

# **Information Disclosure (Transpower Amendment Determination 2024)**

## **Draft Decision – Reasons Paper**

**Date of publication:** 2 July 2024

## Associated documents

Publication date	Reference	Title
28 February 2014	[2014] NZCC 5	<a href="#">Transpower Information Disclosure Determination 2014</a>
28 February 2014	ISBN 978-1-869453-54-1	<a href="#">Information Disclosure Requirements for Transpower – Reasons Paper</a>
2 November 2017	NZCC 25	<a href="#">Transpower Information Disclosure Amendments Determination 2017</a>
14 November 2019	NZCC 19	<a href="#">Transpower Individual Price-Quality Path Determination 2020 (including amendments)</a>
13 December 2023	[2023] NZCC 38	<a href="#">Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023</a>
13 December 2023	ISBN 978-1-991085-68-9	<a href="#">Transpower investment topic paper Part 4 Input Methodologies Review 2023 - Final decision</a>
13 December 2023	ISBN: 978-1-991085-66-5	<a href="#">Financing and incentivising efficient expenditure during the energy transition topic paper Part 4 Input Methodologies Review 2023 – Final decision</a>
13 December 2023	N/A	<a href="#">Part 4 IM Review 2023 Transpower investment topic paper ACA Accounting guidance for Transpower’s Anticipatory Connection Asset ACA capacity</a>
14 December 2023	ISBN: 978-1-991085-61-0	<a href="#">Part 4 Information Disclosure Reviews Framework paper</a>
17 April 2024	N/A	<a href="#">Notice of intention to consider amendments to the Input Methodologies – Transpower RCP4 price-quality path reset 2024</a>

Commerce Commission  
Wellington, New Zealand

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## Glossary

Acronyms	
<b>ABAA</b>	Accounting-based allocation approach
<b>ACA</b>	Anticipatory connection asset
<b>Capex</b>	Capital expenditure
<b>CPI</b>	Consumer price index
<b>DY</b>	Disclosure year
<b>EDBs</b>	Electricity distribution businesses
<b>EA</b>	Electricity Authority
<b>FCM</b>	Financial capital maintenance
<b>GDBs</b>	Gas distribution businesses
<b>GPBs</b>	Gas pipeline businesses
<b>HVAC</b>	High voltage alternating current
<b>HVDC</b>	High voltage direct current
<b>ID</b>	Information Disclosure
<b>ID Determination</b>	Transpower Information Disclosure Determination 2014
<b>IMs</b>	Part 4 input methodologies
<b>IM Determination</b>	Transpower Input Methodologies Determination 2012
<b>IM Review</b>	Input Methodologies Review 2023
<b>IPP</b>	Individual price-quality path
<b>NIC</b>	New investment contract
<b>MCP</b>	Major capex proposals
<b>Opex</b>	Operational expenditure
<b>Part 4</b>	Part 4 of the Commerce Act 1986
<b>RAB</b>	Regulatory asset base
<b>ROI</b>	Return on investment
<b>TPM</b>	Transmission Pricing Methodology
<b>Transpower</b>	Transpower New Zealand Limited

## Executive summary

### Changes to information disclosure requirements for Transpower New Zealand Limited (Transpower)

- X1 We are reviewing the information disclosure (**ID**) requirements for Transpower to:
- X1.1 ensure that ID requirements are aligned with the changes arising from the Input Methodologies Review 2023 (**IM Review**);<sup>1,2,3</sup> and
  - X1.2 ensure that ID requirements are aligned with the new Transmission Pricing Methodology (**TPM**).<sup>4</sup>
- X2 As part of this review, we propose changing some existing ID requirements and adding some new ID requirements for Transpower. This paper outlines our draft decision for changes we are considering making to the Transpower Information Disclosure Determination 2014 (**ID determination**), including the schedules, as part of our ongoing work programme.
- X3 We want to hear your views on our draft decision. Your feedback will inform our final decision, which we intend to publish in late 2024. You can submit your views to us by 30 July 2024.

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<sup>1</sup> Commerce Commission, [Transpower Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#) [2023] NZCC 38, 13 December 2023.

<sup>2</sup> Commerce Commission, [Transpower investment topic paper – Part 4 Input Methodologies Review 2023 – Final decision](#), (13 December 2023).

<sup>3</sup> Commerce Commission, [Financing and incentivising efficient expenditure during the energy transition topic paper – Part 4 Input Methodologies Review 2023 – Final decision](#), (13 December 2023).

<sup>4</sup> Electricity Authority, [Electricity Industry Participation Code Amendment \(Transmission Pricing Methodology\) 2022, Amendment 2022](#), (21 November 2022), Schedule 12.4.

