

[REVISED DRAFT] Transpower Input Methodologies Amendments Determination 2016

Comment [CB1]: In this document:

- We have not included comments for minor and self-explanatory changes.

- We have not repeated explanatory comments for like changes previously explained.

- Questions and observations not necessarily translating to changes are in blue font.

- The green-highlighted provisions are taken from Appendix A of the consultation paper. Material changes (if any) are marked.

[Technical consultation drafting notes:

- This 'revised draft' amendments determination proposes to amend the Transpower Input Methodologies Determination ('principal determination').
- The included draft amendments were made as a result of our Input Methodologies Review which is aimed to be completed in December 2016 in accordance with s 52Y of the Commerce Act 1986.
- Proposed amendments to the body of the input methodologies determination are marked as track changes.
- The track changes in blue were proposed as part of our draft decision, published on 22 June 2016.
- The track changes in red are now proposed as part of our technical consultation, published on 13 October 2016.]

Commerce Commission
Wellington, New Zealand
[XX] December 2016

Determination history		
Determination date	Decision number	Determination name
29 June 2012	[2012] NZCC 17	Commerce Act (Transpower Input Methodologies) Determination 2010 ('principal determination')*
28 August 2014	[2014] NZCC 22	Transpower Input Methodologies Amendments Determination 2014
26 September 2014	[2014] NZCC 24	Electricity Lines Services Input Methodologies Determination Amendment 2014
29 October 2014	[2014] NZCC 27	Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for price-quality regulation) 2014
27 November 2014	[2014] NZCC 32	Incremental Rolling Incentive Scheme Input Methodology Amendments Determination 2014
27 November 2014	[2014] NZCC 34	Transpower Input Methodologies Amendments Determination 2014 (No. 2)
11 December 2014	[2014] NZCC 38	Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for information disclosure regulation) 2014
5 February 2015	[2015] NZCC 3	Transpower Input Methodologies Amendment Determination 2015
21 October 2015	[2015] NZCC 27	Transpower Input Methodologies Amendment Determination 2015 (No. 2)
[XX] December 2016	[2016] NZCC [XX]	Transpower Input Methodologies Amendments Determination 2016

* The principal determination re-determined the input methodologies contained in the *Commerce Act (Transpower Methodologies) Determination 2010* (Commerce Commission Decision No.713, 22 December 2010), as amended by the *Commerce Act (Transpower Input methodologies) Amendment Determination (No. 1) 2011* (Commerce Commission Decision 736, 1 November 2011). A complete history of determinations relevant to the input methodologies applicable to Transpower is available on the Commission's website.

TRANSPOWER INPUT METHODOLOGIES DETERMINATION

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

PART 1 GENERAL PROVISIONS

1.1.1 Title

This determination is the Transpower Input Methodologies Determination.

1.1.2 Application

- (1) The **input methodologies** in this determination apply to **electricity transmission services**.
- (2) The **input methodologies** in-
 - (a) Part 2 of this determination apply in relation to information disclosure regulation under Part 4 Subpart 4 of the **Act**; and
 - (b) Part 3 of this determination apply in relation to individual price-quality regulation under Part 4 Subpart 7 of the **Act**.
- (3) Amendments to the **input methodologies** in-
 - (a) Part 2, including any amended definitions in clause 1.1.4(2), apply from the first **disclosure year** of **the regulatory period for** each IPP determined after the commencement date described in clause 1.1.3; and
 - (b) Part 3, including any amended definitions in clause 1.1.4(2), apply for an **IPP** in force from 1 April 2020.
- (4) For the avoidance of doubt, if the **Commission** determines that any forecast values are required to be calculated consistent with Part 3 for the determination of an **IPP** that is to come into **force** after the **commencement date described in clause 1.1.3**, the amendments to the **input methodologies** relating to the forecast values in Part 3 and any amended definitions in clause 1.1.4(2) will apply at the time when the **Commission** requires the forecast information.

1.1.3 Commencement Date

This determination comes into force on the day after the date on which notice of it is given in the New Zealand Gazette under **s 52W** of the **Act**.

1.1.4 Interpretation

- (1) In this determination-
 - (a) unless stated otherwise, references to Parts and Subparts are to named and numbered parts and subparts of the determination;
 - (b) references to Subparts are to **S**ubparts within the same **P**art in which the reference is made;
 - (c) **references to legislation or a determination include the legislation or determination as amended from time to time and any subsequent legislation or determination that supplements or replaces it;**

Comment [CB2]: Drafting observations:

- Inconsistent use of “.” and “-” to start lists. Occasionally nothing is used (e.g. clause 2.2.9(1)).
- Inconsistent use of “determine” and “estimate” to describe how certain values are produced (e.g. compare clauses 2.4.1(1) (Commission will determine), 2.4.3 (Commission will estimate) and 2.4.4(3) (Commission will determine an estimate)).
- Awkward phrasing of some definitions and clauses (e.g. definition of “closing RAB value” and clause 2.2.4(1) and (2)).
- “IPP” and “IPP determination” are used more or less interchangeably. “Price path” is also used but is not defined.
- Clause cross-references are 50/50 automatic and not. We have corrected some cross-references but are very unlikely to have caught them all. A thorough clause cross-referencing check is required in due course.

Comment [CB3]: The convention in the determination is that disclosure years relate to regulatory periods and regulatory periods relate to IPPs.

Comment [CB4]: For consistency with subclause (3).

Deleted: effect

Deleted: effective date of this amendments determination

Comment [CB5]: The convention in the determination is to use “s” instead of “section”.

Deleted: ection

Deleted: s

Deleted: p

Comment [A6]: Currently this concept is reflected in some references and definitions, but not all. This allows for references to amending/replacement legislation to be deleted, e.g. in the definitions of “Capex IM” and “prescribed investor rate”.

- (d) unless the context otherwise requires, a word which denotes the singular also denotes the plural and vice versa; and
- (e) unless stated otherwise, any reference to an allowance, amount, cost, sum or value is a reference to an allowance, amount, cost, sum or value calculated in relation to **Transpower** in respect of a **disclosure year**.

(2) In this determination, including in the schedule, the words or phrases in bold type bear the following meanings:

2011 thresholds regulatory asset base means the regulatory asset base as defined in the **thresholds notice** as of 30 June 2011;

A

Act means the Commerce Act 1986;

actual opex has the meaning specified in clause 3.6.3(8);

adjustment to the opex incentive means the amount calculated in accordance with clause 3.6.4(1);

amount carried forward means, for any given **disclosure year**, the amount determined in accordance with clause 3.6.3;

auditor means-

- (a) whilst **Transpower** is a public entity (as defined in s 4 of the Public Audit Act 2001), the Auditor-General; and
- (b) where paragraph (a) does not apply, a **person** who is-
 - (i) qualified for appointment as an auditor of a company under the Companies Act 1993; and
 - (ii) **independent**;

average debt premium has the meaning specified in, and is the amount determined in accordance with, **clause 2.4.4(1)**;

B

base capex has the same meaning as defined in the **Capex IM**;

Comment [CB7]: Definitions not used.

Deleted: 67th percentile estimate of WACC means an estimate made for the purpose of-¶
 <#>Part 2, in accordance with clause 2.4.5(5)(b), of the 67th percentile for the post-tax **mid-point estimate of WACC**; ¶
 <#>Part 3, in accordance with clause 3.5.5(2)(b), of the 67th percentile for the **mid-point estimate of WACC**; and¶
 <#>Part 3, in accordance with clause 3.5.5(3)(b), of the 67th percentile for the **midpoint estimate of WACC**; ¶
75th percentile estimate of WACC . means an estimate, made in accordance with clause 2.4.5(3)(b)(ii), and ...

Deleted: ¶

Comment [CB8]: This definition is only used in clause 3.6.6. Clause 3.6.6 is no longer required because it only relates to ...

Deleted: actual controllable opex means, in relation to ...

Deleted: ¶

Comment [CB9]: Only used in deleted clause 3.6.6.

Deleted: allowed controllable opex . means the allowance ...

Deleted: ¶

Deleted: for the purpose of

Comment [CB10]: We have proposed aligning the Part 3 WACC with the Part 2 ...

Deleted: <#>Part 2 clause []; and ¶ <#>Part 3, clause []

Deleted: <#>¶

Deleted: given

Comment [CB11]: For consistency with all other definitions referring to other documents.

business day	means any day on which statistics relating to trading in New Zealand government bonds are published by a financial information service such as Bloomberg or Reuters;
C	
cap	has the same meaning as defined in the Capex IM ;
Capex IM	means any input methodology determined under s 54 S of the Act ; <i>Example: a reference to “the Capex IM” means the Capex IM that is current at the time the reference is to be applied;</i>
capital expenditure	means costs that- (a) have been incurred in the acquisition or development of an asset that is, or is intended to be, commissioned ; and (b) are intended to be included in the value of commissioned asset ;
catastrophic event	has the meaning specified in clause 3.7.1;
change event	has the meaning specified in clause 3.7.2;
closing RAB value	means the value determined in accordance with, for the purpose of- (a) Part 2, clause 2.2.3(4); and (b) Part 3, clause 2.2.3(4) as modified pursuant to clause 3.3.1;
collar	has the same meaning as defined in the Capex IM ;
Commission	has the same meaning as defined in s 2 of the Act ;

Comment [CB12]: For consistency with the definitions of “ID determination” and “IPP determination”.

Deleted: the Transpower Capital Expenditure Input Methodology Determination [2012] NZCC 2,

Deleted: as amended

Comment [CB13]: This term is already defined in the Capex IM. Is there a reason why the Capex IM definition cannot be referred to? A consequence of not using the Capex IM definition is that non-transmission solution costs are not included as capital expenditure for the purposes of this determination. Is that intended? Either way, it is undesirable to have different meanings for the same term within the same regulatory regime.

Deleted:

commissioned

means used by **Transpower** to provide **electricity transmission services**, save that in relation to-

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

'commissioned' means acquired by **Transpower** where –

- (c) the **land** or **easement** is **base capex**, or
- (d) the acquisition was approved by the–
 - (i) **Electricity Commission** under Part F of the Electricity Governance Rules 2003;
 - (ii) **Commission** under s 54R(3)(b) of the **Act**; or
 - (iii) **Commission** in accordance with a **Capex IM**;

and **commission** shall be construed accordingly;

commissioning date

means the date that an asset is first **commissioned**;

corporate tax rate

means the rate of income taxation applying to companies as specified in the **tax rules**;

cost of debt

means the amount specified for r_d in clause 2.4.1(3);

D

debt issuance cost

includes a fee or premium incurred in entering into an interest rate or cross-currency derivative;

debt premium

has the meaning specified in z and is the amount determined in accordance with, **clause 2.4.4(3)**;

depreciation

in relation to a **disclosure year**, means the allowance for that **disclosure year** to

Comment [CB14]: Using defined term.

