

[DRAFT FOR CONSULTATION]

Draft Transpower Input Methodologies Amendments Determination 2014 (No.2)

[2014] NZCC **XX**

Amendments made under s 52X 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 draft: 23 October 2014

Transpower Input Methodologies Amendments Determination 2014 (No.2)

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 (No.2).

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

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.

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.

5. AMENDMENTS TO TRANSPOWER IM DETERMINATION

- 5.1 Subclause 3.7.4(5) of the **Transpower IM Determination** is amended by inserting a new paragraph (b) after paragraph (a), as follows, and renumbering existing paragraphs accordingly:

“(b) in the **regulatory period** commencing on 1 April 2015 and ending on 31 March 2020, the revenue impact of any **base capex** approved by the **Commission** for a **listed project**; and”.

- 5.2 Paragraph 3.7.5(2)(g) of the **Transpower IM Determination** is amended by inserting a new subparagraph (ii) after subparagraph (i), as follows, and renumbering existing subparagraphs accordingly:

“(ii) in the **regulatory period** commencing on 1 April 2015 and ending on 31 March 2020, the revenue impact of any **base capex** approved by the **Commission** for a **listed project**; or”.

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

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

6. AMENDMENTS TO TRANSPOWER CAPEX IM DETERMINATION

Corrective amendment to definition of ‘base capex incentive rate’

6.1 Subclause 1.1.5(2) of the **Transpower Capex IM Determination** is amended by replacing the definition of **base capex incentive rate** with the following:

“**base capex incentive rate** means the percentage that **Transpower** must bear-

“(a) of the difference between **base capex** for a **disclosure year** and the **adjusted base capex allowance** for that **disclosure year** as a result of the **base capex expenditure adjustment**; or

“(b) of the **base capex** relating to non-compliant **projects** or **programmes** as a result of the **policies and processes adjustment**;”

Amendments to create listed project mechanism

6.2 Subclause 1.1.5(2) of the **Transpower Capex IM Determination** is amended by replacing the definition of **adjusted base capex allowance** with the following:

“**adjusted base capex allowance** means **base capex allowance** plus monetary amount of additional approved **base capex** in respect of **listed projects** to be used when calculating maximum allowable revenue or forecast maximum allowable revenue in applying an **IPP determination**, adjusted to take account of any disparity between-

“(a) **forecast CPI** and **actual CPI**; and

“(b) **forecast FX rates** and **actual FX rates**,

“and its quantum is calculated in accordance with clause B1(1);”

6.3 Subclause 1.1.5(2) of the **Transpower Capex IM Determination** is amended by inserting the following definitions in their appropriate alphabetical order:

“**listed project** means a **base capex project** or **base capex programme** that has been listed as a ‘listed project’ in an **IPP determination**.”

“**Transpower IMs** means the *Transpower Input Methodologies Determination* [2012] NZCC 17;”.

6.4 Part 3, subpart 2 of the **Transpower Capex IM Determination** is amended by inserting new clause 3.2.4, as follows:

“3.2.4 Approval of base capex in addition to the base capex allowance

- “(1) **Transpower** may submit, at any time not later than 30 June 2018 during the **regulatory period** commencing on 1 April 2015 and expiring on 31 March 2020, an application for approval of additional **base capex** relating to assets forecast to be commissioned within that **regulatory period** in respect of a **listed project** to be recognised as approved **base capex** for any of the **disclosure years** that follow the **disclosure year** of approval.
- “(2) **Transpower’s** application under subclause (1) must include:
- “(a) a description of the reasons for carrying out the **listed project**, supported by relevant technical information, including evidence of the current and future need for the applicable assets by reference to the demand and generation scenarios in clause D4(1) of Schedule D;
 - “(b) consideration of alternative options for carrying out the **listed project**, including non-replacement and demolition, enhancement or development of alternative assets, and **non-transmission solutions**;
 - “(c) intended scope of the **listed project**, including specification of the **grid outputs** that apply in respect of the **listed project**;
 - “(d) all relevant technical and costing information used to estimate both the cost of the **listed project** and alternative options, including details on risk allowances and contingencies;
 - “(e) estimated cost of the **listed project** broken down into year by year figures in expected **disclosure year** of commissioning prices, and the assumptions used to derive the estimated cost;
 - “(f) a cost-benefit analysis in accordance with clause 3.2.1(a) and subclause (3), including a sensitivity analysis and reasons for selecting the variables of the sensitivity analysis;
 - “(g) evidence of consultation with interested persons in accordance with clause 3.2.1(b);
 - “(h) evidence that its Board of Directors has approved the **listed project** as a **base capex project** or **base capex programme** and that the business case approved by **Transpower’s** Board included **Transpower’s** fully completed ‘Business Case 3’ (BC3) quality assurance checklist in respect of the **listed project**;