## Chapter 1 Introduction

### We are proposing changes to information disclosed by Transpower about its performance

- 1.1 We propose changes to the ID requirements that apply to Transpower under Part 4 of the Commerce Act 1986 (**Part 4**). The proposed changes reflect decisions made as part of the IM Review, the new TPM, and other general additional improvements. This is not a full review of the ID requirements.

### We set ID requirements to enable stakeholders to assess performance

- 1.2 ID is a regulatory tool provided for under Part 4. We use it to regulate certain markets where there is little or no competition (and little prospect of future competition) by requiring suppliers in those markets to publicly disclose information about their performance.
- 1.3 The purpose of ID regulation is to ensure that sufficient information is readily available to interested persons (stakeholders) to assess whether the purpose of Part 4 is being met.<sup>5</sup>
- 1.4 An effective ID regime provides transparency to stakeholders on the performance of regulated suppliers. Information is disclosed regularly, to provide an ongoing source of information so that multi-year trends can be identified and monitored over time. This allows stakeholders to assess whether, in relation to a regulated supplier, outcomes are broadly consistent with what is expected in a competitive market.
- 1.5 Apart from ID regulation, Transpower is also regulated by way of individual price-quality regulation.<sup>6</sup> The individual price-quality path (**IPP**) governs Transpower's revenues for each pricing year, with the paths being reset every 5 years.

### Review of information disclosure requirements in respect of the IM Review and updated TPM

- 1.6 Our proposed changes are focussed on amendments to Transpower's ID Determination that are required as a result of:
- 1.6.1 the decisions made as part of the IM Review;<sup>7</sup>
- 1.6.2 the updated TPM set by the Electricity Authority (**EA**); and

<sup>5</sup> Commerce Act 1986, Section 53A.

<sup>6</sup> We published our draft decisions for Transpower's individual price-quality path for the regulatory control period starting 1 April 2025 (RCP4) on 29 May 2024. Our draft decision is available on our [website](#).

<sup>7</sup> With a focus on amendments that need to be implemented for DY2026.

1.6.3 some minor clarifications and error corrections.

1.7 In coming to our draft decision on the above proposed amendments, we have had regard to the requirements of the Transpower IMs (following from our IM Review decisions) and the *Part 4 Information Disclosure Reviews – Framework paper*. While the framework paper largely focuses on electricity distribution businesses (**EDBs**), the same legislation for ID applies to both EDBs and Transpower, making it applicable to Transpower as well.

## Next steps

1.8 The Table 1.1 sets out the key dates of the ID review from here onwards:

**Table 1.1 Key dates and milestones for Transpower ID review**

Indicative date	Publication/Event
<b>2 July 2024</b>	Draft decision
<b>30 July 2024</b>	Submissions due (4 weeks)
<b>15 August 2024</b>	Cross-submissions due (2 weeks)
<b>Q4 2024</b>	Final decision

## Interaction with other regulatory projects

1.9 We are currently in the process of determining the price-quality path for Transpower’s fourth regulatory period to apply from 1 April 2025 to 30 March 2030 (**RCP4**). We are also working on potential amendments to the Transpower IMs as part of the RCP4 price-quality path reset. As far as possible, we intend to align the process for the IM changes with that of the RCP4 price-quality path reset process. Therefore, the final decisions for the RCP4 and this ID review are expected to be published at or around the same time in late 2024.<sup>8</sup>

1.10 Additionally, there is a project underway reviewing the ID requirements for EDBs, gas distribution businesses (**GDBs**) and gas transmission businesses (**GTBs**) to ensure that ID requirements are aligned with the IM changes, including the IM Review. The final decision for this project is also expected to be published in late 2024.

1.11 If relevant to the ID requirements for Transpower and the timing is appropriate, we may take into account submissions we receive on the other regulatory projects outlined above in this project.

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<sup>8</sup> More information on the price-quality reset is available on our [website](#).

## How you can provide your views

### Scope of submissions

- 1.12 The draft decision includes:
- 1.12.1 this reasons paper detailing the proposed changes and the rationale for these changes; and
  - 1.12.2 the draft ID amendment determination (including the relevant schedules) with our proposed changes marked with track changes in red.<sup>9</sup>
- 1.13 We welcome your feedback on:
- 1.13.1 the changes proposed in this paper, including the determination drafting;
  - 1.13.2 any suggestions of amendments to the proposed changes that better meet the desired outcomes;
  - 1.13.3 any suggestions of amendments to the proposed changes that would enable Transpower to more efficiently meet the disclosure outcomes sought;
  - 1.13.4 the proposed timing for when Transpower must comply with the amended ID requirements;
  - 1.13.5 any concerns regarding the costs of compliance associated with the changes proposed, including specific information regarding your assessment of such costs; and
  - 1.13.6 anything else that we should consider changing within this project's focus on amendments required for disclosure year (**DY**) 2026 as a consequence of the new TPM and the IM Review.

