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Context and summary of Draft decisions

Part 4 Input Methodologies Review 2023

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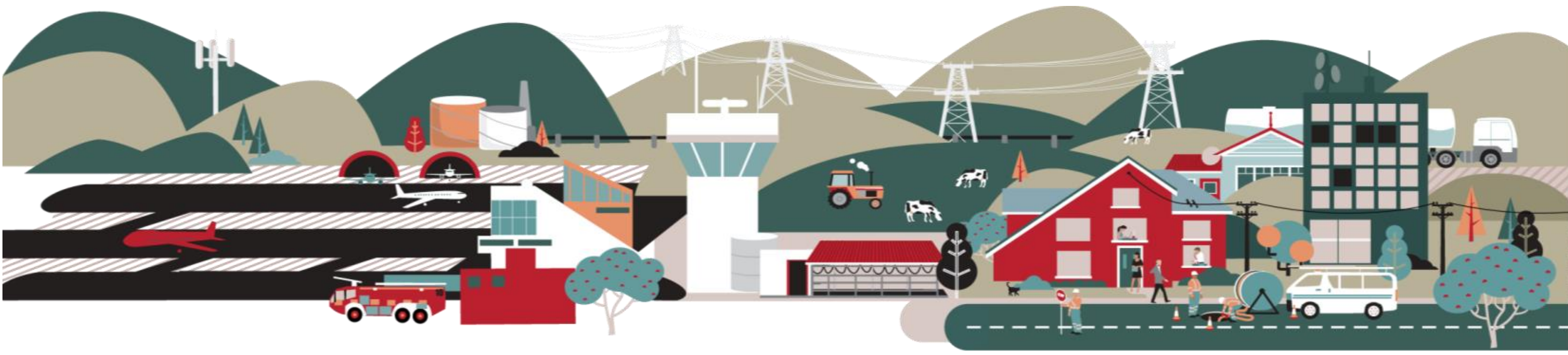

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Associated documents

Publication date	Reference	Title
13 October 2022	ISBN 978-1-99-101241-8	Part 4 IM Review 2023 Framework paper
14 June 2023	ISBN 978-1-991085-04-7	Part 4 Input methodologies review 2023 - Draft decision - Financing and incentivising efficient expenditure during the energy transition topic paper
14 June 2023	ISBN 978-1-991085-03-0	Part 4 Input methodologies review 2023 - Draft decision - Cost of capital topic paper
14 June 2023	ISBN 978-1-991085-07-8	Part 4 Input methodologies Review 2023 - Draft decision - CPPs and In-period adjustments topic paper
14 June 2023	ISBN 978-1-991085-08-5	Part 4 Input methodologies Review 2023 - Draft decision - Transpower investment topic paper
14 June 2023	ISBN 978-1-991085-06-1	Part 4 Input methodologies review 2023 - Draft decision - Summary and context paper
14 June 2023	ISBN 978-1-991085-05-4	Part 4 Input methodologies review 2023 - Draft decision - Report on the Input methodologies review 2023 paper
14 June 2023	ISBN 978-1-991085-14-6	[Draft] Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]
14 June 2023	ISBN 978-1-991085-12-2	[Draft] Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]
14 June 2023	ISBN 978-1-991085-13-9	[Draft] Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]
14 June 2023	ISBN 978-1-991085-11-5	[Draft] Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]
21 June 2023	ISBN 978-1-991085-10-8	[Draft] Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]
21 June 2023	ISBN 978-1-991085-09-2	[Draft] Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]

All above documents can be found on our website.

Commerce Commission
Wellington, New Zealand

Glossary

Acronyms	Definition
CCRA	Climate Change Response Act
CPI	Consumer price index
DER	Distributed energy resources
DPP	Default price-quality paths
EA	Electricity Authority
EDB	Electricity distribution businesses
ERP	Emissions Reduction Plan
FCM	Financial capital maintenance
GAAP	Generally accepted accounting principles
GDB	Gas distribution business
GPB	Gas pipeline businesses
GTB	Gas transmission business
GTP	Gas Transition Plan
ID	Information disclosure
IM	Input Methodologies
IPA	Innovation Project Allowance
IPP	Individual price-quality path
IRIS	Incremental rolling incentive scheme
IST	Information systems technology
NAP	National Adaptation Plan
NZES	New Zealand Energy Strategy
PQ	Price-quality
RAB	Regulatory asset base
TIDR	Targeted ID Review
WACC	Weighted average cost of capital

Contents

Foreword

The environment in which regulated suppliers are operating has changed significantly since our last review of Input Methodologies (IMs) in 2016 and continues to evolve.

Government policy on climate change has developed, with a legislated target and high-level supporting policies now in place to facilitate a transition to net-zero carbon emissions by 2050. This is occurring alongside advances in technology and changes in consumer preferences, while inflation is at around a 30-year high and post-Covid supply chain challenges continue. These changes present regulated businesses with new challenges and opportunities.

The purposes of Part 4 and of the IMs in the Commerce Act are at the heart of our IM Review decision-making framework (Framework), which is the legal basis for our IM Review decisions.[1]

The Part 4 purpose requires us to promote the long-term benefit of consumers of regulated services. We do this by promoting the following outcomes consistent with those produced in workably competitive markets – namely, that the suppliers of these services:[2]

- have incentives to innovate and invest, including in replacement, upgraded, and new assets;
- have incentives to improve efficiency and provide services at a quality that reflects consumer demands;
- share with consumers the benefits of efficiency gains in the supply of the regulated services, including through lower prices; and
- are limited in their ability to extract excessive profits.

The IMs are an important part of regulation under Part 4. The purpose of IMs is to provide certainty to both regulated suppliers and consumers about the rules, requirements and processes applying to Part 4 regulation. A stable and predictable regime provides suppliers and investors in regulated firms with the confidence to invest in long-lived infrastructure that provides essential services to all New Zealanders.

In identifying which IMs to consider changing, and in reaching decisions on changing the IMs, we only propose to change the IMs if the change appears likely to meet one or more of the overarching objectives of the IM Review.

[1] We outline the Framework's three overarching objectives for the IM Review from paragraph [1.23] below.

[2] Section 52A of the Commerce Act.

Our draft decisions reflect that our review has found the IMs broadly remain fit for purpose and flexible enough to cope with the changing operating environment. However, we have found areas where improvements can be made. These are summarised in this paper and described in full across the topic papers and the Draft Report on the Review.

Our draft decisions under this review relate to the IMs only. They do not relate to specific price-quality (PQ) determinations or information disclosure (ID) regulations, which we set through separate processes. Since we commenced this IM Review, we have reset the default price-quality paths (DPPs) for gas pipeline businesses (GPBs) and completed our review of Wellington Airport's fourth price setting event. We are now undertaking work on resetting the DPPs for electricity distribution businesses (EDBs) and Transpower's individual price-quality path (IPP). Both Christchurch and Auckland International Airports have reset their prices for the fourth price setting period, and these are in our review pipeline.

