

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm



COMMERCE COMMISSION

DECISION NO. [xxx]

Individual price-quality path determination applicable to electricity lines services supplied by Transpower pursuant to Part 4 of the Commerce Act 1986 (the Act).

The Commission:

Dr M Berry
S Begg
P Duignan
S Gale
PJM Taylor

Draft as at 25 November 2010

Formatted: Highlight

Formatted: Highlight

Date of Decision: [xx xxxxx 2010]

This Draft Determination is for consultation purposes only.

Regulation Branch, Commerce Commission

Wellington, NEW ZEALAND

9 November 2010

ISBN: 978-869451-22-6

DRAFT COMMERCE ACT (TRANSPOWER INDIVIDUAL PRICE-QUALITY PATH) DETERMINATION 2010

TABLE OF CONTENTS

DRAFT COMMERCE ACT (TRANSPOWER INDIVIDUAL PRICE-QUALITY PATH) DETERMINATION 2010	2
PART 1 GENERAL PROVISIONS.....	4
PART 2 DEFINED TERMS	5
PART 3 PRICE PATH.....	14
PART 4 QUALITY STANDARDS	16
PART 5 INFORMATION REQUIREMENTS AND ANNUAL COMPLIANCE STATEMENT 18	
SCHEDULE A DIRECTORS' CERTIFICATE - FORECAST MAR CALCULATION	23
SCHEDULE B DIRECTORS' CERTIFICATE - ANNUAL COMPLIANCE STATEMENT 24	
SCHEDULE C INDEPENDENT ASSURANCE REPORT - ANNUAL COMPLIANCE STATEMENT 25	
SCHEDULE D ANNUAL WASH-UP OF MAXIMUM ALLOWABLE REVENUE	28
SCHEDULE E FORECAST MAXIMUM ALLOWABLE REVENUE	29
EXPLANATORY NOTE.....	30

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

**DRAFT COMMERCE ACT (TRANSPOWER
INDIVIDUAL PRICE-QUALITY PATH)
DETERMINATION 2010**

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

PART 1 GENERAL PROVISIONS

1.1 Title

This determination is the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010.

1.2 Commencement Date

This determination comes into force on 1 April 2011.

1.3 Application

(1) This determination applies to **Transpower** for the **regulatory period**.

(2) Nothing in this determination affects the application of the **administrative settlement**, which remains in force until its expiry.

(3) transitional provision required

1.4 Interpretation

In this determination, unless the context otherwise requires,—

- (a) terms that are defined in the **Act** but not in this determination have the same meanings as in the **Act**;
- (b) words appearing in this determination in bold type are defined terms and bear the meanings given to them in Part 2; and
- (c) a word which denotes the singular also denotes the plural and vice versa.

1.5 Individual price-quality path

Transpower must comply with the individual price-quality path, which consists of:

- (a) the price path in Part 3; and
- (b) the quality standards in Part 4.

1.6 Applicable input methodologies

The input methodologies set out in Part 3 of the **IM determination** apply to the individual price-quality path.

Comment [A1]: Transpower notes that a transitional provision is needed (as indicated by the Commission in its 26 August 2010 Update Paper) to cover the period when both the IPP Determination and the administrative settlement are in force, to clarify that there is no duplication of obligations on Transpower during this period (apart from the final reporting obligation under the administrative settlement on 30 September 2011).

PART 2 DEFINED TERMS

Comment [A2]: Overall, Transpower submits that the defined terms should be consistent with the defined terms in the IM Determination to the greatest extent possible.

In this determination, unless the context otherwise requires,—

A

Act means the Commerce Act 1986;

administrative settlement means the deed of settlement entered into by the **Commission** and **Transpower** on 24 June 2008 and the **thresholds notice**;

annual compliance statement means a statement made by **Transpower** under Part 5;

applicable input methodologies means the input methodologies referred to in clause 1.6;

assessment date means 30 June in each of the years 2012 to 2015 inclusive;

asset enhancement means a **capex project** or **programme** that enhances an asset and which involves:

Comment [A3]: Transpower submits that this definition needs to be revised to ensure that it does not capture work to bring assets up to modern equivalent

- (a) the replacement of an asset, or addition to or replacement of a sub-component of an asset; or
- (b) materially improving the design attributes of the asset; or
- (c) work on existing assets or investment in new assets, but not including information systems and technology, where the main purpose is to:
 - (i) bring the performance of the existing asset up to the appropriate standard, where the asset performance is below a modern standard of service and/or good industry practice; or
 - (ii) increase its capacity, reliability, or quality of supply, consistent with **customer** needs;

asset refurbishment means **capex** driven by **Transpower's** policies, on any asset refurbishment **project** or **programme**, or sub-component of the asset, that:

- (a) materially extends its original economic life; and
- (b) does not improve its original service potential; and
- (c) excludes work to ensure that it is able to perform its designated function for its normal estimated operating life;

asset replacement means **capex** driven by **Transpower's** policies on replacing substantially all of an existing asset due to the condition or performance of that asset, but where replacement of the asset, or sub-component of the asset does not materially improve the original service potential beyond that attributable to using modern equivalent assets;

auditor means a person who:

- (a) is qualified for appointment as auditor of a company under the Companies Act 1993; and
- (b) has no relationship with, or interest in, **Transpower** that is likely to involve the person in a conflict of interest; and
- (c) has not assisted with the preparation of the **annual compliance statement** or **forecast MAR** calculation, as applicable, or provided advice or opinions (other than in relation to **independent assurance reports**) on the methodologies or processes used in preparing the **annual compliance statement** or **forecast MAR** calculation; and

Formatted: Indent: Left: 0 cm

- (d) has the necessary expertise to properly undertake an independent assurance engagement required by this determination; and
- (e) need not be the same person as the person who audits Transpower's financial accounts for any other purpose;

B

business support means **capex** that is not directly incurred in relation to the **grid** and that is incurred in relation to:

- (a) information systems and technology assets other than those relating to the **grid**; or
- (b) office buildings; or
- (c) depots and workshops; or
- (d) office furniture and equipment; or
- (e) motor vehicles; or
- (f) tools, plant and machinery;

C

capex means capital expenditure that is directly related to the provision, operation or maintenance of electricity works used to provide **electricity transmission services**, but excludes any such expenditure -

- (a) under a **new investment contract**; or
- (b) associated with the provision of **unregulated services**; or
- (c) relating to **system operator** services;

catastrophic event has the meaning set out in the **IM determination**;

Code means the *Electricity Industry Participation Code* made by the Electricity Authority under subpart 3 of Part 2 of the *Electricity Industry Act 2010*, as amended from time to time;

Commission means the Commerce Commission;

commissioned means first used by **Transpower** to provide **electricity transmission services**, save that 'commissioned' means first acquired by **Transpower**, in the case of-

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

if the acquisition is approved under Part F of the *Electricity Governance Rules 2003* or an input methodology determined under s 54S of the **Act**, and 'commission' shall be construed accordingly;

corporate tax rate has the meaning set out in the **IM determination**;

customer means any generator, distribution business, consumer, or other entity in New Zealand that is connected, or applies to be connected, to the **grid**;

D

directors' certificate means a certificate signed by at least two directors of **Transpower** in the forms specified in Schedules A or B, as applicable;

disclosure year means a period of 12 months ending on 30 June;

Comment [A4]: Clarification is needed as to how this aligns with the definition of capital expenditure in the IM Determination which relates capex to particular commissioned assets.