### Process and timeline for submissions

- 1.14 Submissions are due by 5pm on 30 July 2024 and cross-submissions by 5pm on 15 August 2024.
- 1.15 Please email your submissions to: [infrastructure.regulation@comcom.govt.nz](mailto:infrastructure.regulation@comcom.govt.nz), and include "Transpower ID review" in the subject line.

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<sup>9</sup> The draft ID amendment determination is available on our [website](#).

- 1.16 We prefer submissions in formats suitable for data analysis and for publication on our website, such as a Microsoft Word or a PDF document.

### **Confidential submissions**

- 1.17 We encourage public submissions so that all information can be tested in an open and transparent manner. We recognise that there may be cases where parties wish to provide information in confidence. We offer the following guidance:
- 1.17.1 if it is necessary to include confidential material in a submission, the information should be clearly marked, with reasons why that information is considered to be confidential;
  - 1.17.2 where commercial sensitivity is asserted, submitters must explain why publication of the information would be likely to unreasonably prejudice their commercial position or that of another person who is the subject of the information;
  - 1.17.3 both confidential and public versions of the submission should be provided and clearly labelled accordingly; and
  - 1.17.4 the responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.
- 1.18 Please note that all submissions we receive, including any parts 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 any disclosure is made.

## Chapter 2 Reasons for our draft decision

- 2.1 The purpose of this chapter is to explain the proposed changes, the reasons for the changes, and the key considerations behind our draft decision to change ID requirements for Transpower.
- 2.2 We have set out our proposed draft decision for each of the following issues:
- 2.2.1 Issue #1: indexing the regulatory asset base (**RAB**) to inflation;
  - 2.2.2 Issue #2: aligning regulated revenue disclosure to the updated TPM;
  - 2.2.3 Issue #3: disclosing anticipatory connection asset (**ACA**) capacity;
  - 2.2.4 Issue #4: applying the accounting-based allocation approach (**ABAA**) to adjust the total costs associated with supplying regulated services;
  - 2.2.5 Issue #5: updating assurance standards; and
  - 2.2.6 Issue #6: other proposed minor amendments.
- 2.3 We consider that the draft decision to amend the ID Determination as discussed below better promote transparency, the Part 4 purpose under s52A, and the ID purpose under section 53A.<sup>10</sup>
- 2.4 Table 2.1 shows our proposed entry into force dates for these decisions. For issues #1, #3 and #4 these dates align with the entry into force dates from the IM Review for changes related to ID regulation, being the commencement of DY2026.

**Table 2.1 –Proposed application dates**

Issue	Proposed application dates
Issue #1: Indexation the RAB to inflation	1 July 2025 (DY26)
Issue #2: Aligning regulated revenue disclosure to updated TPM	1 January 2025 (DY25)
Issue #3: Disclosing ACA capacity	1 July 2025 (DY26)
Issue #4: Applying ABAA to adjust the total costs associated with supplying regulated services	1 July 2025 (DY26)
Issue #5: Updating assurance standards	1 January 2025 (DY25)
Issue #6: Other proposed minor amendments	1 January 2025 (DY25)

<sup>10</sup> Commerce Act 1986, sections 52A and 53A.

## Issue #1: Indexing the RAB to inflation

- 2.5 IM changes arising from the IM Review require that Transpower's RAB be indexed to inflation from RCP4 onwards.<sup>11</sup>
- 2.6 The RAB is an accumulation of the value of investments that Transpower has made in its network. RAB indexation is where we apply a revaluation formula to the opening RAB to adjust for inflation (consumer price index (**CPI**)).
- 2.7 As discussed in the IM Review, our decision to index Transpower's RAB to inflation is aimed at protecting consumers and Transpower from inflation risk and to better promote the Part 4 purpose.<sup>12</sup>
- 2.8 Under the current IMs for EDBs and GPBs, we already index the RAB annually by inflation. Indexing the RAB to inflation maintains the value of suppliers' RAB in real terms over time. It also helps to support a relatively flat price profile in real terms and delivers an ex-post real return (things other than inflation being equal). As a result, it protects both consumers and suppliers from inflation risk.<sup>13</sup> For further information on how indexing Transpower's RAB to inflation promotes the Part 4 purpose, please see our IM Review final decisions.<sup>14</sup>
- 2.9 To give effect to the decisions we made in the IM Review, we propose to make amendments to the disclosure requirements in the ID Determination and the reporting requirements within Schedule F1.
- 2.10 We are proposing to make this change to align the ID requirements with the decision made in the IM Review. This will increase transparency, consistency and will help stakeholders with monitoring Transpower's performance in a way that is consistent with the price-quality path requirements.

### Our draft decision

#### *Changes to clause 8*

- 2.11 We propose to amend clause 8 in the Transpower ID Determination by requiring Transpower to, alongside its calculation of its vanilla return on investment, disclose the revaluation of its RAB and its opening RAB value.

