

# **Amendment of Transpower's 2020-2025 individual price-quality path – Enhancement and Development base capex projects**

**Decision paper**

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## Chapter 1 – Summary

1. This paper sets out our decision and reasons for amending Transpower New Zealand Limited’s individual price-quality path (**IPP**) to increase the base capex allowances for the current regulatory period (**RCP3**).
2. In May 2022, Transpower applied to us to reconsider and amend its IPP.<sup>1</sup> Transpower sought an increase in its base capex allowance to include five additional Enhancement and Development base capex projects (**E&D base capex projects**) that have become reasonably likely to commence within RCP3.
3. In December 2022, following consultation on our draft decision, we decided to reconsider Transpower’s IPP allowing Transpower to recover the costs of four additional E&D base capex projects with a provisional forecast value of \$40.6m.<sup>2</sup> This decision to amend the IPP gives effect to our December decision to reconsider the IPP and should be read alongside the December reasons paper.<sup>3</sup>
4. Under the relevant input methodologies,<sup>4</sup> we must first reconsider the IPP, assessing whether there is a qualifying event necessitating a change to the IPP, before determining whether and how the IPP needs to be amended as a result of that reconsideration. In most cases, there is sufficient information for those decisions to be made together. However, in this case, audited forecast values were not available at the time of our decision to reconsider the IPP.<sup>5</sup>
5. We decided to reconsider the IPP based on the provisional forecast values provided by Transpower in its application. However, we signalled in our decision to reconsider the IPP that:<sup>6</sup>

We will make our final decision to amend Transpower’s IPP once we have received the final audited costs from Transpower and assessed these are in line with the estimates.

6. We have now received the audited costs from Transpower. For each of the approved projects, the audited costs do not exceed the provisional forecast values. We have assessed that these do not materially differ from the provisional forecasts. The lower overall cost slightly reduces the recovery of costs by Transpower from consumers

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<sup>1</sup> Commerce Commission *Transpower Individual Price-Quality Path Determination 2020 (as amended) (IPP)*, 14 November 2019. Consolidated version available at [https://comcom.govt.nz/data/assets/pdf\\_file/0031/267448/ConsolidatedTranspower-individual-price-quality-path-determination-2020-7-October-2021.pdf](https://comcom.govt.nz/data/assets/pdf_file/0031/267448/ConsolidatedTranspower-individual-price-quality-path-determination-2020-7-October-2021.pdf).

<sup>2</sup> Commerce Commission *Reconsideration of Transpower’s 2020-2025 Individual price-quality path – enhancement and development base capex projects final decision*, 16 December 2022. Available at [https://comcom.govt.nz/data/assets/pdf\\_file/0024/301983/Transpower-IPP-reconsideration-Final-decision-on-enhancement-and-development-projects-16-December-2022.pdf](https://comcom.govt.nz/data/assets/pdf_file/0024/301983/Transpower-IPP-reconsideration-Final-decision-on-enhancement-and-development-projects-16-December-2022.pdf).

<sup>3</sup> Commerce Commission, above n 2.

<sup>4</sup> Commerce Act (Transpower Input Methodologies) Determination 2010 (as amended) [2012] NZCC 17 (**Transpower IMs**), clauses 3.7.4 and 3.7.5.

<sup>5</sup> Clause 34.1 of the IPP requires Transpower to procure an independent assurance report in respect of a proposal to update the forecast MAR and forecast SMAR.

<sup>6</sup> Commerce Commission, above n 2, at X4.

and is consistent with having incentives to improve efficiency, in the long-term benefit of consumers.

7. Following our decision to reconsider the IPP by approving four additional E&D base capex projects, we are now satisfied that the expenditure forecasts associated with the additional projects are sufficiently reliable and Transpower has met its obligation to supply an independent assurance report in accordance with clause 34.1 of the IPP. Therefore, we have decided to amend the IPP base capex allowances in accordance with those audited forecasts. This is an overall increase in the base capex allowances of \$35.5 million, compared to the \$40.6 million provisional forecast value.

## Chapter 2 – Framework for amending the IPP

9. This chapter sets out the statutory framework for amending Transpower's IPP determination following our reconsideration of the IPP under clause 3.7.4 of the Transpower IMs. For discussion of the framework for reconsidering the IPP, see chapter 2 of the December reasons paper.<sup>7</sup>
10. The Commission determines Transpower's IPP on an ex-ante basis for each regulatory period.<sup>8</sup> Once determined, the IPP may only be reconsidered and amended in limited circumstances. Those circumstances are specified in Subpart 7 of Part 3 of the Transpower IMs.
11. Clause 3.7.5 of the Transpower IMs provides that we may amend the IPP after reconsidering the IPP and determining that the IPP should be amended. Where we decide to amend the IPP, we must not amend the IPP any more than is reasonably necessary to take account of the change in costs arising from the relevant qualifying event – in this case, the E&D base capex projects.
12. In accordance with our statutory functions under Part 4 of the Commerce Act, we exercise our discretion to amend the IPP under clause 3.7.5 by reference to the extent to which an amendment would promote the section 52A purpose of the Act, in the particular circumstances.
13. Further to the requirements under the Transpower IMs, section 52Q of the Commerce Act 1986 provides that we may only amend a section 52P determination, such as the IPP, in a material way after we have consulted with interested parties.