Deleted: lines

Deleted: lines

Comment [A5]: Transpower suggests that this definition is unnecessary as the "customer" definition is in any case limited to entities connected to the grid (that is the only place where the consumer definition is used).

Deleted: consumer has the meaning set out in s 2(1) of the Electricity Act 1992.

Formatted: Indent: Left: 0 cm

E

easement has the meaning set out in the **IM determination**;

easement land has the meaning set out in the **IM determination**;

electricity transmission services means electricity lines services (as 'electricity lines services' is defined in s 54C of the Act), or services directly related to electricity lines services, supplied by Transpower;

energy not supplied means the best estimate of energy that would have been supplied by **Transpower** had there been no **interruption**, minus energy actually supplied by **Transpower**;

EV means economic value;

EV account means, as applicable, the **HVAC EV** account or the **HVDC EV** account maintained by **Transpower** to record the respective after-tax **HVAC** and **HVDC ex-post economic gains or losses** not yet returned to or recovered from **Transpower's HVAC customers** or **HVDC customers**, and to record interest calculated on the balance of each **EV** account for each **disclosure year** using the [X] percentile estimate of vanilla **WACC**, as published in accordance with the **IM determination**;

EV account entry means, for any **disclosure year**, an entry into either of the **HVAC** or **HVDC EV accounts** to record:

- (a) an after-tax **HVAC** or **HVDC ex-post economic gain or loss** for the **disclosure year**;
- (b) an after-tax gain or loss in respect of a **transaction that ceases to be an effective hedge**; or
- (c) an after-tax revenue adjustment amount calculated in accordance with clause 5.3(3)(c);

EV adjustment means, in relation to a **disclosure year**, an input to the **forecast MAR** determined in accordance with clause 5.3, for the purpose of returning to or recovering from **HVAC customers** or **HVDC customers** a portion of the **EV account** balance applying to those **customers**;

ex-post economic gain or loss means, for any **disclosure year**, the difference (expressed as a positive or negative amount) between the summation of the **HVAC revenue** and the **HVDC revenue** in respect of that **disclosure year**, and the **MAR** for that **disclosure year**, and adjusted to an after-tax basis using the **corporate tax rate**;

F

forecast MAR has the meaning specified in clause 3.1(2);

G

GAAP means generally accepted accounting practice, as defined in s 3 of the Financial Reporting Act 1993;

grid means the fixed assets used or owned by **Transpower** for the purpose of supplying **electricity transmission services**;

Comment [A6]: Transpower submits that the terminology should be changed to align with the IM Determination and to ensure that all assets that would be considered to be within Transpower's RAB (as an integral part of conveying electricity by line even though they do not directly convey electricity by line - such as monitoring systems), are included.

Deleted: electricity lines services has the meaning set out in s 54C of the Act;¶

Deleted: 75th

Comment [A7]: Transpower proposes that this definition should be moved to Part 3 to improve clarity in that Part.

Deleted: means the forecast of a **MAR** for a **disclosure year** as determined by the **Commission** in accordance with the building blocks calculation in Schedule D and by amendment to the list of forecast **MARs** in Schedule F, including on receipt of information from **Transpower** regarding proposed updates to the forecast **MAR** under clause 5.4

Deleted: given

Deleted: lines

Formatted: Indent: Left: 0 cm

H

HVAC means High Voltage Alternating Current;

HVAC circuit unavailability (unplanned) means the percentage of time that the **HVAC** circuits are unavailable, where this is unplanned, and:

(a) applies to HVAC transmission circuits operated as part of the Transpower system at a voltage equal to or greater than 33 kV;

(b) is calculated as a percentage using;

$$\frac{\text{total number of minutes any circuits were out of service in a period} \times 100}{\text{total number of minutes in period} \times \text{total number of circuits at start of year}}$$

(total number of minutes in period x total number of circuits at start of year)

(c) includes:

- (i) all unplanned circuit **outages** originating on the **HVAC** system;
- (ii) **catastrophic events**; and
- (iii) forced **outages** caused by third parties;

(d) excludes:

- (i) momentary outages of less than one minute duration;
- (ii) **outages** at request of, or caused by, a **customer**;
- (iii) all planned **outages**;
- (iv) correct operation of boundary equipment; and
- (v) **HVDC outages**.

HVAC customer means, in relation to an **disclosure year**, any **customer** by whom **HVAC transmission charges** are payable in the relevant **pricing year**;

HVAC revenue means, in relation to a **disclosure year**, the summation of all **HVAC transmission charges** (inclusive of any rebates) for the **relevant pricing year**, excluding **pass-through costs** and **recoverable costs** passed on to any **HVAC customer**;

HVAC transmission charge means, in relation to a **disclosure year**, any charge payable to **Transpower** by **HVAC customers** in respect of the use by **Transpower** of **Transpower's** **HVAC** transmission system for the purpose of providing **electricity transmission services** to **customers**;

HVDC means high voltage direct current;

HVDC Bi-Pole unavailability (unplanned) means the percentage of the time that the **HVDC** bi-pole is not 100% available weighted by the unavailable **MW** capacity, where this is unplanned, and:

(a) is calculated as a percentage using:-

$$\frac{\text{total number of minutes that any HVDC poles were unavailable or derated} \times \text{the reduction in capacity in MW} \times 100}{\text{total number of minutes in period} \times \text{rated capacity of the HVDC poles in MW}}$$

(total number of minutes in period x rated capacity of the HVDC poles in MW)

Comment [A8]: Transpower notes that this is a standard industry term and the generally accepted definition should be used here also.

Deleted: all

Deleted: alternating current voltages

Deleted: is

Deleted: or to

Comment [A9]: Transpower submits that the HVAC revenue requirement will drive the HVAC transmission charge – not the other way around as is the case here. Transpower suggests that this definition would benefit from further discussion with the Commission.

Comment [A10]: Transpower submits that this definition needs amending in line with para 3.4.2 of the IM (Transpower) consultation update paper (12 November 2010). Query whether the necessary change should be here or to the definition of HVAC revenue?

Deleted: lines

Comment [A11]: Transpower submits that this definition should be updated as marked for consistency with the CIGRE (International Council on Large Electric Systems) reporting protocol which Transpower currently follows, and with other existing published HVDC availability results. The reference to 'circuits' also suggests just the physical transmission lines, whereas the measure is for bi-pole unavailability therefore Transpower has revised the definition to reflect this also.

