



DECISION NO. [xxx]

Input methodologies determination applicable to Transpower pursuant to Part 4 of the Commerce Act 1986 (the Act).

The Commission:

Dr M Berry  
PJM Taylor  
S Begg  
P Duignan  
D Caygill

**Summary of the Determination:** Pursuant to section 52V(2) of the Act, the Commerce Commission hereby publishes draft input methodologies applicable to electricity lines services supplied by Transpower.

Date of Decision: [xx xxxxx 2010]

*Comment 1:* This Draft Determination is for consultation purposes only.

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**DRAFT COMMERCE ACT (TRANSPower INPUT  
METHODOLOGIES) DETERMINATION 2010**

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

## PART 1 GENERAL PROVISIONS

### 1.1.1 Title

This determination is the Commerce Act (Transpower Input Methodologies) Determination 2010.

### 1.1.2 Commencement Date

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

### 1.1.3 Interpretation

- (1) In this determination, terms that are defined in-
  - (a) s 2 of the **Act** but not in this determination have the meanings specified in s 2 of the **Act**; and
  - (b) s 52C of the **Act** have the meanings specified in that section.
- (2) In this determination, unless otherwise stated, references to 'Subparts' are to Subparts within the same Part in which reference is made.
- (3) In this determination, unless the context otherwise requires, a word which denotes the singular also denotes the plural and vice versa.
- (4) In this determination, unless another provision otherwise requires, words in bold bear the following meanings:

**[All definitions should be brought in here to avoid having to search through different sections]**

**Act** means the Commerce Act 1986;

**Capital expenditure** means costs incurred in the acquisition or development of assets to be utilised wholly or partially in the provision of **electricity transmission services** **or services directly related to electricity lines services;**

**Commission** means the Commerce Commission;

**Commissioned** means first used by **Transpower** to provide **electricity lines services** **or services directly related to electricity lines services;**

**Consumer** has the meaning set out in s 2(1) of the Electricity Act 1992;

**Cost of capital** means the expected rate of return prevailing in capital markets on investments of equivalent risk to those in question;

**Depreciation**, in relation to a **~~disclosure~~ financial year**, means the allowance for that **~~disclosure~~ financial year** to account for the diminution in an asset's remaining service capability and such allowance is determined in accordance with clause 2.2.5;

**~~Disclosure year~~ means a period of 12 months ending on 30 June;**

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**Electricity lines services** has the meaning set out in s 54C of the Act;

**Electricity transmission services** means **electricity lines services** supplied by **Transpower** or service directly related to electricity lines services;

**Financial year means a period of 12 months ending on 30 June during any regulatory period**;

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

**IDM determination** means any ~~information disclosure~~ input methodology determination in relation to **Transpower** made by the **Commission** under s 52P of the Act, or under subpart 3 of Part 4A of the Act, as continued in force by s 54W of the Act;

**IPP** means individual price-quality path;

**IPP determination** means any individual price-quality determination applying to **Transpower** made by the **Commission** under s 52P of the Act;

**Operating expenditure** means expenditure other than **capital expenditure** incurred by **Transpower** in the provision of **electricity lines services** and excludes sums relating to depreciation, tax, revaluations and financing;

**RCP1** means the first **regulatory period**, commencing on 1 July 2011 and ending on 30 June 2015;

**Regulated supplier** means a supplier of services subject to Part 4 of the Act;

**Regulatory period** means the period to which an **IPP determination** relates;

**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;

**System operator** has the meaning specified in **SOSPA**;

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

**Unregulated service** means any good or service not regulated under Part 4 of the Act; and

**WACC** means weighted average cost of capital;

#### 1.1.4 Application

This determination only applies to **electricity lines services** supplied by **Transpower**.

## **PART 2 INPUT METHODOLOGIES FOR INFORMATION DISCLOSURE APPLYING TO INDIVIDUAL PRICE-QUALITY REGULATION**

### **SUBPART 1 SPECIFICATION OF PRICE**

**2.1.1 Pursuant to s53M(1)(a) of the Act, Transpower is to be subject to a maximum revenue regime being restricted to recovery of the total revenue calculated under clause 2.1.2.**

**2.1.2 The total revenue Transpower is entitled to recover in a financial year is to be calculated as follows:**

- (1) allowable opex being the allowable operating expenditure for the financial year as set in accordance with the IPP determination; plus
- (2) Pass-through costs for the financial year calculated in accordance with clause [ ]; plus
- (3) Recoverable costs for the financial year calculated in accordance with clause [ ] (including, for the avoidance of doubt, the benefit of the incremental rolling incentive scheme); plus
- (4) An allowance for the tax actually paid by Transpower in relation to the financial year and its electricity transmission services as calculated in accordance with clause [ ]; plus
- (5) A return for the financial year on the annual regulatory asset base, as calculated under clause 2.1.3, with the rate of return being the WACC published in accordance with clause [ ]; plus
- (6) Depreciation for the financial year on the regulatory carrying value of each asset within the annual regulatory asset base other than easements, easements land and other land, as calculated under clause 2.1.3, such depreciation to be calculated in accordance with clause [ ]; plus
- (7) During the first and second regulatory periods, one-ninth of the historical EV account for the HVDC as at 1 July 2011 with interest calculated using the WACC published in accordance with clause [ ], grossed up for tax; less
- (8) During the first and second regulatory periods, one-ninth of the historical EV account for the HVAC as at 1 July 2011 with interest calculated using the WACC published in accordance with clause [ ], grossed up for tax; plus
- (9) Any necessary adjustment for wash-ups for the immediate prior financial year calculated in accordance with clause [ ].

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**2.1.3 For the purpose of clauses 2.1.2(5) and (6) the annual regulatory asset base in any financial year is one-half the sum of the opening RAB value and the closing RAB.**

**2.1.12.1.4 For the purpose of subclause 2.1.3 closing RAB comprises:**

- (1) The opening RAB value; plus
- (2) The value of assets anticipated to be commissioned during the financial year calculated in accordance with clause [2.2.6]; plus
- (3) The costs incurred in the financial year refurbishing a refurbished asset (if such asset is not first de-commissioned during the course of the refurbishment); plus
- (4) Found assets; plus
- (5) The cost of acquiring easement land as incurred during the financial year (including all costs reasonably incidental to the acquisition of the land and the creation of the easement) as determined applying GAAP; plus
- (6) The cost incurred during the financial year of acquiring the land reasonably required for future expansion (including all costs reasonably incidental to the acquisition) as determined applying GAAP; plus
- (7) The net proceeds of disposals of easement lands; less
- (8) Disposals; less
- (9) Lost assets.

[Note: amongst other things the annual wash-up will deal with assets not commissioned as anticipated - whether commissioned late or early.]

