

## **Transpower Individual Price-Quality Path Amendment Determination 2017 (No.2)**

[2017] NZCC 29

Amendment to Decision [2014] NZCC 35 made under section 52Q of the Commerce Act 1986.

The Commission:

S Begg

G Crombie

E Welson

Date of Decision: 6 December 2017

## Transpower Individual Price-Quality Path Amendment Determination 2017 (No.2)

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

### 1. TITLE

This determination is the Transpower Individual Price-Quality Path Amendment Determination 2017 (No.2).

### 2. DETERMINATION AMENDED

This determination amends the *Transpower Individual Price-Quality Path Determination 2015* [2014] NZCC 35 (**RCP2 IPP Determination**).

### 3. COMMENCEMENT

This determination comes into force on the date on which a summary of it is published in the *New Zealand Gazette*.

### 4. RCP2 IPP DETERMINATION AMENDMENTS

4.1 In clause 17.2 replace the existing wording with the following wording:

17.2 The pilot **asset health grid output measures** are the forecast percentages and the actual percentages of the asset population with scores > eight determined in accordance with the asset health index set out in clause 17.2.1 below, for each of the five asset classes (by reference to the specified asset group) within **Transpower's asset replacement and asset refurbishment** programme set out in clause 17.2.2 below, based on scores calculated using Transpower's applicable **live models**:

17.2.1

Asset Health Index							
1-4	>4-5	>5-6	>6-7	>7-8	>8-9	>9-9.5	>9.5
Read scores from left to right: left-hand side scores mean better condition than right-hand side scores.							

17.2.2

#### Asset Groups

Lines

Lines

Lines

Stations

Stations

#### Asset Classes

Tower foundations – grillage

Tower protective coating

Insulators

Outdoor circuit breakers

Power transformers.

4.2 In clause 28.1 replace the existing wording with the following wording:

28.1 No later than the Friday of the third complete week in October after the end of each **disclosure year**, **Transpower** must provide the **Commission** with separate tables containing the information set out in Tables 5.2 to 5.4 below, determined using its **live models**, together with the required explanatory notes:

*Tables*

**Table 5.2: Report on pilot asset health grid output measures and materiality thresholds**

Asset Group	Asset Class	Asset population for the relevant disclosure year	Percentage of asset population not scored during the relevant disclosure year	Percentage of asset population with Asset Health Index >8								
				Actual % for 2017 disclosure year	Forecast % for 2018 disclosure year	Actual % for 2018 disclosure year	Forecast % for 2019 disclosure year	Actual % for 2019 disclosure year	Forecast % for 2020 disclosure year	Actual % for 2020 disclosure year	Materiality Thresholds	
Lines	Tower foundations - grillage											
	Tower protective coating											
	Insulators											
Stations	Outdoor circuit breakers											
	Power Transformers											

where –

28.1.1 the forecast percentages for the 2018, 2019 and 2020 **disclosure years** (columns 6, 8 and 10) are as forecast in the disclosures due for the 2017 **disclosure year**;

28.1.2 the actual percentages for the 2017, 2018, 2019 and 2020 **disclosure years** (columns 5, 7, 9 and 11) are as assessed at the end of each of the **relevant disclosure years**; and

28.1.3 the materiality thresholds (column 12) are the thresholds under which the actual percentages that are greater than the forecast percentages would be treated as having not exceeded the forecast percentages;

**Table: 5.3 Report on asset health scores**

Asset Group	Asset Class	Asset population for the relevant disclosure year	Percentage of assets not scored for the relevant disclosure year	Asset health scores expressed as a percentage of the population of each asset class								
				1-4	>4-5	>5-6	>6-7	>7-8	>8-9	>9-9.5	>9.5	
Lines	Tower foundations - grillage											
	Tower protective coating											
	Insulators											
Stations	Outdoor circuit breakers											
	Power Transformers											