Deleted: an input methodology determined pursuant to s 54S of the **Act**

Deleted: ,

Deleted: 'commission'

Comment [CB15]: This term is defined in the Capex IM. We note that if this definition is changed to refer to the Capex IM definition then the odd result would be that the Capex IM takes its meaning of "commissioned" from this determination and this determination takes its meaning of "commissioning date" from the Capex IM. This is perhaps an issue that needs to be resolved when the Capex IM is reviewed.

Comment [CB16]: Used in the definition of "operating cost". See comment on that definition.

Deleted: for the purpose of-

Deleted: <#>Part 2, clause 2.4.4; and¶¶ <#>Part 3, clause 3.5.4;¶¶

disclosure year

account for the diminution in an asset's remaining service life potential in the **disclosure year** in question determined in accordance with clause 2.2.4(2);
 means a 12 month period ending on 30 June;

Deleted: with

Example: 'disclosure year 2012' means 12 month period ending on 30 June 2012;

Example: a reference to the nth disclosure year of a regulatory period means the nth disclosure year commencing in that regulatory period. The first disclosure year of a regulatory period will commence after the start of the regulatory period and the last disclosure year of a regulatory period will end after the end of the regulatory period;

disposed asset

means an asset that, in the **disclosure year** in question, has been sold or transferred, or has been irrecoverably removed from the **Transpower's** possession without consent, but is not a **lost asset**;

Comment [CB17]: Because a disclosure year starts and ends on a different date than a regulatory period we think this example is needed to clarify what is meant by the first, second etc. disclosure year of a regulatory period.

document

has the same meaning as defined in s 2 of the **Act**;

E

easement

means a right to use but not **exclusively** possess **land** belonging to another **person** or a right to prevent certain uses of another **person's land**;

Comment [CB18]: Easements typically do give a right of possession, just not exclusive possession.

Query whether this definition also capture leases and licences of land. The former provides exclusive possession and the latter may also.

easement land

means **land** acquired with the intention of-

- (a) creating an **easement** in respect of it; and
- (b) disposing of the **land** thereafter;

Deleted: person

Comment [CB19]: "Person" is now a defined term but was not consistently bolded in the document.

Deleted: person's

EDB	has the same meaning as defined in the Commerce Act (Electricity Distribution Input Methodologies) Determination 2010;
Electricity Authority	means the authority established under s 12 of the Electricity Industry Act 2010;
Electricity Commission	means the same body as the Electricity Governance Board established under s 172M of the Electricity Act 1992 as in force immediately before its substitution by s 14 of the Electricity Amendment Act 2004;
electricity transmission services	means electricity lines services (as 'electricity lines services' is defined in s 54C of the Act) supplied by Transpower ;
engineer	means an individual who is- <ul style="list-style-type: none"> (a) a chartered professional engineer as defined in s 6 of the Chartered Professional Engineers of New Zealand Act 2002; (b) acting in that professional capacity; and (c) independent;
error event	has the meaning specified in clause 3.7.3(1);
EV adjustment	has the meaning specified in clause 3.7.4(6);
excluded asset	means an asset that is- <ul style="list-style-type: none"> (a) not used to supply electricity transmission services as on the last day of the disclosure year 2011; or (b) easement land;
F	
finance lease	has the same meaning as under GAAP ;
fixed life easement	means an easement that- <ul style="list-style-type: none"> (a) is of fixed duration; or

	(b) whilst of indefinite duration, is to be held for a fixed period;
forecast MAR	has the same meaning as defined in the IPP determination ;
forecast opex	has the meaning specified in clause 3.6.3(7);
found asset	has the meaning specified in clause 2.2.8(1);
G	
GAAP	means generally accepted accounting practice in New Zealand, save that, where the cost of an asset is being determined in accordance with this determination, only the cost model of recognition is applied, insofar as an election may be made between the cost model of recognition and the fair value model of recognition;
GPB	means GDB or GTB, as- <ul style="list-style-type: none"> (a) 'GDB' is defined in the Commerce Act (Gas Distribution Input Methodologies) Determination 2010; and (b) 'GTB' is defined in the Commerce Act (Gas Transmission Input Methodologies) Determination 2010;
grid output	has the same meaning as defined in the Capex IM ;
grid output incentive rate	has the same meaning as defined in the Capex IM ;
grid output measure	has the same meaning as defined in the Capex IM ;
grid output target	has the same meaning as defined in the Capex IM ;

Comment [CB20]: Definition not used.

Comment [CB21]: This needs to be the IPP determination that applies at the relevant time, not *any* IPP determination. The examples added to the definitions of "IPP" and "IPP determination" explain what "the" IPP/IPP determination is. The same example has been added to the definitions of "ID determination" and "Capex IM".

Deleted: forecast CPI has the same meaning as defined in the **Capex IM**;

Deleted: ¶

Deleted: an

Comment [CB22]: Used but not defined.

Comment [CB23]: Used but not defined.

ID determination means any information disclosure determination in relation to **Transpower** under s 52P of the Act;

Example: a reference to “the ID determination” means the ID determination that is current at the time the reference is to be applied;

Comment [CB24]: Redundant. All determinations are made by the Commission.

Deleted: made by the Commission

identifiable non-monetary asset has the same meaning as under GAAP save that goodwill is excluded;

incremental adjustment term means, for the **disclosure year 2016**, the amount determined in accordance with clause 3.6.6(4) of this determination before its amendment by the *Transpower Input Methodologies Amendments Determination [2016]*;

incremental change means, for a **disclosure year of RCP1**, the amount determined for the **disclosure year** in accordance with subclause (1), (2) or (3) of clause 3.6.6 of this determination before its amendment by the *Transpower Input Methodologies Amendments Determination [2016]*;

independent means neither in a relationship with, nor having an interest in, **Transpower** that is likely to involve him, her or it in a conflict of interest between his, her or its duties to **Transpower** and his, her or its duties to the **Commission**;

Comment [A25]: There are many provisions relating to the calculation of these amounts (old clause 3.6.6) that are no longer required because the amounts have already been calculated. Those clauses can be collapsed into these definitions.

inflation rate has the meaning *that was* specified in clause 3.6.6(5) *of this determination immediately before its amendment by the Transpower Input Methodologies Amendments Determination [2016]*;

Comment [CB26]: See comment on “incremental adjustment term” and “incremental change”.

initial RAB has the meaning specified in clause 2.2.1;

initial RAB value means value of an asset in the **initial RAB** determined in accordance with clause 2.2.2;

input methodology

has the same meaning as defined in s 52C of the **Act**;

investment grade credit rated

means endorsed with a credit rating by an established credit rating agency (such as Standard and Poor's) of "investment grade" on that agency's credit rating scale applicable to long-term investments;

IPP

means **Transpower's** individual price-quality path;

Comment [CB27]: And not anyone else's.

Example: a reference to "the IPP" means the IPP that is current at the time the reference is to be applied;

IPP determination

means any **IPP** determination under s 52P of the **Act**;

Comment [CB28]: Using the defined term.

Comment [CB29]: Redundant given the change to the definition of "IPP".

Example: a reference to "the IPP determination" means the IPP determination that is current at the time the reference is to be applied;

Deleted: individual price-quality

Deleted:

Deleted: applying to Transpower

Deleted: made by the Commission

L

land

excludes-

- (a) buildings; and
- (b) **easements**;

leverage

means the ratio of debt capital to total capital and, **is the amount specified in clause 2.4.2(1)**;

Deleted: for the purpose of-

listed project

has the same meaning as defined in the **Capex IM**;

Deleted: <#>Part 2, is the amount specified in clause 2.4.2(1); and ¶ <#>Part 3, is the amount specified in clause 1.1.1(1)3.5.2(1); ¶

local authority

has the same meaning as defined in s 5(1) of the Local Government Act 2002;

lost asset

means an asset-

- (a) not included in the **initial RAB**; and
- (b) having, in relation to the **disclosure year in question**, an **unallocated opening RAB value**,

Deleted: in question

but determined by **Transpower** in that **disclosure year** never to have been used to provide **electricity transmission services**;

M

major capex

has the same meaning as defined in the **Capex IM**;

major capex allowance

has the same meaning as defined in the **Capex IM**;

major capex project

has the same meaning as defined in the **Capex IM**;

mid-point estimate of WACC

means the mid-point estimate of-
 (a) vanilla WACC; or
 (b) post-tax WACC,

Deleted: , for the purpose of

Deleted: <#>Part 2, the mid-point estimate of-¶

as the case may be, as each is estimated in accordance with clause 2.4.1;

Deleted: and

multi-rate PIE

has the same meaning as defined in s YA 1 of the Income Tax Act 2007;

Deleted: <#>Part 3, the mid-point estimate of-¶
 <#>vanilla WACC, or¶
 <#>post-tax WACC, ¶
 as the case may be, as each is estimated in accordance with clause 3.5.1; ¶

N

Nelson-Siegel-Svensson approach

has the meaning specified in clause 2.4.4(8);

network spare

means an asset that is held by **Transpower** to replace any other asset it holds should that other asset be withdrawn from use owing to failure or damage;

Deleted: 6

new investment contract

means a contract for the provision of new **electricity transmission services** between **Transpower** and another person in respect of which-

Deleted: person

(a) the other person has agreed in writing (whether in the same contract or not) that the terms and conditions of the contact-

Deleted: person

- (i) are reasonable; or
- (ii) reflect workable or effective competition for

the provision of the **electricity transmission services**; or

- (b) **Transpower** demonstrates beyond a reasonable doubt that the terms and conditions of the contract were determined following a process that provided opportunities for-
 - (i) **Transpower's** affected customers to make or approve reasonable price-quality trade-offs; and
 - (ii) the competitive provision of new **electricity transmission services** by parties other than **Transpower**;

Comment [CB30]: We assume this is referring to Transpower's customers and not anyone else's.

O

opening RAB value

means the value determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.2.3(3); and
- (b) Part 3, clause 2.2.3(3) as modified pursuant to clause 3.3.1;

Comment [CB31]: Only used in deleted clause 3.6.6.

Deleted: opening year
 means in respect of- ¶
 <#>RCP1, second disclosure year of RCP1; and ¶
 <#>regulatory periods after RCP1, first disclosure year commencing in the regulatory period;

Deleted: <#>¶

operating cost

means a cost incurred by **Transpower** relating to the **supply of electricity transmission services**, **including a debt issuance cost but excluding-**

- (a) a cost that is treated as a cost of an asset by **GAAP**;
- (b) amounts that are depreciation, tax, subvention payments, revaluations or an interest expense **that is not a debt issuance cost**, in accordance with their meanings under **GAAP**;
- (c) **pass-through costs**; and
- (d) **recoverable costs**;

Comment [CB32]: We think it should be stated that debt issuance costs are now treated as operating costs. Without this acknowledgement the exclusion of debt issuance costs from the WACC calculation could be interpreted as an intention to make the costs unrecoverable.

