



COMMERCE COMMISSION

DECISION NO. [xxx]

Individual price-quality path determination applicable to electricity lines services supplied by Transpower pursuant to Part 4 of the Commerce Act 1986 (the Act).

The Commission:

Dr M Berry

S Begg

P Duignan

S Gale

PJM Taylor

Date of Decision: [xx xxxxx 2010]

This Draft Determination is for consultation purposes only.

Regulation Branch, Commerce Commission

Wellington, NEW ZEALAND

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DRAFT COMMERCE ACT (TRANSPower INDIVIDUAL PRICE-QUALITY PATH) DETERMINATION 2010

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**DRAFT COMMERCE ACT (TRANSPower
INDIVIDUAL PRICE-QUALITY PATH)
DETERMINATION 2010**

Pursuant to Part 4 of the Commerce Act 1986 the Commerce Commission makes the following determination:

PART 1 GENERAL PROVISIONS

1.1 Title

This determination is the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010.

1.2 Commencement Date

This determination comes into force on 1 April 2011.

1.3 Application

- (1) This determination applies to **Transpower** for the **regulatory period**.
- (2) Nothing in this determination affects the application of the **administrative settlement**, which remains in force until its expiry.

1.4 Interpretation

In this determination, unless the context otherwise requires,—

- (a) terms that are defined in the **Act** but not in this determination have the same meanings as in the **Act**;
- (b) words appearing in this determination in bold type are defined terms and bear the meanings given to them in Part 2; and
- (c) a word which denotes the singular also denotes the plural and vice versa.

1.5 Individual price-quality path

Transpower must comply with the individual price-quality path, which consists of:

- (a) the price path in Part 3; and
- (b) the quality standards in Part 4.

1.6 Applicable input methodologies

The input methodologies set out in Part 3 of the **IM determination** apply to the individual price-quality path.

PART 2 DEFINED TERMS

In this determination, unless the context otherwise requires,—

A

Act means the Commerce Act 1986;

administrative settlement means the deed of settlement entered into by the **Commission** and **Transpower** on 24 June 2008 and the **thresholds notice**;

annual compliance statement means a statement made by **Transpower** under Part 5;

applicable input methodologies means the input methodologies referred to in clause 1.6;

asset enhancement means a **capex project** or **programme** that enhances an asset and which involves:

- (a) the replacement of an asset, or addition to or replacement of a sub-component of an asset; or
- (b) materially improving the design attributes of the asset; or
- (c) work on existing assets or investment in new assets, but not including information systems and technology, where the main purpose is to:
 - (i) bring the performance of the existing asset up to the appropriate standard, where the asset performance is below a modern standard of service and/or good industry practice; or
 - (ii) increase its capacity, reliability, or quality of supply, consistent with **customer** needs;

asset refurbishment means **capex** driven by **Transpower's** policies, on any asset refurbishment **project** or **programme**, or sub-component of the asset, that:

- (a) materially extends its original economic life; and
- (b) does not improve its original service potential; and
- (c) excludes work to ensure that it is able to perform its designated function for its normal estimated operating life;

asset replacement means **capex** driven by **Transpower's** policies on replacing substantially all of an existing asset due to the condition or performance of that asset, but where replacement of the asset, or sub-component of the asset does not materially improve the original service potential beyond that attributable to using modern equivalent assets;

auditor means a person who:

- (a) is qualified for appointment as auditor of a company under the Companies Act 1993; and
- (b) has no relationship with, or interest in, **Transpower** that is likely to involve the person in a conflict of interest; and
- (c) has not assisted with the preparation of the **annual compliance statement** or **forecast MAR** calculation, as applicable, or provided advice or opinions (other than in relation to **independent assurance reports**) on the methodologies or processes used in preparing the **annual compliance statement** or **forecast MAR** calculation; and
- (d) has the necessary expertise to properly undertake an independent assurance engagement required by this determination; and

- (e) need not be the same person as the person who audits **Transpower's** financial accounts for any other purpose;

B

business support means **capex** that is not directly incurred in relation to the **grid** and that is incurred in relation to:

- (a) information systems and technology assets other than those relating to the **grid**; or
- (b) office buildings; or
- (c) depots and workshops; or
- (d) office furniture and equipment; or
- (e) motor vehicles; or
- (f) tools, plant and machinery;

C

capex means capital expenditure that is directly related to the provision, operation or maintenance of electricity works used to provide **electricity lines services**, but excludes any such expenditure -

- (a) under a **new investment contract**; or
- (b) associated with the provision of **unregulated services**; or
- (c) relating to **system operator** services;

catastrophic event has the meaning set out in the **IM determination**;

Code means the *Electricity Industry Participation Code* made by the Electricity Authority under subpart 3 of Part 2 of the *Electricity Industry Act 2010*, as amended from time to time;

Commission means the Commerce Commission;

commissioned means first used by **Transpower** to provide **electricity lines services**, save that 'commissioned' means first acquired by **Transpower**, in the case of-

- (a) land that is not **easement land**; or
- (b) an **easement**;

if the acquisition is approved under Part F of the *Electricity Governance Rules 2003* or an input methodology determined under s 54S of the **Act**, and 'commission' shall be construed accordingly;

consumer has the meaning set out in s 2(1) of the Electricity Act 1992;

corporate tax rate has the meaning set out in the **IM determination**;

customer means any generator, distribution business, **consumer**, or other entity in New Zealand that is connected, or applies to be connected, to the **grid**;

