

## Part 4 Determinations: Request for Clarification and/or Amendment

Please complete the table below and email to:

[regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz) – Attn: Dane Gunnell

<b>Transpower reference</b>	IM_08 (reclassification and addition of pass-through costs)										
<b>Date of request</b>	14 June 2103										
<b>Party requesting clarification or amendment</b>	Transpower										
<b>Relevant determination (Decision number)</b>	IPP – Decision 714 IM – NZCC 17										
<b>Clause reference</b>	IM 3.1.2 (pass-through cost requirements) IPP Part 2 (defined terms, definition of 'operating expenditure')										
<b>Description of clarification or amendment sought. If an amendment is proposed, provide the suggested wording of the determination.</b>	<p>Amend the definition of “operating expenditure” in the IPP to exclude black start and over-frequency arming.</p> <p>Amend the definition of “pass-through costs” in the Transpower IM to include:</p> <ol style="list-style-type: none"> <li>1. Black start and over-frequency arming costs</li> <li>2. indemnity payments made to retailers under the Consumer Guarantees Act 1993 (CGA)</li> </ol>										
<b>Reason why clarification or amendment is required</b>	<p><u>Black start and over-frequency arming</u></p> <p>At present, black start and over-frequency arming are classified as operational expenditure rather than as pass-through costs. We do not believe this is the result of an explicit decision but because the issue was not historically considered material.</p> <p>We consider that it would be appropriate to revisit this classification and to change the definitions ahead of the next RCP for the following reasons:</p> <ul style="list-style-type: none"> <li>- the costs have increased recently and we forecast that tendered prices will increase by approximately 50% between now and the end of RCP2 (see the table below)</li> <li>- collectively the total cost of these ancillary services is now similar to the expected, recoverable, instantaneous reserves availability cost</li> <li>- there is a reasonable prospect that a re-specification of the requirements for black start could result in an order-of-magnitude cost increase that we are unable to accurately forecast</li> <li>- additional costs occur on an infrequent basis and cannot be accurately forecast (e.g. if an over frequency or black start event occurs)</li> </ul> <p>Table: historic and forecast costs in 2013 terms</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Over Frequency (\$000)</th> <th>Black start (\$000)</th> <th>Total (\$000)</th> </tr> </thead> <tbody> <tr> <td>2008/9</td> <td>581</td> <td>361</td> <td>942</td> </tr> </tbody> </table>			Year	Over Frequency (\$000)	Black start (\$000)	Total (\$000)	2008/9	581	361	942
Year	Over Frequency (\$000)	Black start (\$000)	Total (\$000)								
2008/9	581	361	942								

	2009/10	621	429	1,050
	2010/11	1,141 <sup>1</sup>	520	1,661
	2011/12	1,199	549	1,748
	2012/13	1,235	598	1,833
	2013/14	1,369	625	1,994
	2014/15	1,460	671	2,131
	2015/16	1,550	716	2,266
	2016/17	1,640	762	2,402
	2017/18	1,731	807	2,538
	2018/19	1,821	853	2,674
	<p>While we could provide for these cost risks through a contingency in the operating expenditure forecast, we consider it would be more efficient and transparent to treat them as pass through costs. This approach would be comparable to other 'very low probability high impact' events, 'natural disaster' pass-through events, and to the 'above insurance cap' event.</p> <p><u>Consumer Guarantees Act 1993 indemnity payments</u> The Consumer Law Reform Bill (which is currently before Parliament) introduces a new 'acceptable quality guarantee' to the Consumer Guarantees Act, and an indemnity by Transpower in favour of electricity retailers. The indemnity covers retailers for payments they make to their customers for breaches of the acceptable quality guarantee where the failure "...was wholly or partly the result of an event, circumstance, or condition associated with" Transpower's services.</p> <p>Whether a breach of the acceptable quality guarantee has occurred, and the compensation paid, is solely at the discretion of a customer's retailer to determine. This means that the risk is not linked in any way to the various regulatory quality standards Transpower is subject to, and that Transpower's financial exposure is unable to be forecast, but could be material.</p> <p>Given these factors, we request that indemnity payments are defined as recoverable costs for RCP2.</p>			
<b>Reasons Paper reference (if applicable)</b>	The Reasons Paper does not address black-start or over frequency arming. The CGA indemnity did not exist when the reasons paper was published.			
<b>Date amendment is required to be made by and why (if applicable)</b>	Prior to determining Transpower's RCP2 operating expenditure allowance.			

<sup>1</sup> This substantial increase was due to the need for procurement of over frequency arming in the North Island from December 2010.