**SUBPART 4 SUBPART 2 COST ALLOCATION**

**2.1.12.1.5 Cost allocation process**

- (1) For the purpose of any requirement in an **IDM** determination ~~to disclose~~ as to -
  - (a) asset values;
  - (b) **capital expenditure**; or
  - (c) operating ~~costs~~ expenditure,each must be allocated to-
  - (d) activities related to **Transpower's system operator** role; and
  - (e) other activities undertaken by **Transpower** to supply electricity lines services,in accordance with the allocation approach in **SOSPA**.
- (2) In this clause-

~~(a)~~ 'asset value' means the value of an asset used in the supply of **electricity lines services**;

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~~(b) 'operating cost' means expenditure other than capital expenditure incurred by Transpower in the supply of electricity lines services and excludes sums relating to depreciation, tax, revaluations and financing.~~

~~[Note: "operating expenditure" is already defined in the same terms]~~

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## ~~SUBPART 3~~ **SUBPART 2** ~~A~~ **SSET VALUATION**

### ~~2.3.12.2.1~~ **2.3.12.2.1 Interpretation**

~~[Clause 2.2.1 definitions should be moved to clause 1.1.3.]~~

In this Subpart, the words in bold type bear the following meanings:

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

**Disposed asset** means an asset that has been sold or transferred, but is not a **lost asset**;

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

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

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

**Fixed life easement** means an **easement** which-

- (a) is of fixed duration; or
- (b) whilst of indefinite duration, is to be held for a fixed period;

**Found asset** has the meaning given to it in clause 2.2.8;

**Independent engineer** means a person who-

- (a) is a member of the Institution of Professional Engineers New Zealand;
- (b) who is acting in that professional capacity; and
- (c) has no relationship with, or interest in, Transpower that is likely to involve him or her in a conflict of interest;

**Initial RAB** has the meaning given in clause 2.2.2;

**Initial RAB value** is the value determined in accordance with clause 2.2.3;

**Lost asset** means an asset the value of which is included in the **opening RAB value** for a ~~disclosure pricing year~~ **financial year** but is subsequently determined never to have been used to provide **electricity line services** by **Transpower** or services directly related to such electricity lines services;

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

- (a) the other person has agreed in writing (whether in the same contract or not) that the terms and conditions of the contract-
  - (i) are reasonable; or
  - (ii) reflect workable or effective competition for the provision of the **electricity lines services**; or
- (b) **Transpower** demonstrates beyond a reasonable doubt that the terms and conditions of the contract were determined following a process that provided opportunities for-
  - (i) affected customers to make or approve reasonable price-quality trade-offs; and
  - (ii) the competitive provision of new **electricity lines services** by parties other than **Transpower**;

**NZ IAS 17** means New Zealand Equivalent to International Accounting Standard 17 Leases as updated from time to time, or any equivalent standard that replaces that standard under **GAAP**;

**NZ IAS 38** means New Zealand Equivalent to International Accounting Standard 38 Intangible Assets (as it relates to the cost model of recognition only) as updated from time to time, or any equivalent standard that replaces that standard under **GAAP**;

**Opening RAB value** is the value determined in accordance with clause 2.2.4(1);

**Recoverable cost** means a cost specified in clause ~~3.2.23.2.23.2.23.1.4~~ as updated by any **IPP determination** pursuant to that clause;

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**Refurbished asset** means an asset on which work (other than maintenance) has been carried out resulting in an extension to its service life potential ~~calculated according to GAAP; and in respect of which an independent engineer has determined in writing a new remaining asset life~~ which does not exceed the relevant asset life ~~specified in SCHEDULE A~~;

**Registered valuer** means a person who-

- (a) is a member of the Property Institute of New Zealand;
- (b) who is acting in that professional capacity; and
- (c) who has no relationship with, or interest in, Transpower that is likely to involve the person in a conflict of interest;

**Regulatory carrying value** means the value of an asset determined in accordance with input methodologies identified as applicable to it by an **IDM determination**;

**Related party** means-

- (a) 'related company' as defined in s 2 of the Companies Act 1993; and
- (b) any part of **Transpower** that provides goods or services other than **electricity lines services**;

**Stranded** means determined by the **Commission** acting reasonably to have an asset life which is shorter than that which would apply under clause 2.2.5 ~~(6)(6)(6)(5)~~;

**System operator services** means co-ordination services for the control, dispatch, and security functions of supplying **electricity lines services**;

**Value of commissioned asset** is the value determined in accordance with clause 2.2.6;

**Value of disposal** means the value determined in accordance with clause ~~2.2.7-2.7~~;

**Value of found asset** means the value determined in accordance with clause 2.2.8(2);

**Value of lost asset** means the value determined in accordance with clause 2.2.8(1);

**Works under construction** means an asset, or collection of assets, or a section of assets which-

- (a) is being or has been constructed by, or on behalf of, **Transpower**;
- (b) has not been **commissioned**; and
- (c) is intended by Transpower to be **commissioned**.] [Part commissioning can occur.]

#### ~~2.3.22.2.2~~ **What initial RAB comprises**

Initial RAB means the assets included in the regulatory asset base as defined in the Commerce Act (Transpower Thresholds) Notice 2008 as of 30 June 2011.

#### ~~2.3.32.2.3~~ **Value of each asset in the initial RAB**

The **initial RAB** value of an asset is its value determined as on 30 June 2011 in accordance with the Commerce Act (Transpower Thresholds) Notice 2008.

#### ~~2.3.42.2.4~~ **RAB roll forward**

- (1) The **opening RAB value** of an asset in relation to-
  - (a) the ~~disclosure year~~ financial year 2012, is its **initial RAB value**; and
  - (b) a ~~disclosure year~~ financial year thereafter, is the closing RAB value of the asset in the preceding ~~disclosure pricing~~ year financial year.
- (2) In this clause, 'closing RAB value' means-

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- (a) for an asset with an **opening RAB value**, the value determined in accordance with the formula-  
**opening RAB value – depreciation – value of disposal;**
  - (b) for an asset **commissioned** during the ~~disclosure year~~**financial year** in question, the **value of commissioned asset** for that asset ~~less depreciation in that pricing year~~**financial year;**
  - (c) for a **found asset** that is found during the ~~disclosure year~~**financial year**, the **value of found asset** for that asset ~~less depreciation in that pricing year~~**financial year;** and
  - (d) for a **lost asset** that is lost during the ~~disclosure year~~**financial year**, nil; and
  - ~~(d)~~(e) ~~for a refurbished asset, that is not first decommissioned during the course of the refurbishment, the cost of the refurbishment; and~~
  - ~~(d)~~(f) ~~for easements and easement lands the reasonable costs of acquisition of the easement land as incurred during the financial year (including all costs reasonably incidental to the acquisition of the land and creation of the easement) as determined applying GAAP less all net returns on the disposals of easement land which occurred during the financial year, provided the criteria for acquisition as set out in the IPP determination is met; and~~
  - ~~(d)~~(g) ~~the costs incurred during the financial year of acquiring other land reasonably required for future expansion (including all costs reasonably incidental to the acquisition) as determined by applying GAAP.~~
- (3) The total opening RAB value in relation to-
- (a) the ~~disclosure year~~**financial year** 2012, is the sum of all **initial RAB values**; and
  - (b) a ~~disclosure year~~**financial year** thereafter, is the total closing RAB value for the preceding ~~disclosure year~~**financial year**.
- (4) For the purpose of subclause (3), 'total closing RAB value' means, in relation to a ~~disclosure year~~**financial year**, the value being the sum of closing RAB values for all assets.

#### ~~2.3.52.2.5~~ Depreciation

- (1) Subject to subclauses ~~(2)(2), and (3)(3), (7), (8) and (9)~~ **depreciation** for an asset which has an **opening RAB value** for a ~~disclosure year~~**financial year** is calculated in accordance with the formula-  
$$[1 \div \textit{remaining asset life}] \times \textit{opening RAB value}.$$
- (2) Subject to subclause ~~(3)(3)~~, **depreciation** for an asset which has an **opening RAB value** for a **disclosure year** is, if the asset is-
  - (i) land, nil;
  - (ii) an **easement** other than a **fixed life easement**, nil.

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(3) The sum of **depreciation** of an asset calculated over its asset life may not exceed, for an asset-

- (i) in the **initial RAB**, the **initial RAB value** for that asset; or
- (ii) not in the **initial RAB**, the **value of commissioned asset**.