- “(i) evidence that **Transpower’s** Board of Directors has delegated financial authority to commence the **listed project**, subject only to **Commission** approval of the additional **base capex**; and
 - “(j) certification of the application in accordance with clause 9.1.2.
- “(3) For the purposes of subclause (2)(f), a cost-benefit analysis is one that reflects the efficient costs that a prudent supplier of **electricity transmission services** would require to:
- “(a) meet or manage the expected demand for **electricity transmission services**, at appropriate service standards, during the **regulatory period** commencing on 1 April 2015 and expiring on 31 March 2020 and over the longer term; and
 - “(b) comply with applicable regulatory obligations associated with those services.
- “(4) Where the **Commission** considers that, for the purpose of deciding whether to approve **base capex** in respect of a **listed project** it requires further information from **Transpower**, the **Commission** will request provision by **Transpower** of such information by a date specified by the **Commission** such that it is reasonable for **Transpower** to comply with.
- “(5) The **Commission** may in addition to the **base capex allowance**, at its discretion, determine an approved amount of **base capex** in respect of a **listed project** for **disclosure years** in the **regulatory period** commencing on 1 April 2015 and expiring on 31 March 2020, following evaluation of **Transpower’s** application, in accordance with:
- “(a) the consultation requirements in clause 8.1.1 that would apply if this application was part of the **base capex proposal**; and
 - “(b) the criteria in clause 6.1.1 that would apply if this application was part of the **base capex proposal** and the **listed project** was an **identified programme** and, where relevant, Schedule A.
- “(6) Where the **Commission** approves an additional amount of **base capex** in respect of a **listed project** for a **disclosure year** in the **regulatory period** commencing on 1 April 2015 and expiring on 31 March 2020, the approved **base capex** in respect of the **listed project** will be specified by the **Commission** through amendment to the **IPP determination**.
- “(7) In any decision to approve additional **base capex** in respect of a **listed project**, the **Commission** will -
- “(a) apply the **forecast CPI** used to determine the **base capex allowance** on 29 August 2014 to the approved additional **base capex** for the **listed project**;

- “(b) apply the **forecast FX rates** used to determine the **base capex allowance** on 29 August 2014 to the approved additional **base capex** for the **listed project**; and
- “(c) specify the amount or percentage of the additional **base capex** for the **listed project** to which the **forecast FX rates** may apply.
- “(8) The **Commission** will publish its decision on **Transpower’s** application for approval of **base capex** in respect of a **listed project** as soon as reasonably practicable.”.

Amendments to certification requirements

- 6.5 Part 9 of the **Transpower Capex IM Determination** is amended by inserting new subpart 1A, as follows:

“SUBPART 1A Listed project applications

“9.1.2 Chief executive officer certification – listed project applications

“In relation to all information provided with respect to an application for approval of **base capex** in respect of a **listed project**, the chief executive officer of **Transpower** must certify in writing that, having made all reasonable enquiries, it is his or her belief that:

- “(a) the information provided in **Transpower’s** application to the **Commission** was derived from and accurately represents, in all material respects, the relevant operations of **Transpower**; and
- “(b) the **base capex** in respect of the **listed project** was approved by **Transpower** in accordance with the applicable requirements of **Transpower’s capital expenditure** approval policies.”.

Amendments to base capex expenditure adjustment incentive mechanism

- 6.6 The table in Schedule B, clause B1(1) of the **Transpower Capex IM Determination**, is amended by:

- 6.6.1 replacing the specification of the term ‘*b*’ (**adjusted base capex allowance**) with the following:

$$“d + d' + e + f”$$

- 6.6.2 inserting a new line item for term ‘*d*’’, immediately following the ‘*d*’ term, as follows:

Term	Description	Specification
<i>d</i> ’	monetary amount of approved base capex in respect of listed projects to be used when calculating maximum allowable	approved in accordance with clause 3.2.4

	revenue or forecast maximum allowable revenue in applying an IPP determination	
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6.6.3 replacing the description of the term 'e' with the following:

“adjustment correcting for disparity between **forecast CPI** and actual **CPI** in respect of *d* and *d'*”

6.6.4 replacing the description of the term 'f' with the following:

“adjustment correcting for disparity between **forecast FX rates** and **actual FX rates** for each relevant currency in respect of *d* and *d'*”

Sue Begg, *Deputy Chair*

Dated at Wellington this []th day of November, 2014.

COMMERCE COMMISSION