**Table 5.4: Report on forecast asset health scores assuming no asset replacement or asset refurbishment expenditure**

Asset Group	Asset Class	Forecast asset health scores expressed as a percentage of the population of each asset class							
		1-4	>4-5	>5-6	>6-7	>7-8	>8-9	>9-9.5	>9.5
Lines	Tower foundations - grillage								
	Tower protective coating								
	Insulators								
Stations	Outdoor circuit breakers								
	Power Transformers								

where –

28.1.4 the forecast percentages (columns 3, 4, 5, 6, 7, 8, 9 and 10) are for the **disclosure year** following the **relevant disclosure year** assuming there will be no **asset replacement** or **asset refurbishment** expenditure during that **disclosure year**;

**Table 5.5: Report on forecasts of asset replacement & asset refurbishment expenditure rates and total expenditure for RCP2**

Asset Group	Asset Class	Asset population for the relevant disclosure year	Forecasts of the rate of asset replacement & asset refurbishment for the whole of RCP2 expressed as a percentage of the relevant asset population (total RCP2 replacements divided by the total population)	Forecasts of total asset replacement & asset refurbishment expenditure for the whole of RCP2	Actual rate of asset replacement & asset refurbishment for the whole of RCP2 expressed as a percentage of the relevant asset population (total RCP2 replacements divided by the total population)	Actual total asset replacement & asset refurbishment expenditure for the whole of RCP2
			%	\$	%	\$
Lines	Tower foundations - grillage					
	Tower protective coating					
	Insulators					
Stations	Outdoor circuit breakers					
	Power Transformers					

where -

28.1.5 the forecast rates of **asset replacement** and **asset refurbishment** (column 4) and forecast total **asset replacement** and **asset refurbishment** expenditure (column 5) must be disclosed in each of the disclosures due for the 2017, 2018 and 2019 **disclosure years**; and

28.1.6 the actual rates of **asset replacement** and **asset refurbishment** (column 6) and actual total **asset replacement** and **asset refurbishment** expenditure (column 7) must be disclosed in the disclosures due for the 2020 **disclosure year**; and

*Required Explanatory Notes*

28.1.7 a description of how the scores in the asset health index in clause 17.2.1 and Tables 5.2 to 5.4 relate to the health of the assets, for example, “as

new condition”, “at end of life”, “should be replaced”, or “high asset related risk”;

- 28.1.8 an explanation of differences between the forecasts and actuals in Table 5.2 and Table 5.5;
- 28.1.9 an explanation for any changes to the materiality thresholds in Table 5.2 where the changes occurred between consecutive **disclosure years**;
- 28.1.10 an explanation for any changes in the forecasts in Table 5.5 where the changes occurred between consecutive **disclosure years**;
- 28.1.11 an explanation for any material changes to the **live models**, including the reasons for the changes and an overview of the effect of the changes on the information provided in tables 5.2 to 5.5, where the changes occurred between consecutive **disclosure years**.
- 4.3 Insert the following definition as clause 28.4:
- For the purposes of clauses 17.2 and 28.1 **live model** means the relevant asset health models used by **Transpower** for asset management purposes.
- 4.4 Insert the following definition as clause 28.5:
- For the purposes of clause 28.1 **relevant disclosure year** means the **disclosure year** being reported on.



Sue Begg, *Deputy Chair*

Dated at Wellington this 6<sup>th</sup> day of December 2017.

COMMERCE COMMISSION

### Explanatory Note

This amendment determination modifies Transpower's pilot asset health grid output measures and the asset health pilot reporting requirements in clauses 17.2 and 28.1 of the RCP2 IPP Determination.

We are piloting the asset health grid output measures in RCP2 as we will consider linking the measures to Transpower's revenue during the reset process for the next regulatory period commencing on 1 April 2020 (RCP3). The purpose of the asset health reporting requirements is to require Transpower to publicly report on the health of its assets in the national electricity grid.

The updated reporting requirements include reporting on power transformers, outdoor circuit breakers, insulators, and tower foundations and protective coatings. The updated measures and reporting requirements will give Transpower greater flexibility and allow it to report on its asset health in a more meaningful way, reflecting the evolving state of its asset health models. This will enable more mature asset health measures and reporting requirements for RCP3.