(4) If an asset is commissioned part way through a financial year depreciation for that asset is to be calculated in accordance with this clause [2.2.5] for half of the financial year.

~~(4)~~<sup>(5)</sup> For the purpose of subclause (1), 'remaining asset life' means the term remaining of the asset's life at the commencement of the relevant ~~disclosure~~<sup>pricing year</sup> financial year.

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~~(5)~~<sup>(6)</sup> For the purpose of subclause ~~(5)~~ but subject to subclause (7), 'asset life' means-

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- (a) for an asset in the **initial RAB**, the asset life applying as on 30 June 2011 for the purpose of the Commerce Act (Transpower Thresholds) Notice 2008;
- (b) for an asset that is **stranded**, the remaining asset life (if any) for that asset at the date that the asset is determined by the **Commission** to be **stranded**. If it does not have any remaining asset life the asset is to be 100% depreciated in the year it was stranded;
- (c) for a **fixed life easement**, the fixed duration or fixed period (as the case may be) referred to in the definition of **fixed life easement**;
- (d) for a **refurbished asset**, the new remaining asset life determined ~~by an independent engineer;~~ in accordance with GAAP. [This is consistent with the approach used in the Commerce Act (Transpower Thresholds) Notice 2008]; and
- (e) for all other assets the life determined in accordance with GAAP. [This is consistent with the approach used in the Commerce Act (Transpower Thresholds) Notice 2008.]

~~(i) if an asset life is specified for that asset in SCHEDULE A, that asset life; and~~

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~~(ii) if an asset life is not specified for it in SCHEDULE A, the asset life determined by an independent engineer which in any event must not exceed the asset life specified in SCHEDULE A for an asset regarded by that engineer as comparable to it.~~

~~(ii)~~<sup>(7)</sup> Notwithstanding subclauses (1) and (6), but subject to subclause (2) an asset may still be depreciated beyond the remaining asset life if -

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~~(ii)~~<sup>(a)</sup> The asset was within the opening RAB at the beginning of the relevant regulatory control period; and

~~(ii)~~<sup>(b)</sup> The asset is a system fixed asset; and

~~(ii)~~<sup>(c)</sup> The asset is still in service.

- ~~(ii)~~(8) For the purposes of subclause (1) if an asset is within subclause (7) the depreciation on that asset is to be the same amount as applied in the last full year of the deemed remaining asset life;
- (9) If an asset is permanently taken out of service before the end of its theoretical remaining asset life it is to be 100% depreciated in the year it ceases to be in service.

~~2.3.62.2.6~~ **Value of commissioned asset**

- (1) Value of commissioned asset means the value of an asset **commissioned** in relation to a ~~disclosure year~~**financial year** and is the cost of the asset to **Transpower** determined in accordance with the process set out in the **IPP determination** as on its **commissioning date**, except that the cost of-
- (a) an intangible asset, unless it is-
- (i) recognised in accordance with **NZ IAS 17** or **NZ IAS 38**;  
and
- (ii) not goodwill,  
is nil;
- ~~(b) an easement, is limited to its market value as on its commissioning date as determined by a registered valuer;~~
- ~~(e)(b) easement land, is nil; an easement or easement land already allowed for under clauses [2.2.4(2)(f)] shall be nil, but is otherwise the cost of the easement calculated in accordance with GAAP;~~
- ~~(c)~~(c) an asset used solely for **Transpower's system operator** role, is nil;
- ~~(e)~~(d) an asset used in providing **electricity lines services** pursuant to a **new investment contract**, is nil;
- ~~(f)~~(e) **capital expenditure** that does not satisfy the ex ante or ex post approval requirements specified in an **IPP determination**, is nil;
- ~~(g)~~(f) an asset-
- (i) acquired by **Transpower** from another **regulated supplier**;  
and
- (ii) formerly used by that **regulated supplier** in the provision of services regulated under Part 4 of the **Act**,  
is to be brought in at the cost to Transpower unless the Commission acting reasonably considers it should be limited to the **regulatory carrying value** of the asset for that other **regulated supplier** at the **commissioning date**; and
- ~~(h)~~(g) an asset acquired by **Transpower** from a **related party** is limited to its market value at its **commissioning date** as determined by a **registered valuer**.

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- ~~(2) When applying GAAP for the purpose of subclause (1), the cost of financing is calculated using a rate no greater than the 75th percentile of the post tax WACC applying on the relevant date.~~
- ~~(3) For the purpose of subclause (2), the post tax WACC applying on the date in question is that published in respect of the period in which the date falls in accordance with clause 2.4.8(2), subject to subclause (4).~~
- ~~(4) If an asset has not been commissioned within the period to which the post tax WACC referred to in subclause (2) applied, the cost of financing after that period is calculated using a rate no greater than the 75th percentile of the relevant post tax WACC applying to that later period.~~
- ~~(5) For the purpose of subclause (2), the 75th percentile of the post tax WACC is calculated in accordance with clause 2.4.7.~~
- ~~(2) For the purpose of subclause (1), initially Transpower is entitled to calculate and capitalise the cost of financing works under construction in accordance with GAAP.~~
- ~~(3) Any differences between the cost of financing calculated under subclause (2) and the cost of financing calculated by applying the WACC published under clause [3.5.9] is to be dealt with in the first wash-up following the commissioning date of the relevant asset;~~
- ~~(4) Nothing in this clause [2.2.6] is to be taken as preventing progressive commissioning and the inclusion within the regulatory asset base of the cost of that part of the assets as has been commissioned.~~

#### 2.3.72.2.7 Value of disposal

- (1) The value of disposal for a **disposed asset** in relation to the **disclosure financial year** in which it is disposed is the disposed asset's **regulatory carrying value** determined as on the day immediately prior to the date of disposal.

#### 2.3.82.2.8 Value of lost and found assets

- (1) The value of lost asset for a **lost asset** that is first determined to be lost in a particular **disclosure year financial year** is its **regulatory carrying value** on the last day of that **disclosure year financial year**.
- (2) The value of found asset for a **found asset** is its cost calculated-
- (a) in accordance with **GAAP**; or
  - (b) where sufficient records do not exist to establish its cost, its market value as determined by a **registered valuer** as on the date that the asset is first found.
- (3) For the purpose of subclause (2), 'found asset' means an asset the value of which is not included in the **opening RAB value** for a **disclosure year financial year** but is determined in that **disclosure pricing year financial year** to have been used to provide **electricity lines services** by **Transpower** ~~or services directly related to such electricity lines services.~~

~~SUBPART 4~~**SUBPART 3** T  
**REATMENT OF  
TAXATION**

[Taxation should be based on actual tax in a manner similar to the Administrative Settlement. This still needs to be drafted. The formula in any event is flawed. There are existing assets in the RAB and not in the tax books and vice versa.]

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~~2.4.12.3.1~~ **2.4.22.3.1 Interpretation**

[Move surviving definitions to Part 1.]

In this Part, except where stated otherwise, references to numbered clauses are references to clauses in this Part and words in bold type bear the following meanings:

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

~~**Cost of debt** is determined in accordance with clause 2.4.2(3);~~

~~**Leverage** is the value provided in clause 2.4.3(1);~~

~~**Opening RAB value** has the same meaning as in clause 2.2.4(1);~~

~~**Regulatory carrying value** has the same meaning as in SUBPART 2;~~

**Tax rules** means the rules applicable to **Transpower** for determining income tax payable in the Income Tax Act 2007 (as amended from time to time, and any equivalent preceding legislation, or any subsequent legislation that supplements or replaces that Act).

