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In-period revenue adjustment mechanisms

We appreciate the opportunity to respond to the Commerce Commission's thinking from its 29 November Distributors' workshop on *in-period adjustment mechanisms*. We consider all networks face a range of emerging needs from increasing electrification, network resilience (under climate change effects), and other, as yet unknown, customer outputs.

We consider that the Commission should create the flexibility in the IMs to add targeted revenue/ quality adjustments to an Individual Price Path, Customised Price Path, or Default Price Path as part of its determinations. This approach allows the networks to deliver on outputs for customers while protecting customers if the work is not undertaken during the period.

We do not consider that the IMs should prescribe the type of uncertainty mechanism that should apply. Different mechanisms might be suited to different types, size, or the timing of the expenditure. For example, use-it-or-lose-it mechanisms may be more appropriate for smaller scale varied projects whose scope may still need to be refined, but which can be audited; while reopeners are more suitable for large scale projects; and pass-through mechanisms for costs outside of the networks' control. We consider that the regulatory control determination is the best time to assess the uncertainty mechanism requirements and prescribe how the mechanism should function. The IM should set out the principles for the Commission to assess uncertainty mechanisms and allow for revenue and/or service measures to adjust.

Our draft RCP4¹ proposal set out the uncertainty mechanisms, in addition to listed projects, that we were considering for RCP4. These were:

- 'proactive' resilience projects whereby Transpower investigation during the control period identifies investment needed to improve our networks resilience to high impact low probability events, including as a result of climate change

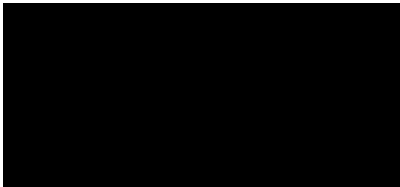
¹ Refer [Transpower - RCP4 Consultation](#) Chapter 4.

- increased connection asset replacements due to customer demands to bring forward those asset replacements for increased capacity² - in the appendix is a flow diagram of how we envisage an uncertainty mechanism could work for connection asset investment triggered by third party needs
- providing for connection asset with *anticipatory capacity* to manage the issue known as First Mover Disadvantage type 2³ and as provided for in the TPM
- insurance premium increases.

We initially considered proposing an uncertainty mechanism for TransGO (our fibre network). However, we determined that proposing it to be a 'low incentive' project would likely be appropriate to balance the cost uncertainty between Transpower and our customers.

Finally, for existing adjustment mechanisms we would support continuation of the enhancement and development (E&D) re-opener mechanism introduced for RCP3. The re-opener process was tested earlier this year and proved effective with all submissions broadly supporting the proposed expenditure.⁴ (The re-opener was designed for projects in the E&D base capex portfolio that were either not reasonably foreseeable at the time of setting the price path or were foreseeable but costs and/or timing were uncertain.)⁵ We consider the E&D mechanism would not be suitable for the resilience and connection asset expenditures as above because for resilience expenditure - other than under R&R - the needs are yet to be understood i.e. not foreseeable; and for connection assets the needs are exogenous, driven by third party actions and their number is unknown.

Yours faithfully,



Joel Cook
Head of Regulation

² Noting that the Customer would pay for the incremental capacity via a transmission works agreement and the price-path would only fund the investment needed for the **asset replacement** component as defined under the Capex IM

³ [TPM Development Project: First Mover Disadvantage Consultation | Transpower](#)

⁴ [Commerce Commission - 2020-2025 Transpower individual price-quality path](#)

⁵ [Transpower IPP decisions and reasons November 2019](#)

Appendix : Customer initiates 'early' transformer replacement – uncertainty mechanism