D

directors' certificate means a certificate signed by at least two directors of **Transpower** in the forms specified in Schedules A or B, as applicable;

disclosure year means a period of 12 months ending on 30 June;

E

easement has the meaning set out in the **IM determination**;

easement land has the meaning set out in the **IM determination**;

electricity lines services has the meaning set out in s 54C of the **Act**;

energy not supplied means the best estimate of energy that would have been supplied by **Transpower** had there been no **interruption**, minus energy actually supplied by **Transpower**;

EV means economic value;

EV account means, as applicable, the **HVAC EV** account or the **HVDC EV** account maintained by **Transpower** to record the respective after-tax HVAC and HVDC ex-post **economic gains or losses** not yet returned to or recovered from **Transpower's HVAC customers** or **HVDC customers**, and to record interest calculated on the balance of each **EV** account for each **disclosure year** using the 75th percentile estimate of vanilla **WACC**, as published in accordance with the **IM determination**;

EV account entry means, for any **disclosure year**, an entry into either of the **HVAC** or **HVDC EV accounts** to record:

- (a) an after-tax **HVAC** or **HVDC ex-post economic gain or loss** for the **disclosure year**;
- (b) an after-tax gain or loss in respect of a **transaction that ceases to be an effective hedge**; or
- (c) an after-tax revenue adjustment amount calculated in accordance with clause 5.3(3)(c);

EV adjustment means, in relation to a **disclosure year**, an input to the **forecast MAR** determined in accordance with clause 5.3, for the purpose of returning to or recovering from **HVAC customers** or **HVDC customers** a portion of the **EV account** balance applying to those **customers**;

ex-post economic gain or loss means, for any **disclosure year**, the difference (expressed as a positive or negative amount) between the summation of the **HVAC revenue** and the **HVDC revenue** in respect of that **disclosure year**, and the **MAR** for that **disclosure year**, and adjusted to an after-tax basis using the **corporate tax rate**;

F

forecast MAR means:

- (a) for the **transition year**, the amount specified at clause 3.2; and
- (b) for **pricing years in the remainder period**, the forecast of a **MAR** for a **disclosure year that is applied to the relevant pricing year** and as determined by the **Commission** in accordance with the building blocks calculation in Schedule D and by amendment to the list of **forecast MARs** in Schedule F, including on receipt of information from **Transpower** regarding proposed updates to the **forecast MAR** under clause 5.4;

G

GAAP means generally accepted accounting practice, as defined in s 3 of the Financial Reporting Act 1993;

grid means the fixed assets used or owned by **Transpower** for the purpose of supplying **electricity lines services**;

H

HVAC means all alternating current voltages;

HVAC circuit unavailability (unplanned) means the percentage of time that the **HVAC** circuit is unavailable, where this is unplanned, and:

- (a) is calculated as a percentage using;

$$\frac{\text{total number of minutes any circuits were out of service in a period} \times 100}{\text{total number of minutes in period} \times \text{total number of circuits at start of year}}$$

(total number of minutes in period x total number of circuits at start of year)

- (b) includes:

- (i) all unplanned circuit **outages** originating on the **HVAC** system;
- (ii) **catastrophic events**; and
- (iii) forced **outages** caused by third parties;

- (c) excludes:

- (i) momentary outages of less than one minute duration;
- (ii) **outages** at request of, or caused by, a **customer**;
- (iii) all planned **outages**;
- (iv) correct operation of boundary equipment; and
- (v) **HVDC outages**.

HVAC customer means, in relation to a **disclosure year**, any **customer** by or to whom **HVAC transmission charges** are payable in the **relevant pricing year**;

HVAC revenue means, in relation to a **disclosure year**, the summation of all **HVAC transmission charges** (inclusive of any rebates) for the **relevant pricing year**, excluding **pass-through costs** and **recoverable costs** passed on to any **HVAC customer**;

HVAC transmission charge means any charge payable to **Transpower** by **HVAC customers** in respect of the use by **Transpower** of **Transpower's HVAC** transmission system for the purpose of providing **electricity lines services** to **customers**, but excludes any such charges -

- (a) under a new investment contract; or
- (b) associated with the provision of unregulated services; or
- (c) relating to system operator services;

HVDC means high voltage direct current;

HVDC bi-pole unavailability (unplanned) means the percentage of time that the **HVDC** bi-pole is unavailable, where this is unplanned, and:

- (a) is calculated as a percentage using:

$$\frac{\text{total number of minutes any circuits were out of service in a period} \times 100}{\text{total number of minutes in period} \times \text{total number of circuits at start of year}}$$

(total number of minutes in period x total number of circuits at start of year)

- (b) includes:
 - (i) all unplanned **outages** of the HVDC link originating on the **Transpower HVDC** system;
 - (ii) **catastrophic events**; and
 - (iii) forced **outages** caused by third parties;
- (c) excludes:
 - (i) momentary outages of less than one minute duration;
 - (ii) **outages** at request of, or caused by, a **customer**;
 - (iii) all planned **outages**;
 - (iv) correct operation of boundary equipment; and
 - (v) **HVAC outages**;

HVDC customer means, in relation to a **disclosure year**, any **customer** by or to whom **HVDC transmission charges** are payable in the **relevant pricing year**;

HVDC revenue means, in relation to a **disclosure year**, the summation of all **HVDC transmission charges** (inclusive of any rebates) for the **relevant pricing year**, excluding **pass-through costs** and **recoverable costs** passed on to any **HVDC customer**;