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<sup>11</sup> Commerce Commission, [Financing and incentivising efficient expenditure during the energy transition topic paper – Part 4 Input Methodologies Review 2023 – Final decision](#), (13 December 2023), para 3.152

<sup>12</sup> Ibid, page 9.

<sup>13</sup> Commerce Commission, [Financing and incentivising efficient expenditure during the energy transition topic paper – Part 4 Input Methodologies Review 2023 – Final decision](#), (13 December 2023), paragraphs 3.5 – 3.11.

<sup>14</sup> Ibid.

- 2.12 This addition to the Transpower ID Determination is to reflect the decision made in the IM Review to index Transpower’s RAB to inflation, as well as to reflect the flow on changes to Schedule F1.

*Changes to Schedule F1: Value of the regulatory asset base (RAB roll forward)*

- 2.13 We propose to add a new section, being F1(iii): Calculation of Revaluation Rate and Revaluation of Assets, to Schedule F1 that would require Transpower to disclose its revaluation rate and revaluation of asset calculation. The revaluation rate and revaluation of asset calculations would use the formula set out in clauses 2.2.8(2) – (4) of the IM Determination.<sup>15</sup>
- 2.14 As part of this proposed amendment, Transpower would be required to disclose the CPI for the quarter that coincides with the end of the disclosure year, as well as the CPI for the quarter that coincides with the end of the preceding disclosure year. These values would be obtained from Statistics NZ’s website.<sup>16</sup>
- 2.15 Transpower would also be required to disclose the opening value of fully depreciated, disposed, and lost assets as per clause 2.2.8(3) of the IM Determination.

*Alignment with upcoming IM amendment*

- 2.16 As part of the upcoming RCP4 reset, the Commission has released a draft decision to amend the RAB revaluation formula in the Transpower IMs to apply a revaluation each disclosure year to the opening RAB value after applying depreciation.<sup>17</sup>
- 2.17 Depending on the outcomes of submissions and final decisions on the amendment in the Transpower IM amendment workstream, the proposal to amend the RAB revaluation formula may have implications for Transpower’s ID requirements. We intend to align the process of the proposed RCP4 IM amendments and the proposed ID amendments. Therefore, any implications from submissions, and resulting amendments to the Transpower IMs, where relevant and the timing is appropriate, may be considered in coming to our final decision.

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<sup>15</sup> Commerce Commission, [Transpower Input Methodologies \(IM Review 2023\) Amendment Determination 2023](#), (13 December 2023).

<sup>16</sup> Stats NZ, [Stats NZ Infoshare](#).

<sup>17</sup> Commerce Commission, [Proposed amendments to input methodologies for Transpower New Zealand Limited related to the 2025 Transpower individual price-quality path](#), (29 May 2024), para 3.8.

## Issue #2: Aligning regulated revenue disclosure to updated TPM

- 2.18 We propose amendments to ID requirements for Transpower to disclose alternative regulated revenue information in Schedule F6, to align with the updated TPM. Additionally, we propose amendments to require disclosure of ‘other’ revenue in Schedule F6, to capture regulated revenue that falls outside of the current disclosure categories. Disclosure of ‘other’ revenue is currently a voluntary disclosure that we propose to make a requirement.
- 2.19 The updated TPM, set by the EA, came into effect on 1 April 2023.<sup>18</sup> It aims to encourage more efficient use of the grid, and more efficient investment in transmission and generation assets.<sup>19</sup>
- 2.20 The TPM sets out how Transpower will recover its maximum allowable revenue from its transmission customers and the latest amendment has introduced new transmission charges. These new charges are connection, benefits-based and residual charges. These new charges have replaced the charge types from the previous TPM.
- 2.21 As a result, transmission charges and revenue are no longer split by high voltage alternating current (**HVAC**) and high voltage direct current (**HVDC**) charge types. The updated TPM has also introduced a transitional cap charge. This limits the overall increase for some directly connected customers, providing them time to adjust to the implications of the new transmission charges.
- 2.22 We consider the proposed amendments to align Transpower’s ID requirements with the updated TPM will provide greater transparency regarding the allocation of Transpower’s transmission charges. Enhanced pricing transparency will enable interested parties to better assess whether Transpower is efficiently using and investing in its transmission and generation assets, consistent with section 53A.
- 2.23 Additionally, we note that while not mandated as an ID requirement when the schedules were last amended in 2014, Transpower has consistently created and disclosed an ‘other’ category in Schedule F6, specifically in sections F6(ii) and F6(iv).

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<sup>18</sup> Electricity Authority Electricity Industry Participation Code Amendment (Transmission Pricing Methodology) 2022, Amendment 2022, (21 November 2022), Schedule 12.4.