Deleted: and

Deleted: es

Comment [CB33]: Some debt issuance costs may be calculated based on interest rates but not themselves be interest expenses.

Deleted: and

operating expenditure	means operating costs after application of clause 3.2.1;
opex incentive amount	means the amount determined in accordance with clause 3.6.2(1);

P

pass-through cost	has the meaning specified in clause 3.1.2;
person	has the same meaning as defined in s 2 of the Act ;
physical asset life	has the meaning specified in clause 2.2.6;
prescribed investor rate	has the same meaning as defined in s YA 1 of the Income Tax Act 2007 ;

programme means a group of related **projects** with a common purpose;

project means a temporary endeavour requiring concerted effort, undertaken to create defined outcomes;

Comment [CB34]: For consistency with definition of "multi-rate PIE".

Deleted: or any subsequent legislation that supplements or replaces the provisions relating to prescribed investor rate in the Income Tax Act 2007

Deleted: a

Comment [CB35]: These terms are defined in the Capex IM. "Programme" is defined differently in the Capex IM. The slight change to the definition of "project" is to make it consistent with the Capex IM definition.

Q

qualifying debt	has the meaning specified in clause 2.4.7;
qualifying issuer	means a New Zealand resident limited liability company- <ul style="list-style-type: none"> (a) that- <ul style="list-style-type: none"> (i) undertakes the majority of its business activities in Australia and New Zealand; or (ii) is part of a corporate group that undertakes the majority of its business activities in Australia and New Zealand; (b) that- <ul style="list-style-type: none"> (i) does not operate predominantly in the

	<ul style="list-style-type: none"> (ii) banking or finance industries; or (ii) is part of a corporate group that does not operate predominantly in the banking or finance industries; and (c) that issues vanilla NZ\$ denominated bonds that are publicly traded;
qualifying rating	<p>means-</p> <ul style="list-style-type: none"> (a) a Standard and Poor's long term credit rating of the specified grade; or (b) an equivalent long term credit rating of another internationally recognised rating agency;
quality standard	<p>includes a grid-output measure (whether or not a revenue-linked grid output measure), cap, collar, grid output incentive rate and grid output target;</p>
	<p>R</p>
RCP1	<p>means the regulatory period commencing on 1 April 2011 and ending on 31 March 2015;</p>
RCP1 psuedo asset	<p>means the asset calculated in accordance with clause 2.2.9(2);</p>
recoverable cost	<p>has the meaning specified in clause 3.1.3;</p>
regulated goods or services	<p>has the same meaning as defined in s 52C of the Act;</p>
regulated supplier	<p>means a supplier of regulated goods or services;</p>
regulatory period	<p>means the period to which an IPP determination relates;</p>
regulatory tax asset value	<p>has the meaning specified in clause 2.3.2(1);</p>

Comment [CB36]: Clarifying what a "quality standard" includes for the purposes of Subpart 7 of Part 3.

Deleted:

related party

means-

- (a) a **person** that, in accordance with **GAAP**, is related to **Transpower**, other than as a result of **Transpower** being a crown-owned entity; or
- (b) any part of **Transpower** that does not **supply electricity transmission services**;

Deleted: a

remaining asset life

means the term remaining of an asset's **physical asset life**, for the purposes of:

- (a) clauses 2.2.4(1)(a) and 2.2.4(2)(a), at the commencement of the **disclosure year** in question;
- (b) clauses 2.2.4(1)(b) and 2.2.4(2)(b), at the asset's **commissioning date**;

Deleted: clauses

revenue-linked grid output measure

has the same meaning as defined in the **Capex IM**;

S

services

has the same meaning as defined in s 2 of the **Act**;

standard physical asset life

means life for an asset as specified in Schedule A;

Comment [CB37]: Definition not used.

supply

has the same meaning as defined in s 2 of the **Act**, and **supplied** must be construed accordingly;

Deleted: standard error means estimated standard deviation;

Deleted: ¶

system operator

has the same meaning as defined in s 5 of the Electricity Industry Act 2010;

T

tax rules

means the rules applicable to **Transpower** for determining income tax payable in the Income Tax Act 2007, and any equivalent preceding legislation;

Deleted: (as amended from time to time,

term credit spread difference

means the amount determined in accordance with clause 2.4.8;

Deleted: , or any subsequent legislation that supplements or replaces that Act)

term credit spread differential	means the amount determined in accordance with clause 2.4.9 ;
term credit spread differential allowance	means the sum of term credit spread differentials ;
thresholds notice	means the Commerce Act (Transpower Thresholds) Notice 2008;
Transpower	has the same meaning as defined in s 54B of the Act ;

Deleted: , for the purpose of-

Deleted: <#>Part 2, clause 2.4.9; and¶
<#>Part 3, clause 3.5.8;¶

U

unallocated closing RAB value	means the value determined in accordance with clause 2.2.3(2);
unallocated depreciation	means an allowance to account for the diminution in an asset's remaining service life potential in the disclosure year in question determined in accordance with clause 2.2.4(1);
unallocated initial RAB value	means value of an asset in the initial RAB determined in accordance with clause 2.2.2(1);
unallocated opening RAB value	means the value determined in accordance with clause 2.2.3(1);

V

value of commissioned asset	means the value determined in accordance with clause 2.2.7;
value of found asset	means the value determined in accordance with clause 2.2.8(2);
valuer	means an individual who- <ul style="list-style-type: none"> (a) is registered as a valuer under the Valuers Act 1948; (b) holds a current practising certificate issued by- <ul style="list-style-type: none"> (i) the Property Institute of New Zealand; or (ii) the New Zealand Institute of Valuers;

	(c) has been engaged to act in his or her professional capacity as a valuer; and
	(d) is independent ;
vanilla NZ\$ denominated bonds	means senior unsecured nominal debt obligations denominated in New Zealand dollars without callable, puttable, conversion, profit participation, credit enhancement or collateral features;

W

WACC	means weighted average cost of capital;
works under construction	means an asset, or a collection of assets that- <ul style="list-style-type: none"> (a) has been or is being constructed by, or on behalf of, Transpower; (b) has not been commissioned; and (c) Transpower intends to commission.

PART 2 INPUT METHODOLOGIES FOR INFORMATION DISCLOSURE

SUBPART 1 Cost allocation

2.1.1 Cost allocation process

(1) For the purpose of any requirement in the ID determination to disclose-

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- (a) asset values;
- (b) **capital expenditure**; or
- (c) **operating costs**,

amounts or values thereof allocated to activities undertaken by **Transpower** to **supply electricity transmission services** other than **system operator** services must be net of amounts implicitly or explicitly recoverable by **Transpower** in respect of its **supply of system operator** services pursuant to any agreement in respect of such services between **Transpower** and the **Electricity Authority**.

(2) For the purpose of subclause (1), 'asset value' means, in respect of an asset used by **Transpower** in the **supply of electricity transmission services**, in-

Deleted: In this clause

- (a) the disclosure year 2011, its unallocated initial RAB value; and
- (b) all other **disclosure years**, its **unallocated closing RAB value**.

Comment [CB38]: Query whether there is still an obligation to disclose asset values for disclosure year 2011. If not then this subclause can be deleted.

SUBPART 2 Asset valuation

2.2.1 Composition of initial RAB

Initial RAB means assets included in the **2011 thresholds regulatory asset base**, less-

- (a) **excluded assets**;
- (b) intangible assets, unless they are-
 - (i) **finance leases**; or
 - (ii) **identifiable non-monetary assets**; and
- (c) **works under construction**.

2.2.2 Initial RAB values for assets

- (1) Subject to subclause (2), the unallocated initial RAB value of an asset is its value determined as of 30 June 2011 in accordance with the **thresholds notice**.
- (2) For the purpose of subclause (1), where an asset is used by **Transpower** in the **supply of system operator** services, the unallocated initial RAB value is the value of the asset had no allocation of asset value relevant to the **thresholds notice** been undertaken.
- (3) The initial RAB value of an asset is determined as the value allocated to **electricity transmission services** as a result of-
 - (a) adopting its **unallocated initial RAB value**; and
 - (b) applying clause 2.1.1 to it.

2.2.3 RAB roll forward

- (1) Unallocated opening RAB value in respect of an asset in relation to-
- the **disclosure year 2012**, is its **unallocated initial RAB value**; and
 - a **disclosure year** thereafter, is its **unallocated closing RAB value** in the preceding **disclosure year**.
- (2) Unallocated closing RAB value means, in the case of-
- a **found asset**, its **value of found asset**;
 - a **disposed asset**, nil;
 - a **lost asset**, nil;
 - any other asset with an **unallocated opening RAB value**, the value determined in accordance with the formula-

unallocated opening RAB value - unallocated depreciation;
 - an asset to which clause 2.2.7(4)(b)(i) applies, the result of the formula in paragraph (d), increased by the amount of expenditure described in clause 2.2.7(4)(b)(i) in the **disclosure year** in question; and
 - any other asset having a **commissioning date** in the **disclosure year** in question, the value determined in accordance with the formula-

value of commissioned asset – unallocated depreciation.
- (3) Opening RAB value in respect of an asset, is, for-
- the **disclosure year 2012**, its **initial RAB value**; and
 - a **disclosure year** thereafter, its **closing RAB value** in the preceding **disclosure year**.
- (4) Closing RAB value, in respect of an asset, is determined as the value allocated to **electricity transmission services** by-
- adopting its **unallocated closing RAB value**; and
 - applying 2.1.1 to it.

2.2.4 Depreciation

- (1) Unallocated depreciation is determined, subject to subclause (3) and clause 2.2.5, in accordance with the formula, in the case of –
- an asset with an unallocated opening RAB value –
 $[1 \div \text{remaining asset life}] \times \text{unallocated opening RAB value}$; and
 - an asset having a **commissioning date** in the **disclosure year** in question –
 $[1 \div \text{remaining asset life}] \times \text{unallocated opening RAB value} \times \text{the fraction of the disclosure year from the commissioning date to the last day of the disclosure year}$.
- (2) Depreciation is determined, subject to subclause (3)(a), in accordance with the formula, in the case of-

- (a) an asset with an unallocated opening RAB value –
 $[1 \div \text{remaining asset life}] \times \text{opening RAB value}$; and
 - (b) an asset having a **commissioning date** in the **disclosure year** in question –
 $[1 \div \text{remaining asset life}]$
 \times
value allocated to electricity transmission services by adopting the value of commissioned asset and applying clause 2.1.1 to it as if it were an asset value
 \times
the fraction of the disclosure year from the commissioning date to the last day of the disclosure year.
- (3) For the purposes of subclauses (1) and (2)-
- (a) unallocated depreciation and depreciation are nil in the case of-
 - (i) **land**;
 - (ii) an **easement** other than a **fixed life easement**; and
 - (iii) a **network spare** in respect of the period before which depreciation for the **network spare** in question commences under **GAAP**; and
 - (b) in all other cases, where an asset's **physical asset life** at the end of the **disclosure year** is nil-
 - (i) unallocated depreciation is the asset's **unallocated opening RAB value**; and
 - (ii) depreciation is the asset's **opening RAB value**.