Formatted: Indent: Left: 0 cm

- (b) includes:
 - (i) all unplanned **outages** of the HVDC link originating on the **Transpower HVDC system**;
 - (ii) **catastrophic events**; and
 - (iii) forced **outages** caused by third parties;
- (c) excludes:
 - (i) momentary outages of less than one minute duration;
 - (ii) **outages** at request of, or caused by, a **customer**;
 - (iii) all planned **outages**;
 - (iv) correct operation of boundary equipment; and
 - (v) **HVAC outages**;

Deleted: HVDC bi-pole unavailability (unplanned) means the percentage of time that the HVDC bi-pole is unavailable, where this is unplanned, and:¶
 <#>is calculated as a percentage using:¶
 ¶
 ¶

$$\frac{\text{total number of minutes any circuits were out of service in a period} \times 100\%}{\text{(total number of minutes in period} \times \text{total number of circuits at start of year)}}$$

HVDC customer means, in relation to a **disclosure year**, any **customer** by whom **HVDC transmission charges** are payable in the relevant **pricing year**;

HVDC revenue means, in relation to a **disclosure year**, the summation of all **HVDC transmission charges** (inclusive of any rebates) for the **relevant pricing year**, excluding **pass-through costs** and **recoverable costs** passed on to any **HVDC customer**;

HVDC transmission charge means, in relation to a **disclosure year**, any charge payable to **Transpower** by **HVDC customers** in respect of the use by **Transpower** of **Transpower's HVDC transmission system** for the purpose of providing **electricity transmission services** to **customers**;

Deleted: or to
Comment [A12]: Transpower submits that the HVDC revenue requirement should drive the HVDC transmission charge – not the other way around as is the case here. This definition would benefit from further discussion with the Commission.

Comment [A13]: This definition needs amending in line with para 3.4.2 of the IM (Transpower) consultation update paper (12 November 2010). Query whether the necessary change should be here or to the definition of HVDC revenue?

I

independent assurance report means a report relating to an **annual compliance statement** in the form specified in Schedule C, issued by an **auditor**;

IM determination means the *Commerce Act (Transpower Input Methodologies) Determination 2010*;

information system and technology assets means assets that are used in operating or supporting the operation of the **grid**, including:

- (a) **Transpower's** telecommunications network;
- (b) the Supervisory Control and Data Acquisition **System (SCADA)**;
- (c) devices which provide data to the **SCADA**; and
- (d) network systems;

interruption means **an interruption in the conveyance of electricity from the grid assets owned by Transpower to the assets owned or operated by a 'designated transmission customer' (as defined in the Code) at a point of connection**;

Deleted: lines

Deleted: Energy Management

Deleted: EMS

Deleted: EMS

Formatted: Unnumbered L1

Formatted: Font: Bold

Formatted: Font: Not Bold

Comment [A14]: Transpower submits that this definition needs revising as marked. The existing reference to **prescribed voltage electric line** relates to lines companies, and introduces an uncertainty in the application to Transpower because Transpower has points of connection. The proposed new definition is essentially the definition from Part 1 of the Electricity Industry Participation Code, modified to reflect that it refers only to supply customers.

L

loss of supply event means an event which results in one or more **interruptions** and:

- (a) includes:

Deleted: ¶
 in relation to the conveyance of electricity to a **customer** by means of a **prescribed voltage electric line**, the cessation of conveyance of electricity to that **customer**, including by reason of (...)

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

- (i) all **unplanned interruptions** to supply originating in the **grid** of greater than one minute duration;
 - (ii) any **Transpower** caused contribution to **unplanned interruptions** originating in another party's system;
 - (iii) automatic under-frequency load-shedding;
 - (iv) automatic under-voltage load-shedding;
 - (v) load restrictions resulting from **unplanned interruptions on the grid, but excluding load reductions achieved completely by the use of controllable load or interruptible load**; and
 - (vi) **catastrophic events**;
- (b) excludes:
- (i) **planned interruptions**;
 - (ii) **interruptions to the auxiliary load used for internal purposes by electricity generators**;
 - (iii) any momentary **interruptions** to connection of less than one minute duration;
 - (iv) any **interruptions** to connection originating on another party's system and where the **grid** operated correctly; and
 - (v) **any reduction in load where this is achieved by reducing controllable load such as hot water heating and irrigation loads**.

Comment [A15]: Transpower submits that the definition of unplanned interruption should be aligned with the Code definition, which is tied to unplanned outages not planned in accordance with the Outage Protocol.

Comment [A16]: Transpower proposes this revision to the definition for consistency with current standard interruption reporting which is based on "lights out" loss of supply, and not outages that result in load management by reducing controllable load or the operation of interruptible load (as the latter is subject to a contractual arrangement with a customer to operate their load in a certain manner).

Comment [A17]: Transpower proposes this revision to the definition to improve clarity. The existing wording implies that interruptions to generators should be included where the impact is more than just the loss of auxiliary load used for internal purposes, whereas this is not the purpose of the measure (that is, to measure performance to end user customers taking supply from the grid).

Deleted: , where the only impact is the loss of auxiliary load used for internal purposes

Deleted: and

Comment [A18]: This revision follows on from the proposed revision to 'Loss of supply' paragraph (a)(v), above.

Comment [A19]: Transpower proposes that this definition should be moved to Part 3 to improve clarity in that Part.

Formatted: Unnumbered L1

Deleted: means, in relation to a **disclosure year**, **Transpower's** maximum allowable revenue from the supply of **electricity lines services**, calculated following the **disclosure year:**¶
<#>using **applicable input methodologies**; and¶
<#>using **opex**, as determined by the **Commission**; and¶
<#>using the lesser of the actual cost or the approved level of **minor capex**, as determined by the **Commission**; and¶
<#>for **commissioned major capex**, the sum of each **project** value approved by the **Commission**, with the **project** value in each case being the lesser of actual expenditure ar...

Deleted: given

Deleted: 234.02

M

major capex means any **capex** that is not **minor capex**;

MAR has the meaning specified in clause 3.1(3);

minor capex means **capex** on:

- (a) **asset replacement**; or
- (b) **asset refurbishment**; or
- (c) during the **transition year**, **asset enhancement projects** forecast to cost less than \$1.5 million, or **asset enhancement programmes** forecast to cost less than \$5 million; or
- (d) during the **remainder period**, **asset enhancement projects** forecast to cost less than \$5 million, or **asset enhancement programmes** forecast to cost less than \$5 million; or
- (e) **information and system technology** relating to the **grid**; or
- (f) **business support**;

N

new investment contract has the meaning set out in the **IM determination**;

O

opening EV account balances means the balances recorded in the **EV accounts** as at 30 June 2011, including any interest accrued up to that time on those balances;

opex means the approved level of operating expenditure specified by the **Commission**, which is, for the **transition year**, \$248.5 million. By 30 November 2011, the **Commission** will determine the operating expenditure for each **disclosure year** of the **remainder period**. For the avoidance of doubt, it:

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

- (a) includes expenditure incurred in relation to departmental, investigations, communications and control, IST operations, instantaneous reserve ‘event charges’ (as that term is defined in the **Code**), operating lease costs, transmission and substation maintenance, insurance premiums, black start and over-frequency arming costs, and ancillary services costs not classified as **recoverable costs** by the **Commission**; and
- (b) excludes depreciation; finance lease costs; tax payable; revaluations; **pass-through costs**; **recoverable costs**; any operating costs associated with transmission alternative services that have been approved by the Electricity Authority (or any other regulatory body); expenditure that is the result of an insurance event and has been recovered by insurance income (or is expected to be recovered); and costs associated with supplying **unregulated services** and expenses related to the **SOSPA**;

Deleted: expenditure in relation to

Deleted: Commission

outage has the meaning set out in clause 12.130 of the **Code**, as amended from time to time;

Deleted: 2

P

pass-through costs has the meaning set out in the **IM determination**;

planned interruption means any **interruption** that is not an **unplanned interruption**;

price has the meaning set out in the **IM determination**;

pricing year means a 12 month period ending on 31 March;

programme means **projects** and/or expenditure activities, within a **capex** category, which are grouped together on the basis of having a common purpose;

project means a temporary endeavour requiring concerted effort, which is undertaken to create a defined outcome;

Comment [A20]: Transpower submits this definition is no longer needed in light of the proposed revised definition of “interruption”.

Deleted: prescribed voltage electric line

Deleted: means an electric line that is capable of conveying electricity at a voltage equal to or greater than 33 3.3 kilovolts;

R

RAB means regulatory asset base;

recoverable costs has the meaning set out in the **IM determination**;

regulatory period, or **RCP1**, means the period 1 ~~April 2011~~ to 31 ~~March 2015~~;

relevant pricing year, in relation to a **disclosure year**, means the **pricing year** commencing on 1 April immediately before the start of that **disclosure year**;

remainder period means the period 1 ~~April 2012~~ to 31 ~~March 2015~~;

Comment [A21]: This change is necessary to align with IM Determination RCP1, IM Update Paper, and TP Update Paper of 26 August 2010.

Deleted: July

Deleted: 0

Deleted: June

Comment [A22]: This change is necessary to align with RCP1.

Deleted: July

Deleted: 30

Deleted: June

S

SOSPA means the System Operator Service Provider Agreement between the Electricity Commission and **Transpower** dated 12 August 2009, as amended from time to time, or any successor to that agreement;

stranded has the meaning set out in the **IM determination**;

system maximum demand is the single highest half-hourly input (in megawatts) to the **grid** during a **disclosure year**;

system minutes means **energy not supplied** resulting from an **outage** calculated in accordance with the following formulae:

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

a/b, where:

'a' is **energy not supplied** (in megawatt minutes); and

'b' is **system maximum demand**;

system ~~operator has~~ the meaning set out in the SOSPA;

Deleted: operator has

T

thresholds notice means the *Commerce Act (Transpower Thresholds) Notice 2008*;

total impact of interruptions is a measure of annual total **energy not supplied** resulting from **planned** and **unplanned interruptions** of supply to **customers**. It is expressed in **system minutes**. Total **impact** of interruptions-

Comment [A23]: Transpower submits that the term 'total duration of interruptions' is ambiguous as Transpower uses the duration of an interruption to mean the elapsed clock time, not unserved energy. Unserved energy (in system minutes) is disclosed as 'customer interruptions in system minutes' for current information disclosure purposes. For other purposes, other terminology is used such as 'Unserved energy: non supply', 'Supply interruptions in system minutes' or 'impact of interruptions'. We do not use 'duration' to describe this quantity. The Commission has described this correctly (using 'impact' not 'duration') in clauses 5.5(1)(c)(iv) and 5.5(2)(c)(iv), for example.

(a) includes:

- (i) all **unplanned** and **planned interruptions** to supply originating on the **grid** of greater than one minute **impact**;
- (ii) any **Transpower** caused contribution to **interruptions** originating in a **Transpower customer** system;
- (iii) automatic under-frequency load-shedding;
- (iv) automatic under-voltage load-shedding;
- (v) load restrictions resulting from **unplanned interruptions** on the **grid** where the energy cannot be made up later;
- (vi) **catastrophic events**;

Deleted: duration

Deleted: duration

Deleted: duration

(b) excludes:

- (i) all **interruptions** to connection to generator **customers**, where the only impact is the loss of auxiliary load used for internal purposes;
- (ii) any momentary **interruptions** to connection of less than one minute **impact**;
- (iii) any **interruptions** to connection originating on another party's system and where the **grid** operated correctly;

Deleted: duration

transaction that ceases to be an effective hedge means a transaction entered into by **Transpower** in accordance with its policy on **capex** hedging that qualifies as an effective hedge at the date of the transaction, but that ceases during the **disclosure year** to qualify for hedge accounting in accordance with **GAAP**, and such ceasing to qualify results in a gain or loss being incorporated into its Statement of Comprehensive Income for financial accounting purposes;

transition year means the period 1 **April 2011** to **31 March 2012**;

Comment [A24]: This change is necessary to align with RCP1

Deleted: July

Deleted: 30

Deleted: June

Transpower has the meaning set out in s 54B of the Act;

U

unplanned interruption means any **interruption** in respect of which less than 24 hours notice, or no notice, was given, either to the public or to all **customers** affected by the **interruption**;

Comment [A25]: Transpower submits that the definition of unplanned interruption should be aligned with the definition under the Code, which is tied to 'unplanned outages' not planned in accordance with the Outage Protocol.

unregulated services means any good or service that is not regulated under Part 4 of the Act;

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

W

WACC means weighted average cost of capital; and
working days has the meaning set out in s 2 of the Act.

Formatted: Indent: Left: 0 cm

PART 3 PRICE PATH

Comment [A26]: Transpower submits that the primary relevant clauses for setting the MAR should be brought together in one place to improve clarity in this Part.

3.1 Maximum revenue

- (1) Transpower's maximum revenue for each disclosure year is the forecast MAR.
- (2) 'Forecast MAR' means the forecast of MAR for a disclosure year as determined by the Commission in accordance with the building blocks calculation in clause 3.2 and by amendment to the list of forecast MARs in Schedule E, including on receipt of information from Transpower regarding proposed updates to the forecast MAR under clause 5.4.
- (3) 'MAR' means, in relation to a disclosure year, Transpower's maximum allowable revenue from the supply of electricity transmission services, calculated following the disclosure year:

Deleted: a

- (a) using applicable input methodologies; and
- (b) using opex, as determined by the Commission; and
- (c) using the lesser of the actual cost or the approved level of commissioned minor capex, as determined by the Commission; and
- (d) for commissioned major capex, the sum of each project value approved by the Commission, with the project value in each case being the lesser of actual expenditure and that approved by the Commission; and
- (e) including any EV adjustment; and
- (f) excluding pass-through costs and recoverable costs; and
- (g) for all other building blocks, using actual costs for the disclosure year.

