

## **Transpower capex input methodology review**

**Companion paper to final amendments determination**

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## Associated documents

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25 May 2018	1178-2560	<i>Transpower Capital Expenditure Input Methodology Amendments Determination 2018 [2018] NZCC 8</i>

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## Chapter 1: Introduction

### Purpose of this paper

1. The purpose of this paper is to explain the changes we have made to our revised draft amendments determination<sup>1</sup> in our final amendments determination<sup>2</sup> which we published today as part of the Transpower capital expenditure input methodology review (**capex IM review**).

### Context

2. The input methodologies (**IMs**) are the upfront rules, requirements, and processes applying to regulation under Part 4 of the Commerce Act 1986 (the **Act**).
3. The Transpower capital expenditure input methodology (**capex IM**) was published on 9 February 2012, and includes:
  - 3.1 requirements that must be met by Transpower, including the scope and specificity of information required, the extent of independent verification and audit, and the extent of consultation and agreement with consumers;
  - 3.2 the criteria the Commerce Commission (**Commission**) will use to evaluate capital expenditure proposals; and
  - 3.3 time frames and processes for evaluating capital expenditure proposals, including what happens if the Commission does not comply with those time frames.
4. We commenced our review of the capex IM in April 2017 under s 52Y of the Act.<sup>3</sup>
5. We published our final decisions on the capex IM review on 29 March 2018, which included our revised draft amendments determination.<sup>4</sup>
6. We sought technical submissions on the revised draft amendments determination, which were due on 24 April 2018. We also sought further submissions on a proposed change to the integrated transmission plan (**ITP**) requirements – these submissions were due on 9 May 2018.
7. Having considered those submissions, we have now completed our capex IM review, and have published our final amendments determination alongside this companion paper.

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<sup>1</sup> Draft Transpower Capital Expenditure Input Methodology Amendments Determination 2018 (29 March 2018) (**revised draft determination**).

<sup>2</sup> *Transpower Capital Expenditure Input Methodology Amendments Determination 2018* [2018] NZCC 8.

<sup>3</sup> Commerce Commission "[Notice of Intention – Input Methodology Review: Transpower Capital Expenditure Input Methodology](#)" (28 April 2017).

<sup>4</sup> See footnote 1.

8. The final amendments determination consists of five sections:
  - 8.1 Title;
  - 8.2 Interpretation;
  - 8.3 Determination Amended;
  - 8.4 Commencement and Application; and
  - 8.5 Principal Determination Amendments.
  
9. The Commencement and Application section sets out when the amendments determination comes into force and the dates on which the different amendments start applying. The Principal Determination Amendments section contains the amendments as blue mark-ups to the current Transpower Capital Expenditure Input Methodology Determination (the **principal determination**), including all previous amendments to the principal determination as of 5 February 2015. This version, with mark-ups only in blue, is the ‘official’ final capex IM amendments determination.<sup>5</sup>
  
10. We have also published a version of the final amendments determination showing our drafting changes following our technical consultation on the revised draft amendments determination.<sup>6</sup> This version is being published to assist stakeholders who are interested in seeing the changes we made since the revised draft amendments determination was published on 29 March 2018. In this version, the original drafting changes we consulted on in the revised draft amendments determination are shown as blue mark-ups. The drafting changes following our technical consultation are shown as red mark-ups. These changes are also summarised in Chapters 2 to 5 below. This version is being published for information only.
  
11. The changes we have made in the final amendments determination are the result of:
  - 11.1 our decision in relation to the ITP requirements; and
  - 11.2 our further deliberations and reviews in light of technical submissions on our revised draft amendments determination, which have been made to better give effect to our final decisions.<sup>7</sup>

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<sup>5</sup> *Transpower Capital Expenditure Input Methodology Amendments Determination 2018* [2018] NZCC 8.

<sup>6</sup> As some of the original mark-ups were deleted when the wording was replaced, not all of the original changes are shown. If stakeholders are interested in seeing all of the original changes (as at 29 March 2018) they will need to read the revised draft amendments determination published on that date.