HVDC transmission charge means any charge payable to **Transpower** by **HVDC customers** in respect of the use by **Transpower** of **Transpower's HVDC** transmission system for the purpose of providing **electricity lines services** to **customers**, but excludes any such charges -

- (a) under a new investment contract; or
- (b) associated with the provision of unregulated services; or
- (c) relating to system operator services;

I

independent assurance report means a report relating to an **annual compliance statement** in the form specified in Schedule C, issued by an **auditor**;

IM determination means the *Commerce Act (Transpower Input Methodologies) Determination 2010*;

information system and technology assets means assets that are used in operating or supporting the operation of the **grid**, including:

- (a) **Transpower's** telecommunications network;
- (b) the Supervisory Control and Data Acquisition Energy Management System (SCADA EMS);
- (c) devices which provide data to the SCADA EMS; and
- (d) network systems;

interruption means, in relation to the conveyance of electricity to a **customer** by means of a **prescribed voltage electric line**, the cessation of conveyance of electricity to that **customer**, including by reason of a **catastrophic event**, but other than by reason of disconnection of that **customer**—

- (a) for breach of the contract under which the electricity is conveyed; or
- (b) as a result of a request from the **customer**; or
- (c) as a result of a request by an electricity retailer; or
- (d) for the purpose of isolating an unsafe installation;

L

loss of supply event means an event which results in one or more **interruptions** and:

- (a) includes:
 - (i) all **unplanned interruptions** to supply originating in the **grid** of greater than one minute duration;
 - (ii) any **Transpower** caused contribution to **unplanned interruptions** originating in another party's system;
 - (iii) automatic under-frequency load-shedding;
 - (iv) automatic under-voltage load-shedding;
 - (v) load restrictions resulting from **unplanned interruptions** on the **grid**;
and
 - (vi) **catastrophic events**;
- (b) excludes:
 - (i) **planned interruptions**;
 - (ii) **interruptions** to electricity generators, where the only impact is the loss of auxiliary load used for internal purposes;
 - (iii) any momentary **interruptions** to connection of less than one minute duration; and
 - (iv) any **interruptions** to connection originating on another party's system and where the **grid** operated correctly.

M

major capex means any **capex** that is not **minor capex**;

MAR means, in relation to a **disclosure year**, **Transpower's** maximum allowable revenue from the supply of **electricity lines services**, calculated following the **disclosure year**:

- (a) using **applicable input methodologies**; and
- (b) using **opex**, as determined by the **Commission**; and
- (c) using the lesser of the actual cost or the approved level of **minor capex**, as determined by the **Commission**; and
- (d) for **commissioned major capex**, the sum of each **project** value approved by the **Commission**, with the **project** value in each case being the lesser of actual expenditure and that approved by the **Commission**; and
- (e) excluding any **EV adjustment**; and
- (f) excluding **pass-through costs** and **recoverable costs**; and
- (g) for all other building blocks, using actual costs for the **disclosure year**;

minor capex means **capex** on:

- (a) **asset replacement**; or
- (b) **asset refurbishment**; or
- (c) during the [year ending 30 June 2012](#), **asset enhancement projects** forecast to cost less than \$1.5 million, or **asset enhancement programmes** forecast to cost less than \$5 million; or
- (d) during the [period from 1 July 2012 to 30 June 2015](#), **asset enhancement projects** forecast to cost less than \$5 million, or **asset enhancement programmes** forecast to cost less than \$5 million; or
- (e) **information and system technology** relating to the **grid**; or
- (f) **business support**;

N

new investment contract has the meaning set out in the **IM determination**;

O

opening EV account balances means the balances recorded in the **EV accounts** as at 30 June 2011, including any interest accrued up to that time on those balances;

opex means the approved level of operating expenditure specified by the **Commission**, which is, for the **transition year**, \$234.02 million. By 30 November 2011, the **Commission** will determine the operating expenditure for each **disclosure year** of the **remainder period**. For the avoidance of doubt, it:

- (a) includes expenditure incurred in relation to departmental, investigations, communications and control, IST operations, instantaneous reserve 'event charges' (as that term is defined in the **Code**), operating lease costs, transmission and substation maintenance, insurance premiums, black start and over-frequency arming costs, and ancillary services costs not classified as **recoverable costs** by the **Commission**; and
- (b) excludes expenditure in relation to depreciation; finance lease costs; tax payable; revaluations; **pass-through costs**; **recoverable costs**; any operating costs associated with transmission alternative services that have been approved by the Electricity Commission (or any other regulatory body); expenditure that is the result of an insurance event and has been recovered by insurance income (or is expected to be recovered); and costs associated with supplying **unregulated services** and expenses related to the **SOSPA**;

outage has the meaning set out in clause 12.120 of the **Code**, as amended from time to time;

P

pass-through costs has the meaning set out in the **IM determination**;

planned interruption means any **interruption** that is not an **unplanned interruption**;

prescribed voltage electric line means an electric line that is capable of conveying electricity at a voltage equal to or greater than 3.3 kilovolts;

price has the meaning set out in the **IM determination**;

pricing year means a 12 month period ending on 31 March;

programme means **projects** and/or expenditure activities, within a **capex** category, which are grouped together on the basis of having a common purpose;

project means a temporary endeavour requiring concerted effort, which is undertaken to create a defined outcome;