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<sup>7</sup> Above n 2, at chapter 2.

<sup>8</sup> Under section 53M(4)-(5) of the Commerce Act 1986, a regulatory period must be 5 years, but may be shorter than 5 years if we consider this would better meet the section 52A purpose of Part 4.

### Chapter 3 – Reconsideration and amendment of the IPP

14. This chapter sets out our decision to amend the IPP, following reconsideration of the IPP to allow Transpower to recover the costs of four additional E&D base capex projects in December 2022.
15. In our December decision, we decided to reconsider Transpower’s IPP, allowing Transpower to recover the costs of four additional E&D base capex projects with a provisional forecast value of \$40.6m.<sup>9</sup> At the time of that decision, the provisional costs for each of the approved projects was:
  - 15.1 Upper South Island voltage management, Islington reactor \$8.3 m;
  - 15.2 Upper North Island voltage management, Pakuranga reactors \$15.6 m;
  - 15.3 Kawerau substation interconnecting capacity \$10.2 m; and
  - 15.4 Wairakei reactor \$6.5 m.
16. At the time of Transpower’s application and our final decision to reconsider the IPP, Transpower provided provisional forecasts of the costs related to each of the E&D base capex project. However, these forecasts had not been audited as required under clause 34.1 of the IPP. Accordingly, we progressed our *reconsideration* of the IPP (which assesses the E&D base capex projects) using the provisional costs but reserved the resulting decision to *amend* the IPP until we had the benefit of audited forecast costs.
17. We sought submissions and cross-submissions on our draft decision to reconsider the IPP to approve additional E&D base capex projects. Following submissions from Transpower, Mercury Energy, Major Electricity Users’ Group and PowerCo,<sup>10</sup> we decided to reconsider the IPP by approving four out of five of the projects in Transpower’s application.
18. Transpower has now supplied revised costs and an independent assurance report in relation to the approved E&D base capex projects.<sup>11</sup> The audited forecast costs for each of the approved projects is:

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<sup>9</sup> Commerce Commission *Reconsideration of Transpower’s 2020-2025 Individual price-quality path – enhancement and development base capex projects final decision*, 16 December 2022. Available at [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0024/301983/Transpower-IPP-reconsideration-Final-decision-on-enhancement-and-development-projects-16-December-2022.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0024/301983/Transpower-IPP-reconsideration-Final-decision-on-enhancement-and-development-projects-16-December-2022.pdf).

<sup>10</sup> Stakeholder submissions are available on our website <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-transmission/transpowers-price-quality-path/setting-transpowers-price-quality-path-from-2020#projecttab>.

<sup>11</sup> On 1 March 2023, Ernst & Young Limited gave an unqualified reasonable assurance opinion in relation to Transpower’s proposed update of forecast MAR and forecast SMAR in relation to the approved E&D base capex projects. Transpower supplied this independent assurance report to the Commission in accordance with clause 34.1 of the IPP.

- 18.1 Upper South Island voltage management, Islington reactor \$6.7 m (decrease from 8.3 m);
  - 18.2 Upper North Island voltage management, Pakuranga reactors \$13.2 m (decrease from 15.6 m);
  - 18.3 Kawerau substation interconnecting capacity \$10.2 m (no change from \$10.2 m); and
  - 18.4 Wairakei reactor \$5.4 m (decrease from \$6.5 m).
19. In accordance with the process described in our December decision, we have received the final, audited costs from Transpower. We have assessed these costs and consider they are not materially different from the provisional estimates originally supplied by Transpower. Although there are minor variances, the forecast for each project is equal to or lower than the provisional forecast. Overall, the forecast cost is lower at \$35.5 m compared to \$40.6 m.
  20. We consider the audited costs are materially in line with the provisional estimates relied upon when reconsidering the IPP. For completeness, we note that the overall costs are slightly lower than the provisional estimates, which better promotes the long-term benefit of consumers under section 52A of the Act.
  21. In accordance with section 52Q of the Act, we have already consulted on the material aspects of this decision. This process and the stakeholder submissions received are recorded in our December decision. We consider that the changes arising from the audit are not sufficiently material to require additional consultation.
  22. Our decision is to amend the IPP in accordance with the audited figures. A copy of the IPP amendment determination is published together with this decision paper. We are satisfied that this decision to amend the IPP promotes the Part 4 purpose. The additional base capex allowances for the approved E&D base capex projects will provide incentives for Transpower to invest in a timely manner and deliver services at a quality that reflects consumer demands.