It is important that the regime remains appropriate and able to achieve its legislated purpose given the current context and challenges, and the IMs are an important part of the regime. The PQ resets, and the Targeted ID Review (TIDR) for EDBs, will provide opportunities to consider issues that are not part of the IMs. In some instances, we have changed the IMs to improve our ability to respond in an appropriate and timely way in our decision-making on PQ paths.

Some issues sit outside our jurisdiction and are appropriately addressed elsewhere. We regularly engage with other relevant government agencies about areas of mutual interest. The coherence of our approach with the Electricity Authority’s regulatory settings remains a particular focus for both regulators.

We want to acknowledge the contributions from stakeholders. The engagement that we have had to date has been invaluable in informing our draft decisions, and your ongoing input will help to ensure that our regulatory regime remains robust and relevant.

Vhari McWha
Convenor, Part 4 Division

Chapter 1 Introduction

Purpose and structure of this paper

1.1 This paper presents a summary of the economic and sectoral context for this review of Part 4 Input Methodologies (IMs) and refers to draft decisions where they are relevant to that context. This paper is not intended as a comprehensive list of all decisions or the reasons behind them.

1.2 In Chapter 2 we set out some of the context for our decision, focusing on impacts of decarbonisation on regulated businesses and the need for greater resilience due to climate change.

1.3 We go on to outline the major themes in the Review and how we have factored these into our decisions on IM changes. Those themes are:

1.3.1 dealing with changing circumstances and uncertainty - factors driving change and uncertainty for regulated businesses, and how the IMs enable decision-making in this context (Chapter 3);

1.3.2 financing and incentivising efficient expenditure - ensuring our regulatory system incentivises necessary investment (Chapter 4);

1.3.3 cashflows and inflation - tools in the IMs for managing cashflow and inflation risks (Chapter 5).

1.4 Where we are proposing any changes to the IMs, we:

1.4.1 have assessed those changes against the Framework; and

1.4.2 consider they will meet one or more of the Framework's overarching objectives set out at paragraph 1.24 below.

1.5 We have adopted a cross-sector approach to this IM Review,[3] and some of the draft decisions we have proposed affect multiple sectors regulated under Part 4. We encourage stakeholders to have regard to all parts of the review and submissions from other sectors, because they may affect the decisions we make for your sector.

1.6 Alongside this paper, and the IM Review Framework paper published previously,[4] we have released topic papers which explain our draft decisions on the key issues grouped into the following topics:

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3 Commerce Commission "Part 4 Input Methodologies Review 2023 - Process and issues paper" (20 May 2022), at [2.13]-[2.14].

4 Commerce Commission "Part 4 Input Methodologies Review 2023: Framework Paper" (13 October 2022).

1.6.1 Financing and incentivising efficient expenditure during the energy transition;

1.6.2 Cost of capital;

1.6.3 CPPs and in-period adjustments; and

1.6.4 Transpower investment.

1.7 We have also published the Draft Report on the IM Review, which summarises for every IM policy decision:

1.7.1 any changes we propose making;

1.7.2 where we have considered changes but not made them; and

1.7.3 where we have not found reason to consider changes.[5]

1.8 Figure A1 in Attachment A illustrates this approach and the draft decision package.

1.9 We invite submissions on the Draft Report on the Review, our suite of topic papers, and related draft IM amendments, and cross-submissions on submissions we receive. Chapter 6 of this paper outlines how to make a submission and our timeframes for submissions and cross-submissions.

What are Input Methodologies?

1.10 The Input Methodologies are the underlying rules, requirements, and processes that must be applied under Part 4 of the Commerce Act (the Act) to the regulation of: electricity lines services, gas pipeline services, and specified airport services.

1.11 These services are regulated under Part 4 because they face little or no competition and are unlikely to experience a substantial increase in competition in the future.[6]

1.12 The Part 4 purpose requires us to promote the long-term benefit of consumers of these services. We do this by promoting the following outcomes that would be produced in workably competitive markets – namely, that the suppliers of these services:[7]

1.12.1 have incentives to innovate and invest;

[5] Full list of draft decisions papers is available at Attachment A.

[6] Section 52 of the Act.

[7] Section 52A of the Act.

1.12.2 have incentives to improve efficiency and provide services at a quality that reflects consumer demands;

1.12.3 share the benefits of efficiency gains with consumers, including through lower prices; and

1.12.4 are limited in their ability to extract excessive profits.

1.13 The IMs underpin how we set and apply key aspects of price-quality and information disclosure regulation to help bring about these outcomes. The IMs' purpose is to provide certainty to both regulated suppliers and consumers about the rules, requirements and processes applying to Part 4 regulation.[8] Certainty provides suppliers and investors in regulated firms with the confidence to invest in long-lived infrastructure that provides essential services to all New Zealanders.

The Input Methodologies Review

1.14 We are required to review all IMs at least every seven years.[9] We set the original IMs in December 2010 and completed the first IM Review in December 2016, although we deferred some decisions to 2017.

1.15 We set the scene for this second IM Review in April 2021 by issuing an open letter.[10] We followed that letter with a workshop on the impact of decarbonisation on electricity lines services in December 2021.[11]

1.16 In February 2022, we issued a Notice of Intention to commence this review of all IMs under Part 4.[12]

1.17 Throughout 2022, we sought to establish the key issues the IM Review should address, including through engagement with stakeholders. As outlined in table 1.1 below, this included:

1.17.1 consultation on our Process and issues paper;

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8 Section 52R of the Act.

9 Section 52Y(1) of the Act.

10 Commerce Commission "Open letter - Ensuring our energy and airports regulation is fit for purpose" (29 April 2021).

11 Commerce Commission "Summary and feedback on workshop on the impact of decarbonisation on electricity lines services" (7 December 2021).

12 Note that Fibre sector IMs are not in scope of this review as they are set under Part 6 of the Telecommunications Act 2001. We set the Fibre IMs in 2020, so they are on a different timeframe for review. We recognise there are some common issues with Part 4 regulated suppliers and have incorporated learnings from the Fibre IMs where relevant.

1.17.2 engagement at workshops and an invitation to subsequently submit information; and

1.17.3 consultation on specific problem definition papers.

1.18 The feedback and submissions we received through that process, as well as on the 2021 open letter and in response to the decarbonisation workshop, refined our understanding of the issues and informed our draft decisions outlined in the topic papers and Draft Report on the Review.