2.2.5 Unallocated depreciation constraint

- (1) For the purpose of clause 2.2.4, and subject to subclause (2), the sum of **unallocated depreciation** of an asset calculated over its **physical asset life** may not exceed, in the case of an asset-
- (a) in the **initial RAB**, its **unallocated initial RAB value**; or
 - (b) not in the **initial RAB**, its **value of commissioned asset** or **value of found asset**.
- (2) For the purpose of subclause (1), the sum of increases to which clause 2.2.3(2)(e) refers for all **disclosure years** is treated as an increase in the **value of commissioned asset** of the asset in question.

2.2.6 Physical asset life

- (1) Physical asset life means a finite period relating to an asset, being, in the case of-
- (a) a **fixed life easement**, the fixed duration or fixed period (as the case may be) referred to in the definition of **fixed life easement**;
 - (b) a dedicated asset which is not expected to be used by **Transpower** to provide **electricity transmission services** beyond the term of the fixed

- term agreement relating to the asset between **Transpower** and the customer, at **Transpower's** election, the term of that agreement;
- (c) an extended life asset or a refurbished asset, its physical service life potential as determined by **Transpower**;
 - (d) a stranded asset, the service life potential specified by the **Commission**;
 - (e) a reduced life asset, its physical service life potential determined by an **engineer**, subject to subclause (2);
 - (f) a **found asset** for which a similar asset exists as described in subclause 2.2.8(2)(b)(i), the asset life applying to the similar asset;
 - (g) the HVAC lines pseudo asset described in Schedule 1, clause 3(4)(d) of the **thresholds notice**, five years from 1 July 2011;
 - (h) a non-network asset, its asset life as determined under **GAAP**;
 - (i) an asset acquired or transferred from a **regulated supplier**, the asset life that the vendor would have assigned to the asset at the end of its **disclosure year** had the asset not been transferred;
 - (j) an asset not referred to in paragraphs (a) to (i)-
 - (i) having a **standard physical asset life**, its **standard physical asset life**;
 - (ii) not having a **standard physical asset life**, if there is a similar physical asset in terms of asset type with an **unallocated opening RAB value**, the physical asset life of that similar physical asset; and
 - (iii) in all other cases, its physical service life potential determined by an **engineer**, subject to subclause (2);
 - (k) a composite asset, the average asset life of the assets comprising it determined in accordance with paragraphs (a) to (j), with the modification that each such asset life must be weighted with respect to the proportion of its respective **opening RAB value** to the sum of the **opening RAB values** of the components in the earliest **disclosure year** in which all component assets were held by **Transpower**; and
 - (l) the **RCP1 pseudo asset**, 31 years.
- (2) For the purposes of subclauses (1)(e) and (1)(j)(iii), a determination of physical service life potential made by an **engineer**-
- (a) in relation to an asset with an **unallocated opening RAB value** is deemed applicable to all assets of similar asset type for which there is a requirement in this clause for an **engineer's** determination of physical service life potential; and
 - (b) must be evidenced by a report written by that **engineer** that includes an acknowledgement that the report may be publicly disclosed by **Transpower** pursuant to **the ID determination**.
- (3) In this clause-
- (a) 'dedicated asset' means an asset operated for the benefit of a particular customer pursuant to a fixed term agreement for the **supply** of

Comment [CB39]: Query whether another regulated supplier will always have the same disclosure year as Transpower, as implied by the bolding of "disclosure year" in this subclause.

To some extent clause 2.2.7(1)(f) is equivalent to this subclause but is drafted in a different way.

Comment [CB40]: We do not think this paragraph is required because it duplicates paragraph (k). There is not much substantive difference between the paragraphs apart from the absence of a reference to "standard asset life" in this paragraph. It is not clear why the standard asset lives are not relevant under this paragraph.

Deleted: <#>an asset acquired or transferred from an entity other than a **regulated supplier**:¶
<#>where a similar asset exists, the asset life assigned to the similar asset; or¶
<#>where a similar asset does not exist, the physical service life potential determined by an **engineer**, subject to subclause (2);¶

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Comment [CB41]: If proposed subclause (j) is retained then this subclause will also need to cross-refer to paragraph (ii) of that subclause (relating to engineer determination).

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electricity transmission services between **Transpower** and that customer;

- (b) 'extended life asset' means an asset whose physical service life potential is greater than its **standard physical asset life**;
- (c) 'refurbished asset' means an asset on which work (other than maintenance) has been carried out resulting in an extension to its physical service life potential;
- (d) 'reduced life asset' means an asset determined by **Transpower** to have a physical service life potential shorter than its **standard physical asset life**;
- (e) 'stranded asset' means an asset-
 - (i) that has an **opening RAB value**; and
 - (ii) in respect of which, on application by **Transpower** and in accordance with any process for the purpose specified in **the IPP determination**, the **Commission** has determined a service life potential shorter than its **standard physical asset life**; and
- (f) 'composite asset' means a configuration of two or more assets that is not capable of operation in the absence of any of those assets.

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2.2.7 Value of commissioned assets

- (1) Value of commissioned asset, in relation to an asset, is the cost of the asset to **Transpower** determined by applying **GAAP** to the asset as on its **commissioning date**, except that the cost of-
 - (a) an intangible asset, unless it is-
 - (i) a **finance lease**; or
 - (ii) an **identifiable non-monetary asset**,
 is nil;
 - (b) an **easement** created by **Transpower** in respect of **easement land**, is limited to the sum of-
 - (i) legal and administrative costs incurred by **Transpower** in relation to the **easement's** creation;
 - (ii) compensation, determined by a **valuer**, for any amount that would otherwise have been paid by **Transpower** on arm's-length terms to a third party owner of **easement land** as compensation for the permanent and material reduction in the value of the **land** or disruption, on account of the **easement's** creation; and
 - (iii) the cost of financing the purchase of the **easement land**, determined in respect of the period on and from the date of acquisition until the **easement's** creation,

where any gain or loss made by **Transpower** on the sale or disposal of the **easement land** is ignored;

- (c) **easement land**, is nil;
- (d) an asset used in providing **electricity transmission services** pursuant to a **new investment contract**, is nil;
- (e) a **network spare** whose cost is not treated wholly as or part of the cost of an asset under **GAAP**, is nil;
- (f) an asset-
 - (i) acquired from another **regulated supplier**; and
 - (ii) used by that **regulated supplier** in the **supply of regulated goods or services**,

is limited to the unallocated closing RAB value of the asset that would have applied for the other **regulated supplier**, had the asset not been acquired by **Transpower** in the period when the asset was transferred (as 'unallocated closing RAB value' is defined in the **input methodologies** applying to the **supply of regulated goods or services** by the other **regulated supplier**);

Comment [CB42]: Query what period this refers to.

- (g) an asset that was previously used by **Transpower** in its **supply of other regulated goods or services** is limited to the unallocated opening RAB value of the asset in relation to those **other regulated goods or services** as on the day before the **commissioning date** (as 'unallocated opening RAB value' is defined in the **input methodologies** applying to the **supply of the other regulated goods or services** by **Transpower**); and
- (h) an asset acquired from a **related party** other than an asset to which paragraphs (f) or (g) apply is-
 - (i) its depreciated historic cost in respect of the **related party** determined by applying **GAAP** as on the day before the acquisition by the **Transpower**; or
 - (ii) where sufficient records do not exist to establish this cost, its market value as at its **commissioning date** as determined by a **valuer**.

Comment [CB43]: Query whether "unallocated closing RAB value" will always be defined for other regulated suppliers.

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Comment [CB44]: Query whether "unallocated closing RAB value" will always be defined for other regulated goods or services supplied by **Transpower**.

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- (2) When applying **GAAP** for the purpose of subclause (1), the cost of financing-
 - (a) is applicable only in respect of the period commencing on the date the asset becomes a **works under construction** and terminating on its **commissioning date**; and
 - (b) calculated using a rate not greater than **Transpower's** weighted average of borrowing costs for each applicable **disclosure year**.
- (3) For the purpose of subclause (2)(b), the 'weighted average of borrowing costs' is calculated for a **disclosure year** using principles set out in **GAAP**, where:

Comment [CB45]: Presumably it is **Transpower's** borrowing costs that are relevant, not anyone else's.

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- (a) the cost of financing rate is the weighted average of the costs applicable to borrowings in respect of **capital expenditure** that are outstanding during the **disclosure year**;
 - (b) the total costs applicable to borrowings outstanding, as used in calculating the weighted average, must include costs of borrowings made specifically for the purpose of any particular –
 - (i) **capital expenditure projects**; or
 - (ii) **capital expenditure programmes**; and
 - (c) the amount of borrowing costs capitalised during the **disclosure year** must not exceed the amount of borrowing costs incurred during the **disclosure year**.
- (4) For the avoidance of doubt-
- (a) revenue derived in relation to **works under construction** that is not included in regulatory income under an **ID determination** or preceding regulatory information disclosure requirements reduces the cost of an asset by the amount of the revenue where such reduction is not otherwise made under **GAAP**;
 - (b) where expenditure on an asset which forms part of the cost of that asset under **GAAP** is incurred by **Transpower** after the asset was first **commissioned**, such expenditure may be treated, at **Transpower's** election, as relating to-
 - (i) that asset; or
 - (ii) a separate asset.