Comment [A27]: To be checked with John.

Formatted: Heading H5: Clause subtext L1

Comment [A28]: Change proposed for clarity and to align with major capex in (d).

Comment [A29]: This change is to ensure that the Commission is comparing like with like when comparing forecast MAR with actual (ex post) MAR.

3.2 Forecast MAR and MAR building blocks

Deleted: excluding

Deleted: ¶

Formatted: Underline

Formatted: Underline

Formatted: No bullets or numbering

Building Block	Formula	Description
Average RAB	A	Forecast opening RAB value plus half of the forecast commissioned value of approved capex, as each defined in Part 1 of the IM determination
WACC	B	[X] percentile estimate of WACC, as defined in Part 1 of the IM determination, and published in accordance with the cost of capital input methodology in Part 3 Subpart 5 of the IM determination
Capital charge	$C = A \times B$	Average RAB multiplied by WACC, as each described above
Opex cap	D	Opex, as defined in Part 2 of this determination, and as approved by the Commission
Depreciation	E	Forecast depreciation, calculated in accordance with the asset valuation input methodology in Part 3 Subpart 3 of the IM determination
Tax	F	Forecast regulatory tax allowance, as specified in the treatment of taxation input methodology in Part 3 Subpart 4 of the IM determination
EV adjustment	G	EV adjustment, on a grossed up pre-tax basis, as calculated in accordance with clause 5.3 of this

Deleted: 75th

Comment [A30]: More specific reference proposed, to better direct user to appropriate section

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

		determination
Forecast MAR	$H = C + D + E + F + G$	
Pass-through costs	I	Forecast pass-through costs, as defined in Part 2 of this determination
Recoverable costs	J	Forecast recoverable costs, as defined in Part 2 of this determination
Forecast revenue	$K = H + I + J$	Total forecast revenues used for the purpose of setting charges under the transmission pricing methodology, as specified under this Part 3.

Deleted: of this determination

Formatted: Font: Times New Roman

Formatted: No bullets or numbering

3.3 Transition year

The forecast MAR for the transition year is \$x million. For the avoidance of doubt, revenues that Transpower receives from the supply of electricity transmission services between 1 April 2011 and 31 March 2012 are treated as revenues received in the transition year.

Deleted: lines

3.4 Remainder period

- (1) By 30 November 2011, the Commission will determine the forecast MAR for each disclosure year of the remainder period, following receipt of relevant information from Transpower by 21 October 2011.
- (2) The Commission will determine an appropriate adjustment to each forecast MAR determined under clause 3.3(1) on an annual basis, following receipt of information from Transpower under clause 5.4, and in accordance with Schedule E.

Formatted: Font: Not Bold

Comment [A31]: Transpower proposes this additional text to reflect the Commission's draft decisions on timing and information needs.

Formatted: Font: Not Bold

Deleted: F

3.5 Demonstrating compliance with price path

- (1) In order to comply with the forecast MAR, Transpower must demonstrate that the forecast revenues that it used for the purpose of setting charges under the transmission pricing methodology (as specified in the Code) did not, in aggregate, exceed the forecast MAR that applies to the relevant disclosure year.
- (2) Transpower must comply with clause 3.5(1) by providing the Commission with a directors' certificate in relation to the application of the forecast MAR to the relevant pricing year, in the form set out in Schedule A, at the time it announces the charges referred to in clause 3.5(1).

Deleted: 4

Deleted: 4

Formatted: Indent: Left: 0 cm

PART 4 QUALITY STANDARDS

4.1 Quality measures:

(1) The quality measures for the **transition year** and **remainder period** are:

- (a) **loss of supply event frequency:**
 - (i) number of events >0.05 **system minutes**; and
 - (ii) number of events >1 **system minute**; and
- (b) **HVAC circuit unavailability (unplanned)**; and
- (c) **HVDC bi-pole unavailability (unplanned)**; and
- (d) **total impact of interruptions.**

Deleted: duration

4.2 Quality targets:

(1) The quality targets for the **transition year** are:

- (a) **loss of supply event frequency:**
 - (i) maximum of 21 events >0.05 **system minutes**; and
 - (ii) maximum of 3 events >1 **system minute**; and
- (b) **HVAC circuit unavailability (unplanned)**: maximum of 0.056% unavailability; and
- (c) **total impact of interruptions**: maximum of 16.69 **system minutes**.

Deleted: duration

(2) The **Commission** will determine the quality targets for the **remainder period** by 30 November 2011.

4.3 Quality standards:

(1) In **RCPI**, **Transpower** will be required to disclose information to the **Commission** regarding the quality of the **electricity transmission services** it supplies, in accordance with this clause 4.3.

Deleted: lines

(2) The quality standards for the **transition year** are that **Transpower** must provide to the **Commission**:

- (a) the information set out in clauses 5.5(1)(a) to (c); and
- (b) for all **interruptions** over 1 **system minute**, within 5 **working days** of supply being restored, a report that includes:
 - (i) **to the extent that Transpower has been able to determine using reasonable endeavours, the reason or reasons for the **interruption****; and
 - (ii) **Transpower's** initial response to the **interruption**; and
 - (iii) an estimate of the impact of the **interruption** in **system minutes**.

Formatted: Font: Bold

Comment [A32]: Transpower notes that depending on the nature and complexity of the event there may be circumstances in which it may not be able to provide a definitive reason or reasons within 5 working days. Some provision could be made here to update the Commission upon determination of a more definitive reason or reasons.

(3) The quality standards for the **remainder period** are that **Transpower** must provide to the **Commission**:

- (a) the information set out in clauses 5.5(2)(a) to (c); and
- (b) for all **interruptions** over 1 **system minute**, within 5 **working days** of supply being restored, a report that includes:
 - (i) **to the extent that Transpower has been able to determine using reasonable endeavours, the reason or reasons for the **interruption****; and
 - (ii) **Transpower's** initial response to the **interruption**; and

Comment [A33]: As above, Transpower notes that depending on the nature and complexity of the event there may be circumstances in which it may not be able to provide a definitive reason or reasons within 5 working days. Some provision could be made here to update the Commission upon determination of a more definitive reason or reasons.

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

- (iii) an estimate of the impact of the **interruption** in **system minutes**.

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

PART 5 INFORMATION REQUIREMENTS AND ANNUAL COMPLIANCE STATEMENT

Comment [A34]: Transpower proposes a number of amendments to this Part for clarity, or as consequential changes from earlier proposed amendments (unless otherwise explained).