Table 1.1 Key steps in the IM Review

Key step	Date
Notice of Intention published	23 Feb 2022
Process and issues paper published	20 May 2022
Draft Decision-Making Framework paper published	20 May 2022
Confidential debt survey issued to relevant stakeholders	15-16 Sept 2022
Decision-Making Framework paper published	13 Oct 2022
Workshop #1 (Forecasting and incentivising efficient expenditure for EDBs) held	7 Nov 2022
Workshop #2 (Transpower's capital expenditure input methodologies) held	11 Nov 2022
Workshop #3 (Price-quality path in-period adjustment mechanisms) held	29 Nov 2022
Expert report on cost of capital published	29 Nov 2022
Paper on options for maintaining investment incentives in the context of declining demand published	20 Dec 2022
Decision-Making Framework - Clarification note	21 Dec 2022
Updated Notice of Intention Published	1 Mar 2023

1.19 Submissions on previous steps in the IM Review can be found on the Commission's website here.

1.20 We have now made and published a set of draft decisions, referred to in this paper, and detailed in the related topic papers and Draft Report on the IM Review. We have also published draft EDB, GDB, GTB, and Airports IM amendment determinations.[13] These documents, with any changes in response to submissions as appropriate, will be finalised and will then give legal effect to our final IM decisions.

1.21 We are seeking your feedback on these draft decisions and their implementation in our draft IM amendment determinations. Our consultation period is approximately seven weeks comprising:

1.21.1 five weeks for submissions (closing Wednesday 19 July); and

1.21.2 two weeks for cross-submissions (expected to be the period 26 July to 9 August).

1.22 Our final decisions will be published in December 2023. Any IM changes relating to price-quality paths that we make as a result of this IM Review will in most cases apply to the next price-quality path at the earliest: for EDBs and Transpower in 2025, and for GPBs in 2026.

1.23 We anticipate that any changes to ID determinations that we decide to make following our final IM decisions will likely take effect from disclosure year 2026.

The IM Review Framework

1.24 In identifying which IMs to consider changing, and in reaching decisions on changing IMs, we only propose to change IMs if the change appears likely to meet one or more of the overarching objectives of the IM Review, being to:

1.24.1 promote the Part 4 purpose in section 52A more effectively;[14]

1.24.2 promote the IM purpose in section 52R more effectively (without detrimentally affecting the promotion of the section 52A purpose);[15] and

1.24.3 significantly reduce compliance costs, other regulatory costs, or complexity (without detrimentally affecting the promotion of the section 52A purpose).

[13] Our Transpower IM amendment determination and the Transpower Capex IM amendment determination will be published on 21 June, one week later than the rest of the draft decisions package. As with the other amendment determinations, a seven-week consultation period will apply for these two amendment determinations.

[14] The section 52A purpose is outlined in paragraph 1.12 above.

[15] The section 52R purpose is outlined in paragraph 1.13 above.

1.25 In testing our draft decisions against these overarching objectives, we have had regard to particular considerations, where relevant and not inconsistent with promoting the s 52A purpose of Part 4.[16] These included the duties on us under s 54Q of the Commerce Act and the permissive considerations under s 5ZN of the Climate Change Response Act (CCRA).[17]

1.26 These overarching objectives and considerations mentioned above are set out in more detail in our IM Review 2023 - Decision-making Framework paper.

16 Framework paper, above n 5, at [X21] and [3.16].

17 Commerce Commission "IM Review 2023 - Decision-making Framework Clarification note - s5ZN of the CCRA" (21 December 2022).

Chapter 2 Challenges and opportunities in a changing world

Purpose and structure of this chapter

2.1 Government policy on climate change has developed significantly since the 2016 IM Review, with new efforts aimed at mitigating and adapting to these risks. The Climate Change Response (Zero Carbon) Amendment Act (the Zero Carbon Act) commits New Zealand to achieving net zero long-lived greenhouse gases by 2050,[18] and the first Emissions Reduction Plan (ERP) sets New Zealand on a pathway towards this target, through major government-led initiatives aimed at decarbonising the economy.[19] The National Adaptation Plan (NAP) contains Government-led proposals to adapt to the impacts of climate change and reduce the potential harm.

2.2 The Government is preparing a Gas Transition Plan (GTP) and the Aotearoa New Zealand Energy Strategy (NZES), which are due to be published at the end of 2023 and 2024, respectively. The purpose of these documents is to address strategic challenges in the energy sector and signal pathways away from fossil fuels.

2.3 The drive toward decarbonisation presents both risks and opportunities for regulated suppliers. This chapter outlines the implications of this changing operating environment for regulated businesses, particularly through:

2.3.1 decarbonisation, resulting in greater electrification and reduced reliance on natural gas; and

2.3.2 a greater need for adaptation and resilience to natural hazards and events.

2.4 The challenge for governments and businesses in this transition lies in balancing reliability, affordability, and sustainability (also known as the energy trilemma). Governments and businesses need to consider how to ensure investments in each aspect do not compromise another.

[18] Section 5Q of the Climate Change Response (Zero Carbon) Amendment Act.

[19] Ministry for the Environment "Aotearoa New Zealand's First Emissions Reduction Plan" (2022).

2.5 Our role in this context remains regulating the price and quality of regulated services to promote the Part 4 purpose outcomes for the long-term benefit of consumers.[20] This includes ensuring that sufficient information is disclosed by regulated businesses for interested parties to assess whether the Part 4 purpose is being met.[21] In carrying out our role, we can have regard to the energy trilemma and, as noted above, the permissive considerations under s 5ZN of the CCRA, where they are relevant and not inconsistent with promoting s 52A(1)(a) to (d).

There is a widespread expectation of increased electrification

2.6 For EDBs, there is significant uncertainty as to the extent, timing, and location of increased electricity demand. In a PQ path reset a relatively higher allowance would mitigate risk of under-investment, but could risk inefficiency or excessive profits if set too high. Conversely, setting a relatively lower initial allowance could risk under-investment, unless there was appropriate flexibility to adjust allowances during a regulatory period as uncertainty is resolved.

2.7 Chapter 3: Dealing with changing circumstances and uncertainty, and Chapter 4: Incentivising efficient investment, discuss this issue.

There will be a reduced reliance on natural gas

2.8 For gas, the energy transition means that demand for natural gas is expected to reduce over the coming years, creating a particularly complex operating environment for GPBs. The expected decline in the use of natural gas presents a transition risk[22] and has implications for the pipeline networks including:

2.8.1 potential for declining throughput;

2.8.2 uncertainty over the pace of demand decline, and if and when the conveyance of natural gas may be phased out; and

2.8.3 the need for efficient investment (for example, in ensuring the safety and reliability of a network) while gas use remains useful.

2.9 It is possible gas infrastructure could be repurposed, depending on the future development of blended or fully renewable gases. The pace of development of any alternative gases, and the extent to which they will be viable substitutes, will affect future demand for natural gas. In addition, uncertainty about the rate of decline in natural gas creates corresponding uncertainty about when demand for electricity will increase.

