

Our process for considering amendments to the allowance and outputs for Transpower's North Island Grid Upgrade Project

21 October 2013

- 1 This paper sets out the process we intend to follow in considering Transpower's application for an amendment to the allowance and the outputs for the North Island Grid Upgrade Project (NIGU Project).

Transpower has applied for amendments to the North Island Grid Upgrade Project

- 2 Transpower has recently completed upgrading parts of its North Island network, known as the NIGU Project. In July 2007, the former Electricity Commission approved a maximum allowance of \$824 million (\$2011) for this project. We have since assumed responsibility for projects approved by the Electricity Commission.
- 3 Transpower has applied to us for an amendment to the allowance originally approved for the NIGU Project. Transpower seeks to increase the allowance to \$894 million (\$2011).
- 4 Transpower has also applied for amendments to three minor outputs of the NIGU Project, to reflect changes that were made during the project's delivery.
- 5 Transpower's application can be found on our website.¹
- 6 Due to size, the supporting information provided by Transpower in its application is available on request by emailing regulation.branch@comcom.govt.nz. A list of the supporting information can be found in Appendix 6 of Transpower's application.

Our evaluation of Transpower's application

- 7 We are responsible for regulating the costs that Transpower can recover from consumers for its major capital investments in the national transmission grid. This regulation exists because Transpower is New Zealand's sole electricity transmission business, so it faces no competition.

¹ <http://www.comcom.govt.nz/regulated-industries/electricity/electricity-transmission/transpower-major-capital-proposal/amending-the-allowance-and-outputs-for-the-north-island-grid-upgrade-project/>

- 8 When competition is limited in a market, there is potential for consumers to end up paying prices that do not reflect the cost of goods or services they receive. To promote workable or effective competition that is in the long term interests of consumers we seek to promote outcomes in regulated markets that are consistent with outcomes in competitive markets.

We must apply the Transpower Capital Expenditure Input Methodology Determination

- 9 Transpower is required to seek our approval for major capital expenditure projects. It is also required to seek our approval to amend individual components of an approved major capital expenditure project, including major capital expenditure allowances and outputs. These approvals are sought under the Capital Expenditure Input Methodology Determination (Capex IM).²
- 10 We must assess Transpower's application to amend the allowance and outputs originally approved in accordance with the Capex IM. The Capex IM sets out:
- 10.1 the process requirements we must follow in making our assessment; and
 - 10.2 the evaluation criteria against which we assess Transpower's proposal and make our decision.

We must consider how amending the allowance and outputs promotes the purpose of Part 4

- 11 The overriding consideration in deciding whether to amend the allowance and outputs is whether doing so would promote the purpose of Part 4 of the Commerce Act 1986 (the Act). The purpose of Part 4 is to promote the long-term benefit of consumers, by promoting outcomes that are consistent with outcomes produced in competitive markets, such that Transpower:
- 11.1 has incentives to innovate and invest, including in replacement, upgrades and new assets;
 - 11.2 has incentives to improve efficiency and provide services at a quality that reflects consumer demands;
 - 11.3 has incentives to share with consumers the benefits of efficiency gains, including through lower prices; and
 - 11.4 is limited in its ability to extract excessive profits.

² Commerce Commission *Re Transpower Capital Expenditure Input Methodology Determination* [2012] NZCC 2 (31 January 2012).

What we cannot consider when deciding whether to amend a project allowance or outputs

12 We must act within the scope of the powers given to us by the Act and in accordance with our input methodologies. When evaluating Transpower's application to amend the allowance and outputs of the NIGU Project, we cannot:

12.1 reconsider the decisions made by the former Electricity Commission as part of the original project approval;

12.2 change the way in which Transpower's assets are valued in the regulated asset base (RAB); or

12.3 adjust Transpower's weighted average cost of capital (WACC).

Our process for evaluating Transpower's application

13 Table 1 sets out our process steps and indicative dates:

Table 1: Process steps and indicative dates

Indicative date	Process step
21 October 2013	Publish Transpower's application and our process for considering Transpower's application
18 November 2013	Publish an issues paper inviting you to have your say on Transpower's application
13 December 2013	Submissions due on Transpower's application and our issues paper
20 December 2013	Cross submissions due on Transpower's application and our issues paper
14 April 2014	Publish our draft decision on whether to amend Transpower's allowance and outputs for the NIGU Project
16 May 2014	Submissions due on our draft decision
30 May 2014	Cross-submissions due on our draft decision
8 August 2014	Publish our decision on whether to amend Transpower's allowance and outputs for the NIGU Project

14 Given the complexity and size of this project, we have decided to extend these timeframes beyond the date specified in the Capex IM.³ Transpower has agreed to these timeframes.

15 Our process and indicative dates may change. Any changes to these dates will be posted on our website.

³ Capex IM, clause 3.3.4(3)(b).

Our next step

- 16 We will publish an issues paper on 18 November 2013 inviting submissions on:
 - 16.1 Our proposed approach to evaluating Transpower's application; and
 - 16.2 Transpower's application and any specific matters on which we seek your view.

Please contact us with any questions in relation to our process

- 17 Please contact Matthew Lewer, Transpower Programme Manager, if you have any questions.

Email: regulation.branch@comcom.govt.nz