~~2.4.22.3.2~~ **2.4.22.3.2 Regulatory tax allowance**

- (1) The regulatory tax allowance in relation to Transpower for a ~~disclosure year~~**financial year** is determined by applying the **tax rules** and the **corporate tax rate** to the regulatory profit / (loss) before tax.
- (2) For the purpose of subclause (1), 'regulatory profit / (loss) before tax' means the value for 'regulatory profit / (loss) before tax' as determined in accordance with an **IDM determination**.
- (3) For the purpose of subclause (1), in applying the **tax rules** in respect of particular items of income and expenses included in 'regulatory profit / (loss) before tax'-
  - ~~(a) — a tax deduction for interest incurred in relation to debt must be substituted with a tax deduction for notional deductible interest;~~
  - ~~(b)~~(a) any tax deduction for depreciation in respect of an asset must be calculated by applying the **tax rules** to the regulatory tax asset value;
  - ~~(e)~~(b) the effect of-

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- (i) tax losses (other than those produced from the supply of electricity lines services); and
  - (ii) any subvention payment,
- made by **Transpower** must be ignored.

~~(4)~~ For the purpose of subclause (3)(a), 'notional deductible interest' in relation to a **disclosure year** means the result of multiplying the sum of the **opening RAB values** for all assets by both **leverage** and the **cost of debt** for that year.

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~~(5)~~(4) For the purpose of subclause ~~(3)(a)(3)(a)(3)(a)(3)(b)~~, 'regulatory tax asset value' in relation to an asset for a **disclosure financial year** is determined in accordance with the formula-

tax asset value × **regulatory carrying value** ÷ *asset value*.

~~(6)~~(5) For the purpose of subclause ~~(4)(4)(4)(5)~~, 'tax asset value' means-

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- (a) where a "diminishing value method" or "pool method" is applied under the **tax rules**, the "adjusted tax value" of the asset (as each of those terms is defined in the **tax rules**); or
- (b) where a "straight line method" (as defined in the **tax rules**) is applied under the **tax rules**, the cost of the asset (excluding any cost for which a tax deduction is allowed under the **tax rules**) determined by applying the **tax rules** to the expenditure incurred in relation to acquiring the asset;

~~(7)~~(6) For the purpose of subclause ~~(4)(4)(4)(5)~~, 'asset value' means the regulatory carrying value of the asset in question determined in accordance with SUBPART 2 as if **SUBPART 1** had never applied.

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## ~~SUBPART 5~~SUBPART 4 C OST OF CAPITAL

**[The WACC needs to be the same for both input purposes and disclosure purposes. It needs also to take into account the submissions of Transpower (including as to tax years). It is not proposed to draft this at this stage.]**

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### ~~2.5.12.4.1~~ [Interpretation

In this Subpart the words in bold type bear the following meanings:

**Business day** means any day on which statistics relating to trading in New Zealand government bonds are published by a financial information service such as Bloomberg or Reuters;

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

**Leverage** means the ratio of debt capital to total capital;

**Standard error** is the estimated standard deviation of a statistic;

**Vanilla NZ\$ denominated bonds** are senior unsecured nominal fixed coupon debt obligations denominated in New Zealand dollars without callable, puttable, conversion, profit participation, credit enhancement or collateral features; and

**WACC range** has the meaning specified in clause 2.4.7.

#### 2.5.22.4.2 Methodology for estimating the cost of capital

- (1) A mid-point estimate of vanilla **WACC** for the first **business day** of July must be calculated using the formula  $r_d L + r_e(1 - L)$ .
- (2) A mid-point estimate of post-tax **WACC** for the first **business day** of July must be calculated using the formula  $r_d(1 - T_c)L + r_e(1 - L)$ .
- (3) In this clause-

$L$  is **leverage**;

$r_d$  is the cost of debt and is estimated by  $r_f + p + d$ ;

$r_e$  is the cost of equity and is estimated by  $r_f(1 - T_i) + \beta_e TAMRP$ ;

$T_c$  is the corporate tax rate;

$r_f$  is the risk free rate of return;

$p$  is the debt premium;

$d$  is the debt issuance cost percentage;

$T_i$  is the investor tax rate;

$\beta_e$  is the equity beta; and

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

- (4) For the purpose of this clause-
  - (a) **leverage**, the investor tax rate, the equity beta, the debt issuance cost percentage, the corporate tax rate and the tax-adjusted market risk premium are the values specified in or determined in accordance with clause 2.4.3;
  - (b) the risk free rate of return must be estimated for the first **business day** of July in accordance with clause 2.4.4; and
  - (c) the debt premium must be estimated for the first **business day** of July in accordance with clause 2.4.5.

#### 2.5.32.4.3 Fixed WACC parameters

- (1) **Leverage** is 40%.
- (2) The investor tax rate is-
  - (a) 30% until 31 March 2011; and
  - (b) 28% on and after 1 April 2011.

- (3) The corporate tax rate is-
  - (a) 30% until 31 March 2011; and
  - (b) 28% on and after 1 April 2011.
- (4) The equity beta is 0.57.
- (5) The debt issuance cost percentage is 0.3%.
- (6) The tax-adjusted market risk premium-
  - (a) where the **WACC** is estimated for the purpose of application before 1 July 2011, is determined in accordance with the formula-
$$(7.5\% \times Y + 7.0\% \times (5 - Y)) \div 5,$$

where,

*Y* is the number of full **disclosure years** on and after the date as at which the **WACC** is estimated to 1 July 2011; and
  - (b) where the **WACC** is estimated for the purpose of application on and after 1 July 2011, is 7%.

#### 2.5.42.4.4 Methodology for estimating risk free rate of return

The risk-free rate of return must be estimated by-

- (a) obtaining, for New Zealand government New Zealand dollar denominated nominal bonds the wholesale market interpolated mid yield to maturity, for a residual period to maturity equal to 5 years on each **business day** in June;
- (b) calculating the annualised interpolated bid yield to maturity for each **business day**; and
- (c) calculating the un-weighted arithmetic average of the daily annualised interpolated bid yields to maturity.

#### 2.5.52.4.5 Methodology for estimating debt premium and its standard error

- (1) The debt premium must be estimated by-
  - (a) identifying **investment grade credit rated** entities, listed or unlisted, with publicly traded **vanilla NZ\$ denominated bonds**, which supply **electricity transmission services** in New Zealand;
  - (b) identifying **investment grade credit rated** entities, listed or unlisted, with publicly traded **vanilla NZ\$ denominated bonds**, which operate infrastructure businesses other than those which supply **electricity transmission services** in New Zealand;
  - (c) for each entity identified in accordance with paragraphs (a) and (b) that has a Standard and Poor's "BBB+" long term credit rating, obtaining the wholesale market mid yield to maturity of its publicly traded **vanilla NZ\$ denominated bonds** and its contemporaneous interpolated mid to mid spread over benchmark New Zealand government New Zealand dollar denominated

- nominal bonds each **business day** in the June of the year of estimation;
- (d) for each entity identified in accordance with paragraph (c), estimating the annualised interpolated bid spread over benchmark New Zealand government New Zealand dollar denominated nominal bonds for a residual period to maturity of 5 years; and
- (e) averaging the estimates obtained in accordance with paragraph (d).
- (2) The **standard error** of the debt premium must be estimated in

accordance with the formula-

$$\sqrt{\frac{1}{N-1} \sum_{i=1}^N (p_i - \bar{p})^2}$$

where,

$N$  is the number of values obtained in accordance with subclause (1)(d);

$p_i$  is each value obtained in accordance with subclause (1)(d); and

$\bar{p}$  is the debt premium obtained in accordance with subclause (1).