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[20] Sections 52 and 52A of the Act.

[21] Section 53A of the Act.

[22] Framework paper, above n 5, at [A18].

2.10 The challenge for our regulatory regime in this context of declining demand is promoting the Part 4 purpose for consumers' long-term benefit, including ensuring that gas businesses have incentives to efficiently invest in maintaining safe and reliable networks in the transition to net zero. We discuss this issue further in Chapter 4 of this paper, and in the Financing and incentivising efficient expenditure during the energy transition topic paper.

Adaptation efforts are also gaining pace

2.11 Cyclone Gabrielle has demonstrated the necessity for resilient electricity infrastructure. The storm caused power outages for around 225,000 people across the upper North Island. In Hawke's Bay and Gisborne, the loss of power resulted in lost phone and internet coverage as well. Given such physical risks[23] are likely to increase in frequency in a changing climate, businesses and the Government are having to adapt.

2.12 The NAP contains Government-led strategies, policies, and proposals to adapt to the impacts of climate change and reduce the potential harm.[24]

2.13 Alongside this, the National Emergency Management Agency is currently reviewing its regulatory framework, including developing a new Emergency Management Act, which will likely have implications for operators of Lifeline Utilities.[25]

2.14 Regulated businesses should take these physical risks[26] and associated policy changes into account in their planning and investment decisions. We want to ensure that our regime has sufficient flexibility to respond and to support them in appropriately managing the risk from increasingly frequent disasters. We discuss this issue further in Chapter 3: Dealing with changing circumstances and uncertainty.

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[23] Framework paper, above n 5, at [A18].

[24] Ministry for the Environment, “Aotearoa New Zealand’s First National Adaptation Plan” (2022).

[25] National Emergency Management Agency, "Regulatory Framework Review ('Trifecta') Programme".

[26] Framework paper, above n 5, at [A18].

Chapter 3 Dealing with changing circumstances and uncertainty

Purpose and structure of this chapter

3.1 In a changing environment, businesses face uncertainty over the scale and pace of change in demand, the necessary level of resilience, and in the development and deployment of new technologies. Some uncertainty also remains in how Government energy and climate policies will develop over time.

3.2 We consider that businesses always operate under some degree of uncertainty. Therefore, in the first instance, where suppliers can manage uncertainty themselves through good planning, they should. Through our ID requirements we are encouraging suppliers to move away from deterministic planning and engage in more probabilistic and scenario-based planning to try to better manage uncertainty and risk, where relevant.[27]

3.3 We want to ensure we have the right tools to deal with change and uncertainty when setting price-quality paths and within regulatory periods. An important factor that we must consider across the IM Review, but particularly in this area, is balancing responsiveness to change in promoting the Part 4 purpose with certainty in applying the IM purpose. We have had regard to whether our draft decisions promote the IM purpose more or less effectively, while ultimately seeking to make decisions that promote the Part 4 purpose, which governs all of our decision-making under Part 4.[28]

3.4 As we described in Chapter 2, EDBs face uncertainty in forecasting the extent, timing, and location of increased demand. While forecasting uncertainty is not new, the scale of the expenditure impact is material. A decrease in demand for gas may affect EDBs as well as GPBs if there is a corresponding increase in demand for electricity.

3.5 Those forecasting uncertainties will be considered at the next DPP and IPP resets. We want to ensure that the IMs enable appropriate flexibility, such that we can set allowances that enable a prudent level of investment, while providing scope to later reconsider the price-quality path if further expenditure is deemed appropriate.

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[27] We note there is a difference between good planning and accurate forecasting. Despite good planning, accurate forecasting may be difficult due to the potential variability of underlying drivers that are outside of an organisation's control.

[28] Framework paper, above n 5, at [2.22]-[2.25].

3.6 We consider that we generally have sufficient flexibility to respond appropriately at the right time and in the right way through the tools currently available to us. However, we have identified some refinement to our tools is desirable, and in our draft decisions we propose some targeted changes to the IMs.

3.7 The following sections in this chapter discuss:

3.7.1 existing flexibility in our regime to manage change and uncertainty;

3.7.2 proposed improvements to reopeners;

3.7.3 the role of customised price-quality paths (CPPs); and

3.7.4 improving certainty for Transpower.

Our regime provides flexibility to manage uncertain costs

3.8 The price-quality paths we set under Part 4 provide certainty to suppliers about limits on revenue, quality standards, and incentive mechanisms for efficiency and quality over the regulatory period. Our regime provides mechanisms to account for change and uncertainty in the price-quality path in several ways:

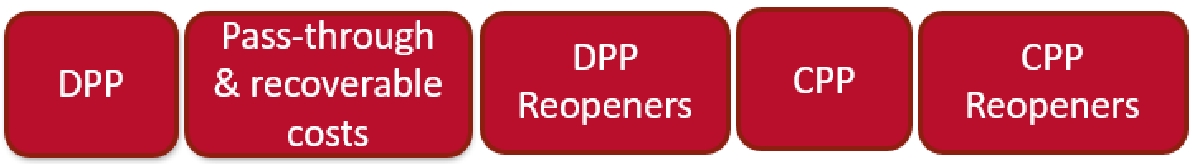
3.8.1 costs may be directly passed through to consumers under the price-quality path, which we call "pass-through costs" and "recoverable costs";

3.8.2 the price-quality path may be reconsidered under certain circumstances, which we refer to as "reopeners"; and

3.8.3 in the case of a regulated supplier subject to a DPP, it may apply for a CPP.

3.9 The simplified regulatory continuum for the DPP/CPP regime in Figure 3.1 shows the package of existing mechanisms.

Figure 3.1 Regulatory Continuum



3.10 Like DPPs and CPPs, an IPP also has pass-through costs and recoverable costs as well as reopeners.

3.11 We have assessed how this package of mechanisms can be improved to address the current and anticipated future operating contexts of suppliers in this IM Review.

Improving price-quality path reopeners and related mechanisms to better deal with uncertainty

3.12 We have considered whether to extend the scope of the price-quality path reopeners and how we can make process improvements to make them easier to prepare for and decide. In general, we consider that our existing tools provide a suitable amount of flexibility for businesses to manage much of the change and uncertainty they face.

3.13 To improve clarity, consistency and ease of use of the reopeners we are proposing to update the DPP, CPP and IPP reopener processes. The updated processes are similar to those in the Fibre IMs.

3.14 We are proposing to expand the availability of DPP reopeners, where this better meets the overarching objectives of the IM Review. These refinements will provide for the increasing role of opex-based solutions and should help mitigate increased concerns about resilience in the face of natural hazards.

3.15 The limited changes we propose making to the CPP and IPP reopeners are consistent with the changes we are proposing for the DPP reopeners.