2.2.8 Value of found assets

- (1) Found asset means, in relation to a **disclosure year**, an asset-
- (a) other than **easement land**;
 - (b) other than an intangible asset, unless it is-
 - (i) a **finance lease**; or
 - (ii) an **identifiable non-monetary asset**; and
 - (c) not having a **commissioning date** in the **disclosure year** in question;
 - (d) the value of which-
 - (i) is not included as an **unallocated opening RAB value** in the **disclosure year** in question nor was so included in any prior disclosure year in accordance with clause 2.2.3(1); and
 - (ii) was not included in an **unallocated closing RAB value** in any prior **disclosure year** in accordance with clause 2.2.3(2); and

- (3) For the purpose of subclause (1), in applying the **tax rules** in respect of particular items of income and expenses included in 'regulatory profit / (loss) before tax'-
- (a) a tax deduction for interest incurred in relation to debt must be substituted with a tax deduction for notional deductible interest;
 - (b) any tax deduction for depreciation in respect of an asset must be calculated by applying the **tax rules** to the **regulatory tax asset value**; and
 - (c) the effect of any-
 - (i) tax losses (other than those produced from the **supply of electricity transmission services**); and
 - (ii) subvention payment,
 made by **Transpower** must be ignored.
- (4) For the purpose of subclause (3)(a), 'notional deductible interest' means the amount determined in accordance with the formula-
- (sum of opening RAB values × leverage × cost of debt) + term credit spread differential allowance.*

2.3.2 Regulatory tax asset value

- (1) Regulatory tax asset value, in relation to an asset, means the value determined in accordance with the formula-
- tax asset value × result of asset allocation ratio.*
- (2) For the purpose of subclause (1), 'tax asset value' means, in respect of-
- (a) an asset-
 - (i) acquired from a **regulated supplier** who used it to **supply regulated goods or services**; or
 - (ii) acquired or transferred from a **related party**,
 the value of the asset determined by applying the tax depreciation rules to its notional tax asset value; and
 - (b) any other asset, its adjusted tax value.
- (3) In this clause-
- (a) 'tax depreciation rules' means the **tax rules** that relate to the determination of depreciation allowances for tax purposes;
 - (b) 'adjusted tax value' has the same meaning as in the tax depreciation rules.
- (4) 'Notional tax asset value' means, for the purpose of-
- (a) subclause (2)(a)(i), value after applying the tax depreciation rules to the tax asset value (as 'tax asset value' is defined in the **input methodologies**

- applying to the **regulated goods or services** in question) in respect of the **disclosure year** in which the asset was acquired; and
- (b) subclause (2)(a)(ii), value in respect of the **disclosure year** in which the asset was acquired or transferred that is-
- (i) consistent with the **tax rules**; and
- (ii) limited to its **value of commissioned asset**.
- (5) For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the **tax rules**-
- (a) has a matching asset or group of assets maintained for the purpose of Subpart 2, the value obtained in accordance with the formula-
- $$\frac{\text{opening RAB value or sum of opening RAB values, as the case may be}}{\text{unallocated opening RAB value or sum of unallocated opening RAB values, as the case may be,}}$$
- applying the formula in respect of the asset or smallest group of assets maintained for the purpose of Subpart 2 that has a matching asset or group of assets maintained under the **tax rules**; and
- (b) does not have a matching asset or group of assets maintained for the purpose of Subpart 2, the value of the asset allocated to the **supply of electricity transmission services** were clause 2.1.1 to apply to the asset or group of assets.

Comment [CB47]: Query whether this will always be defined for other regulated goods or services.

SUBPART 4 Cost of capital

2.4.1 Methodology for estimating weighted average cost of capital

- (1) The **Commission** will determine a mid-point estimate of vanilla **WACC** for each **disclosure year**-
- (a) in respect of the 5 years commencing on the first day of the **disclosure year** in question;
- (b) within 1 month of the start of the **disclosure year** in question; and
- (c) in accordance with the formula-
- $$r_d L + r_e(1 - L).$$
- (2) The **Commission** will determine a mid-point estimate of post-tax **WACC** for each **disclosure year** -
- (a) in respect of the 5 years commencing on the first day of the **disclosure year** in question;
- (b) within 1 month of the start of the **disclosure year** in question; and
- (c) in accordance with the formula-

Comment [CB48]: Subclause (3) deleted.

Deleted: subject to subclause (3),

Deleted: subject to subclause (3),

$$r_d(1 - T_c)L + r_e(1 - L).$$

(3) In this clause-

L is **leverage**;

r_d is the cost of debt and is estimated in accordance with the formula:

$$r_f + p;$$

r_e is the cost of equity and is estimated in accordance with the formula:

$$r_f(1 - T_i) + \beta_e TAMRP;$$

T_c is the average corporate tax rate;

r_f is the risk free rate;

p is the **average debt premium**;

T_i is the average investor tax rate;

β_e is the equity beta; and

$TAMRP$ is the tax-adjusted market risk premium.

(4) For the purpose of this clause-

- (a) the average investor tax rate, the equity beta, the average corporate tax rate and the tax-adjusted market risk premium are the values specified in or determined in accordance with clause 2.4.2; and
- (b) the risk-free rate must be estimated in accordance with clause 2.4.3.

2.4.2 Fixed WACC parameters

(1) [Leverage is [XX].%.]

(2) 'Average investor tax rate' is the average of the investor tax rates that, as at the date that the estimation is made, **are expected to** apply to each of the **disclosure years** in the 5 year period commencing on the first day of the **disclosure year** in question.

(3) For the purpose of subclause (2), 'investor tax rate' is, for each **disclosure year**, the maximum **prescribed investor rate** applicable at the start of that **disclosure year** to an individual who is-

- (a) resident in New Zealand; and
- (b) an investor in a **multi-rate PIE**.

(4) '**Average corporate tax rate**' is the average of the **corporate tax rates** that, as at the date that the estimation is made, **are expected to** apply during the 5 year period commencing on the first day of the **disclosure year** in question.

(5) ['Equity beta' is [XX].]

(6) ['Tax-adjusted market risk premium' is [XX].%.]

2.4.3 Methodology for estimating risk-free rate

The **Commission** will estimate a risk-free rate-

Comment [CB49]: This would only be relevant if the determination were to come into force close to the start of RCP3, which won't be the case. We note the Commission has deleted the equivalent provision in Part 3 (old clause 3.5.1(3)).

Deleted: <#>The **Commission** will estimate or determine, as the case may be, the amounts or values to which this subclause applies as soon as practicable after this determination comes into force.

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Comment [CB50]: The investor tax rates cannot be known with certainty for five years into the future.

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Comment [CB51]: Redundant. The specified value will apply until it is changed.

Deleted: , for a 5 year period commencing on the first day of a **disclosure year**,

- (a) for each **disclosure year**; and
 - (b) ~~within 1 month of the start of the **disclosure year** in question,~~
- by-
- (c) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds the wholesale market linearly-interpolated bid yield to maturity, for a residual period to maturity equal to 5 years on each **business day** in the 3 months preceding the start of the **disclosure year**;
 - (d) calculating the annualised interpolated bid yield to maturity for each **business day**; and
 - (e) calculating the unweighted arithmetic average of the daily annualised interpolated bid yields to maturity.

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2.4.4 Methodology for estimating **average debt premium**

- (1) **Average debt premium** means the simple arithmetic average of the five **debt premium** values for:
 - (a) the current **disclosure year** for which the **WACC** is being determined; and
 - (b) the four previous **disclosure years**.
- (2) The **Commission** will determine an estimate of an amount for the **average debt premium**-
 - (a) for each **disclosure year**; and
 - (b) within 1 month of the start of each **disclosure year**.
- (3) **Debt premium** means the spread between-
 - (a) the bid yield to maturity on **notional vanilla NZ\$ denominated bonds** that-
 - (i) are issued by an **EDB** or a **GPB**;
 - (ii) are publicly traded;
 - (iii) have a **qualifying rating** of grade BBB+; and
 - (iv) have a remaining term to maturity of 5 years; and
 - (b) the contemporaneous interpolated bid yield to maturity of **notional** benchmark New Zealand government New Zealand dollar denominated nominal bonds having a remaining term to maturity of 5 years.
- (4) The **Commission** will, in accordance with subclause (5), determine an estimate of an amount for the **debt premium**-
 - (a) for each **disclosure year**; and
 - (b) within 1 month of the start of each **disclosure year**.
- (5) The amount of the **debt premium** will be estimated by-
 - (a) identifying publicly traded **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer** that are-

Comment [CB52]: Redundant. "Average debt premium" is defined in clause 1.1.4(2) by reference to this subclause.

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Comment [CB53]: Redundant. "Debt premium" is defined in clause 1.1.4(2) by reference to subclause (3).

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Comment [CB54]: These bonds and the government bonds referred to in subclause (b) are notional because there are unlikely to be bonds that have exactly 5 years to maturity at the time the debt premium for a disclosure year is determined. We note that clause 2.4.4(1)(b) of the EDB IM (relating to the government bonds) already includes the word "notional".

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- (i) **investment grade credit rated**; and
 - (ii) of a type described in subclause (6);
- (b) in respect of each bond identified in accordance with paragraph (a)-
- (i) obtaining its wholesale market annualised bid yield to maturity;
 - (ii) calculating by linear interpolation with respect to maturity, the contemporaneous wholesale market annualised bid yield to maturity for a notional benchmark New Zealand government New Zealand dollar denominated nominal bond with the same remaining term to maturity; and
 - (iii) calculating its contemporaneous interpolated bid to bid spread over notional benchmark New Zealand government New Zealand dollar denominated nominal bonds with the same remaining term to maturity, by deducting the yield calculated in accordance with subparagraph (ii) from the yield obtained in accordance with subparagraph (i),

Comment [CB55]: Redundant.

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for each **business day** in the 3 months immediately preceding the start of the **disclosure year**;

- (c) calculating, for each bond identified in accordance with paragraph (a), the unweighted arithmetic average of the daily spreads identified in accordance with paragraph (b)(iii); and
- (d) subject to subclause (6), estimating, by taking account of the average spreads identified in accordance with paragraph (c), and having regard to the debt premium estimated from applying the **Nelson-Siegel-Svensson approach**, the average spread that would reasonably be expected to apply to a **vanilla NZ\$ denominated bond** that-
 - (i) is issued by an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
 - (ii) is publicly traded;
 - (iii) has a **qualifying rating** of grade BBB+; and
 - (iv) has a remaining term to maturity of 5 years.

Comment [CB56]: Redundant. "Nelson-Siegel-Svensson approach" is defined in clause 1.1.4(2) by reference to subclause (8).

Deleted: in accordance with subclause (6)

- (6) For the purpose of subclause (5)(d), the **Commission** will have regard, subject to subclause (7), to the spreads observed on the following types of **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer**:

- (a) those that-
 - (i) have a **qualifying rating** of grade BBB+; and
 - (ii) are issued by an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
- (b) those that-
 - (i) have a **qualifying rating** of grade BBB+; and

- (ii) are issued by an entity other than an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
- (c) those that-
- (i) have a **qualifying rating** of a grade different to BBB+; and
- (ii) are issued by an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
- (d) those that-
- (i) have a **qualifying rating** of a grade different to BBB+; and
- (ii) are issued by an entity, other than an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**; and
- (e) those that are-
- (i) **investment grade credit rated**; and
- (ii) issued by an entity that is 100% owned by the Crown or a **local authority**.
- (7) For the purpose of subclause (6)-
- (a) progressively lesser regard will ordinarily be given to the spreads observed on the bond types in accordance with the order in which the bond types are described in subclause (6);
- (b) the spread on any bond of the type described in subclause (6) that has a remaining term to maturity of less than 5 years will ordinarily be considered to be the minimum spread that would reasonably be expected to apply on an equivalently credit-rated bond issued by the same entity with a remaining term to maturity of 5 years; and
- (c) the **Commission** will adjust spreads observed on bonds described under subclauses (6)(b) to (6)(e) to approximate the spread that is likely to have been observed had the bonds in question been of the type described in subclause (6)(a).
- (8) 'Nelson-Siegel-Svensson approach' means a method for modelling yield curves and term structures of interest rates which establishes a relationship between term to maturity and the **debt premium**, and where a curve is generated by changing the parameters of a yield curve functional form to minimise the squared deviation between estimated and observed values.
- 2.4.5 Methodology for estimating the WACC range and the 67th percentile of the WACC
- (1) The **Commission** will determine a WACC range for each **of vanilla WACC and post-tax WACC**-
- (a) for each **disclosure year**; and
- (b) within 1 month of the start of the disclosure year in question.