#### 2.5.62.4.6 Methodology for estimating the WACC standard error

- (1) The **standard error** for the mid-point estimate of vanilla WACC determined in accordance with clause 2.4.2(1) must be determined in accordance with the formula-

$$\sqrt{0.000029 + 0.0144E^2(TAMRP) + 0.16 \text{var}(\hat{p})}$$

- (2) The **standard error** for the mid-point estimate of post-tax WACC determined in accordance with clause ~~2.4.2(2)~~2.4.2(2) must be determined in accordance with the formula-

$$\sqrt{0.000029 + 0.0144E^2(TAMRP) + (1 - T_c)(0.16 \text{var}(\hat{p}))}$$

- (3) In this clause-

$E^2(TAMRP)$  is the square of the tax-adjusted market risk premium determined in accordance with clause 2.4.3(6);

$\text{var}(\hat{p})$  is the square of the **standard error** of the debt premium determined in accordance with clause 2.4.5(2); and

$T_c$  is the corporate tax rate determined in accordance with clause 2.4.3(3).

#### 2.5.72.4.7 Methodology for estimating the cost of capital range

- (1) A WACC range for the first **business day** of July must be estimated for each of the mid-point estimates determined in accordance with clause 2.4.2 in accordance with this clause.

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- (2) Treating each mid-point estimate as the 50th percentile, 'WACC range' means the values falling between the 25th percentile and 75th percentile of each mid-point estimate.
- (3) For the purpose of subclause (2), the 75th percentile must be determined in accordance with the formula-

*Mid-point estimate of WACC* + 0.674 × **standard error of mid-point estimate of WACC**.

- (4) For the purpose of subclause (2), the 25th percentile must be determined using the formula-

*Mid-point estimate of WACC* - 0.674 × **standard error of mid-point estimate of WACC**.

- (5) In this clause-

- (a) '*Mid-point estimate of WACC*' means the mid-point estimate of vanilla WACC or mid-point estimate of post-tax WACC, as the case may be, determined in accordance with clause 2.4.2; and
- (b) '**standard error of mid-point estimate of WACC**' means the **standard error** of the mid-point estimate of vanilla WACC or mid-point estimate of post-tax WACC, as the case may be, as each is determined in accordance with clause [2.4.6](#).

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#### 2.5.82.4.8 **Publication of estimates relating to cost of capital**

- (1) The **Commission** must estimate annually for the first **business day** of July, in accordance with this Part-
  - (a) the risk free rate of return;
  - (b) the debt premium and its **standard error**;
  - (c) the **standard errors** for the vanilla WACC and post-tax WACC; and
  - (d) the **WACC range** for the-
    - (i) vanilla WACC; and
    - (ii) post-tax WACC.
- (2) The **Commission** must publish such estimates-
  - (a) on its website; and
  - (b) no later than one month after having made them.]

## **PART 3 INPUT METHODOLOGIES APPLYING TO INDIVIDUAL PRICE-QUALITY REGULATION [THIS SHOULD BE PART 2]**

### **SUBPART 1 SPECIFICATION OF PRICE**

#### **3.1.1 Interpretation**

[Move to Part 1]

In this Subpart references to numbered clauses are references to clauses in this Part and words in bold type bear the following meanings:

**Levy** means a tax, charge or fee directly imposed by or under legislation-

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

**Pass-through cost** is a cost specified in clause 3.2.1(1)3.2.1(1)3.2.1(1)3.1.3(1);

**Pass-through costs** means the sum of every **pass-through cost** incurred by **Transpower**; and

**Recoverable costs** means the sum of every **recoverable cost** incurred by **Transpower**.

#### **3.1.2 Price**

[See earlier changes]

### **SUBPART 2 PASS-THROUGH AND RECOVERABLE COST**

~~For the purpose of s 53M(1)(a) of the Act, price is specified by a total revenue cap, net of **pass-through costs** and **recoverable costs**.~~

#### **3.1.33.2.1 Pass-through cost requirements**

- (1) ~~Subject to subclause 3.1.33.2.1, a~~ pass-through cost is a cost that-
  - (a) is listed in subclause (2); or

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- (b) subject to subclause (3), is a levy otherwise than one to which paragraph (a) applies that-
  - (i) was reasonably unforeseen at the time the **IPP determination** was made;
  - (ii) came into effect during an **IPP regulatory period**; and
  - (iii) is specified by way of amendment to the **IPP determination**.
- (2) For the purpose of subclause (1)(a), the costs are-
  - (a) rates on system fixed assets paid or payable by **Transpower** to a ~~territorial~~ local authority under the-
    - (i) Ratings Powers Act 1988; or
    - (ii) Local Government (Rating) Act 2002;
  - (b) **levies** payable -
    - (i) under regulations made under s 53ZE of the **Act**; or
    - (ii) under regulations made under the Electricity Act 1992
- (3) For the purpose of subclauses (1)(b) a cost must meet the following criteria:
  - (a) the cost is-
    - (i) associated with the provision of **electricity lines services**;
    - (ii) outside the control of **Transpower**;
    - (iii) not a **recoverable cost**; and
    - (iv) unable to be accurately forecast; and
  - (b) the **Commission** acting reasonably considers that-
    - (i) provision for its recovery has not already been made explicitly or implicitly in the **IPP**; and
    - (ii) taking into account any factor it considers relevant, it is appropriate for the cost to be passed through to **consumers**.

### 3.1.43.2.2 **Recoverable costs**

- (1) A recoverable cost is a cost that is-
  - (a) an incremental gain in controllable opex (as 'controllable opex' is defined in clause ~~3.7.13-7.13.7.13.6.1~~) determined in accordance with clause ~~3.7.6(4)3.7.6(4)3.7.6(4)3.6.5(4)~~;
  - (b) an 'instantaneous reserves availability charge' which is a charge allocated to **Transpower** under rule 11.5.1 of Section IV of Part C of the Electricity Governance Rules 2003, or any rule dealing with instantaneous reserves availability charges in any subsequent legislation, or any rule that supplements or replaces that rule, subject to subclause ~~(-1134034786)(1)(1)(2)~~; and
  - (c) a transmission alternative operating cost, subject to the requirements in subclause ~~(3) (2)~~.

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- ~~(2) For the purpose of subclause (1)(b) a recoverable cost excludes;~~
- ~~(a) any 'event charges' payable by **Transpower** as defined under 11.5.2 of Section IV of Part C of the Electricity Governance Rules 2003, or any rule dealing with 'event charges' in any subsequent legislation, or any rule that supplements or replaces that rule; and~~
  - ~~(b) any instantaneous reserves availability charge incurred by **Transpower** in relation to an asset remaining out of service after an initial period of fourteen consecutive days out of service.~~

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~~(3)~~(2) For the purpose of subclause (1)(c), the requirements of this subclause are that the costs must-

- (a) be **operating expenditure**;
- (b) be incremental to the **operating expenditure** allowance approved by the **Commission** prior to the **IPP regulatory period**;
- (c) have been approved by the Electricity Commission (or its successor) or the **Commission**-
  - (i) under Part F of the Electricity Governance Rules 2003; or
  - (ii) by the **Commission** in accordance with any new capital expenditure input methodology developed by the **Commission** and applied to Transpower; and
- (d) be the lesser of actual transmission alternative operating costs incurred by **Transpower** or the upper limit of transmission alternative operating costs approved in accordance with paragraph (c).