3.16 We are proposing changes to the existing price-quality path reopeners to address targeted situations where we consider the forecasting uncertainty risk is highest:

3.16.1 allowing for opex solutions in response to system growth;

3.16.2 allowing for consequential opex and capex for system growth, connections, a combination of system growth and connections, and asset relocations;

3.16.3 allowing for general growth in some certain circumstances;

3.16.4 including targeted resilience-related expenditure; and

3.16.5 extending the application of the gas risk event reopener to EDBs.

3.17 We are also clarifying the application of reopeners to improve the workability of the regime by modifying the change event reopener to clarify how it applies to generally accepted accounting principles (GAAP) changes.

3.18 In addition, to avoid unnecessary regulatory scrutiny, we are proposing a large customer contract mechanism for EDBs, with similar rules to the Transpower new investment contracts (NIC) IM provisions. This will address connection forecast uncertainty in situations where EDBs can demonstrate that large customers have entered commercially negotiated contracts with them.

3.19 EDBs raised the potential impact of new connections on network expenditure and the resulting incentive outcomes as an issue. We propose to introduce a wash-up mechanism for EDBs on a CPP to reduce the exposure to uncertainty in future network growth.[29] The symmetrical mechanism would mitigate gains or losses for suppliers and consumers due to new connection forecast errors.

3.20 We provide greater detail on these draft decisions in the CPP and in-period adjustments topic paper.

Considering whether the CPP requirements could be more streamlined

3.21 CPPs are a key tool in the regulatory continuum, offering suppliers the opportunity to propose an alternative price-quality path that better meets their individual circumstances than the DPP. We are not proposing significant changes to the CPP IMs. We are also not proposing to amend the IMs to provide for a single-issue CPP.

Providing greater clarity and certainty for Transpower

3.22 We have reviewed the Capex IM and Transpower IM with the understanding that Transpower is facing an uncertain investment landscape. We recognise that new transmission investment will be needed, and Transpower should be able to propose the solutions with the lowest lifecycle costs and have these assessed in a timely manner. Nonetheless, our decision-making process must promote the long-term benefit of consumers through appropriate scrutiny of expenditure proposals.

3.23 We consider that the IMs relevant to Transpower are largely fit for purpose. The Capex IM and Transpower IM enable us to address many of the issues submitted by stakeholders.

3.24 We are proposing changes to the Capex IM, in line with our Framework, that reflect the changed industry and policy context while continuing to ensure proposed expenditure is adequately justified by Transpower and subject to a proportionate level of scrutiny by us.

3.25 Key proposed changes are:

3.25.1 streamlining the major capex proposal preparation and approval process by clarifying the project staging process and introducing a cost estimation incentive deadband to enable investment proposals to be prepared faster;

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[29] We do not consider the mechanism would be appropriate for a DPP currently, due to the lack of verifiable connection cost information available.

3.25.2 modifications to the investment test, including a revised discount rate, and clarifying the scenarios Transpower must analyse in support of investment proposals;

3.25.3 allowing Transpower to amend major capex outputs following submission of its investment proposals, rather than the present requirement that Transpower withdraw the proposal and re-submit;

3.25.4 requiring pre-submission verification of base capex proposals to improve IPP process certainty for Transpower;

3.25.4.1 extending the type of project that can be considered a listed project to include all reconductoring projects and large non-recurring information systems technology (IST) projects where there are major cost uncertainties; and

3.25.5 ensuring the Transpower IM accommodates anticipatory connection assets and that they are subject to the Capex IM to ensure these investments are economically tested.

3.26 We consider that our draft decisions appropriately promote Transpower’s incentives to innovate, invest and improve cost efficiency, and retain investment optionality, while limiting Transpower's ability to extract excessive profits. In proposing changes, we have been mindful of administrative and regulatory process costs to us and Transpower.

3.27 We provide further detail on these draft decisions in the Transpower investment topic paper.

Chapter 4 Incentivising efficient investment

Purpose and structure of this chapter

4.1 Under s 52A(1)(a), we must ensure that regulated businesses have incentives to innovate and invest in supplying the regulated service, including in replacement, upgraded, and new assets.

4.2 In the current context, electricity lines businesses have submitted on the need for increased investment to meet the growing needs of consumers, and to investigate new ways of doing things to support the energy transition. Some consider that existing incentives to innovate are insufficient.

4.3 For GPBs, the energy transition means that natural gas demand is expected to reduce over the coming years. However, the pace at which this transition will occur remains uncertain. As long as gas remains a widely used energy source for homes and businesses, incentives to invest efficiently are necessary to ensure the networks continue to provide a safe and reliable supply of natural gas.

4.4 Given the important role innovation can play in helping improve outcomes for consumers in the energy transition, we have examined the incentives to innovate that the IMs and Part 4 regime provide. We want to ensure that regulated suppliers have the right incentives to make investments that meet consumer demands, whilst aiming for the lowest lifecycle cost, considering key issues such as enabling innovation and new technologies.

4.5 We have considered the combination of existing tools that incentivise businesses to invest and innovate efficiently, which we discuss in the following sections of this chapter:

4.5.1 the cost of capital IM;

4.5.2 the opex and capex expenditure incentive mechanisms for EDBs and Transpower; and

4.5.3 incentives for GPBs to invest efficiently in the context of declining demand.

4.6 We have assessed these tools and consider that they are broadly sufficient to enable businesses to meet their investment needs, while balancing customer bill impacts. However, we are proposing some changes to support greater innovation and better promote our overarching objectives for the IM Review.

A cost of capital that strikes the right balance

4.7 The weighted average cost of capital (WACC) is a key input in regulation based on the building blocks model. For PQ-regulated firms, the WACC is the ex-ante allowed rate of return on regulated assets. For ID-regulated firms, the WACC is the benchmark used to assess profitability.

4.8 The cost of capital IM sets out our approach to estimating WACC, which is then applied at a PQ reset or ID determination. We have reviewed our cost of capital IM and retained the key elements. We have reset and updated some of the input parameters based on more up to date information.

We have reviewed the WACC parameters

4.9 We have reviewed all of the cost of capital parameters and updated these to reflect more recent information and changes in the economic environment. Some key draft decisions include:

4.9.1 updating the asset beta and leverage estimates for EDBs, GPBs and Airports;

4.9.2 retaining a combined asset beta sample for energy and gas (and continuing to apply an uplift of 0.05 to our estimate of the asset beta for GPBs);

4.9.3 updating the economy-wide tax adjusted market risk premium (TAMRP); and

4.9.4 continuing to apply a hybrid approach for estimating the cost of debt, that is, applying a prevailing risk-free and trailing average debt premium.

4.10 More detailed information on our draft decisions and the reasons for these can be found in the Cost of capital topic paper.

