

**Transpower written submission to the IM Review draft decisions – provided via email on 28 June 2023**

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**From:** Calum Waugh [REDACTED]  
**Sent:** Wednesday, June 28, 2023 2:20 PM  
**To:** Matthew Clark [REDACTED]  
**Cc:** Joel Cook [REDACTED] IM Review <IM.Review@comcom.govt.nz>  
**Subject:** Transpower IRIS

Hi Matt

As previously mentioned, we are seeking clarification from the Commission on its intentions for Transpower's IRIS following the removal of the IBAT.

We strongly support the removal of the IBAT and agree it "introduced significant levels of uncertainty to the IRIS mechanism which is proving detrimental to the predictability and effectiveness of the mechanism". This is especially obvious when applying the RCP3-established methodology against forecast RCP4 inputs. However, we do not think the IRIS as implemented exactly for the EDBs is appropriate for Transpower for the following reasons:

- Footnote 294 of the paper suggests the Commission has misinterpreted our RCP4 proposal documentation. In the proposal we refer to updating numbers from 2021/22 to 2022/23, or Y2 to Y3. We intend to use a Y3 base year for RCP4.
- We do not think an EDB IRIS appropriately manages temporary savings (or temporary overspend) in the base year when a base-step-trend (BST) approach is used. This is because the overcompensation in the Y4 IRIS carryforward is not offset by a lower allowance in Y6-Y10 (as the allowance is set using the BST and not Y4 actuals).

Given Transpower has a Y3 base year, both Y4 temporary savings and Y4 permanent savings are overcompensated. The IBAT in its current form attempts to resolve this.

Having looked at the EBSS in Australia, it seems like a couple of modifications to the IRIS would resolve this problem and provide a lot more certainty. A Y5 carryforward (determined ex-ante) would offset the overcompensation of Y4 total savings, and an adjustment to the BYAT to pick up the difference between Y5 and Y3 (instead of Y5 and Y4) will ensure Y4 savings "revealed" in Y6 are not compensated for in Y11. The final requirement would be the determination of "base year non-recurrent efficiency gains", which need to be removed from the ex-ante Y5 carryforward and the BYAT. More information on the EBSS can be found [here](#) and Transgrid's latest [determination](#) is a good example of it in application. Modelling suggests an appropriate retention factor for all types of savings across all years within a regulatory period should we make these changes.

"Base year non-recurrent efficiency gains" or Y3 temporary savings are not directly observable. However, for a regulated firm, any disincentive to identify temporary savings in Y3 for the IRIS would be offset by an incentive to identify temporary savings in Y3 as part of any "step" in a BST. Additionally this amount would be determined ahead of any final proposal (unlike the IBAT) and so would provide more certainty heading into the next regulatory period.

We understand the Commission has referenced Australian precedent when establishing the IRIS (for example the determination of the BYAT) and so may have reviewed the EBSS and deemed it inappropriate. Regardless, we would like to work with the Commission on this issue in order to reach a desirable, transparent and understandable outcome ahead of any final decision. We would

appreciate the Commission provide more information on its application of an IRIS without an IBAT and whether it has considered an approach similar to the above.

Cheers

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