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Comment [CB57]: Redundant. "Nelson-Siegel-Svensson approach" is defined in clause 1.1.4(2) by reference to subclause (8).

Deleted: For the purposes of subclause (3)(d),

Deleted: the

Comment [CB58]: Query whether this generic description of the NSS approach is sufficiently detailed.

Comment [CB59]: There is only one mid-point estimate of WACC (vanilla or post-tax), which is the 50th percentile.

Deleted: mid-point estimate of WACC

Deleted: subject to clause 2.4.1(3),

- (2) For the purpose of subclause (1), 'WACC range' means the values falling between the 25th percentile and 75th percentile inclusive of vanilla WACC and post-tax WACC,
- (3) [For the purpose of subclause (2)-

(a) the 75th percentile must be determined in accordance with the formula-
mid-point estimate of WACC + 0.674 x standard error; and

(b) the 25th percentile must be determined in accordance with the formula-
mid-point estimate of WACC - 0.674 x standard error,

where the 'standard error' of the relevant **mid-point estimate of WACC** is [XX].]

- (4) The **Commission** will determine a 67th percentile estimate of vanilla **WACC** and post-tax **WACC** –

- (a) for each **disclosure year**; and
(b) within 1 month of the start of the disclosure year in question.

- (5) [For the purpose of subclause (4), the 67th percentile must be determined in accordance with the formula-

mid-point estimate of WACC + 0.440 x standard error,

where the 'standard error' of the relevant **mid-point estimate of WACC** is [XX].]

2.4.6 Publication of estimates relating to cost of capital

The **Commission** will publish all determinations and estimates that it is required to make by this Subpart-

- (a) on its website; and
(b) no later than 1 month after having made them.

2.4.7 Qualifying debt

Qualifying debt means a line of debt-

- (a) with an original tenor greater than 5 years; and
(b) issued by **Transpower**.

2.4.8 Term credit spread difference

- (1) [Term credit spread difference is determined in accordance with the formula-

$T \times U$,

where-

- (a) 'T' is the amount determined in accordance with the formula-
[XX] × (original tenor of the **qualifying debt** – 5)
- (b) 'U' is the book value in New Zealand dollars of the **qualifying debt** at its date of issue.]

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Deleted: mid-point estimate of WACC

Deleted: <#>the mid-point estimate of WACC must be treated as the 50th percentile; and¶ <#>the¶

Deleted: standard error

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Moved (insertion) [1]

Moved up [1]: the 67th percentile must be determined in accordance with the formula-

Deleted: <#>the mid-point estimate of WACC must be treated as the 50th percentile; and¶

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Deleted: standard error

Comment [CB60]: This clause now contains only one definition.

Deleted: Interpretation of terms relating to term credit spread differential

- (2) For the purpose of subclause (1), where the **qualifying debt** is issued to a **related party**, 'original tenor of the **qualifying debt**' means the-
- (a) tenor of the **qualifying debt**; or
 - (b) period from the **qualifying debt's** date of issue to the earliest date on which its repayment is or may be required,
- whichever is the shorter.

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2.4.9 Methodology for estimating term credit spread differential

- (1) This clause applies to the determination of the amount of any **term credit spread differential** in respect of a **qualifying debt** for the purpose of disclosure pursuant to the ID determination of a-
- (a) **term credit spread differential allowance**; or
 - (b) **term credit spread differential**.
- (2) Disclosure to which this clause applies may only be made by **Transpower** if its debt portfolio, as at the date of its most recently published audited financial statements, has a weighted average original tenor greater than 5 years.
- (3) Term credit spread differential is the amount determined in accordance with the formula-

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$$(A \div B) \times C \times D,$$

where-

- (a) 'A' is the **term credit spread difference**;
- (b) 'B' is the book value of **Transpower's** total interest-bearing debt as at the date to which its financial statements audited and published in the **disclosure year** in question relate;
- (c) 'C' is **leverage**; and
- (d) 'D' is the average of-
 - (i) the sum of **opening RAB values**; and
 - (ii) the sum of **closing RAB values**.

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PART 3 INPUT METHODOLOGIES APPLYING TO INDIVIDUAL PRICE-QUALITY PATH

SUBPART 1 Specification of price

3.1.1 Price

For the purpose of s 53M(1)(a) of the **Act**, the maximum revenues that may be recovered by **Transpower** will be specified in a s 52P determination as a total revenue cap, net of-

- (a) the sum of **pass-through costs**; and
- (b) the sum of **recoverable costs**.

3.1.2 Pass-through cost requirements

(1) A pass-through cost is a cost that-

- (a) is listed in subclause (2); or
- (b) is a levy, other than one listed in subclause (2), that meets the criteria specified in subclause (3).

(2) For the purpose of subclause (1)(a), the costs are-

- (a) rates on system fixed assets paid or payable by **Transpower** to a **local authority** under the Local Government (Rating) Act 2002; and
- (b) levies payable under regulations made under-
 - (i) s 53ZE of the **Act**; or
 - (ii) the Electricity Industry Act 2010.

(3) For the purpose of subclause (1)(b), the criteria are that the levy-

- (a) is-
 - (i) associated with the provision of **electricity transmission services**;
 - (ii) outside the control of **Transpower**;
 - (iii) not a **recoverable cost**;
 - (iv) appropriate to be passed through to **Transpower's** customers; and
 - (v) one in respect of which provision for its partial or full recovery is not made explicitly or implicitly in the **IPP**; and
- (b) was reasonably unforeseen at the time the **IPP determination** was made.

(4) In this clause, 'levy' means a tax, charge or fee directly imposed by or under legislation-

- (a) on-
 - (i) **Transpower** alone; or
 - (ii) a class of persons (other than the general public or businesses in general) that includes **Transpower**; or

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Comment [CB61]: Redundant. Everything comes into effect during a disclosure year.

Comment [CB62]: The IPP determination does not define pass-through costs. If a levy meets the requirements of this subclause then it should be a pass-through cost without requiring the further step of an IPP determination amendment.

Deleted: <#>comes into effect during any **disclosure year** commencing in a **regulatory period**; and

Deleted: <#>¶¶
<#>is specified as a 'pass-through cost' by way of amendment to the **IPP determination**.

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- (b) in relation to **electricity transmission services**.

3.1.3 Recoverable costs

(1) A recoverable cost is a cost that is-

- (a) any amount that is-
- (i) an **opex incentive amount**; or
 - (ii) a positive net balance determined in accordance with clause 3.6.7(2), provided that any requirements pursuant to **the ID determination** regarding **auditor** certification of any value determined in accordance with that clause have been met;
- (b) subject to subclause (2), an instantaneous reserves availability charge, being a charge allocated to **Transpower** under **clause 8.59 of the Electricity Industry Participation Code 2010, net of any rebate received by Transpower in accordance with clause 8.65 of the Electricity Industry Participation Code 2010**;
- (c) a transmission alternative operating cost, subject to the requirements in subclause (3), not to exceed the-
- (i) actual transmission alternative operating cost incurred by **Transpower**; or
 - (ii) upper limit of transmission alternative operating costs approved in accordance with subclause (3), whichever is lower;
- (d) in relation to a **major capex project** that has been approved by the **Commission** under the **Capex IM**, and subject to the requirements in subclause (3), any operating costs –
- (i) incurred after the date of approval of the **major capex project** and in relation to the **major capex project**;
 - (ii) are not otherwise able to be recovered as part of the **major capex allowance** on the basis that the costs are not **capital expenditure**; and
 - (iii) where the sum of the operating costs and the **major capex** approved by the **Commission** in relation to the **major capex project** does not exceed the **major capex allowance**; and
- (e) an amount determined by the **Commission** and specified in **the IPP determination** following a reconsideration and amendment of the **IPP** under clauses 3.7.4(2)(a) and 3.7.5(1) for the prudent net additional operating costs, in excess of those provided in **the IPP determination**, incurred in responding to a **catastrophic event**.

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Moved (insertion) [2]

Comment [CB63]: Code provisions are referred to as clauses rather than rules.

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Deleted: <#>rule 8.59 of the Electricity Industry Participation Code; or¶
<#>any Act or regulations that replace that rule,¶

Moved up [2]: net of any rebate received by **Transpower** in accordance with rule 8.65 of the Electricity Industry Participation Code;

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Comment [CB64]: Query why this does not also apply to change events and error events.

- (2) For the purpose of subclause (1)(b), an instantaneous reserves availability charge excludes-
- (a) any 'event charges' payable by **Transpower**, as defined under-
 - (i) rule 8.64 of the Electricity Industry Participation Code, or
 - (ii) any Act or regulations that replace that rule;
 - (b) 50% of any such charge incurred by **Transpower**, except one incurred as a direct result of decommissioning of Pole 1 of the HVDC link, in relation to an asset remaining out of service after an initial period of 14 consecutive days out of service, insofar as the cumulative amount so incurred is less than or equal to 1% of **Transpower's forecast MAR** for the **disclosure year** in which the event causing the asset to be out of service commences, as specified in the **IPP determination**;
 - (c) any such charge treated as **capital expenditure** (in accordance with **GAAP**) by **Transpower** in relation to the control systems integration of Pole 2 and the commissioning of Pole 3 of the HVDC link; and
 - (d) any such charge that is treated as having been inefficiently incurred under **GAAP**.
- (3) For the purpose of subclause (1)(c) and subclause (1)(d), the requirements are that the cost must-
- (a) be **operating expenditure**;
 - (b) be incremental to the **operating expenditure** allowance specified in the **IPP determination**; and
 - (c) have been approved by the-
 - (i) **Electricity Commission** under Part F of the Electricity Governance Rules 2003;
 - (ii) **Commission** in accordance with s 54R(3)(b) of the **Act**; or
 - (iii) **Commission** in accordance with any input methodology determined pursuant to s 54S of the **Act**.
- (4) In this clause-
- (a) 'Act' and 'Regulations' have the same meanings as defined in s 29 of the Interpretation Act 1999; and
 - (b) 'Electricity Industry Participation Code' has the same meaning as 'code' is defined in the Electricity Industry Act 2010.