Consideration of the WACC percentile

4.11 The adjustment to the WACC estimate in the form of the WACC percentile is a key tool to mitigate the risks to consumers of under-investment by regulated suppliers. In determining whether an adjustment to the WACC is in consumers' interests, we must trade off the costs to consumers of higher prices against any expected benefits associated with reducing the risk of underinvestment (such as improved quality, including reduced risk of large-scale supply outages).

4.12 Based on the analysis discussed in the Cost of Capital topic paper, we are proposing the following WACC percentiles:

4.12.1 the 65th percentile for EDBs and Transpower, which compares to the 67th percentile in the current IMs; and

4.12.2 the 50th percentile for GPBs, which compares to the 67th percentile in the current IMs.

4.13 Our draft decision to use the 65th percentile for EDBs and Transpower reflects an updated assessment of the evidence, including consideration of regulatory changes that have reduced the risks of underinvestment.

4.14 Our proposal to use the 50th percentile for GPBs is based primarily on the lower probability of gas outages and the lower costs to consumers of those outages. Gas has much higher reliability than electricity.

4.15 As airports are subject to ID regulation only, we can consider whether a WACC, as calculated by the regulated supplier, that is different to the mid-point is justified at each price-setting event.

Reasonableness checks

4.16 We have undertaken reasonableness checks of our updated WACC by comparing the WACCs that our updated parameters produce relative to the WACCs used by investment analysts and other regulators and considering the RAB multiple for the sale of Eastland Network (now Firstlight Network) and broker estimates of the RAB multiples for the regulated parts of Vector's business.

4.17 These checks suggest that our updated WACC parameters, taken as a whole, produce commercially realistic estimates of the cost of capital for regulated suppliers.

Expenditure and innovation incentives for electricity lines services

4.18 With the anticipated increase in investment required for EDBs and Transpower in coming years, current and future generations of consumers will both pay for and benefit from these investments. It will continue to be important to ensure that suppliers have incentives to invest efficiently - on the right things, at the right time, and at the lowest lifetime cost to meet consumer demands.

4.19 Our summary and analysis of information disclosed by suppliers related to expenditure and innovation play an important role, including by highlighting developments and good practice by regulated suppliers. An example of this is our introduction last year of a new requirement for EDBs to publish a description of their practices relating to new connections, such as what they do to minimise the cost to consumers.

4.20 Suppliers subject to revenue caps have incentives to reduce costs below their expenditure allowances as long as this is consistent with meeting quality standards. The current expenditure incentive mechanisms for EDBs and Transpower address a range of issues under PQ regulation that can arise in the absence of an incentive scheme, and which helps to promote the Part 4 purpose.[30]

4.21 These include equalising incentives for opex and capex spend, providing consistent incentive rates to make efficiency savings over time, and removing incentives to inflate costs in some key years (where a base year is adopted for the expenditure forecast). The incentive mechanisms also determine the extent and rate at which efficiency gains are shared with consumers over time.

Consideration of capex bias

4.22 Some stakeholders submitted that the current approach to setting expenditure allowances and expenditure incentive mechanisms results in capex bias.[31] Capex bias could be a barrier to efficient investment decisions and might hinder progress towards decarbonisation objectives. Some suppliers suggested moving to a 'totex approach', similar to that applied by Ofgem in the UK.

4.23 Of the alternative expenditure incentive approaches that we considered, such as a totex approach (including a totex incentive mechanism), our draft decision is that none better promote our IM Review overarching objectives than the current expenditure incentive mechanisms.[32] Our current expenditure incentive mechanisms provide for equalised incentives for capex and opex.

Retaining our current approach to expenditure incentive mechanisms

4.24 We propose to maintain the current approach to the expenditure incentive mechanisms for EDBs (opex and capex IRIS) and Transpower (opex IRIS, base capex incentive scheme and major capex incentive scheme). We have considered alternative approaches and concluded that the current arrangements achieve our IM Review overarching objectives. We are proposing several changes to the expenditure incentive mechanisms to improve their effectiveness and certainty.

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[30] We do not apply explicit expenditure incentive mechanisms for GPBs because we do not consider that it is justified for a much smaller sector with different network characteristics to electricity.

[31] We define 'capex bias' as arising where the regulatory approach to setting price-quality paths financially incentivises investment in assets (capex) over alternatives, such as demand response (opex), where those alternatives are more efficient. We do not use the term ‘capex bias’ to refer to situations where favouring a traditional network solution over a non-network alternative results in greater net benefits to consumers. Efficient solutions are those that minimise the whole of life-costs while delivering the quality that consumers demand, in line with s 52A(1)(a), (b) and (d)).

[32] Commerce Commission “Electricity distributor's expenditure incentives under the current Part 4 approach and under a totex approach - Staff working paper to inform 7 November 2022 workshop 'Forecasting and incentivising efficient expenditure for EDBs'” (1 November 2022).

Targeted changes to EDB and Transpower incentive schemes

4.25 We are proposing two targeted changes to the IRIS mechanism for both EDBs and Transpower:

4.25.1 applying IRIS in real terms (adjusted for actual consumer price index (CPI) inflation) rather than in nominal terms, which will remove the effect of economy-wide inflation from the calculation of incentive amounts; and

4.25.2 a technical change to our approach to use the midpoint vanilla WACC as the discount rate for estimating the opex incentive rate, rather than applying an uplift to the discount rate.

4.26 We propose to specify Transpower's opex IRIS to work in the same way as for EDBs under a DPP. This involves removing the Transpower baseline adjustment term in the opex incentive calculation. The baseline adjustment term introduced significant levels of uncertainty and we are concerned that retaining it would harm incentives to invest and make efficiency savings.

Incentivising innovation for EDBs

4.27 We are proposing changes to the Innovation Project Allowance (IPA) to improve our scope and flexibility at DPP and CPP resets to set schemes that better promote the Part 4 purpose, including schemes that improve incentives for adopting non-traditional solutions to defer capex.

4.28 Suppliers advocated IM changes to enable a regulatory sandbox. Our view is that the current IMs enable the desired outcomes of a sandbox in providing a large degree of flexibility for suppliers to innovate. Certain statutory features of Part 4 of the Act also mean that some of the ad-hoc flexibility seen in overseas regulatory sandboxes is not available in our context.

4.29 We discuss this further in Chapter 6 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

Maintaining incentives for GPBs to invest efficiently in the context of declining demand

4.30 For GPBs, the energy transition means that demand for natural gas is expected to reduce over coming years. However, the pace at which this transition will occur and the potential impact on GPBs remains uncertain.

4.31 We consider that our current approach to addressing asset stranding risk promotes the long-term benefit of consumers under s 52A in this context and our draft decision is not to change this.

4.32 We have also considered whether the current form of control for GDBs is the right one in the context of the expected decline in demand in the long-term. We propose to maintain the weighted average price cap for GDBs.