R

RAB means regulatory asset base;

recoverable costs has the meaning set out in the **IM determination**;

regulatory period, or **RCP1**, means the period [from 1 April](#) 2011 to [31 March](#) 2015;

relevant pricing year, in relation to a **disclosure year**, means the **pricing year** commencing on 1 April immediately before the start of that **disclosure year**;

remainder period means the period 1 [April](#) 2012 to 31 [March](#) 2015;

S

SOSPA means the System Operator Service Provider Agreement between the Electricity Commission and **Transpower** dated 12 August 2009, as amended from time to time, or any successor to that agreement;

stranded has the meaning set out in the **IM determination**;

system maximum demand is the single highest half-hourly input (in megawatts) to the **grid** during a **disclosure year**;

system minutes means **energy not supplied** resulting from an **outage** calculated in accordance with the following formulae:

a/b, where:

'a' is **energy not supplied** (in megawatt minutes); and

'b' is **system maximum demand**;

system operator has the meaning set out in the **SOSPA**;

T

thresholds notice means the *Commerce Act (Transpower Thresholds) Notice 2008*;

total duration of interruptions is a measure of annual total **energy not supplied** resulting from **planned** and **unplanned interruptions** of supply to **customers**. It is expressed in **system minutes**. Total duration of interruptions-

(a) includes:

- (i) all **unplanned** and **planned interruptions** to supply originating on the **grid** of greater than one minute duration;
- (ii) any **Transpower** caused contribution to **interruptions** originating in a **Transpower customer** system;
- (iii) automatic under-frequency load-shedding;
- (iv) automatic under-voltage load-shedding;
- (v) load restrictions resulting from **unplanned interruptions** on the **grid** where the energy cannot be made up later;
- (vi) **catastrophic events**;

(b) excludes:

- (i) all **interruptions** to connection to generator **customers**, where the only impact is the loss of auxiliary load used for internal purposes;
- (ii) any momentary **interruptions** to connection of less than one minute duration;
- (iii) any **interruptions** to connection originating on another party's system and where the **grid** operated correctly;

transaction that ceases to be an effective hedge means a transaction entered into by **Transpower** in accordance with its policy on **capex** hedging that qualifies as an effective hedge at the date of the transaction, but that ceases during the **disclosure year** to qualify for

hedge accounting in accordance with **GAAP**, and such ceasing to qualify results in a gain or loss being incorporated into its Statement of Comprehensive Income for financial accounting purposes;

transition year means the **pricing year from 1 April 2011 to 31 March 2012**;

Transpower has the meaning set out in s 54B of the **Act**;

U

unplanned interruption means any **interruption** in respect of which less than 24 hours notice, or no notice, was given, either to the public or to all **customers** affected by the **interruption**;

unregulated services means any good or service that is not regulated under Part 4 of the **Act**;

W

WACC means weighted average cost of capital; and

working days has the meaning set out in s 2 of the **Act**.

PART 3 PRICE PATH

3.1 Maximum revenue

Transpower's maximum revenue for each pricing year in RCPI is the **forecast MAR**.

3.2 Transition year

The **forecast MAR** for the transition year is \$x million.

3.3 Remainder period

- (1) By 30 November 2011, the **Commission** will determine the **forecast MAR** for each pricing year of the **remainder period**.
- (2) The **Commission** will determine an appropriate adjustment to each **forecast MAR** determined under clause 3.3(1) on an annual basis, following receipt of information from **Transpower** under clause 5.4.

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3.4 Demonstrating compliance with price path

- (1) In order to comply with the **forecast MAR**, **Transpower** must demonstrate that the forecast revenues that it used for the purpose of setting charges under the transmission pricing methodology (as specified in the **Code**) did not, in aggregate, exceed the **forecast MAR** that applies to the pricing year.
- (2) **Transpower** must comply with clause 3.4(1) by providing the **Commission** with a **directors' certificate** in relation to the application of the **forecast MAR** to the pricing year, in the form set out in Schedule A, at the time it announces the charges referred to in clause 3.4(1).

PART 4 QUALITY STANDARDS

4.1 Quality measures:

- (1) The quality measures for the disclosure years in RCPI are:
 - (a) **loss of supply event** frequency:
 - (i) number of events >0.05 **system minutes**; and
 - (ii) number of events >1 **system minute**; and
 - (b) **HVAC circuit unavailability (unplanned)**; and
 - (c) **HVDC bi-pole unavailability (unplanned)**; and
 - (d) **total duration of interruptions**.

4.2 Quality targets:

- (1) The quality targets for the disclosure year ending 30 June 2012 are:
 - (a) **loss of supply event frequency**:
 - (i) maximum of 21 events >0.05 **system minutes**; and
 - (ii) maximum of 3 events >1 **system minute**; and
 - (b) **HVAC circuit unavailability (unplanned)**: maximum of 0.056% unavailability; and
 - (c) **total duration of interruptions**: maximum of 16.69 **system minutes**.
- (2) The **Commission** will determine the quality targets for the disclosure years in the period from 1 July 2012 to 30 June 2015 by 30 November 2011.