5.1 Requirement to provide annual compliance statement

- (1) **Transpower** must provide to the **Commission**, no later than the 30th day of September following each **assessment date**, an **annual compliance statement**, stating in writing whether **Transpower** has complied in respect of that **disclosure year** with the information requirements, including relevant calculations, set out in this Part 5 in relation to the price path in Part 3 and the quality standards in Part 4.
- (2) **The annual compliance statement provided under clause (1) must be accompanied by the information specified in this Part 5 (as relevant to the year in question) as necessary to fully support and explain the annual compliance statement.**

Deleted: p

Formatted: Font: Bold

5.2 Information requirements relating to price path

The information requirements referred to in clause 5.1 are as follows for Transpower's price path:

Formatted: Indent: Left: 1.15 cm, No bullets or numbering

- (1) **Revenues:**
- (a) for each **disclosure year**:
- (i) the **forecast MAR**; and
- (ii) the **actual MAR**; and
- (iii) the update of any **forecast MAR** that is calculated at the end of the **disclosure year**, supported by a listing of **major capex projects** and calculation of the incremental impact of those **projects** on that **forecast MAR**;
- in the applicable building block formats in **clause 3.2 and Schedule D of this determination**, supported by sufficient detail to demonstrate that each **forecast MAR**, **actual MAR** or update of a **forecast MAR** has been calculated in accordance with the relevant requirements and definitions set out in this determination; and
- (b) **actual HVAC revenue** for the **disclosure year**; and
- (c) **actual HVDC revenue** for the **disclosure year**.
- (2) **Capex:**
- (a) for each **disclosure year**, listing **minor capex** (broken down by each expenditure category in the definition of that term in Part 2) and **major capex** separately, and including:
- (i) **minor capex** and **major capex commissioned** during the **disclosure year**; and
- (ii) an explanation of any **material** variation between **minor capex** and **major capex** that was forecast to be **commissioned** during the **disclosure year** and **minor capex** and **major capex** that was **commissioned** during the **disclosure year**; and
- (b) a forecast for each of the remaining **disclosure years** in the **RCPI**, calculated by providing **minor capex** and **major capex** separately, including **minor capex** and **major capex** approved by the **Commission** during the current

Deleted: s

Deleted: and E

Formatted: Indent: Left: 0 cm

- disclosure year** that will be **commissioned** during a subsequent **disclosure year**; and
- (c) in the last **annual compliance statement** applicable to **RCPI**, all relevant material necessary to assess any application within the **annual compliance statement** for ex-post approval of **minor capex** in excess of the aggregate level of approved **minor capex**, including a description in each instance, of why each relevant **project** or **programme**:
 - (i) ~~was~~ unable to be **reasonably** foreseen **by Transpower**; and
 - (ii) is **required** to maintain the security of supply of the **grid**; and
 - (iii) could not be **reasonably** deferred; and
 - (d) for each **disclosure year**, listing assets determined by the **Commission** to be **stranded**;
- (3) **Opex**: for the **disclosure year** (broken down by each expenditure category in the definition of **opex** in Part 2), including:
- (a) actual **opex** during the **disclosure year**; and
 - (b) an explanation of any material variation between **opex** that was forecast for the **disclosure year** and actual **opex** during the **disclosure year**.
- (4) **Ex-post economic gain or loss, HVAC ex-post economic gain or loss, and HVDC ex-post economic gain or loss** for each **disclosure year**, including:
- (a) details of how each **ex-post economic gain or loss** has been calculated in accordance with the building blocks in Schedule **D**; and
 - (b) the allocation of the resulting **EV account entry** to each of the **EV accounts** for **HVAC customers** and **HVDC customers**; and
 - (c) a reconciliation of the opening and closing balances of the **EV accounts**, including details of the calculation of interest and any other adjustments to the balances of the **EV accounts**;
 - (d) details of any changes implemented by Transpower during the **disclosure year** to its policy of hedging **capex**; and
 - (e) details of all gains and losses in the **disclosure year** that are recorded in the **EV accounts** in respect of any **transaction that ceases to be an effective hedge on capex**;
- (5) **MAR**, for the purposes of the calculation of the **transition year ex-post economic gain or loss**, calculated using the following values:
- (a) for **opex**, \$248.5 million; and
 - (b) for **minor capex**, the lesser of actual expenditure and \$208.6 million; and
 - (c) any **minor capex** for which ex-post approval from the **Commission** has been received following the end of the **regulatory period**; and
- (6) **Pass-through costs and recoverable costs** for each **disclosure year**, including:
- (a) **disclosure** of the forecast **pass-through costs and recoverable costs**, applied by **Transpower** in setting its **HVAC transmission charges** and **HVDC transmission charges**, and actual **pass-through costs and recoverable costs** for the **disclosure year**; and
 - (b) demonstration of the allocation of any resulting variances between forecast and actual **pass-through costs and recoverable costs** for the **disclosure year**

Comment [A35]: Transpower proposes that this information requirement should form part of the information submitted with the forecast MAR information under clause 3.4 of this determination (at least for the first year) as this information will not be ready in time for the annual compliance statement in September. It is dependent on the MAR forecast information which is due by 21 October 2011. This information would however be submitted for 'information only' purposes, rather than to form part of any forecast calculations by the Commission.

Comment [A36]: Note comment above only applicable for 2011 year (as Oct 2011 a one-off requirement rather than annual?)

Comment [A37]: Transpower proposes the following changes to subparagraphs (i) to (iii) to better reflect the necessary decision-making by Transpower.

Deleted: essential

Deleted: E

Deleted: reconciliation

Formatted: Indent: Left: 0 cm

to the HVAC transmission charges and HVDC transmission charges in the next relevant pricing year.

5.3 Information requirements and calculations relating to EV adjustments

The information requirements referred to in clause 5.1 are as follows for calculating EV adjustments:

Comment [A38]: Transpower seeks further discussion and clarification with the Commission about what the Commission is trying to achieve in this section, as it is unclear to us at present. We propose working through an example with the Commission so that drafting amendments can be made as needed to clarify this information requirement.

Formatted: No bullets or numbering

- (1) For the purposes of calculating the forecast MAR to apply to each disclosure year of the remainder period, the EV account balances are:
 - (a) the opening EV account balances; less
 - (b) EV adjustments applied to the transition year forecast MAR; plus
 - (c) forecast interest for each disclosure year of the remainder period on the opening EV account balances, in accordance with the interest rate specified in the definition of EV account.
- (2) For the purposes of calculating an update of a forecast MAR for a disclosure year of the remainder period, the EV account balances are:
 - (a) the EV account balances, excluding the balances calculated under subclause (1); plus
 - (b) forecast interest for each disclosure year of the remainder period on the EV account balances in subclause (2)(a), in accordance with the interest rate specified in the definition of EV account.
- (3) Transpower must:
 - (a) calculate EV adjustments that attribute one-eighth of the balances calculated in subclause (1) to the forecast MAR for each disclosure year in the remainder period;
 - (b) at the end of each disclosure year, calculate EV adjustments that attribute the balances calculated in subclause (2) in one instalment to the update of the forecast MAR in the next disclosure year commencing after the time of calculation;
 - (c) gross up the EV adjustments applied to the forecast MAR for each disclosure year in terms of subclauses (3)(a) or (3)(b) to a forecast pre-tax input to the forecast MAR calculation using the corporate tax rate; and
 - (d) for commissioned capex in excess of the level of expenditure approved by the Commission, make each EV account entry necessary to fully offset the revenue impact of such excess capex over the life of the asset:
 - (i) for major capex, on an annual basis; and
 - (ii) for minor capex, in the final disclosure year of the regulatory period.