<sup>7</sup> Commerce Commission “Transpower capex input methodology review: Decisions and reasons” (29 March 2018).

12. Most of the changes were prompted by submissions received on the revised draft amendments determination, including a large number of submission points on minor drafting improvements from Transpower. These minor drafting improvements mainly covered drafting changes we proposed as part of our review, but also included other areas of the capex IM that were not affected by our decisions.
13. We have not comprehensively cited submissions in this paper for all the changes we have made in the final amendments determination, but we have done so where we consider it useful in helping submitters understand the changes.<sup>8</sup>

#### **Timing for when our changes to the capex IM will take effect**

14. As noted in paragraph 9 above, the final amendments determination sets out when the amendments determination comes into force and the dates on which the different amendments start applying. The practical effect of this is that the amendments set out in the final amendments determination will take effect:
  - 14.1 for forecast base capex proposed by Transpower in a base capex proposal relating to the next regulatory period (**RCP**),<sup>9</sup> from the commencement date;<sup>10</sup>
  - 14.2 for base capex projects or base capex programmes which Transpower proposes in the base capex proposal relating to the next RCP to be specified in the individual price-quality path (**IPP**) determination as a listed project, from the commencement date;
  - 14.3 for base capex incurred, from the start of the first disclosure year of the next RCP following the commencement date (ie, from 1 July 2020);<sup>11</sup>
  - 14.4 for listed projects which Transpower submits for approval as additional base capex, from the start of the first disclosure year of the next RCP following the commencement date (ie, from 1 July 2020);

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<sup>8</sup> Most of Transpower's proposed changes were tracked directly in the revised draft determination without specific submissions. In most of these instances Transpower provided a comment indicating why the proposed change was an improvement on the existing drafting.

<sup>9</sup> An RCP is the period for which a price-quality path is set by the Commerce Commission under Part 4 of the Act. This is the period for which the Commission sets the forecast maximum allowable revenue for Transpower. In the case of Transpower this period is determined under s 52P(3)(b) of the Act. In accordance with ss 53M(4) and (5), an RCP is generally set for Transpower for a five-year period. The next RCP, referred to as RCP3, commences for Transpower at the start of the first pricing year on 1 April 2020.

<sup>10</sup> The commencement date is the date the capex IM determination will come into force, which will be the day after notice of our determination is given in the *New Zealand Gazette*.

<sup>11</sup> Transpower's price path and expenditure incentives are based on the expenditures which are forecast to be incurred in the disclosure years to 30 June in the RCP that align with each of the five pricing years commencing on 1 April in the RCP. The effective dates for the final amendments determination are therefore expressed, where applicable, in terms of the disclosure year of RCP3 to which they first apply.

- 14.5 for a major capex project that is approved by the Commission after the commencement date:
- 14.5.1 for process changes in the final amendments determination that would not reopen the individual price-quality path in the current 2015-2020 regulatory period (**RCP2**), from the commencement date; and
  - 14.5.2 for any changes in the final amendments determination that would reopen the price path, from the start of the first disclosure year of the next RCP following the commencement date (ie, from 1 July 2020); and
- 14.6 for a major capex project that was approved prior to the commencement date, the relevant provisions of the existing capex IM will continue to apply into the next RCP (and potentially beyond, depending on the final commissioning date for the project).<sup>12</sup>

### Structure of this paper

15. Chapters 2 to 5 of this paper explain changes we have made to the revised draft amendments determination. The changes that were previously adopted in the revised draft amendments determination were explained in the decisions and reasons paper we published with the revised draft amendments determination on 29 March 2018. We have grouped our responses as follows:
- 15.1 Chapter 2 provides our final decision in relation to the ITP requirements and explains our reasons;
  - 15.2 Chapter 3 provides our responses to key issues raised in technical submissions, and why we have, or have not, made a change;
  - 15.3 Chapter 4 describes most of the non-material changes we have made to the revised draft amendments determination, to improve and clarify the way we are giving effect to our final decisions; and
  - 15.4 Chapter 5 sets out some further, minor, changes we have made to the revised draft amendments determination, to improve and clarify those areas of the capex IM which are otherwise unaffected by our final decisions.