<sup>19</sup> Electricity Authority, [Transmission Pricing Methodology, 2022, Decision paper](#), (21 June 2022).

## Our draft decision

*Changes to Attachment A: Calculation of return on investment and regulatory profit/(loss) and the Appendix: Location of the defined terms used in the determination*

- 2.24 We propose to amend the definition of ‘revenue’ in Attachment A: Calculation of return on investment and regulatory profit/(loss), of the ID Determination by replacing the ‘HVAC transmission revenue plus HVDC transmission revenue’ component with ‘actual transmission revenue’. ‘Actual transmission revenue’ is a defined term in the IPP Determination.<sup>20</sup>
- 2.25 Consequently, we propose to amend the Appendix: Location of the defined terms used in the determination, of the ID Determination by:
- 2.25.1 adding the location of the definition for the term:
    - 2.25.1.1 actual transmission revenue.
  - 2.25.2 removing the location of the definitions for the terms:
    - 2.25.2.1 HVAC transmission revenue; and
    - 2.25.2.2 HVDC transmission revenue.

## *Changes to Schedule F6 – Regulated Revenue*

- 2.26 We propose to amend sections F6(i), F6(ii) and F6(iii) of Schedule F6 to include the requirement to disclose regulated revenue by the following charge types for each line item, consistent with the updated TPM:
- 2.26.1 connection charge;
  - 2.26.2 benefits-based charge;
  - 2.26.3 residual charge; and
  - 2.26.4 transitional cap (charge).
- 2.27 We also propose to remove the requirement in sections F6(ii) and F6(iii) to disclose regulated revenue by the following charge types set in the previous TPM:
- 2.27.1 HVAC – Interconnection;
  - 2.27.2 HVAC – Connection; and
  - 2.27.3 HVDC.

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<sup>20</sup> Commerce Commission, [Transpower Individual Price-Quality Path Determination 2020](#), (7 October 2023), Part 2: Defined terms.

- 2.28 Section F6(i) currently requires Transpower to disclose regulated revenue by charge type for the current year, and the four years prior to the current year. As new charge types set in the updated TPM came into effect on 1 April 2023, we propose Transpower continue to disclose regulated revenue by the charge types set out in the previous TPM for the historical years that they apply to, as well as by the charge types set out in the updated TPM for CY 2024 and beyond.<sup>21</sup>
- 2.28.1 For example, for DY2027, Transpower would be required to disclose revenue by the charge types set out in the updated TPM for the CY, CY-1, CY-2 and CY-3. Transpower would also be required to disclose revenue by the charge types set out in the previous TPM for the CY-4.
- 2.28.2 From DY2029, disclosure of regulated revenue in section F6(i) by charge types set out in the previous TPM would no longer be required.
- 2.29 This proposed amendment will allow interested persons to monitor how Transpower recovers its revenue by the transmission charge types used in the year they are applicable to.
- 2.30 Additionally, consistent with the updated TPM, we propose to consolidate the HVDC and HVAC 'EV adjustment' disclosure requirements in sections F6(i) and F6(ii), so that Transpower would only be required to disclose a single EV adjustment value. This proposed amendment would only apply to charge types set out in the updated TPM. As in the previous paragraph, the HVAC and HVDC EV adjustment disclosures would still be required in relation to the historical disclosure years and charges they apply to.
- 2.31 Similarly, in section F6(iv), we propose to consolidate the disclosure requirement for other regulated income from HVDC and HVAC generators. Transpower would be required to disclose a single value for income from generators for each type of other regulated income disclosed.
- 2.32 The proposed amendments are to ensure that ID requirements align with the updated TPM. As revenue is no longer split by HVAC and HVDC in the TPM, a split of HVAC and HVDC EV adjustment and HVDC and HVAC generators are no longer necessary.

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<sup>21</sup> Note the disclosure requirements for TPM-related amends will come into effect from DY2025. CY-2, CY-3, and CY-4 values for charge types set in the updated TPM will be empty in DY2025 and will be gradually populated as we move to the following DYs. Conversely, values for charge types set in the previous TPM will be phased out as we move to the following DYs.

- 2.33 Finally, we propose to amend sections F6(ii) and F6(iv) by adding an ‘other’ category to go alongside the current categories of ‘distributors’, ‘direct connects’ and ‘generators’. Our proposed amendments align with Transpower’s practice in already disclosing this information. We also consider this additional information valuable to stakeholders as it provides more transparency regarding Transpower’s regulated revenue.