## ~~SUBPART 2~~ **SUBPART 3** OST ALLOCATION

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**[ORIGINAL SUBPARTS 2, 3 AND 4 ARE NOT REQUIRED]**

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### ~~3.2.13.3.1~~ **[Cost allocation]**

- (1) For the purpose of making an **IPP determination**, information provided to the **Commission** by **Transpower** regarding **Transpower's operating costs** and **capital expenditure, whether actual or forecast**, must be provided in accordance with clause ~~2.1.52.1.52.1.42.1.1~~ with necessary modifications.
- (2) For the avoidance of doubt, in applying subclause (1), any reference to 'any requirement in an **ID determination**' in ~~000SUBPART 1~~ of PART 2 means 'any requirement specified by the **Commission**'.

**SUBPART 3****SUBPART 4**  
**ASSET VALUATION**

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**[Not Required as in Part 2]**

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**3.3.13.4.1** **Asset valuation**

- (1) For the purpose of making an **IPP determination** assets in respect of which it is determined that **Transpower** is likely to hold for, or during the relevant **regulatory period**, must be valued, whether on an actual or forecast basis, in accordance with the methodology set out in SUBPART 2 of PART 2 with necessary modifications.
- (2) For the avoidance of doubt, in applying subclause (1), any reference to 'as determined in accordance with an **ID determination**' in SUBPART 2 of PART 2 means 'as specified by the **Commission**'.]

**SUBPART 4****SUBPART 5**  
**TREATMENT OF TAXATION**

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**[Not Required as in Part 2. In any event that part is subject to the substantive submissions of Transpower. No attempt has been made to draft it.]**

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**3.4.13.5.1** **Treatment of taxation**

- (1) For the purpose of making an **IPP determination**, **Transpower's regulatory tax allowance** during the relevant **regulatory period**, whether on an actual or forecast basis, must be determined in accordance with the methodology set out in SUBPART 3 of PART 2 with necessary modifications.
- (2) For the avoidance of doubt, in applying subclause (1), any reference to 'as determined in accordance with an **ID determination**' in SUBPART 3 of PART 2 means 'as specified by the **Commission**'.]

**SUBPART 5****SUBPART 6**  
**COST OF CAPITAL**

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**[This part is subject to extensive substantive submissions by Transpower. No attempt has been made to redraft them]**

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**3.5.13.6.1** **Interpretation**

In this Subpart the words in bold type bear the meanings specified in clause [0002.4.1](#).

**3.5.23.6.2 Methodology for estimating the cost of capital**

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- (1) A mid-point estimate of vanilla **WACC** for the first **business day** of September must be calculated using the formula  $r_d L + r_e(1 - L)$ .
- (2) In this clause-  
*L* is **leverage**;  
*r<sub>d</sub>* is the cost of debt and is estimated by  $r_f + p + d$ ;  
*r<sub>e</sub>* is the cost of equity and is estimated by  $r_f(1 - T_i) + \beta_e TAMRP$ ;  
*r<sub>f</sub>* is the risk-free rate of return;  
*p* is the debt premium;  
*d* is the debt issuance cost percentage;  
*T<sub>i</sub>* is the investor tax rate;  
*β<sub>e</sub>* is the equity beta; and  
*TAMRP* is the tax-adjusted market risk premium.
- (3) For the purpose of this clause-
  - (a) **leverage**, the investor tax rate, the equity beta, the debt issuance cost percentage, the corporate tax rate and the tax-adjusted market risk premium are the values specified in or determined in accordance with clause [3.6.33.6.33.6.33.5.3](#);
  - (b) the risk-free rate of return must be estimated for the first **business day** of September in accordance with clause [3.6.43.6.43.6.43.5.4](#); and
  - (c) the debt premium must be estimated for the first **business day** of September in accordance with clause [3.6.53.6.53.6.53.5.5](#).

**3.5.33.6.3 Fixed WACC parameters**

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- (1) **Leverage** is [\[40%\]](#).
- (2) The investor tax rate is-
  - (a) 30% until 31 March 2011; and
  - (b) 28% on and after 1 April 2011.
- (3) The corporate tax rate is-
  - (a) 30% until ~~31 March~~[30 June](#) 2011; and
  - (b) 28% on and after ~~1 April~~[1 July](#) 2011.
- (4) The equity beta is [\[0.57\]](#).
- (5) The debt issuance cost percentage is 0.3%.
- (6) The tax-adjusted market risk premium-
  - (a) where the **WACC** is estimated for the purpose of application before 1 July 2011, is determined in accordance with the formula-

$$(7.5\% \times Y + 7.0\% \times (5 - Y)) \div 5,$$

where,

*Y* is the number of full **disclosure years** on and after the date as at which the **WACC** is estimated to 1 July 2011; and

- (b) where the **WACC** is estimated for the purpose of application on and after 1 July 2011, is 7%.

#### **3.5.43.6.4 Methodology for estimating risk-free rate of return**

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The risk-free rate of return must be estimated by-

- (a) obtaining, for New Zealand government New Zealand dollar denominated nominal bonds the wholesale market interpolated mid yield to maturity, for a residual period to maturity equal to 5 years on each **business day** in August;
- (b) calculating the annualised interpolated bid yield to maturity for each **business day**; and
- (c) calculating the un-weighted arithmetic average of the daily annualised interpolated bid yields to maturity.

#### **3.5.53.6.5 Methodology for estimating debt premium and its standard error**

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- (1) The debt premium must be estimated by-
  - (a) identifying **investment grade credit rated** entities, listed or unlisted, with publicly traded **vanilla NZ\$ denominated bonds**, which supply **electricity transmission services** in New Zealand;
  - (b) identifying **investment grade credit rated** entities, listed or unlisted, with publicly traded **vanilla NZ\$ denominated bonds**, which operate infrastructure businesses other than those which supply **electricity transmission services** in New Zealand;
  - (c) for each entity identified in accordance with paragraphs (a) and (b) that has a Standard and Poor's "BBB+" long term credit rating, obtaining the wholesale market mid yield to maturity of its publicly traded **vanilla NZ\$ denominated bonds** and its contemporaneous interpolated mid to mid spread over benchmark New Zealand government New Zealand dollar denominated nominal bonds each **business day** in the August of the year of estimation;
  - (d) for each entity identified in accordance with paragraph (c), estimating the annualised interpolated bid spread over benchmark New Zealand government New Zealand dollar denominated nominal bonds for a residual period to maturity of 5 years; and
  - (e) averaging the estimates obtained in accordance with paragraph (d).

- (2) The **standard error** of the debt premium must be estimated in

accordance with the formula- 
$$\sqrt{\frac{1}{N-1} \sum_{i=1}^N (p_i - \bar{p})^2}$$

where,

$N$  is the number of values obtained in accordance with subclause (1)(d);

$p_i$  is each value obtained in accordance with subclause (1)(d); and

$\bar{p}$  is the debt premium obtained in accordance with subclause (1).

**3.5.63.6.6 Methodology for estimating the WACC standard error**

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- (1) The **standard error** for the mid-point estimate of vanilla **WACC** determined in accordance with clause [3.6.2\(1\)](#)~~3.6.2(1)~~~~3.6.2(1)~~~~3.5.2(1)~~ must be determined in accordance with the formula-

$$\sqrt{0.000029 + 0.0144E^2(TAMRP) + 0.16 \text{var}(\hat{p})}$$

- (2) In this clause-

$E^2(TAMRP)$  is the square of the tax-adjusted market risk premium determined in accordance with clause [3.6.3\(6\)](#)~~3.6.3(6)~~~~3.6.3(6)~~~~3.5.3(6)~~; and

$\text{var}(\hat{p})$  is the square of the **standard error** of the debt premium determined in accordance with clause [3.6.5\(2\)](#)~~3.6.5(2)~~~~3.6.5(2)~~~~3.5.5(2)~~.