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<sup>12</sup> The effect of this effective date for previously-approved major capex projects is that the 'old' rules that applied before the capex IM review are essentially grandfathered to that project. The 'new' rules resulting from the capex IM review apply to new major capex project approvals.



## Chapter 2: Requirement to provide an ITP update in the penultimate disclosure year

### Purpose of this chapter

16. This chapter provides our final decision in relation to the requirement to provide an ITP update in the penultimate disclosure year of an RCP, and explains our reasons.

### We consulted on our proposed change in May 2018

17. On 2 May 2018, we sought submissions on our proposal to amend the capex IM to remove the requirement for Transpower to provide an updated ITP in the September of the penultimate disclosure year of an RCP, where it would be providing a full ITP in December.<sup>13</sup>
18. We received two submissions on our proposed change, from Transpower and Major Electricity Users' Group (**MEUG**).<sup>14</sup> Both submissions supported our proposal.

### Decision and reasons

19. Our decision, therefore, is to amend the capex IM to remove the requirement for Transpower to provide an updated ITP in the September of the penultimate disclosure year of an RCP. Our changes are set out in clause 3.1.1(2) of the capex IM.
20. Our reason for our decision is that we consider there is very little (if any) value in requiring Transpower to provide an ITP update in September and then a full ITP a few months later in December.

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<sup>13</sup> Commerce Commission "Notification email - Technical submissions received on our revised draft capex IM determination, and consultation on proposed change to ITP requirements" (2 May 2018).

<sup>14</sup> MEUG "Capex IM review - Submission on ITP amendment" (9 May 2018); Transpower "Capex IM review: Integrated Transmission Plan update" (9 May 2018).

### Chapter 3: Responses to key issues raised in technical submissions

21. Table 1 provides our responses to key issues raised in technical submissions on the revised draft amendments determination, and why we have, or have not, made a change. We have also indicated the relevant clauses in the final amendments determination, where appropriate.

**Table 1: Responses to key issues raised in submissions**

Submission	Our response and reasons	Clause references
<p><b>Base capex allowance adjustment mechanism</b></p> <p>Transpower submitted that:</p> <ul style="list-style-type: none"> <li>it will not be possible to identify all relevant enhancement and development (E&amp;D) projects or programmes that could be subject to the mechanism at the time of the reset; and</li> <li>it is unlikely that there will be sufficient planning certainty at the time of the reset to stipulate defined thresholds for triggering increases in the base capex allowance or the specific increases.</li> </ul> <p>Transpower proposed:</p> <ul style="list-style-type: none"> <li>removing the specific projects or programmes the adjustment can apply to;</li> <li>removing the specific amounts and</li> </ul>	<p><b>Response</b></p> <p>We have made changes to the final amendments determination to better reflect our final decisions. However, we have not adopted the changes proposed in Transpower’s submission.</p> <p><b>Reasons</b></p> <p>We consider Transpower’s proposal has the effect of making the mechanism a discretionary reopener during the RCP, which is inconsistent with our final decisions.<sup>16</sup></p> <p>We also consider it is unnecessary to refer to the evaluation criteria in the definition when these are already set out in the body of the determination.</p> <p>Our final decision was to allow an automatic adjustment to be set on a project-by-project basis that would update the standard incentive rate base capex allowance. The levels of the relevant drivers and of the</p>	<p>Definition of ‘base capex allowance adjustment mechanism’ and clauses A8 and F2(4)</p>

<sup>16</sup> Commerce Commission “Transpower capex input methodology review: Decisions and reasons” (29 March 2018), para 181-193.