Comment [CB65]: Redundant. The Commission makes IPP determinations.

Deleted: by the Commission

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SUBPART 2 Cost allocation

3.2.1 Cost allocation

- (1) For the purpose of making an **IPP determination**, information provided to the **Commission** by **Transpower** regarding **Transpower's operating costs and capital**

expenditure, whether actual or forecast, must be provided in accordance with clause 2.1.1 with necessary modifications.

- (2) For the avoidance of doubt, in applying subclause (1), any reference to 'any requirement in the ID determination' in Subpart 1 of Part 2 means 'any requirement specified by the **Commission**'.

SUBPART 3 Asset valuation

3.3.1 Asset valuation

For the purpose of making an **IPP determination**-

- (a) the value of an asset; and
- (b) any allowance for depreciation,

must be determined in accordance with the **input methodologies** specified in Subpart 2 of Part 2, with necessary modifications to allow-

- (c) such values or allowances to be calculated on a forecast basis where required; and
- (d) for the purposes of determining **forecast MAR** and associated annual wash-ups, the determination of the **value of commissioned asset** by reference to approved amounts of **capital expenditure**.

SUBPART 4 Treatment of taxation

3.4.1 Treatment of taxation

- (1) For the purpose of making an **IPP determination**, **Transpower's regulatory tax allowance** whether on an actual or forecast basis, must be determined in accordance with the **input methodologies** specified in Subpart 3 of Part 2 with necessary modifications.
- (2) For the avoidance of doubt, in applying subclause (1), 'as determined in accordance with the ID determination' in clause 2.3.1(2) shall be construed as 'as specified by the **Commission**'.

SUBPART 5 Cost of capital

3.5.1 Use of published estimates of WACC

For the purpose of setting a price path in an **IPP determination**, the 67th percentile estimates of WACC published in accordance with clause 2.4.6 for a disclosure year, must be applied in respect of the next disclosure year.

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Comment [CB66]: We consider the WACC for the price path should be updated annually on a trailing average basis in the same way as the WACC for information disclosure will be. That means the Part 2 and Part 3 WACCs are the same and most of the drafting in Subpart 5 can be deleted to avoid duplication. Only the clause stating which WACC published under Part 2 must be used for the price path needs to be retained.

For timing reasons, under this approach the Part 2 WACC for disclosure year n will need to be used to set the MAR for disclosure year n+1 (because the Part 2 WACC for disclosure year n+1 is likely to be published too late). The IPP determination for RCP3 and subsequent regulatory periods will need to contain an annual WACC wash-up element.

Deleted: ~~<#>Methodology for estimating weighted average cost of capital¶~~

~~<#>The Commission will determine a mid-point estimate of vanilla WACC - ¶~~
~~<#>as of the first business day of the month 7 months prior to the start of each regulatory period; ¶~~
~~<#>in respect of a 5 year period; ¶~~
~~<#>subject to subclause 3.5.1(3), no later than 6 months prior to each regulatory period; and¶~~
~~<#>in accordance with the formula- ¶~~
 ~~$r_d L + r_e(1 - L)$. ¶~~

~~<#>The Commission will determine a mid-point estimate of post-tax WACC-¶~~
~~<#>as of the first business day of the month 7 months prior to the start of each regulatory period; ¶~~
~~<#>in respect of a 5 year period; ¶~~
~~<#>subject to subclause (3), no later than 6 months prior to the start of each regulatory period; and¶~~
~~<#>in accordance with the formula- ¶~~
 ~~$r_d(1 - T_c)L + r_e(1 - L)$. ¶~~
~~<#>In this clause- ¶~~

Comment [CB67]: It is necessary to be precise about which percentile measure of WACC needs to be used. This is a significant omission from the determination currently.

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SUBPART 6 **Incremental rolling incentive scheme**

SECTION 1 **Annual IRIS incentive amounts for operating expenditure**

3.6.1 **Calculation of annual IRIS incentives for operating expenditure as recoverable costs**

- (1) **Transpower** must calculate an **opex incentive amount** for each **disclosure year** of each **regulatory period**, subject to subclause (2).
- (2) **Transpower** shall not calculate an **opex incentive amount** for any **disclosure year** commencing prior to 1 April 2020.

3.6.2 **How to calculate opex incentive amounts**

- (1) The **opex incentive amount** for a **disclosure year of a regulatory period** is an amount equal to the sum of—

- (a) all **amounts carried forward** into that **disclosure year** from a **disclosure year of a preceding regulatory period**; and
- (b) where an **adjustment to the opex incentive** is applicable under clause 3.6.4(1)—
 - (i) the amount calculated in accordance with the following formula for a **disclosure year** in the **regulatory period**—

$$\left(\frac{\text{Adjustment to the opex incentive}}{l - 1} \right) \times (1 + r)^{y+0.5}$$

where—

- l* is the number of **disclosure years** in the **regulatory period**;
- r* is the **cost of debt** applying to the **IPP** in question; and
- y* is the number of **disclosure years** preceding the **disclosure year** in question in the **regulatory period**; or

- (ii) where subclause (2) applies, nil.

- (2) **This** subclause applies for—

- (a) the first **disclosure year** of the **regulatory period**; or
- (b) a **disclosure year** in a **regulatory period** commencing prior to 1 April 2020.

3.6.3 **How to calculate the amount carried forward to subsequent disclosure years**

- (1) An **amount carried forward** must be calculated for each **disclosure year** of a **regulatory period**, subject to subclause (5).
- (2) The **amount carried forward** for the first **disclosure year** of a **regulatory period** is calculated in accordance with the formula—

$$\text{forecast opex}_t - \text{actual opex}_t$$

where—

Deleted: ~~Methodology for estimating term credit spread differential~~

~~This clause applies to the determination of the amount of any term credit spread differential in respect of a qualifying debt for the purpose of determining a term credit spread differential allowance in an IPP determination.~~

~~The Commission will only determine a term credit spread differential allowance if Transpower's debt portfolio, as at the date of its most recently published audited financial statements, has a weighted average original tenor greater than 5 years.~~
~~Term credit spread differential is the amount determined in accordance with the formula—~~

$$(A \div B) \times C \times D,$$

where—

~~'A' is the sum of the term credit spread difference;~~

~~'B' is the book value of Transpower's total interest-bearing debt as at the balance date of Transpower's financial statements audited and published most recently before the IPP determination is made;~~

~~'C' is leverage; and~~

~~'D' is the average of— the sum of opening RAB values; and~~

~~the sum of closing RAB values.~~

Comment [CB68]: The regulatory period in question should be referred to in the introduction so it is clear in later drafting what “the” regulatory period is.

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Comment [CB69]: The convention in the determination is to refer to disclosure years as being “of” a regulatory period.

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Comment [CB70]: For consistency with subclause (1)(b)(ii).

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Deleted: 3.6.2(1)(b)(ii), ‘nil’

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t means the **disclosure year** in question.

- (3) The amount carried forward for a **disclosure year** that is not the first or last **disclosure year** of a **regulatory period** is calculated in accordance with the formula—

$$(\text{forecast opex}_t - \text{actual opex}_t) - (\text{forecast opex}_{t-1} - \text{actual opex}_{t-1})$$

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where—

t means the **disclosure year** in question; and

$t-1$ means the **disclosure year** preceding the **disclosure year** in question.

- (4) The amount carried forward for the last **disclosure year** of a **regulatory period** is nil.
 (5) **Transpower** shall not calculate an **amount carried forward** for any **disclosure year** commencing prior to 27 November 2014.

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- (6) Each **amount carried forward** is carried forward from the **disclosure year** in respect of which it is calculated into each of the subsequent 5 **disclosure years**.

Comment [CB71]: The amount is actually, not notionally, carried forward.

- (7) Forecast **opex**, subject to clause 3.6.5, is, for a **disclosure year**, the amount of forecast **operating expenditure** specified for the relevant **disclosure year** in an **IPP determination** for the purpose of calculating an **opex incentive amount**.

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- (8) Actual **opex** is, for a **disclosure year**, the amount of **operating costs** for the relevant **disclosure year** calculated in accordance with Part 2.

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Comment [CB72]: For context and consistency with subclause (7).

Comment [CB73]: Redundant. By definition, all operating costs are for electricity transmission services.

3.6.4 How to calculate the adjustment to the opex incentive in the second year of a regulatory period

- (1) An **adjustment to the opex incentive** must be calculated for the second **disclosure year** of the **regulatory period** in accordance with the formula—

base year adjustment term + baseline adjustment term.

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- (2) For the purpose of subclause (1), the 'base year adjustment term' is calculated in accordance with the formula—

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$$-\left(\frac{(\text{forecast opex}_{t-1} - \text{actual opex}_{t-1}) - (\text{forecast opex}_{t-2} - \text{actual opex}_{t-2})}{(1 + WACC)^4}\right)$$

where—

WACC means the **WACC applied to set the price path in the IPP determination**;

Comment [CB74]: Query whether this should be the post-tax or vanilla WACC.

$t-1$ means the **last disclosure year of the preceding regulatory period**; and

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$t-2$ means the **penultimate disclosure year of the preceding regulatory period**.

Comment [CB75]: For consistency with clause 3.5.1.

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- (3) For the purpose of subclause (1), the 'baseline adjustment term' is calculated in accordance with the formula—

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non-recurrent differences in penultimate year

Comment [CB76]: For clarity and consistency with subclause (4).

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×
 $((1-(1+WACC)^{-6})/WACC)$
 ×
 $(1+WACC)^2$
 where–

non-recurrent differences in penultimate year means the amount **determined** in accordance with subclause (4); and

WACC means the **WACC applied to set the price path in the IPP determination**.

- (4) **For the purpose of subclause (3),** ‘non-recurrent differences in penultimate year’ is an amount determined by the **Commission**, having regard to the views of interested **persons**, attributable to the impact of non-recurrent factors **that caused** differences between **forecast opex** and **actual opex** in the penultimate **disclosure year** of the preceding **regulatory period**, and notified to **Transpower**.

Comment [CB77]: There is no calculation in subclause (4).

Deleted: calculated

Comment [CB78]: Query whether this should be the post-tax or vanilla WACC.

Deleted: as determined by the Commission and applicable to Transpower’s current regulatory period

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Comment [CB79]: Past tense more appropriate because the penultimate year of the preceding regulatory period will already have happened.

Deleted: which cause

Comment [CB80]: Query whether the Commission should publish this rather than merely notify it to Transpower.

SECTION 2 Price-quality path amendments and other events

3.6.5 Calculating incentive adjustments for IPP amendments and other events

- (1) Where an IPP is amended following–

- (a) a **catastrophic event**;
- (b) a **change event**; **or**
- (c) an **error event**.

the **forecast opex** required to be used by **Transpower** to calculate the **amount carried forward** for the **disclosure year** in which the event occurred and each subsequent **disclosure year** prior to the effective date of the amendment to the **IPP**, is the amount specified by the **Commission** in the amended **IPP**.