4.3 Quality standards:

- (1) **Transpower** is required to disclose information to the **Commission** regarding the quality of the **electricity lines services** it supplies, in accordance with this clause 4.3.
- (2) The quality standards for the disclosure year ending 30 June 2012 are that **Transpower** must provide to the **Commission**:
 - (a) the information set out in clauses 5.5(1)(a) to (c); and
 - (b) for all **interruptions** over 1 **system minute**, within 5 **working days** of supply being restored, a report that includes:
 - (i) the reason or reasons for the **interruption**; and
 - (ii) **Transpower's** initial response to the **interruption**; and
 - (iii) an estimate of the impact of the **interruption** in **system minutes**.
- (3) The quality standards for the disclosure years in the period 1 July 2012 to 30 June 2015 are that **Transpower** must provide to the **Commission**:
 - (a) the information set out in clauses 5.5(2)(a) to (c); and
 - (b) for all **interruptions** over 1 **system minute**, within 5 **working days** of supply being restored, a report that includes:
 - (i) the reason or reasons for the **interruption**; and
 - (ii) **Transpower's** initial response to the **interruption**; and
 - (iii) an estimate of the impact of the **interruption** in **system minutes**.

PART 5 ANNUAL COMPLIANCE STATEMENT

5.1 Requirement to provide annual compliance statement

- (1) **Transpower** must provide to the **Commission**, no later than the 30th day of September following the end of each disclosure year, an **annual compliance statement**, stating in writing whether **Transpower** has complied in respect of that **disclosure year** with the information requirements, including relevant calculations, set out in this Part 5 in relation to the price path in Part 3 and the quality standards in Part 4.

5.2 Information relating to price path

(1) **Revenues:**

- (a) for each **disclosure year**:
 - (i) the **forecast MAR** for the relevant pricing year; and
 - (ii) the actual **MAR**; and
 - (iii) the update of any **forecast MAR** that is calculated at the end of the **disclosure year**, supported by a listing of **major capex projects** and calculation of the incremental impact of those **projects** on that **forecast MAR**;

in the applicable building block formats in Schedules D and E, supported by sufficient detail to demonstrate that each **forecast MAR**, actual **MAR** or update of a **forecast MAR** has been calculated in accordance with the relevant requirements and definitions set out in this determination; and

- (b) actual **HVAC revenue** for the relevant pricing year; and
- (c) actual **HVDC revenue** for the relevant pricing year.

(2) **Capex:**

- (a) for each **disclosure year**, listing **minor capex** (broken down by each expenditure category in the definition of that term in Part 2) and **major capex** separately, and including:
 - (i) **minor capex** and **major capex commissioned** during the **disclosure year**; and
 - (ii) an explanation of any variation between **minor capex** and **major capex** that was forecast to be **commissioned** during the **disclosure year** and **minor capex** and **major capex** that was **commissioned** during the **disclosure year**; and
- (b) a forecast for each of the remaining **disclosure years** in the period from 1 July 2011 to 30 June 2015, calculated by providing **minor capex** and **major capex** separately, including **minor capex** and **major capex** approved by the **Commission** during the current **disclosure year** that will be **commissioned** during a subsequent **disclosure year**; and
- (c) in the last **annual compliance statement** for the period from 1 July 2011 to 30 June 2015, all relevant material necessary to assess any application within the **annual compliance statement** for ex-post approval of **minor capex** in excess of the aggregate level of approved **minor capex**, including a description in each instance, of why each relevant **project** or **programme**:
 - (i) was unable to be foreseen; and

- (ii) is essential to maintain the security of supply of the **grid**; and
 - (iii) could not be deferred; and
 - (d) for each **disclosure year**, listing assets determined by the **Commission** to be **stranded**;
- (3) **Opex**: for the **disclosure year** (broken down by each expenditure category in the definition of **opex** in Part 2), including:
- (a) actual **opex** during the **disclosure year**; and
 - (b) an explanation of any material variation between **opex** that was forecast for the **disclosure year** and actual **opex** during the **disclosure year**.
- (4) **Ex-post economic gain or loss, HVAC ex-post economic gain or loss, and HVDC ex-post economic gain or loss** for each **disclosure year**, including:
- (a) details of how each **ex-post economic gain or loss** has been calculated in accordance with the building blocks in Schedule E; and
 - (b) the allocation of the resulting **EV account entry** to each of the **EV accounts** for **HVAC customers** and **HVDC customers**; and
 - (c) a reconciliation of the opening and closing balances of the **EV accounts**, including details of the calculation of interest and any other adjustments to the balances of the **EV accounts**; ~~and~~
 - (d) details of any changes implemented by Transpower during the **disclosure year** to its policy of hedging **capex**; and
 - (e) details of all gains and losses in the **disclosure year** that are recorded in the **EV accounts** in respect of any **transaction that ceases to be an effective hedge on capex**;
- (5) **MAR**, for the purposes of the calculation of the **ex-post economic gain or loss** for the disclosure year ending 30 June 2012, calculated using the following values:
- (a) for **opex**, \$248.5 million; and
 - (b) for **minor capex**, the lesser of actual expenditure and \$208.6 million; and
 - (c) any **minor capex** for which ex-post approval from the **Commission** is received following the end of the disclosure year ending on 30 June 2015; and
- (6) **Pass-through costs and recoverable costs** for each **disclosure year**, including:
- (a) reconciliation of the forecast **pass-through costs and recoverable costs**, applied by **Transpower** in setting its **HVAC transmission charges** and **HVDC transmission charges**, and actual **pass-through costs and recoverable costs** for the **disclosure year**; and
 - (b) demonstration of the allocation of any resulting variances between forecast and actual **pass-through costs and recoverable costs** for the **disclosure year** to the **HVAC transmission charges** and **HVDC transmission charges** in the next **relevant pricing year**.