Submission	Our response and reasons	Clause references
<p>thresholds that will apply when upward adjustments are made;</p> <ul style="list-style-type: none"> <li>the allowing of adjustments to be made when cost or timing uncertainties are resolved; and</li> <li>adding the evaluation criteria that will apply to our decisions.<sup>15</sup></li> </ul>	<p>additional revenue will be pre-specified.</p> <p>To the extent that information on the relevant levels is not available for certain E&amp;D projects or programmes at the time of reset of the individual price-quality path, the option of the adjustment for those projects or programmes will not be included in the IPP determination.</p>	
<p><b>Approval of major capex projects (staged)</b></p> <p>Transpower submitted that the drafting for staged major capex projects incorrectly suggested that we would approve not just the relevant <i>staging project(s)</i> for which it was seeking approval, but also the <i>major capex project (staged)</i> which included other stages for which no approval was being sought.</p> <p>Transpower proposed drafting which de-couples the definitions of “major capex project” and “major capex project (staged)” and re-drafted the definition of the former to be either one project or a set of staging projects (ie, sub-projects of a major capex project (staged)).<sup>17</sup></p>	<p><b>Response</b></p> <p>We have modified the final amendments determination to address Transpower’s point, but have adopted a different drafting solution to Transpower’s proposed drafting solution.</p> <p><b>Reasons</b></p> <p>We agree that our proposed drafting incorrectly suggested that we would approve not just the relevant <i>staging project(s)</i> for which Transpower was seeking approval, but also the related <i>major capex project (staged)</i>. Our intention was rather that, while the <i>major capex project (staged)</i> would have to meet the investment test, we would only approve those <i>staging project(s)</i> for which Transpower was seeking approval. Our modifications align the drafting of the final amendments determination with our intention.</p>	<p>Clause 1.1.5(2)</p> <p>Part 3, subpart 3</p> <p>Clauses C1(1), C1(2), C1(3), C1(4), G1(b), and H24(1)(c).</p>

<sup>15</sup> Transpower “Revised Capex IM determination: Technical review: Appendix - Marked-up Capex IM Determination” (24 April 2018), p. 13.

<sup>17</sup> Transpower “Revised Capex IM determination: Technical review” (24 April 2018), p. 1.

Submission	Our response and reasons	Clause references
<p><b>Approval of base capex on listed projects in addition to the base capex allowances</b></p> <p>Transpower raised concerns that the current capex IM does not allow additional base capex to be recognised as approved base capex in the disclosure year in which the application is approved, but in only the following years.<sup>18</sup></p>	<p><b>Response</b></p> <p>We have modified the final amendments determination to allow additional base capex for listed projects to be recognised as approved base capex in the disclosure year in which the application is approved, subject to the expenditure being incurred after the date of application for additional base capex.</p> <p><b>Reasons</b></p> <p>We agree that there is no reason why the additional base capex should not be able to be recognised as approved base capex in the disclosure year of the approval. However, we consider that retrospective approval of additional base capex incurred earlier in the disclosure year of approval could potentially undermine the Commission’s ability to approve or not approve Transpower’s application.</p> <p>We consider that a practical answer is for the application to only apply to expenditure incurred in the disclosure year of application after the date of application for approval. This will ensure greater visibility of the proposed expenditure for the Commission and other stakeholders before Transpower commits to the expenditure.</p> <p>Any expenditure incurred before Transpower makes the application will be subject to the base capex allowances that applied before the application.</p>	<p>Clause 3.2.3</p>

<sup>18</sup> Transpower “Revised Capex IM determination: Technical review: Appendix - Marked-up Capex IM Determination” (24 April 2018), clause 3.2.3(1).