4.33 We discuss these decisions in greater detail in the Financing and incentivising efficient expenditure during the energy transition topic paper.

Chapter 5 Cashflows and inflation

Purpose and structure of this chapter

5.1 We have heard that some suppliers are concerned that cashflow constraints could cause problems for their ability to invest in the current environment – particularly if investment needs were to increase significantly.

5.2 We have reviewed the tools we have available to influence cashflows in terms of both their overall level and the profile of recovery over time. While we consider they are generally sufficient, our draft decision is that we can make some improvements.

5.3 We have also considered our method for forecasting inflation for the purposes of setting price-quality paths, and how inflation forecasts and outturns are applied to the RAB and price paths, impacting cashflows.

We are aware of financeability concerns

5.4 We have heard concerns from some submitters about financeability in the current context, with some advocating for a financeability test in the IMs. Financeability refers to the ability of firms to raise and repay debt and raise equity in financial markets readily and on reasonable terms. Amongst various factors this depends on the availability of cash at points in time, which depends in part on the time profile of capital recovery (depreciation).

5.5 The price consumers face over time should ideally broadly reflect the flow of benefits to them over time from investment. In practice, this would mean the depreciation allowance would reflect the flow of benefits to consumers.

5.6 In specific circumstances, alternative depreciation may be used in a CPP or IPP if it better promotes the Part 4 purpose. However, in general, we do not consider that depreciation should be used to address any financeability concerns. We consider that financing the preferred path of recovery of investment (the one that best promotes the Part 4 purpose) is primarily the responsibility of suppliers. They have a range of tools for doing so, including reducing dividend payments, or raising debt and/or equity.[33] In addition, we are not aware of a shortage of capital currently in this sector. To the contrary, we continue to see transactions at RAB multiples above one,[34] and improving credit ratings.[35]

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33 Potential capital raising constraints from ownership arrangements are not related to our regulatory regime.

34 Eastland Group "Eastland Group and shareholder Trust Tairāwhiti announce sale of Eastland Network to Firstgas Group, owned by Igneo Infrastructure Partners, for $260 million" (22 November 2022).

35 S&P Global Ratings "Research Update: Vector Ltd. Upgraded to 'BBB+' on Strengthening Business Mix; Outlook positive" (26 April 2023).

We are not proposing to introduce a financeability test

5.7 Our draft decision is not to adopt a financeability test in the IMs because we do not need an explicit test in the IMs to consider financeability. We can already consider, and indeed have previously considered,[36] financeability where relevant and not inconsistent with promoting the Part 4 purpose.

We have considered options to manage cashflows

5.8 We have considered whether additional tools are necessary to enable businesses to better manage any cashflow challenges that may occur within or across regulatory periods. Since financeability issues are likely to be supplier-specific, CPPs are our preferred mechanism for this purpose. CPPs are available as an option for suppliers facing business-specific issues that are not catered for in the DPP. Any departure from the DPP settings would need to be expected to better promote the Part 4 purpose.

RAB indexation for EDBs, GPBs, and Transpower

5.9 Submitters asked us to reconsider our approach to RAB indexation for EDBs, GPBs and Transpower. This was an issue of high importance for many submitters.

5.10 Stakeholders expressed a range of views on our approach to RAB indexation. Some EDBs noted concerns about financeability and submitted that we should allow them the option to choose to remove RAB indexation for cashflow purposes. For GPBs, concerns were raised on RAB indexation in relation to how we address asset stranding risk to incentivise efficient investment. Transpower submitted early in the IM Review that it favours keeping its RAB unindexed.

5.11 Our draft decision is to maintain RAB indexation to inflation for EDBs and GPBs and change the relevant IMs to index Transpower's RAB to inflation.

5.12 We generally consider that the original reasons for indexing EDBs' RABs remain valid in the current context and that asset stranding risk for GPBs is better addressed independently of our approach to RAB indexation.

5.13 Our draft decision for Transpower is to index the RAB to inflation from RCP4 onwards. In the current environment, and given our understanding of Transpower’s financeability, we no longer have the same concerns about matching the level of revenue to Transpower’s investment needs as we did in 2010. Instead, we consider that the benefits of indexation justify the change.

[36] Commerce Commission, “Decision on Aurora Energy’s proposal for a customised price-quality path” (31 March 2021).

5.14 We also propose to enable Transpower to request an alternative depreciation approach during an IPP reset, where doing so would better promote the Part 4 purpose. This would be similar to the option currently available to EDBs and GPBs under CPPs to request an alternative depreciation approach if doing so would better promote the Part 4 purpose than the standard approach of CPI-indexed RAB straight-line depreciation.

5.15 We see our decision for Transpower as relatively finely balanced due to implementation and compliance costs. We are seeking stakeholder views on two (less favoured) alternatives for addressing inflation risk:

5.15.1 Alternative A: delaying RAB indexation to start from RCP5 onwards, and implementing a RAB inflation wash-up for RCP4 only.

5.15.2 Alternative B: retaining the status quo (not indexing Transpower's RAB), and implementing the RAB inflation wash-up for RCP4 onwards.[37]

5.16 We outline our draft decision in Chapter 3, and describe the two alternatives in Chapter 5, of our Financing and incentivising efficient expenditure during the energy transition topic paper.

Short-term cashflows can be influenced by wash-ups

5.17 The primary purpose of wash-up mechanisms is to deliver outcomes that are consistent with our risk-allocation principles. They do this by washing up for the present-value revenue outcomes of a given difference between forecast versus actual outcome.

5.18 Secondarily, the wash-up mechanisms can help manage revenue and price volatility. This covers both volatility caused by the wash-up process itself and other sources of change in allowable revenue.

5.19 In the context of greater uncertainty about the future of energy networks and also higher and less predictable inflation, it is particularly important that our wash-up mechanisms work well. Less certain forecasts (of demand or inflation) mean potentially greater differences between forecast and actual inputs, and a more material impact on prices and/or revenues.

5.20 We are proposing a series of modifications to the design and structure of the EDB and gas transmission business (GTB) revenue path wash-up mechanisms. As a package these changes will:

[37] For either alternative, proceeding with the RAB inflation wash-up would not require a change to the Transpower IMs, but would instead be something we would consult on and decide as part of the IPP reset for RCP4, if we considered in that context that doing so would better promote the Part 4 purpose.

5.20.1 better manage revenue and price volatility;

5.20.2 mitigate potential issues with cashflow timing and financeability; and

5.20.3 reduce the complexity of the overall wash-up mechanism.

5.21 We discuss these decisions in further detail in the Financing and incentivising efficient expenditure during the energy transition topic paper.