5.4 Information relating to forecast MAR updates

The information requirements referred to in clause 5.1 are as follows for Transpower's forecast MAR updates:

Formatted: No bullets or numbering

- (1) Transition year: No MAR updates apply.
- (2) Remainder period:
 - (a) an update to each of the future forecast MARs in the remainder period in Schedule E, calculated in accordance with the building blocks in clause 3.2; and

Formatted: Font: Not Bold, No underline

Deleted: F

Deleted: Schedule D

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

- (b) as part of the update under subclause (a), an identification of each **major capex project** that has been approved by the **Commission** if forecast to be **commissioned** during the **remainder period**, separately detailing the revenue impact of each **project** on each future **forecast MAR** and the forecast date of **commissioning**.

5.5 Information requirements relating to quality measures and targets

The information requirements referred to in clause 5.1 are as follows for Transpower's quality measures and targets:

Formatted: No bullets or numbering

(1) Transition year:

- (a) actual performance for each of the quality measures in clauses 4.1(1)(a)-(d);
- (b) reasons for any failure to meet the quality targets set out in 4.2(1)(a)-(c);
- (c) for all **interruptions** over 1 **system minute**, a report that sets out:
 - (i) the reason or reasons for the **interruption**;
 - (ii) **Transpower's** response to the **interruption**;
 - (iii) any change to **Transpower's** policies as a result of the **interruption**;
 - and
 - (iv) the impact of the **interruption** in **system minutes**.

(2) Remainder period:

- (a) actual performance for each of the quality measures in clauses 4.1(1)(a)-(d);
- (b) reasons for any failure to meet the quality targets to be set out in 4.2(2);
- (c) for all **interruptions** over 1 **system minute**, provide a report that sets out:
 - (i) the reason or reasons for the **interruption**; and
 - (ii) **Transpower's** response to the **interruption**; and
 - (iii) any change to **Transpower's** policies as a result of the **interruption**;
 - and
 - (iv) the impact of the **interruption** in **system minutes**.

5.6 Information relating to quality incentive mechanism

The information requirements referred to in clause 5.1 are as follows for Transpower's quality incentive mechanism:

Formatted: No bullets or numbering

(1) Transition year:

- (a) the impact that **Transpower's** actual performance would have had on **Transpower's forecast MAR** under the quality incentive mechanism outlined in clause 5.6(1)(b), had that quality incentive mechanism applied to **Transpower's forecast MAR** in **RCPI**;
- (b) **Transpower** must use the targets, caps, collars and weightings for each quality measure as set out in the following table:

Parameter	Loss of Supply Event Frequency		Availability		Total Impact of Interruptions Total system minutes	Deleted: Duration
	Number of events >0.05 system	Number of events >1.0 system	HVAC circuit unavailability	HVDC bi-pole unavailability		
			y	y		

	minutes	minute	(unplanned) %	(unplanned) %	
Quality measure target	21	3	0.056	Not in RCP1	16.69
Quality measure cap (on rewards for improved performance)	10	1	0.029	Not in RCP1	4.31
Quality measure collar (on penalties for poor performance)	31	5	0.083	Not in RCP1	29.07
Weighting (impact on revenue)	25%	25%	25%	Not in RCP1	25%

5.7 **Independent assurance reports and certification requirements**

Transpower must provide to the **Commission**, at the same time it provides its **annual compliance statement**:

- (a) a **directors' certificate** in the form set out in Schedule B; and
- (b) an **independent assurance report** in the form set out in Schedule C, which may be qualified only if:
 - (i) the **auditor** considers that the **annual compliance statement** fails to have been prepared, in any material respect, in accordance with this determination; and
 - (ii) the **independent assurance report** explains with full reasons the respects in which the **annual compliance statement** so fails.

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

SCHEDULE A DIRECTORS' CERTIFICATE - FORECAST MAR CALCULATION

We, [insert full name of first director] and [insert full name of second director], being directors of Transpower New Zealand Limited (Transpower), certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached schedule of forecast total revenues applied in the Transpower transmission pricing methodology under the Electricity Industry Participation Code for the pricing year commencing [insert pricing year] complies with the requirements of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 *[except in the following respects].

*[insert description of non-compliance if applicable]

[Signatures of directors]

[Date]

*Delete if inapplicable.

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

SCHEDULE B DIRECTORS' CERTIFICATE - ANNUAL COMPLIANCE STATEMENT

We, [insert full name of first director] and [insert full name of second director], being directors of Transpower New Zealand Limited (Transpower), certify that, having made all reasonable enquiry, to the best of our knowledge and belief, the attached annual compliance statement of Transpower for the period [insert disclosure year] and dated [insert date] complies with the requirements of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 *[except in the following respects].

*[insert description of non-compliance if applicable]

[Signatures of directors]

[Date]

*Delete if inapplicable.

SCHEDULE C INDEPENDENT ASSURANCE REPORT - ANNUAL COMPLIANCE STATEMENT

To the readers of the annual compliance statement of Transpower New Zealand Limited (Transpower) for the disclosure year ended [insert assessment date]:

We have been engaged to provide an independent assurance report on the annual compliance statement in respect of the individual price-quality path prepared by Transpower for the period [insert disclosure year] and dated [insert date] for the purposes of Part 5 of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 (the Determination).

Directors' and Auditor's Responsibilities

Transpower's directors are responsible for the preparation of an annual compliance statement in accordance with the Determination and for such internal controls as the directors determine are necessary to enable the preparation of an annual compliance statement that is free from material misstatement.

We are qualified as an auditor as defined in the Determination. Our responsibility is to express an independent opinion on whether Transpower's annual compliance statement has been prepared in accordance with the Determination.

Basis of opinion

We conducted an assurance engagement in accordance with the framework for Assurance Engagements and the Standard on Assurance Engagements 3100 (SAE 3100) issued by the New Zealand Institute of Chartered Accountants.

The objectives of an assurance engagement carried out under SAE 3100 are to:

- (1) obtain assurance about whether, in all material respects, an entity has complied with requirements contained in legislation, regulation, agreements, contracts or similar, or internally imposed standards, codes or practices; and
- (2) express a conclusion on that compliance in the form of an opinion.

The professional standards require that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance about whether the annual compliance statement is free from material misstatement.

Considering materiality requires that we understand the factors that might influence the decisions of the intended users of the information contained in the annual compliance statement when determining the nature and extent of our evidence-gathering procedures.

An assurance engagement involves performing procedures to obtain appropriate evidence about the amounts and disclosures in the annual compliance statement. The procedures selected depend on judgement, including the assessment of the risks of material misstatement, whether due to fraud, error or other reasons. In evaluating those risks we consider the internal controls that are relevant to Transpower's preparation of the annual compliance statement in order to design assurance procedures that

are appropriate in the circumstances. We do not express an opinion on the effectiveness of Transpower's internal controls.