Submission	Our response and reasons	Clause references
<p><b>Approval of base capex on listed projects in addition to the base capex allowances</b></p> <p>Transpower submitted that because the listed project approval process requires it to consider transmission alternatives, the listed project framework needs to recognise economic transmission alternative costs as ‘recoverable costs’, ie, mirroring the framework for major capex with non-transmission solutions.<sup>19</sup></p>	<p><b>Response</b></p> <p>We have not changed the listed project framework to recognise economic transmission alternative costs as ‘recoverable costs’.</p> <p><b>Reasons</b></p> <p>We consider that the existing incentive mechanisms deal with the issue raised and that a revised framework for base capex transmission alternatives is not required.</p> <p>The policy as stated is for transmission alternatives for major capex projects (ie, non-transmission solutions) to be separately approved and for the amounts spent to be treated as recoverable costs.</p> <p>Although there is provision in the Transpower IMs for similar recoverable costs to be approved under the capex IM, the stated policy is that there is to be no such mechanism for base capex transmission alternatives to be approved under the capex IM.</p> <p>The 2012 capex IM reasons paper states that where Transpower spends on a transmission alternative in place of base capex, the expenditure is to be treated as opex. The substitution of a transmission alternative in place of base capex will have the effect of increasing actual opex relative to the current opex allowance for the purposes of the incremental rolling incentive scheme (<b>IRIS</b>) and will cause Transpower to have a negative IRIS incentive amount (or reduction in a positive IRIS</p>	<p>Clause 3.2.3</p>

<sup>19</sup> Transpower “Revised Capex IM determination: Technical review” (24 April 2018), p. 2.

Submission	Our response and reasons	Clause references
	incentive amount). Conversely, the resulting reduction in base capex will have a positive incentive effect (or reduction in a negative incentive amount) under the base capex expenditure adjustment. <sup>20</sup>	
<p><b>Notification of proposed investments</b></p> <p>MEUG submitted that Transpower and the Commission should both be required to notify Transpower’s customers as soon as Transpower notifies the Commission of its intention to plan a major capex project that may become a proposed investment.<sup>21</sup></p>	<p><b>Response</b></p> <p>We have made no changes to the final amendments determination.</p> <p><b>Reasons</b></p> <p>We do not consider this change is necessary or desirable. We consider that the current timing of the public notification within two months after Transpower’s notification to us remains appropriate.</p>	Clause 3.3.1
<p><b>Expected benefits and impact of proposed expenditure on transmission charges</b></p> <p>MEUG submitted that the information Transpower was required to provide each customer on system and/or service benefits should be quantitative, and should only be descriptive if a quantitative assessment is not possible. MEUG suggested the following changes to the determination:</p> <p><u>“At the least a description and preferably a quantitative analysis of the expected system and/or service benefits that will be delivered by elements</u></p>	<p><b>Response</b></p> <p>We have modified the final amendments determination to:</p> <ul style="list-style-type: none"> <li>• include the term “benefits to customers” rather than referring to “service” and “system” benefits;</li> <li>• change “details” to “estimate”; and</li> <li>• require the information relating to opex and base capex to be provided for each year ending on 31 March during the regulatory period.</li> </ul> <p>Note: We also made a number of other minor drafting improvements (including some suggested by Transpower) when finalising this clause.</p>	Clause 7.5.1

<sup>20</sup> Commerce Commission “Transpower Capital Expenditure Input Methodology: Reasons paper” (31 January 2012), para 2.8.13-2.8.14.

<sup>21</sup> MEUG “Capex IM review - technical consultation” (16 April 2018), para 3b.