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5.3 Information and calculations relating to EV adjustments

- (1) For the purposes of calculating the **forecast MAR** for each pricing year of the **remainder period**, the **EV account** balances are:
- (a) the **opening EV account balances**; less
 - (b) **EV adjustments** applied to the **transition year forecast MAR**; plus

- (c) forecast interest for each **disclosure year in the period 1 July 2012 to 30 June 2015** on the **opening EV account balances**, in accordance with the interest rate specified in the definition of **EV account**.
- (2) For the purposes of calculating an update of a **forecast MAR** for a **disclosure year** of the **remainder period**, the **EV account** balances are:
- (a) the **EV account** balances, excluding the balances calculated under subclause (1); plus
 - (b) forecast interest for each **disclosure year** of the **remainder period** on the **EV account** balances in subclause (2)(a), in accordance with the interest rate specified in the definition of **EV account**.
- (3) **Transpower** must:
- (a) calculate **EV adjustments** that attribute one-eighth of the balances calculated in subclause (1) to the **forecast MAR** for each **disclosure year** in the **remainder period**;
 - (b) at the end of each **disclosure year**, calculate **EV adjustments** that attribute the balances calculated in subclause (2) in one instalment to the update of the **forecast MAR** for the next **disclosure year** commencing after the time of calculation;
 - (c) gross up the **EV adjustments** applied to the **forecast MAR** for each **disclosure year** in terms of subclauses (3)(a) or (3)(b) to a forecast pre-tax input to the **forecast MAR** calculation using the **corporate tax rate**; and
 - (d) for **commissioned capex** in excess of the level of expenditure approved by the **Commission**, make each **EV account entry** necessary to fully offset the revenue impact of such excess **capex** over the life of the asset:
 - (i) for **major capex**, on an annual basis; and
 - (ii) for **minor capex**, in the **disclosure year that ends on 30 June 2015**.

5.4 Information relating to forecast MAR updates

- (1) **Transition year**: No **MAR** updates apply.
- (2) **Remainder period**:
 - (a) an update to each of the future **forecast MARs** in the **remainder period** in Schedule F, calculated in accordance with the building blocks in Schedule D; and
 - (b) as part of the update under subclause (a), an identification of each **major capex project** that has been approved by the **Commission** if forecast to be **commissioned** during the **period from 1 July 2012 to 30 June 2015**, separately detailing the revenue impact of each **project** on each future **forecast MAR** and the forecast date of **commissioning**.

5.5 Information relating to quality measures and targets

- (1) **Disclosure year ending 30 June 2012**:
 - (a) actual performance for each of the quality measures in clauses 4.1(1)(a)-(d);
 - (b) reasons for any failure to meet the quality targets set out in 4.2(1)(a)-(c);
 - (c) for all **interruptions** over 1 **system minute**, a report that sets out:
 - (i) the reason or reasons for the **interruption**;
 - (ii) **Transpower's** response to the **interruption**;

- (iii) any change to **Transpower's** policies as a result of the **interruption**; and
- (iv) the impact of the **interruption** in **system minutes**.

(2) **Disclosure years in the period 1 July 2012 to 30 June 2015:**

- (a) actual performance for each of the quality measures in clauses 4.1(1)(a)-(d);
- (b) reasons for any failure to meet the quality targets to be set out in 4.2(2);
- (c) for all **interruptions** over 1 **system minute**, provide a report that sets out:
 - (i) the reason or reasons for the **interruption**; and
 - (ii) **Transpower's** response to the **interruption**; and
 - (iii) any change to **Transpower's** policies as a result of the **interruption**; and
 - (iv) the impact of the **interruption** in **system minutes**.

5.6 Information relating to quality incentive mechanism

(1) **Disclosure year ending 30 June 2012:**

- (a) the impact that **Transpower's** actual performance would have had on **Transpower's forecast MAR** under the quality incentive mechanism outlined in clause 5.6(1)(b), had that quality incentive mechanism applied to **Transpower's forecast MAR** in **the pricing years in RCPI**;
- (b) **Transpower** must use the targets, caps, collars and weightings for each quality measure as set out in the following table:

Parameter	Loss of Supply Event Frequency		Availability		Total Duration of Interruptions Total system minutes
	Number of events >0.05 system minutes	Number of events >1.0 system minute	HVAC circuit unavailability (unplanned) %	HVDC bi-pole unavailability (unplanned) %	
Quality measure target	21	3	0.056	Not in RCPI	16.69
Quality measure cap (on rewards for improved performance)	10	1	0.029	Not in RCPI	4.31
Quality measure collar (on penalties for poor performance)	31	5	0.083	Not in RCPI	29.07
Weighting (impact on revenue)	25%	25%	25%	Not in RCPI	25%

5.7 Independent assurance reports and certification requirements

Transpower must provide to the **Commission**, at the same time it provides its **annual compliance statement**:

- (a) a **directors' certificate** in the form set out in Schedule B; and
- (b) an **independent assurance report** in the form set out in Schedule C, which may be qualified only if:
 - (i) the **auditor** considers that the **annual compliance statement** fails to have been prepared, in any material respect, in accordance with this determination; and
 - (ii) the **independent assurance report** explains with full reasons the respects in which the **annual compliance statement** so fails.

SCHEDULE A DIRECTORS' CERTIFICATE - FORECAST MAR CALCULATION

We, [insert full name of first director] and [insert full name of second director], being directors of Transpower New Zealand Limited (Transpower), certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached schedule of forecast total revenues applied in the Transpower transmission pricing methodology under the Electricity Industry Participation Code for the pricing year commencing [insert pricing year] complies with the requirements of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 *[except in the following respects].

