended to address, the inherent uncertainty of enhancement and development expenditure. To support shared understanding of policy intent and workability, we propose a meeting between the Commission staff and our system planners, ahead of our Regulatory Control Period 3 (RCP3) submission in December 2018. We consider leaving implementation detail until the IPP process is too late for business planning.

Base capex expenditure adjustment

The formulae and definitions in clause B1 contain errors: new term 'h' is redundant and term 'g' is used incorrectly. To fix the issue with term 'g' we propose a new defined term of **exempt base capex**, which is aligned with the concept of **exempt major capex** and used in the same way.

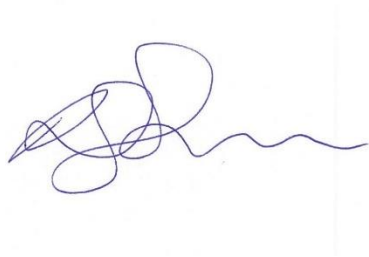
Listed projects and transmission alternatives

The listed project approval process now obliges us to consider transmission alternatives. However, if we conclude that a transmission alternative is preferred we have no means of obtaining an additional allowance to pay for it, as there would be no additional base capex allowance to be offset.

We consider the listed project framework in the Capex IM needs to recognise economic transmission alternative costs as **recoverable costs**, as the Capex IM currently does for economic non-transmission solutions under major capex.

We think that further dialogue before the determination is finalised would be beneficial and we are available to answer any queries on our submission and re-drafting. Please contact Micky Cave, senior regulatory analyst (021 242 5293 or micky.cave@transpower.co.nz) in the first instance.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Rebecca Osborne', with a wavy line extending to the right.

Rebecca Osborne
Regulatory Affairs and Pricing Manager (Acting)

Appendix – Marked-up Capex IM Determination

See attachment