Implications of IRIS mechanism on cashflow timing

5.22 Our IRIS expenditure incentive mechanism has cashflow timing implications. Whenever a regulated supplier chooses to spend more or less than the opex and capex allowances reflected in the revenue allowance, there is a cashflow implication in the year itself, and then again several years later (via 'carry forward amounts'). Some submitters suggested that the IRIS cashflow timing implications may exacerbate cashflow problems or cause price shocks.

5.23 We are not proposing to make any changes to the cashflow timing of IRIS. We consider that in general IRIS cashflow should be manageable as it is predictable and can be appropriately dealt with, if deemed necessary, through general in-period cashflow timing tools (smoothing).

Inflation

5.24 As noted in the introduction to this chapter, inflation and its impacts are currently an important issue for consumers and suppliers. We have considered our method for forecasting inflation for the purposes of setting price-quality paths, and how inflation forecasts and outturns are applied to the RAB and price paths.

Method for forecasting inflation

5.25 We are proposing to retain our current method of forecasting inflation: forecasting the CPI for the regulatory period using the most recently available Reserve Bank of New Zealand (RBNZ) CPI forecast. This is discussed in detail in Chapter 5 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

Inflation risk and mitigation

5.26 The unexpected increase in inflation since the last IM review has highlighted issues with the way the current IMs assign inflation risk to suppliers. The current assignment of inflation risk to suppliers benefits neither suppliers nor consumers as it makes revenue unnecessarily uncertain, creates the potential for unnecessary windfall gains and losses, and could affect suppliers' incentives to invest.

5.27 For example, we do not currently wash-up EDBs' revenue for inflation in the first year of a regulatory period, and we do not account for the assumption of debt being fixed in nominal terms when we do the annual revenue wash-up for inflation. We are proposing IM changes to address these issues and others, which we detail in Chapter 5 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

Chapter 6 Further information and next steps

Key draft decisions

6.1 Attachment A shows where you can find out more information on the draft decisions we have made in this IM Review.

How you can provide your views

Process and timeline for making submissions

6.1 Submissions on our draft decisions and their implementation in our draft IM amendment determinations are due by 5pm on 19 July 2023.[38] We will then invite cross-submissions by 5pm on 9 August 2023.[39] Cross-submissions should only focus on matters raised in submissions. We strongly discourage stakeholders from raising new matters via cross-submissions.

6.2 Submissions and cross-submissions can be made to the Input Methodologies Review 2023 mailbox (IM.Review@comcom.govt.nz). Please clearly indicate in your email subject line and submission which of our draft decisions your submission relates to.

6.3 We request that submitters clearly confirm in their submission and covering email that the submission can be published on our website and does not include confidential information. If your submission does include confidential information we set out our process below.

Confidentiality

6.4 The protection of confidential information is something the Commission takes seriously. If you need to include commercially sensitive or confidential information in your submission or cross-submission, you must provide us with both a confidential and non-confidential/public version of your submission that are clearly identified. We intend to publish the non-confidential/public version of all submissions we receive on our website. This also applies to cross-submissions.

6.5 You are responsible for ensuring that commercially sensitive or confidential information is not included in a public version of a submission or cross-submission that you provide to us.

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[38] Ibid.

[39] Ibid.

6.6 All submissions and cross-submissions we receive, including any parts of them that we do not publish, can be requested under the Official Information Act 1982. This means we would be required to release material that we do not publish unless good reason existed under the Official Information Act 1982 to withhold it. We would normally consult with the party that provided the information before we disclose it to a requester.

Other opportunities for engagement

6.7 Since we commenced this IM Review, we have reset the default price-quality paths for gas pipeline businesses, and we are now undertaking work on the reset of the default price-quality paths for electricity lines companies.

6.8 We recently sought feedback on our proposed process for that reset. Submissions from that consultation will form part of the IM Review record, and, where relevant, can be taken into account in coming to our final decisions on the IM Review.

6.9 Submissions on the DPP4 Issues Paper, which is expected to be published towards the end of this year, will not be part of the IM Review record or taken into account in coming to our final decisions on the IM Review. This reflects that:

6.9.1 we encourage stakeholders wanting to give views on the IMs to submit and cross-submit on this consultation on our IM Review draft decisions; and

6.9.2 the short timeframe between our consultation on that DPP4 Issues paper and when we must make our final decisions on the IM Review. This means it is not practical or feasible to take submissions on that Issues paper into account in coming to our final decisions on the IM Review.

Attachment A The package of draft decisions papers

Table A1 The package of draft decisions papers

Paper name	Primarily applies to
Overarching papers	
Context and summary paper	All sectors
Framework paper	All sectors
Topic papers	
Financing and incentivising efficient expenditure during the energy transition	EDBs, GDBs, GTBs, Transpower
Cost of capital	All sectors
CPPs and in-period adjustments	EDBs, GDBs, GTBs
Transpower investment	Transpower
Draft report on the IM Review	All sectors
Draft IM amendments	
Draft EDB IM amendment determination	EDBs
Draft Transpower IM amendment determination	Transpower
Draft GDB IM amendment determination	GDBs
Draft GTB amendment determination	GTBs
Draft Airports IM amendment determination	Airports

- Figure A1 below depicts our package of draft decisions and their implementation in the relevant draft IM amendment determinations.

Figure A1 Our draft decision package for the IM Review[40]

Key topics for the IM Review

Key issues were identified by stakeholders and us through our consultation, workshops, and material on the IM Review record to date.

We grouped these key issues into the following topics:

- Financing and incentivising efficient expenditure during the energy transition
- Cost of capital
- CPPs and In-Period Adjustments
- Transpower Investment

Effectiveness review

We have reviewed the effectiveness of the IMs within the scope of the review. This included considering:

- submissions which are unrelated to the key topic areas; and
- relevant reference material, such as the IM determinations, reasons papers, Court judgments, and our own knowledge of known issues.

Topic papers

Each topic paper explains our draft decisions and reasoning on IM policy decisions relevant to that topic.

Draft report on the IM review

The draft Report on the IM Review summarises our draft decisions on whether and how to change each IM policy decision.

Draft IM amendment determinations

Our draft EDB, GDB, GTB, and Airports IM amendment determinations implement our draft decisions.[39] Under s 52V(2)(b) of the Act, we invite interested persons' views on our draft amendment determinations. We will take account of submissions on these amendment determinations. These documents, with changes in response to submissions as appropriate, will be finalised and will then give legal effect to our final IM decisions.

[40] Adapted from Figure 2 in Commerce Commission "Part 4 Input Methodologies Review 2023: Framework paper" (13 October 2022), at para 3.7.

[41] Our Transpower IM amendment determination and the Transpower Capex IM amendment determination will be published on 21 June, one week later than the rest of the draft decisions package. As with the other amendment determinations, a seven-week consultation period will apply for these two amendment determinations.