*[insert description of non-compliance if applicable]

[Signatures of directors]

[Date]

*Delete if inapplicable.

SCHEDULE B DIRECTORS' CERTIFICATE - ANNUAL COMPLIANCE STATEMENT

We, [insert full name of first director] and [insert full name of second director], being directors of Transpower New Zealand Limited (Transpower), certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached annual compliance statement of Transpower for the period [insert disclosure year] and dated [insert date] complies with the requirements of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 *[except in the following respects].

*[insert description of non-compliance if applicable]

[Signatures of directors]

[Date]

*Delete if inapplicable.

SCHEDULE C INDEPENDENT ASSURANCE REPORT - ANNUAL COMPLIANCE STATEMENT

To the readers of the annual compliance statement of Transpower New Zealand Limited (Transpower) for the disclosure year ended [insert [disclosure year](#) date]:

We have been engaged to provide an independent assurance report on the annual compliance statement in respect of the individual price-quality path prepared by Transpower for the period [insert disclosure year] and dated [insert date] for the purposes of Part 5 of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 (the Determination).

Directors' and Auditor's Responsibilities

Transpower's directors are responsible for the preparation of an annual compliance statement in accordance with the Determination and for such internal controls as the directors determine are necessary to enable the preparation of an annual compliance statement that is free from material misstatement.

We are qualified as an auditor as defined in the Determination. Our responsibility is to express an independent opinion on whether Transpower's annual compliance statement has been prepared in accordance with the Determination.

Basis of opinion

We conducted an assurance engagement in accordance with the framework for Assurance Engagements and the Standard on Assurance Engagements 3100 (SAE 3100) issued by the New Zealand Institute of Chartered Accountants.

The objectives of an assurance engagement carried out under SAE 3100 are to:

- (1) obtain assurance about whether, in all material respects, an entity has complied with requirements contained in legislation, regulation, agreements, contracts or similar, or internally imposed standards, codes or practices; and
- (2) express a conclusion on that compliance in the form of an opinion.

The professional standards require that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance about whether the annual compliance statement is free from material misstatement.

Considering materiality requires that we understand the factors that might influence the decisions of the intended users of the information contained in the annual compliance statement when determining the nature and extent of our evidence-gathering procedures.

An assurance engagement involves performing procedures to obtain appropriate evidence about the amounts and disclosures in the annual compliance statement. The procedures selected depend on judgement, including the assessment of the risks of material misstatement, whether due to fraud, error or other reasons. In evaluating those risks we consider the internal controls that are relevant to Transpower's preparation of the annual compliance statement in order to design assurance procedures that

are appropriate in the circumstances. We do not express an opinion on the effectiveness of Transpower's internal controls.

An assurance engagement also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, if any, by Transpower in preparing the annual compliance statement, as well as evaluating the overall presentation and disclosure in the statement.

In relation to the price path in Part 3 of the Determination, our assurance engagement includes examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [insert page references] of the annual compliance statement.

[Insert description of relevant assurance procedures and sources of data that are applicable to the independent assurance opinion on Part 3 of the Determination].

In relation to the quality standards in Part 4 of the Determination, our assurance engagement includes examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [insert page references] of the annual compliance statement.

[Insert description of relevant assurance procedures and sources of data that are applicable to the independent assurance opinion on Part 4 of the Determination].

Our assurance engagement also includes an assessment of the significant estimates and judgments, if any, made by Transpower in the preparation of the compliance statement and an assessment of whether the basis of preparation has been adequately disclosed.

Opinion

We have obtained all the information and explanations we required to express our opinion.

In our opinion:

- (1) [insert opinion wording in respect of the requirements in Part 5 that are necessary to demonstrate compliance with the price path in Part 3 of the Determination, with modifications as necessary for the Transition Year requirements and reference, if applicable, to relevant information for the Remainder Period] ;
- (2) [insert opinion wording in respect of the requirements in Part 5 that are necessary to demonstrate compliance with the quality standards in Part 4 of the Determination, with modifications as necessary for the Transition Year annual compliance statement and reference, if applicable, to relevant information for the Remainder Period]; and
- (3) the annual compliance statement prepared by Transpower for the disclosure year ending [insert disclosure year date] and dated [insert date], has been prepared and presented, in all material respects, in accordance with the Determination.

***[Qualification on Opinion]**

*[Our opinion is qualified as follows:]

*[Insert the nature of and reason(s) for the qualification together with the impact on the annual compliance statement for the disclosure year].

Our independent assurance engagement was completed on [insert date] and our opinion is expressed as at that date.

[Signature of auditor]

[Name of auditor]

[Name of firm]

[Address of firm]

[Date]

Independence

We have no relationship with, or interests in Transpower other than [insert relationship and/or interests including a statement verifying that no conflict of interest exists].

*Delete if inapplicable.