*Disclosure date requirement*

- 2.34 The proposed application date for these proposed amendments is 1 January 2025.
- 2.35 We believe Transpower can comply with these proposed amendments from DY2025. Practically, this means Transpower must disclose Schedule F6, in respect of our proposed amendments above, by the last working day of December 2025.<sup>22</sup> We expect Transpower to be able to comply with relative ease, as they have already reported in this manner and currently allocate revenue by charge types as specified in the updated TPM.<sup>23</sup>

**Issue #3: Disclosing anticipatory connection asset capacity**

- 2.36 IM changes arising from the IM Review require Transpower to disclose information on ACA and related anticipatory capacity.<sup>24</sup>
- 2.37 We propose to modify the new investment contract disclosure requirement under clause 10 of the ID Determination and reporting requirements within Schedules F1, F4, F6, and G3.

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<sup>22</sup> Clause 9, ID Determination. We would like to clarify that the requirement to disclose Schedule F6 by December 2025 excludes information on ACA. For ACA, the application date of 1 July 2025 applies, meaning the first time the fully amended Schedule F6, including ACA, will be disclosed is December 2026 for DY2026 (1 July 2025- 30 June 2026).

<sup>23</sup> For context, we granted [Transpower an exemption for DY2023](#), allowing them to complete their Schedule F6 reporting consistent with the updated TPM. Our proposed amendments also align with the updated TPM.

<sup>24</sup> Commerce Commission, [Transpower investment topic paper – Part 4 Input Methodologies Review 2023 – Final decision](#), (13 December 2023), para X39.

- 2.38 The updated TPM took effect on 1 April 2023 and introduces the ability for Transpower to build and recover costs for an ACA to alleviate what is termed the Type 2 First Mover Disadvantage issues.<sup>25</sup> In our IM Review final decision, we set out how ACA capacity investments made by Transpower will be treated. This included defining the term anticipatory capacity:<sup>26</sup>
- Anticipatory capacity is the amount of capacity of a connection asset that is designated by Transpower as ‘anticipatory’ under the Code, excluding any new investment contract connection asset capacity.
- 2.39 These recent regulatory changes acknowledge the potential efficiencies of upfront capital investment for certain connection assets.
- 2.40 The IM Review final reasons paper indicated that we would consult on ACA-related ID requirements, including:<sup>27</sup>
- 2.40.1 ACA capacity investment made as enhancement and development (**E&D**) capex;
  - 2.40.2 reporting on the division of costs between new investment contract (**NIC**) and ACA capacity investment components of the connection asset; and
  - 2.40.3 other requirements to facilitate anticipatory capacity investments for E&D base capex and Major Capex Proposals (**MCPs**).<sup>28</sup>
- 2.41 In this draft decision, we are also proposing other supporting changes as outlined below to further improve transparency for interested persons and their understanding of Transpower’s investments in significant asset investment and allocation of anticipatory capacity costs.
- 2.42 We consider the disclosure of the ACA capacity investments promotes the purpose of ID in section 53A by highlighting the potential efficiencies of upfront capital investment for certain connection assets and thus ensuring that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met.

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<sup>25</sup> Electricity Authority Electricity Industry Participation Code Amendment (Transmission Pricing Methodology) 2022, Amendment 2022, (21 November 2022), Schedule 12.4.

<sup>26</sup> Commerce Commission, [Transpower investment topic paper – Part 4 Input Methodologies Review 2023 – Final decision](#), (13 December 2023), para 6.1.

<sup>27</sup> Ibid, para 6.7.

<sup>28</sup> As part of our IM Review 2023 we published a guidance to illustrate the accounting for changes in ACA capacity and how the 'nil valuation' approach will work in practice, available here: [Transpower investment topic paper ACA Accounting guidance for Transpower’s anticipatory connection asset \(ACA\) capacity](#) (13 December 2023).

## **Our draft decision**

### *Changes to clause 6, clause 10 and the Appendix: Location of the defined terms used in the determination*

- 2.43 We propose to amend clause 10 of the ID Determination to require additional information on new investment contracts that relate to ACAs. This information must include an explanation of the allocation of ACA costs between both current and future contracted and non-contracted (anticipatory connections) parties. Justification for the basis of arriving at those cost allocations for that ACA must also be included.
- 2.44 We also propose to add several supporting terms and locations to the Appendix: Location of the defined terms used in the determination, of the ID Determination which have been defined in the IM Determination:
- 2.44.1 anticipatory connection asset;
  - 2.44.2 anticipatory capacity;
  - 2.44.3 closing ACA capacity; and
  - 2.44.4 opening ACA capacity.
- 2.45 We also propose to amend clause 6, clause 10 and the Appendix: Location of the defined terms used in the determination, to clarify that “investment contract” means “new investment contract” as defined in the IM Determination. This was because we found in our review that both definitions referred to each other.