**3.5.73.6.7 Methodology for estimating the cost of capital**

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- (1) A **WACC** for the first **business day** of the September in the twelve months prior to the start of a **regulatory period** must be estimated in accordance with this clause.
- (2) Treating the mid-point estimate of vanilla WACC determined in accordance with clause [3.6.2\(1\)](#)~~3.6.2(1)~~~~3.6.2(1)~~~~3.5.2(1)~~ as the 50th percentile, the **WACC** for the first **business day** of September is the [75th] percentile.
- (3) For the purpose of subclause (2), the [75th] percentile must be determined in accordance with the formula-

$$\text{mid-point estimate of vanilla WACC} + 0.674 \times \text{standard error of mid-point estimate of vanilla WACC},$$

where-

'mid-point estimate of vanilla **WACC**' means the value determined in accordance with clause [3.6.2\(1\)](#)~~3.6.2(1)~~~~3.6.2(1)~~~~3.5.2(1)~~; and

'**standard error** of mid-point estimate of vanilla **WACC**' means the value determined in accordance with clause [3.6.6\(1\)](#)~~3.6.6(1)~~~~3.6.6(1)~~~~3.5.6(1)~~.

### ~~3.5.8~~~~3.6.8~~ **Publication of estimates relating to the cost of capital**

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- (1) The **Commission** must publish estimates of the-
  - (a) risk-free rate of return made in accordance with clause [3.6.43.6.43.6.43.5.4](#);
  - (b) debt premium and its **standard error** made in accordance with clause [3.6.53.6.53.6.53.5.5](#);
  - (c) **standard error** for the vanilla **WACC** made in accordance with clause [3.6.6\(1\)](#)~~3.6.6(1)~~~~3.6.6(1)~~~~3.5.6(1)~~; and
  - (d) **WACC** determined in accordance with clause [3.6.73.6.73.6.73.5.7](#).
- (2) For the purpose of this clause, publication of estimates must be made-
  - (a) for the purpose of the **IPP** to apply to **RCPI**, as soon as reasonably practicable after the commencement of this determination; and
  - (b) the purpose of an **IPP** to apply after **RCPI**, no later than 4 months prior to **Transpower's** prices taking effect for the first year of the relevant **regulatory period**;
  - (c) in any event no later than 1 month after having made the estimates; and
  - (d) on the **Commission's** website.

### ~~3.5.9~~~~3.6.9~~ **Use of published estimates of WACC**

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For the purpose of setting a price path in an **IPP determination**, the **WACC** published in accordance with clause [3.6.83.6.83.6.83.5.8](#) most recently prior to the start of the **regulatory period** must be applied for each year of that entire **regulatory period**.]

## ~~SUBPART 6~~~~SUBPART 7~~ **INCREMENTAL ROLLING INCENTIVE SCHEME**

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### 3.7.1 Purpose of the scheme

The purpose of the incremental rolling incentive scheme is to allow Transpower to receive, for a rolling period of 5 years, the net benefit of any efficiency gains made by it. Such efficiency gains are to be calculated as the difference between actual and forecast controllable operating expenditure for any particular year of the regulatory control period (other than the first year of the first regulatory control period) after deducting the difference in the

preceding year. Both net gains and net losses must be carried forward with losses to be offset against gains up to the point where there are no net gains.

### ~~3.6.13.7.2~~ **3.6.13.7.2 Interpretation**

In this Subpart, the terms in bold have the following meanings:

**Allowed controllable opex** means, in a relation to a year of the **regulatory period**, the **Commission's** allowance for **controllable opex** specified in an **IPP determination**;

**Controllable opex** means, in relation to a year of the **regulatory period** the amount of **operating expenditure** determined to be-

- (a) controllable by **Transpower** during that year; and
- (b) inclusive of any gains in efficiency anticipated to be made on the previous year;

**Incremental adjustment term** is determined in accordance with clause ~~3.7.5(4)~~~~3.7.5(4)~~~~3.7.5(4)~~~~3.6.4(6)~~;

**Opening year** means-

- (a) in respect of **RCPI**, the second year of **RCPI**; and
- (b) in respect of regulatory periods after **RCPI**, first year of the **regulatory period**.

### ~~3.6.23.7.3~~ **3.6.23.7.3 Application**

This subpart applies-

- (a) to the **Commission's** determination of an **IPP** for **Transpower**; and
- (b) for the purpose of determining **recoverable costs**.

### ~~3.6.33.7.4~~ **3.6.33.7.4 Type of expenditure subject to the scheme**

Expenditure that is subject to the **incremental rolling incentive scheme** is **controllable opex**.

### ~~3.6.43.7.5~~ **3.6.43.7.5 Calculation of annual incremental changes and adjustment term**

- (1) The incremental change for an **opening year** is determined as the difference between **allowed controllable opex** and actual **controllable opex**.
- (2) The incremental change for a year of a **regulatory period** other than the **opening year** ~~or final year~~ must be determined in accordance with the formula-

**(allowed controllable opex<sub>t</sub> - actual controllable opex<sub>t</sub>) - (allowed controllable opex<sub>t-1</sub> - actual controllable opex<sub>t-1</sub>),**

where-

*t* means the year in question; and

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

~~(3) The incremental change for the final year of the regulatory period is treated as nil less the difference between allowed controllable opex and actual controllable opex in the penultimate year of the regulatory period.~~

~~For the avoidance of doubt, nothing in subclause (3) affects subclause 3.6.5.~~

[As drafted clause 3.7.4(3) implies that no benefit arises even if the last year shows efficiency gains. The last year problem is adequately addressed in subclause (6).]

~~(5)(3)~~ Subclauses (1) ~~to (3)~~ and (2) are subject to clause [3.7.73.7.73.7.73.6.6].

~~(6)(4)~~ The incremental adjustment term is determined-

- (a) in the **opening year** of every **regulatory period** except **RCP1**;  
and
- (b) in accordance with the formula-

**(allowed controllable opex <sub>$t-1$</sub>  - actual controllable opex <sub>$t-1$</sub> ),**

where  $t-1$  means the final year of the previous **regulatory period**.

### 3.6.53.7.6 **How incremental changes are taken into account**

- (1) Each incremental change and **incremental adjustment term** determined in accordance with clause ~~3.7.53.7.53.7.53.6.4~~ is notionally carried over, subject to clause 3.7.73.7.73.7.73.6.6, into each of the subsequent 5 **disclosure financial years** in real terms by application of **CPI**.
- (2) For each year of a **regulatory period** after **RCP1**, other than the **opening year**, a net balance must be determined by addition of-
  - (a) any incremental changes carried forward into that year from the previous **regulatory period**; and
  - (b) the **incremental adjustment term** carried into that year from the **opening year** of that **regulatory period**.
- (3) For the **opening year** of each **regulatory period** after **RCP1**, a net balance must be determined by addition of-
  - (a) any incremental changes; and
  - (b) the **incremental adjustment term**,carried into that year from the previous **regulatory period**.
- (4) Any positive net balance determined in accordance with subclause (2) or (3) may be treated as a **recoverable cost** in that **disclosure year financial year** provided that any requirements pursuant to an **ID determination** regarding auditor certification of the value determined in accordance with subclause (2) or (3) have been met.