**SCHEDULE D FORECAST MAXIMUM ALLOWABLE
REVENUE BUILDING BLOCKS**

Building Block	Formula	Description
Average RAB	A	Forecast opening RAB value plus half of the forecast commissioned value of approved capex, as each defined in Part 1 of the IM determination
WACC	B	75th percentile estimate of WACC, as defined in Part 1 of the IM determination, and published in accordance with the cost of capital input methodology in Part 3 Subpart 5 of the IM determination
Capital charge	$C = A \times B$	Average RAB multiplied by WACC, as each described above
Opex cap	D	Opex, as defined in Part 2 of this determination, and as approved by the Commission
Depreciation	E	Forecast depreciation, calculated in accordance with the asset valuation input methodology in Part 3 Subpart 3 of the IM determination
Tax	F	Forecast regulatory tax allowance, as specified in the treatment of taxation input methodology in Part 3 Subpart 4 of the IM determination
EV adjustment	G	EV adjustment, on a grossed up pre-tax basis, as calculated in accordance with Part 5 of this determination
Forecast MAR	$H = C + D + E + F + G$	
Pass-through costs	I	Forecast pass-through costs, as defined in Part 2 of this determination
Recoverable costs	J	Forecast recoverable costs, as defined in Part 2 of this determination
Forecast revenue	$K = H + I + J$	Total forecast revenues used for the purpose of setting charges under the transmission pricing methodology, as specified under Part 3 of this determination

SCHEDULE E ANNUAL WASH-UP OF MAXIMUM ALLOWABLE REVENUE

Building Block	Formula	Description
RAB	A	Opening RAB value, plus the value of commissioned assets that are weighted to take into account the time they are commissioned, with commissioned assets for this purpose defined as applicable in this determination and in Part 1 of the IM determination
WACC	B	75th percentile estimate of WACC, as defined in Part 1 of the IM determination, and published in accordance with the cost of capital input methodology in Part 3 Subpart 5 of the IM determination
Capital charge	$C = A \times B$	RAB multiplied by WACC, as each described above
Operating revenue	D	Total operating revenues, being HVAC and HVDC transmission charges and charges that recover pass-through costs and recoverable costs, as defined in Part 2 of this determination
Opex cap	E	Opex, as defined in Part 2 of this determination, and as approved by the Commission
Depreciation	F	Depreciation, calculated in accordance with the asset valuation input methodology in Part 3 Subpart 3 of the IM determination
Pass-through costs	G	Pass-through costs, as defined in Part 2 of this determination
Recoverable costs	H	Recoverable costs, as defined in Part 2 of this determination
Net operating profit before tax	$I = D - E - F - G - H$	Pretax profit for regulatory purposes
Tax	J	Forecast regulatory tax allowance, as specified in the treatment of taxation input methodology in Part 3 Subpart 4 of the IM determination
Net operating profit after tax	$K = I - J$	After tax profit for regulatory purposes
EV account entry	$L = C - K$	Ex-post economic gain or loss, as defined in Part 2 of this determination

Deleted: being approved minor capex and approved major capex.

SCHEDULE F FORECAST MAXIMUM ALLOWABLE REVENUE

<u>Forecast MAR applied to pricing years in RCPI ending</u>	<u>Forecast MAR calculated based on the disclosure year ending</u>	Initial forecast MAR	First update of forecast MAR	Second update of forecast MAR	Total forecast MAR	Status
<u>31 March 2012</u> (Year 1)	30 June 2012 (transition year)	\$XXX Million	N/A	N/A	\$XXX Million	Clause 3.2(1) of this determination
<u>31 March 2013</u> (Year 2)	30 June 2013 (remainder period)	To be determined November 2011 (A)	N/A	N/A	A	Subject to future determination
<u>31 March 2014</u> (Year 3)	30 June 2014 (remainder period)	To be determined November 2011 (B)	To be determined November 2012 (D)	N/A	B+D	Subject to future determination
<u>31 March 2015</u> (Year 4)	30 June 2015 (remainder period)	To be determined November 2011(C)	To be determined November 2012 (E)	To be updated November 2013 (F)	C+E+F	Subject to future determination

EXPLANATORY NOTE

The purpose of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 ('the Determination') is to set an individual price-quality path for Transpower for the four pricing years beginning 1 April 2011, pursuant to Part 4 of the Commerce Act 1986 ('the Act'). The Determination sets out Transpower's forecast maximum allowable revenue for the first year in the regulatory period from 1 April 2011 – 31 March 2012. The Commission will amend the Determination to set out Transpower's forecast maximum allowable revenue, including approved levels of operating and capital expenditure, for each pricing year of the period 1 April 2012 – 31 March 2015.

The Determination succeeds the administrative settlement between Transpower and the Commission that commenced on 13 May 2008 and that will expire once the Commission has assessed Transpower's final compliance report in respect of the financial year ending on 30 June 2011. The administrative settlement sets out Transpower's maximum allowable revenue in relation to the period to 30 June 2011.

Compliance with the individual price-quality path will be demonstrated by Transpower evidencing that the revenue assumption used for each pricing year to determine its prices under the transmission pricing methodology in the Code, excluding pass through costs and recoverable costs, is not higher than each forecast MAR. The mechanisms that support compliance and accurate calculation of the forecast MAR are set out in this Determination.

This Determination also requires Transpower, pursuant to the Commission's powers under section 53N of the Act, to provide the Commission with an annual compliance statement stating whether it has complied with the individual price-quality path, together with supporting evidence. This statement must be accompanied by both an independent assurance report and a directors' certificate.

The Commission has conducted a comprehensive process of consultation before making this determination. A Reasons Paper providing detailed background to, and analysis of, this determination, has been issued along with this determination, and can be found at:

<http://www.comcom.govt.nz/IndustryRegulation>

Copies of this Determination are available for inspection free of charge at the Commission (during ordinary office hours), on the Commission's website at the above link, or for purchase at a reasonable price at the Commission.