Deleted: ; or

Comment [CB81]: Clause 3.7.4(4) deleted.

Deleted: <#>provision of false or misleading information under clause 3.7.4(4),

Deleted: <#>¶

Deleted:

Comment [CB82]: Redundant. By definition, all operating costs are for electricity transmission services.

Deleted: allocated to **electricity transmission services**

- (2) Where an alteration to Part 2 or **the ID determination** requirements affecting the quantification of **operating costs** occurs in a **disclosure year** and–

- (a) the **Commission** considers; or
- (b) **Transpower** satisfies the **Commission** upon application, that the alteration has, or is likely to have, a material effect on the calculation of the **opex incentive amount** that would otherwise have been calculated by **Transpower**, then the **forecast opex** required to be used by **Transpower** to calculate the **amount carried forward** for that **disclosure year** and each subsequent **disclosure year of the regulatory period** may be determined by the **Commission**, and notified to **Transpower**, in order to preserve, to the extent appropriate–
 - (c) the correct outcomes for expenditure efficiencies achieved before the event; and
 - (d) the relevant incentive properties after the event.

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Comment [CB83]: Query whether the Commission should publish this rather than merely notify it to Transpower.

SECTION 3 Transitional provisions

3.6.6 Determination of amount to be taken into account as a recoverable cost

- (1) Each **incremental change** and **incremental adjustment term** is carried forward from the **disclosure year** in respect of which it **was** determined into each of the subsequent 5 **disclosure years** by applying the **inflation rate**.
- (2) In each of the **disclosure years** into which an amount has been carried pursuant to subclause (1), a net balance must be determined by addition of-
- any **incremental changes** carried forward into that **disclosure year**; and
 - any **incremental adjustment term** carried into that **disclosure year**.

SUBPART 7 Reconsideration of an individual price-quality path

3.7.1 Catastrophic event

Catastrophic event means an event-

- beyond the reasonable control of **Transpower**;
- that could not have been reasonably foreseen by **Transpower** at the time the **JPP determination** was made; and
- in respect of which-
 - action required to rectify its adverse consequences cannot be delayed until a future **regulatory period** without the **grid outputs** associated with the **revenue-linked grid output measures** being outside the range specified by the relevant **cap** and **collar** in the remaining **disclosure years** of the **regulatory period**;
 - remediation requires either or both of **capital expenditure** or **operating expenditure** during the **regulatory period**; and
 - the cost of remediation net of any insurance or compensatory entitlements has had or will have an impact on the price path of an amount **equivalent to** at least 1% of the aggregated **forecast MARs** for the **affected disclosure years** of the **regulatory period to which the IPP relates**.

3.7.2 Change event

Change event means-

- change in a; or
- a new,

legislative or regulatory requirement applying to **Transpower** the effect of which-

- must take place during the current **regulatory period**;
- is not explicitly or implicitly provided for in the **IPP**; and either-

Comment [CB84]: Redundant. These calculations were only required to be done for disclosure years in RCP1 and the first disclosure year of RCP2. The proposed definitions of "incremental adjustment term" and "incremental change" preserve the calculations done in the past.

Deleted: <#>Calculation of annual incremental changes and adjustment term

Deleted: <#>¶
<#>The incremental change for the opening year of RCP1 is the difference between allowed controllable opex and actual controllable opex.¶
<#>The incremental change for a disclosure year of RCP1 other than the opening year or final disclosure year must be determined in accordance with the formula-¶
(allowed controllable opex_t - actual controllable opex_t) - (allowed controllable opex_{t-1} - actual controllable opex_{t-1}),¶
where-¶
t means the disclosure year in question; and¶

Comment [CB85]: "Incremental ...

Comment [CB86]: The amounts are ...

Comment [CB87]: Clause 3.6.8 ...

Deleted: incremental change

Deleted: determined in accordance ...

Deleted: notionally

Deleted: , subject to clause 3.6.8,

Comment [CB88]: Past tense more ...

Deleted: is

Comment [CB89]: Redundant. ...

Deleted: incremental changes

Deleted: from RCP1

Comment [CB90]: Redundant. Only ...

Deleted: <#>Calculating gains and ...

Deleted: ¶

Deleted: most recent

Comment [CB91]: Even if the financ ...

Deleted: <#>the full costs of ...

Deleted: <#>¶

Deleted: over the disclosure ...

Deleted: equivalent to

Comment [CB92]: The same 1% ...

Deleted: in which the cost w ...

- (e) the cost of responding to the change or new requirement has had or will have an impact on the price path of an amount equivalent to at least 1% of the aggregated forecast MARs for the affected disclosure years of the regulatory period to which the IPP relates; or
- (f) causes an **input methodology** to become incapable of being applied at all or in accordance with its intent as identified by the Commission.

Deleted: necessitates incurring additional reasonable costs in responding to the change or new requirement that has an impact on the price path of the **disclosure years** of the **regulatory period** in which the change or new requirement applies of at least 1% of the aggregate amount of the **forecast MARs** for the **disclosure years** in which the net costs are or will be incurred

3.7.3 Error event

(1) 'Error event' means, subject to subclause (2), a unintended circumstance identified by the Commission where the IPP was determined or amended based on an error, including where:

- (a) incorrect data was used in setting the price path or a quality standard; or
- (b) data was incorrectly applied in setting the price path or a quality standard,

Comment [CB93]: An input methodology may still be able to be applied but produce an unintended result.

Comment [CB94]: If the Commission identifies an unintended circumstance it should not matter how clearly unintended it is.

Deleted: clearly

(2) For the purposes of subclause (1), an error relating to-

- (a) the price path will not constitute an **error event** unless the error has had or will have an impact on the price path of an amount equivalent to at least 1% of the aggregated forecast MARs for the affected **disclosure years** of the regulatory period to which the IPP relates; and
- (b) a quality standard is to the value of a metric by which such quality standard is specified in the **IPP**, but not to the metric itself.

Comment [CB95]: We consider a revenue-linked output measure to be a type of quality standard. We have defined what a "quality standard" includes rather than relying on a generic interpretation.

Deleted: , revenue-linked grid output measure

Deleted: quality standard

Deleted: , revenue-linked grid output measure

Deleted: quality standard

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Deleted: quality standards, or grid output measures,

Deleted: quality standards or grid output measures are

Deleted: Transpower's

3.7.4 When price-quality paths may be reconsidered

(1) The IPP may be reconsidered where-

- (a) the **Commission** considers; or
- (b) **Transpower** satisfies the **Commission**, upon application, that subclause (2) applies.

Comment [CB96]: Subclause (4) deleted.

Deleted: s

Deleted: or (4)

(2) This subclause applies if-

- (a) a catastrophic event has occurred;
- (b) there has been an **error event**; or
- (c) a **change event** has occurred.

Comment [CB97]: This paragraph is not subject to subclause (3). Subclause (3) limits the type of change that can be ma...

Deleted: subject to subclause (3),

(3) Where a catastrophic event has occurred and the cost of remediation for the catastrophic event is fully covered by-

- (a) the **IPP** (e.g. through an **operating expenditure** allowance for self-insurance); or
- (b) commercial insurance held by **Transpower**,

Deleted: For the purpose of subclause (2)(a), where

Deleted: s

Deleted: to rectify the adverse consequences of a

Comment [CB98]: For consistency with clause 3.7.1.

Deleted: are

the Commission **may** only reconsider the **grid output targets, caps, collars, and grid output incentive rates** associated with **revenue-linked grid output measures**.

Comment [CB99]: Reconsideration is discretionary under subclause (1).

Deleted: will

(4) The Commission will reconsider, in each **disclosure year of a regulatory period**, save the last, the **IPP** in respect of the remaining **disclosure years of the regulatory period** to take account of-

Comment [CB100]: Redundant. This is a type of error event.

Comment [CB101]: Subclause (6) deleted.

- (a) the revenue impact of **any major capex** approved by the **Commission**;
- (b) the revenue impact of any **base capex** approved by the **Commission** for a **listed project**; and
- (c) an **EV adjustment**,

Deleted: <#>This subclause applies if- ¶ <#>>false or misleading information relating to the making or amending of an **IPP determination** has been knowingly- ¶ <#>provided by **Transpower** or any of its agents to the **Commission**, or ¶ <#>disclosed pursuant to an **ID determination** or information disclosure requirements under Subpart 3 of Part 4A of the **Act**, as continued in force by s 54W of the **Act**; and ¶ <#>the **Commission** relied on that information in making an **IPP determination**.

on **forecast MAR**.

(5) **EV adjustment** has the meaning as defined in **the IPP determination**.

Deleted: <#>¶

3.7.5 **Amending price-quality path after reconsideration**

(1) Where, after reconsidering **the IPP**, the **Commission** determines that it should be amended, the **Commission** may amend either or both of the price path or the **quality standards**, subject to clause 3.7.4(3) and subclauses (2) and (3).

Deleted: commencing in

(2) The **Commission** must not amend-

Deleted: , subject to subclause **Error! Reference source not found.**(6)

- (a) **the** price path more than is reasonably necessary to take account of the change in costs net of any insurance or compensatory entitlements; and
- (b) **a quality standard** more than reasonably necessary to take into account any **anticipated** change in quality,

Deleted: commencing in

arising from-

Deleted: major capex

- (c) the **catastrophic event**;
- (d) the **change event**;
- (e) the **error event**,

Deleted: EV adjustment

as the case may be.

Deleted: ‘

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Deleted: an

Deleted: an

(3) Where the **Commission's** reconsideration of the **IPP** was triggered by a **catastrophic event**, in determining the extent of the amendment required, the **Commission** will consider the extent to which **Transpower** has demonstrated that it has reviewed its **capital expenditure** and **operating expenditure** plans for the remainder of the **regulatory period** and made such substitutions as is possible without adversely affecting its ability to meet the **grid output targets** associated with **revenue-linked grid output measures**.

Deleted: grid output targets, caps, collars and grid output incentive rate ...

Deleted: the

Deleted: grid output targets, ...

Deleted: are

Comment [CB102]: The change in ...

Deleted: necessary

Deleted:

Deleted: ;

Comment [CB103]: Clause 3.7.4(4) ...

Comment [CB104]: This paragraph ...

Deleted: <#>the provision of fa ...

Deleted: <#>¶ ...

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SCHEDULE A STANDARD PHYSICAL ASSET LIVES

Standard Physical Asset Lives for Transpower

ASSET DESCRIPTION	STANDARD PHYSICAL ASSET LIFE (YEARS)
Substations	55
Transformers	55
Oil Containment	45
Switchgear	45
Reactive Power Plant:	
220/110/66 kV Two Zone Bus Protection	15
22/11 kV Neutral Earthing Resistor	45
Transmission Lines	55