Submission	Our response and reasons	Clause references
<p>of the proposed expenditure <u>for customers at each grid exit point and grid injection point or equivalently affected groups of customers compared to a counterfactual being the next best alternative that may or may not be business-as-usual.</u><sup>22</sup></p> <p>Transpower’s key submissions included that:<sup>23</sup></p> <ul style="list-style-type: none"> <li>• the requirement to provide details of the benefits of a major capex project, listed project or proposed expenditure was redundant because its expenditure proposals and applications will already include a description and quantification of benefits (where possible);</li> <li>• the difference between “service” and “system” benefits in subclauses 7.5.1(1)(a) and (b) was unclear and suggested that we only refer to “benefits”;</li> <li>• the requirement to provide “details” of the expected increase in transmission charges due to proposed investments or listed</li> </ul>	<p><b>Reasons</b></p> <p>We consider the meaning of “service” and “system” benefits in subclauses 7.5.1(1)(a) and (b) is not clear, and is unnecessarily complicated wording. We also consider that the drafting should link the benefits to customers, which is consistent with our final decision.<sup>24</sup></p> <p>We consider the requirement to provide “details” of the expected increase in transmission charges due to proposed investments or listed projects should be changed to “an estimate” to better reflect the level of detail of the information Transpower will be able to provide.</p> <p>We also consider that the information relating to the impacts on transmission charges from base capex and opex should be provided for each pricing year ending 31 March of the regulatory period because those are the years for which Transpower sets its charges and for which the impacts are recognised by its customers.</p> <p>We have not made the other main changes suggested by Transpower because:</p> <ul style="list-style-type: none"> <li>• we do not consider any of the disclosure requirements are redundant as the disclosures that Transpower makes under other provisions are not related directly to customers; and</li> <li>• we do not think there is a need to define the word</li> </ul>	

<sup>22</sup> MEUG “Capex IM review - technical consultation” (16 April 2018), para 3a.

<sup>23</sup> Transpower “Revised Capex IM determination: Technical review: Appendix - Marked-up Capex IM Determination” (24 April 2018), p. 45-46.

<sup>24</sup> Commerce Commission “Transpower capex input methodology review: Decisions and reasons” (29 March 2018), para 331-338.

Submission	Our response and reasons	Clause references
<p>projects suggested a degree of precision that was not attainable and “estimate” should be used;</p> <ul style="list-style-type: none"> <li>the words “transmission charges” should be a defined term that is linked to the transmission pricing methodology under the electricity industry participation code (the <b>code</b>); and</li> <li>the information relating to base capex and opex provided should be broken down by disclosure year.</li> </ul>	<p>“transmission charges”, as Transpower is able to apply the meaning in the code without us setting a definition. It is better not to have different definitions that could potentially become different over time in the respective regulatory instruments.</p> <p>We disagree with MEUG’s proposed level of granularity of reporting (ie, reporting for customers at each grid exit point and grid injection point). We consider the requirement to provide the impacts on expected transmission charges at grid exit points and grid injection points appropriately balances the need to provide sufficient information to stakeholders on these impacts with the cost to Transpower of providing the information in each instance.</p> <p>We also disagree with MEUG’s proposal that the disclosures include a counterfactual. We do not consider that the case has been made to require this of Transpower in every instance. We also have the ability to obtain such information by way of a s 53ZD Notice if this is necessary or desirable.<sup>25</sup></p>	
<p><b>Base capex expenditure adjustment</b></p> <p>Transpower submitted that the formula contains errors. It also proposed the removal of the ‘h’ term and the adoption of a new term ‘exempt base</p>	<p><b>Response</b></p> <p>We have modified the final amendments determination to correct the errors identified by Transpower.</p> <p>We have consolidated the base capex approved under the base capex</p>	Clause B1

<sup>25</sup> Section 53ZD of the Commerce Act 1986 empowers us to compel Transpower to provide us with information for purposes of carrying out our functions under Part 4.



Submission	Our response and reasons	Clause references
<p>capex' similar to the term <i>exempt major capex</i> for major capex.<sup>26</sup></p>	<p>adjustment mechanism into the 'd' term in the base capex expenditure adjustment formula and have then deleted the 'h' term, as it is now redundant.</p> <p>However, we have not introduced the proposed term 'exempt base capex'.</p> <p><b>Reasons</b></p> <p>We consider the introduction of 'exempt base capex' would essentially create a new category of base capex which would have a zero incentive rate. This would be inconsistent with our final decision.<sup>27</sup></p>	
<p><b>Information to be included in the ITP narrative</b></p> <p>MEUG submitted that we should add a requirement to the ITP narrative updates to require Transpower to include a reconciliation of any of the required narrative information with any of its reports prepared after the previous ITP that discusses or considers alternative strategic directions or scenarios.<sup>28</sup></p>	<p><b>Response</b></p> <p>We have modified the final amendments determination to include a requirement that Transpower's ITP narrative updates should include "explanations of how key aspects of the <b>ITP narrative</b> take account of any changes in <b>Transpower's</b> strategic directions or scenarios since the publication of the previous <b>ITP narrative</b>, including by reference to any new reports by <b>Transpower</b> on strategic directions or scenarios".</p> <p><b>Reasons</b></p> <p>We consider MEUG's proposal better gives effect to our final decision.<sup>29</sup></p>	<p>Clause E2(1)(h)</p>