### *Changes to the Schedules F1, F4, F6 and G3*

- 2.46 We propose changes to the following schedules to incorporate reporting on ACA costs and anticipatory capacity:
- 2.46.1 Schedules F1: Value of the regulatory asset base (RAB roll forward);
  - 2.46.2 Schedule F4: Comparison of forecasts for opex and base capex commissioning;
  - 2.46.3 Schedule F6: Regulated revenue; and
  - 2.46.4 Schedule G3: Grid exit point (GXP) connection capacity and demand (actual and forecast).
- 2.47 For Schedule F1, the proposed changes are:

- 2.47.1 amendments to section F1(i) and F1(iv) to align RAB reporting with changes to the calculations of commissioned assets with respect to ACA.<sup>29</sup>
  - 2.47.2 a new section titled F1(x): Value of Commissioned Anticipatory Connection Assets (ACA) to provide a breakdown of RAB calculations for commissioned ACA reporting. We acknowledge that some reporting categories under the proposed new section are unlikely to apply to certain ACAs (eg, HVDC lines). However, for completeness, we have retained the same reporting categories used for commissioned assets generally.
  - 2.47.3 A new section titled F1(xi): Anticipatory Connection Assets (ACA) to provide transparency over the capacity and cost allocated to investment contracts in that disclosure year.
- 2.48 For Schedule F4, we propose to amend section F4(ii) so that capex relating to ACA capacity is expressly separated from other E&D expenditure to provide more transparency of this reporting.
  - 2.49 For Schedule F6, we propose to amend section F6(iii) to include the ACA portion of connection charge, benefit-based charge, and investment contracts in the customer charges section. This will provide more transparency and completeness in reporting.
  - 2.50 For Schedule G3, we propose to introduce section G3(iii): Anticipatory Connection Asset capacity to cover capacity reporting specific to ACAs. This requirement includes reporting against opening and closing anticipatory capacity to provide transparency over changes in anticipatory capacity over a disclosure year and forecast for outyears.

#### **Issue #4: Applying ABAA to adjust the total costs associated with supplying regulated services**

- 2.51 In the IM Review, we made the following changes:
  - 2.51.1 require Transpower to apply ABAA to adjust the total costs associated with supplying regulated services to take into account costs that are common to regulated and unregulated services; and

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<sup>29</sup> Note the disclosure requirements come into effect from DY2026, historical values will therefore be empty in DY2026 and will be gradually populated as we move to the following disclosure years.

- 2.51.2 use a cost-based trigger, so that the cost-allocation requirement only applies if Transpower's common costs (costs not directly attributable) are at least 2% of its operating costs or asset values associated with regulated services over a disclosure year.<sup>30</sup>
- 2.52 Following on from our IM Review decision, we propose amendments to ID requirements for Transpower to apply an ABAA to adjust the total costs associated with supplying regulated services. Applying an ABAA allows Transpower to take into account costs that are common to regulated and unregulated services if a cost-based trigger is met.<sup>31</sup>
- 2.53 Our draft decision to require Transpower to disclose information by applying ABAA better promotes the purpose of ID in section 53A by providing more transparency on how costs are allocated. Forecasts of these costs (operating and capital) will allow a more realistic reflection of return on investment (**ROI**) in ID due to a split to transmission lines services and other services.
- 2.54 Our IM Review reasons paper sets out our analysis of other cost allocation methodologies we considered, the reasons behind using a trigger and other trigger options we considered.<sup>32</sup>
- 2.55 In our IM Review we decided to use a trigger before the cost allocation rules come into effect. This is because, Transpower's unregulated costs should be sufficiently material before the cost allocation rules are applied to warrant the additional compliance costs. Our decision was that if Transpower's common costs exceed 2% of its regulated costs, then ABAA is the relevant cost allocation approach.<sup>33</sup>
- 2.56 The IM Review decision to apply ABAA to common costs if a cost-based trigger is met will be reflected in two new schedules we are proposing to introduce:
- 2.56.1 Schedule F7: Cost allocation; and
- 2.56.2 Schedule F7a: Asset allocation.
- 2.57 We note that if there are operational costs related to ACA capacity (discussed in the section above), they should be included in Schedule F7.

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<sup>30</sup> Commerce Commission, [Transpower investment topic paper – Part 4 Input Methodologies Review 2023 – Final decision](#), (13 December 2023), para 10.5.

<sup>31</sup> ABAA is one approach currently applied by EDBs and GPBs. EDBs and GPBs may also apply the optional variation to ABAA (OVABAA) where the application of ABAA might unduly deter investments in unregulated services.

<sup>32</sup> Ibid, para 10.36 – 10.41.

<sup>33</sup> Ibid and clause 2.1.1 of the IM Determination.