An assurance engagement also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, if any, by Transpower in preparing the annual compliance statement, as well as evaluating the overall presentation and disclosure in the statement.

In relation to the price path in Part 3 of the Determination, our assurance engagement includes examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [insert page references] of the annual compliance statement.

[Insert description of relevant assurance procedures and sources of data that are applicable to the independent assurance opinion on Part 3 of the Determination].

In relation to the quality standards in Part 4 of the Determination, our assurance engagement includes examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [insert page references] of the annual compliance statement.

[Insert description of relevant assurance procedures and sources of data that are applicable to the independent assurance opinion on Part 4 of the Determination].

Our assurance engagement also includes an assessment of the significant estimates and judgments, if any, made by Transpower in the preparation of the compliance statement and an assessment of whether the basis of preparation has been adequately disclosed.

Opinion

We have obtained all the information and explanations we required to express our opinion.

In our opinion:

- (1) [insert opinion wording in respect of the requirements in Part 5 that are necessary to demonstrate compliance with the price path in Part 3 of the Determination, with modifications as necessary for the Transition Year requirements and reference, if applicable, to relevant information for the Remainder Period] ;
- (2) [insert opinion wording in respect of the requirements in Part 5 that are necessary to demonstrate compliance with the quality standards in Part 4 of the Determination, with modifications as necessary for the Transition Year annual compliance statement and reference, if applicable, to relevant information for the Remainder Period]; and
- (3) the annual compliance statement prepared by Transpower for the disclosure year ending [insert disclosure year date] and dated [insert date], has been prepared and presented, in all material respects, in accordance with the Determination.

***[Qualification on Opinion]**

*[Our opinion is qualified as follows:]

*[Insert the nature of and reason(s) for the qualification together with the impact on the annual compliance statement for the disclosure year].

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

Our independent assurance engagement was completed on [insert date] and our opinion is expressed as at that date.

[Signature of auditor]
[Name of auditor]
[Name of firm]
[Address of firm]
[Date]

Independence

We have no relationship with, or interests in Transpower other than [insert relationship and/or interests including a statement verifying that no conflict of interest exists].

*Delete if inapplicable.

Deleted: <#>Forecast MAXIMUM ALLOWABLE REVENUE Building blocks¶ Building Block ...

SCHEDULE D ANNUAL WASH-UP OF MAXIMUM ALLOWABLE REVENUE

Building Block	Formula	Description
RAB	A	Opening RAB value, plus the value of commissioned assets that are weighted to take into account the time they are commissioned, with commissioned assets for this purpose being approved minor capex and approved major capex, defined as applicable in this determination and in Part 1 of the IM determination
WACC	B	[X] percentile estimate of WACC, as defined in Part 1 of the IM determination, and published in accordance with the cost of capital input methodology in Part 3 Subpart 5 of the IM determination
Capital charge	$C = A \times B$	RAB multiplied by WACC, as each described above
Operating revenue	D	Total operating revenues from electricity <u>transmission</u> services, including charges that recover pass-through costs and recoverable costs, as defined in Part 2 of this determination
Opex cap	E	Opex, as defined in Part 2 of this determination, and as approved by the Commission
Depreciation	F	Depreciation, calculated in accordance with the asset valuation input methodology in Part 3 Subpart 3 of the IM determination
Pass-through costs	G	Pass-through costs, as defined in Part 2 of this determination
Recoverable costs	H	Recoverable costs, as defined in Part 2 of this determination
Net operating profit before tax	$I = D - E - F - G - H$	Pretax profit for regulatory purposes
Tax	J	Forecast regulatory tax allowance, as specified in the treatment of taxation input methodology in Part 3 Subpart 4 of the IM determination
Net operating profit after tax	$K = I - J$	After tax profit for regulatory purposes
EV account entry	$L = C - K$	Ex-post economic gain or loss, as defined in Part 2 of this determination

Deleted: 75th

Deleted: lines

Transpower drafting comments and revisions: 26 November 2010

Formatted: Indent: Left: 0 cm

SCHEDULE E FORECAST MAXIMUM ALLOWABLE REVENUE

RCPI	Disclosure year ending	Initial forecast MAR	First update of forecast MAR	Second update of forecast MAR	Total forecast MAR	Status
Year 1	30 June 2012 (transition year)	\$XXX Million	N/A	N/A	\$XXX Million	Clause 3.3 of this determination
Year 2	30 June 2013 (remainder period)	To be determined November 2011 (A)	N/A	N/A	A	Subject to future determination
Year 3	30 June 2014 (remainder period)	To be determined November 2011 (B)	To be determined November 2012 (D)	N/A	B+D	Subject to future determination
Year 4	30 June 2015 (remainder period)	To be determined November 2011(C)	To be determined November 2012 (E)	To be updated November 2013 (F)	C+E+F	Subject to future determination

Deleted: 2(1)

EXPLANATORY NOTE

The purpose of the Commerce Act (Transpower Individual Price-Quality Path) Determination 2010 ('the Determination') is to set an individual price-quality path for Transpower for the 4 financial years beginning 1 July 2011, pursuant to Part 4 of the Commerce Act 1986 ('the Act'). The Determination sets out Transpower's forecast maximum allowable revenue for the year from 1 July 2011 – 30 June 2012. The Commission will amend the Determination to set out Transpower's forecast maximum allowable revenue, including approved levels of operating and capital expenditure, for each year of the period 1 July 2012 – 30 June 2015.

The Determination succeeds the administrative settlement between Transpower and the Commission that commenced on 13 May 2008 and that will expire once the Commission has assessed Transpower's final compliance report in respect of the financial year ending on 30 June 2011. The administrative settlement set out Transpower's maximum allowable revenue for the period to 30 June 2011.

Compliance with the individual price-quality path will be demonstrated by Transpower evidencing that the revenue assumption used to determine its prices under the transmission pricing methodology in the Code, excluding pass through costs and recoverable costs, is not higher than each forecast MAR. The mechanisms that support compliance and accurate calculation of the forecast MAR are set out in this Determination.

This Determination also requires Transpower, pursuant to the Commission's powers under section 53N of the Act, to provide the Commission with an annual compliance statement stating whether it has complied with the individual price-quality path, together with supporting evidence. This statement must be accompanied by both an independent assurance report and a directors' certificate.

The Commission has conducted a process of consultation before making this Determination. A Reasons Paper providing detailed background to, and analysis of, this Determination, has been issued along with this Determination, and can be found at:

Deleted: comprehensive

Deleted: determination

Deleted: determination

Deleted: determination

<http://www.comcom.govt.nz/IndustryRegulation>

Copies of this Determination are available for inspection free of charge at the Commission (during ordinary office hours), on the Commission's website at the above link, or for purchase at a reasonable price at the Commission.