<sup>26</sup> Transpower "Revised Capex IM determination: Technical review" (24 April 2018), p. 1-2.

<sup>27</sup> Commerce Commission "Transpower capex input methodology review: Decisions and reasons" (29 March 2018), para 140-156.

<sup>28</sup> MEUG "Capex IM review - technical consultation" (16 April 2018), para 3c.

<sup>29</sup> Commerce Commission "Transpower capex input methodology review: Decisions and reasons" (29 March 2018), para 344-348.

<p><b>Base capex annual adjustments</b></p> <p>Transpower submitted that the required timing of the annual calculation of the base capex expenditure adjustment and the grid output adjustment in the capex IM is currently inconsistent with the timing for provision of the draft calculations in the IPP determination for RCP2 and that the timing should be aligned with the timing under the IPP determination for the 2020-2025 regulatory period (<b>RCP3</b>).</p>	<p><b>Response</b></p> <p>We have addressed Transpower’s concern by linking the timing requirement in the capex IM to the time when Transpower provides its annual compliance statement under the IPP determination for RCP3, including by inserting a definition of ‘annual compliance statement’ into the capex IM determination.</p> <p><b>Reasons</b></p> <p>We agree that it is sensible to align the timing in the capex IM with the timing in the IPP determination and consider this is best determined when we carry out the RCP3 IPP reset.</p> <p>Note: We have made similar changes to other clauses of the capex IM by linking the timing requirements in the IM to the time when Transpower provides its annual compliance statement under the RCP3 IPP determination. These changes are noted in Table 2 below.</p>	<p>Clause 3.2.2(1)</p>
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#### Chapter 4: Non-material changes to the revised draft amendments determination

22. Table 2 describes most of the non-material changes we have made to the revised draft amendments determination, to improve and clarify the way we are giving effect to our final decisions. We have also indicated the relevant clauses in the final amendments determination, where appropriate.

**Table 2: Non-material changes to the revised draft amendments determination**

Explanation of non-material change from revised draft amendments determination to final amendments determination	Clause references
Added new defined term for 'demand and generation scenario variation' and related drafting improvements	1.1.5(2), D3, I1(b), I(2)(b), and I6(2)(b)
Corrected drafting error in the definition of 'E&D base capex'	1.1.5(2)
Corrected drafting error in the definition of 'major capex'	1.1.5(2)
Amended the definition of 'non-transmission solution' by deleting (c) which was redundant	1.1.5(2)
Changed 'network assets' to 'grid assets' in the definition of 'non-transmission solution'	1.1.5(2)
Removed the definition of 'principal determination' as it is not used	1.1.5(2)
Amended the definition of 'standard incentive rate base capex allowance' to allow it to be adjusted in accordance with the base capex allowance adjustment mechanism	1.1.5(2)
Amended the definition of 'transmission alternative' to align with the definition for a non-transmission solution	1.1.5(2)
Amended to make it clear that the listed projects are determined at the same time as other matters submitted in the base capex proposal (ie, prior to determination of the IPP)	2.2.2(6)

Removed redundant subclause	2.2.2(8) (in revised draft amendments determination)
Corrected clause reference errors	Various clauses
Bolded defined terms that were not bolded	Various clauses
Changed various provisions to make it clearer when information requirements apply to the <i>major capex project (staged)</i> versus to the <i>staging projects</i> for which Transpower has sought approval	Various clauses
Simplified the drafting setting out the evaluation criteria for considering the base capex allowance adjustment mechanism	A8 and F2(4)