- 2.58 We have modelled these schedules on the existing EDB Schedules 5d and 5e that also disclose information on cost allocation and asset allocation.<sup>34</sup>

### **Our draft decision**

#### *Changes to clause 8 and the Appendix: Location of the defined terms used in the determination*

- 2.59 We are proposing to make changes to clause 8 of Transpower ID Determination by adding completion of Schedule F7 and Schedule F7a as a reporting requirement.
- 2.60 We also propose to add several supporting terms and locations to the Appendix: Location of the defined terms used in the determination, of the ID Determination which have been defined in the IM Determination:
- 2.60.1 ABAA;
  - 2.60.2 asset allocator;
  - 2.60.3 cost allocator;
  - 2.60.4 directly attributable;
  - 2.60.5 proxy asset allocator; and
  - 2.60.6 proxy cost allocator.

#### *Changes to the Schedules*

- 2.61 We are introducing two new schedules, F7: Cost allocation and F7a: Asset allocation, to enable Transpower to apply ABAA to certain costs:
- 2.61.1 Schedule F7: Cost allocation:
    - 2.61.1.1 Section F7(i): Operating Cost Allocations, and
  - 2.61.2 Schedule F7a: Asset allocation:
    - 2.61.2.1 Section F7a(i): Regulated Service Asset Allocations; and
    - 2.61.2.2 Section F7a(ii): Changes in Asset Allocations.

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<sup>34</sup> Commerce Commission, [EDB - Information Disclosure Requirements - Information Templates Schedules - 1-10 - TIDR 2024 - 29 February 2024](#).

- 2.62 The information in these proposed schedules will only need to be disclosed if the 2% trigger is met. The proposed new schedules are published together with the draft reasons paper.<sup>35</sup>

### **Issue #5: Updating assurance standards**

- 2.63 We propose to amend clause 6 of the ID Determination to include definitions of “ISAE (NZ) 3000” and “SAE 3100” which will refer to the current version of these assurance standards that are issued by the External Reporting Board.
- 2.64 As an example of the importance of updating these assurance standards, auditors may not be able to sign off on the basis of an incorporated standard where it has been changed or superseded, as auditors are bound by the professional standards as they exist at the time of carrying out the engagement and issuing their opinions.
- 2.65 ISAE (NZ) 3000 and SAE 3100 are incorporated by reference into the ID Determination under Schedule 5 of the Commerce Act. We must consult on these amendments if we wish to amend or replace them.<sup>36, 37</sup> Accordingly, we welcome submissions on our proposal to replace the current version incorporated by reference with the latest version of each document.
- 2.66 An amendment to, or replacement of, material incorporated by reference in an ID Determination has legal effect as part of that determination only when certain criteria have been met.<sup>38</sup> We consider that those criteria have been met in this case, because:
- 2.66.1 the replacement assurance standards are made by the same organisation that made the original material (the External Reporting Board);
  - 2.66.2 the replacement assurance standards are of the same general character as the original material; and
  - 2.66.3 the amendment determination setting out these changes, assuming they are adopted, states that the replacement has legal effect as part of the determination.

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<sup>35</sup> Note the proposed Schedules F7 and F7a are in a new and improved layout, similar to our Fibre ID schedules.

<sup>36</sup> Clause 7(1)(b) of Schedule 5 requires us to consult before material is incorporated by reference where “the Commission proposes to make a Part 4 determination adopting amended or replacement material...”.

<sup>37</sup> External Reporting Board, [Standard on Assurance Engagements \(SAE 3100 \(Revised\)\)](#), (May 2022); External Reporting Board [International Standard on Assurance Engagements \(New Zealand\) 3000 \(Revised\)](#), (May 2022).

<sup>38</sup> Commerce Act 1986, Schedule 5, Clause 5.

### **Our draft decision**

#### *Changes to clause 6 and clause 15*

- 2.67 We are proposing to make the following changes to the Transpower ID Determination:
- 2.67.1 including a definition “ISAE (NZ) 3000” in clause 6;
  - 2.67.2 including a definition “SAE 3100” in clause 6; and
  - 2.67.3 updating how we refer to the assurance standards in clause 15 by referencing the defined term “ISAE (NZ) 3000” and “SAE 3100” instead of the previous assurance standards.
- 2.68 Adding a definition of the assurance standards, instead of referring to them wholly in the text of the determination, is consistent with how we refer to these standards in the EDB, GTB and GDB ID Determinations.
- 2.69 The proposed application date for these proposed amendments is 1 January 2025.

### **Issue #6: Other proposed minor amendments**

- 2.70 We are also undertaking this review to address some minor clarifications to the ID Determination.

### **Our draft decision**

- 2.71 We propose making the following minor amendments:
- 2.71.1 at clause 4, include paragraphs (i) – (l) to provide further guidance on the interpretation of the ID Determination. These additions are consistent with the interpretation sections of the EDB, GTB and GDB ID Determinations; and
  - 2.71.2 clarify in Schedules F1-6, G1-8 and SO1 that the schedules form part of the determination.
- 2.72 The proposed application date for these proposed amendments is 1 January 2025.