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**3.6.63.7.7** Calculating gains and losses after a **catastrophiematerial** event

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- (1) If a price-quality path is re-considered pursuant to clause ~~3.8.63.8.63.8.63.7.6~~ by reason of a **catastrophic-material** event, incremental losses made after the **catastrophic-material** event are not carried forward to the next period.
- (2) In this clause '**catastrophiematerial** event' has the meaning specified in clause ~~3.8.23.8.23.8.23.7.2~~.

~~SUBPART 7~~**SUBPART 8**  
RECONSIDERATION  
OF THE INDIVIDUAL  
PRICE-QUALITY  
PATH

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**3.7.43.8.1** Interpretation

In this Subpart, words in bold bear the following meanings:

**Allowable revenue** means the maximum revenue that may be recovered by **Transpower** during a **disclosure financial year** as specified in an **IPP determination**;

**Catastrophic-Material event** has the meaning set out in clause ~~3.8.23.8.23.8.23.7.2~~;

**Change event** has the meaning set out in clause ~~3.8.33.8.33.8.33.7.3~~; and

**Error** has the meaning set out in clause ~~3.8.43.8.43.8.43.7.4~~.

**3.7.23.8.2** **Catastrophic-Material event**

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- (1) **Catastrophic-Material event** means an event-
  - (a) beyond the reasonable control of **Transpower**;
  - (b) that could not have been reasonably foreseen at the time the most recent **IPP determination** was made;
  - (c) in respect of which there is a material impact on Transpower as set out in subclause (2) -
    - (i) ~~action required to rectify its adverse consequences cannot be delayed until a future regulatory period;~~
    - (ii) ~~rectification requires either or both of capital expenditure or operating expenditure during the regulatory period;~~
    - (iii) ~~the full costs of rectification have not been provided for in that IPP determination; and~~
    - (iv) ~~the cost of rectification would increase the cost of providing electricity lines services over the years of the regulatory~~

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~~period remaining on and after the date on which the expenditure to remediate the event is proposed to be incurred by a value at least equivalent to 5% of the allowable revenue in the year of the event.~~

~~(iv)(2) For the purpose of subclause (1), in assessing if there is a material impact:~~

~~(iv)(a) the total impact on Transpower is to be considered including:~~

~~(iv)(i) the amount of revenue that, as a result of event, has to be waived or foregone;~~

~~(iv)(ii) the capital expenditure required to rectify the consequences of the event to the extent not allowed for in the relevant IPP Determination;~~

~~(iv)(iii) the extra operating costs arising from the event;~~

~~(iv)(b) the impact is to be assessed over the period from the event down to the end of the then regulatory control period unless the allowable revenue for the next regulatory control period has been already fixed in which case the impact is to be assessed down to the end of the next regulatory control period;~~

~~(c) the impact calculated in accordance with this subclause (2), must by itself, or when taken with the impact of any other events of the type described in subclause (1)(a) and (b) that have not led to a re-opening of the price path (which impact is to be calculated in a similar manner set out in this subclause (2)), be at least equivalent to 1% of allowable revenue in the year of the event.~~

### 3.7.33.8.3 Change event

Change event is a change in or a new legislative or regulatory requirement applying to **Transpower** the effect of which-

- (a) must take place during the current **regulatory period**;
- (b) is not explicitly or implicitly provided for in the price-quality path; and **either**
- (c) will, over the years of the **regulatory period** remaining on and after the date when the response to the event is implemented, increase or decrease the cost of providing **electricity lines services** by a value at least equivalent to **51%** of the **allowable revenue** for the year in which the event occurred; **or**
- ~~(e)(d) arises from a request for reconsideration made by the Electricity Authority under s54V(3) of the Act.~~

### 3.7.43.8.4 Error

(1) Error means-

- (a) incorrect data-
  - (i) discovered in an **IPP determination**;

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- (ii) clearly unintended by the **Commission** to be included in it; and
  - (iii) which, over the **regulatory period**, increased or decreased the **allowable revenue** for providing **electricity lines services** by at least **51%** of the **allowable revenue** for the first year of the **regulatory period**; or
- (b) incorrect data-
- (i) relied upon by the **Commission** in making an **IPP determination**;
  - (ii) clearly unintended by the **Commission** to be relied upon in making it; and
  - (iii) which, over the **regulatory period**, increased or decreased the **allowable revenue** for providing **electricity lines services** by at least **51%** of the **allowable revenue** for the first year of the **regulatory period**.

**3.7.53.8.5** When price-quality paths ~~may~~**must** be reconsidered

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- (1) **Transpower's** price-quality path ~~may~~**must** be reconsidered by the **Commission** if-
  - (a) the **Commission** **acting reasonably** considers; or
  - (b) **Transpower** satisfies it, upon application, that subclause (2) or (4) applies.
- (2) This ~~paragraph clause~~ applies if-
  - (a) a **catastrophic material event**;
  - (b) an **error**; or
  - (c) a **change event**,has occurred.
- (3) Where the costs to rectify the adverse consequences of the **catastrophic material** event are fully covered by-
  - (a) the **IPP** (*e.g.* through an **operational expenditure** allowance for self-insurance); or
  - (b) commercial insurance held by **Transpower**,the **Commission** will only reconsider the quality standards of the **IPP**.
- (4) This paragraph applies if-
  - (a) false or misleading information relating to the making of an **IPP determination** has been knowingly
    - (i) provided by **Transpower** or any of its agents to the **Commission**; or
    - (ii) disclosed pursuant to an **IDIM determination**; and

- (b) the **Commission** relied on that information in making an **IPP determination**.

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

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- (1) If, after reconsidering a price-quality path, the **Commission** determines that the price-quality path should be amended, the **Commission** may amend either or both of the price path or the quality standards specified in the **IPP determination**, subject to subclauses (2) and [1.1.1\(-1134034786\)1.1.1\(1\)1.1.1\(1143212126\)\(3\)](#).
- (2) The **Commission** must not amend the-
  - (a) price path more than is reasonably necessary to take account of the change in costs; and
  - (b) quality standards more than are reasonably necessary to take into account any necessary change in quality,arising from the-
  - (a) ~~catastrophic material~~ **event**,
  - (b) **change event**;
  - (c) **error**; or
  - (d) provision of false or misleading information.

~~(3) Where the **Commission's** reconsideration of the price-quality path was triggered by a **catastrophic event**, in determining the extent of the amendment to the price-quality path, the **Commission** must consider the extent to which **Transpower** has demonstrated that it has reviewed its **capital expenditure** and **operating expenditure** plans for the remainder of the **regulatory period** and made such substitutions as is possible without adversely affecting its ability to meet its quality standards.~~

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**SUBPART 9 WASH**  
**-UPS**

[Here the Draft Determination should deal with annual wash-ups. Included in such wash-ups are topics such as:

- (a) **Which assets are not commissioned in the anticipated year (whether commissioned early or late);**
- (b) **An adjustment to the cost of construction that arises from using GAAP rather than WACC;**
- (c) **Adjustments to the cost of capital assets arising from ex post approvals or ex ante approvals under 2009 GPS para 85;**
- (d) **Foreign exchange movements that affected the cost of commissioned works.**

The formula for adjusting capitalised interest is:

$\Sigma$  (Capitalised GAAP interest on regulated assets in a financial year divided by cost of financing in a financial year x WACC for the financial year)

**PART 3**  
**Input Methodologies for Information Disclosure**

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3.1 Transpower must use the same input methodologies for its disclosure accounts as are specified in Part 2 for pricing purposes.

## SCHEDULE A ASSET LIVES

**[THIS SHOULD BE DELETED]**

### Standard Asset Lives for Transpower

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