## Chapter 5: Other minor changes to the revised draft amendments determination

23. This chapter sets out some further, minor, changes we have made to the revised draft amendments determination to improve and clarify those areas of the capex IM which are otherwise unaffected by our final decisions.
24. These changes include:
- 24.1 Used defined terms, where more appropriate – for example, changing ‘measure’ to ‘grid output measure’, ‘programme’ to ‘identified programme’, ‘expected unserved energy per megawatt hour’ to ‘value of expected unserved energy’, and ‘options’ to ‘investment options’;
  - 24.2 Added new defined terms, including ‘base capex programme’, ‘base capex project’, and ‘base capex standard incentive rate’;
  - 24.3 Replaced the definition of ‘capital expenditure’ with the definition used in the Transpower IM for consistency;<sup>30</sup>
  - 24.4 Updated the definition of ‘P50’ so that it works better and consistently in the operative clauses within the determination (eg, clauses G4(3)(d) and G5(2)(c));
  - 24.5 Amended the evidence requirement for the Transpower Board signoff of a listed project to better align it with the standard Transpower Board approval procedures (clause 3.2.3(2)(i));
  - 24.6 Amended the time by which the Commission should make its decisions on Transpower’s applications to amend approved major capex projects (clause 3.3.6(3)) by linking the timing to when Transpower provides its annual compliance statement under the RCP3 IPP determination;
  - 24.7 Amended the time by which the Commission must make its decisions on whether the approved major capex project outputs were met by linking the timing to when Transpower provides its annual compliance statement under the RCP3 IPP determination (clause 3.3.8(1));
  - 24.8 Amended the time by which the Commission must calculate the major capex expenditure and output adjustment by linking the timing to when Transpower provides its annual compliance statement under the RCP3 IPP determination (clause 3.3.9(1));

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<sup>30</sup> *Transpower Input Methodologies Determination 2012* [2012] NZCC 17.

- 24.9 Amended the list of matters the Commission must consider before calculating the major capex expenditure and output adjustment to include its decision on whether the approved major capex project outputs were met (clause 3.3.9(2)(c));
  - 24.10 Amended the time by which the Transpower must submit an application to amend approved major capex projects by linking the timing to when Transpower provides its annual compliance statement under the RCP3 IPP determination (clause 7.4.2(1));
  - 24.11 Included an 'avoidance of doubt' clause (clause 7.4.3(2));
  - 24.12 Deleted extraneous wording retained in error (clause 8.1.1(b));
  - 24.13 Moved clause A2(i) to clause A1(i) where it is a better fit;
  - 24.14 In A2 changed 'may' to 'will' to reflect the intent that the factors listed will be evaluated;
  - 24.15 Changed F1 to make it clear that the information required (unless otherwise stated) relates to the next regulatory period;
  - 24.16 Made various minor drafting improvements, eg, F2, F3, F6, F7, F8, F9, F11, F12, H3, H5, H6, and I5;
  - 24.17 Bolded terms that use defined terms, but which previously were not bolded; and
  - 24.18 Made consistency changes, such as including subclause references.
25. Transpower suggested that we change the director certification requirements for the base capex proposal (in clause 9.1.1) to align with other certification requirements where management certification is required. Our decision is not to change the director certification requirement due to the materiality of the expenditure expected to be proposed by Transpower in the base capex proposal relative to the value of other matters for which certification is required.
26. Transpower also suggested a number of changes which we considered were purely stylistic in nature, such as changing the spelling of "subclause" to "sub clause" and replacing "specified" with "determined". For consistency across the regulatory instruments that apply to Transpower, we have decided not to make these changes where it would result in a stylistic inconsistency between the capex IM determination, Transpower IM determination, the IPP determination and the Transpower ID determination.