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Transpower Input Methodologies (Common Cost of Capital) Amendment Determination 2026

[2026] NZCC 52

The Commission:	Nathan Strong Dr John Small Dr Derek Johnston Bryan Chapple
Date of decision:	25 November 2026

[redacted]

Robert Cahn, Chief Legal Counsel – Infrastructure Regulation

Dated at Wellington this 25th day of November 2026

COMMERCE COMMISSION

Wellington, New Zealand

Determination history		
Determination date	**Decision number**	**Determination name**
29 June 2012	[2012] NZCC 17	Transpower Input Methodologies Determination ('principal determination')*
28 August 2014	[2014] NZCC 22	Transpower Input Methodologies Amendments Determination 2014
26 September 2014	[2014] NZCC 24	Electricity Lines Services Input Methodologies Determination Amendment 2014
29 October 2014	[2014] NZCC 27	Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for price-quality regulation) 2014
27 November 2014	[2014] NZCC 32	Incremental Rolling Incentive Scheme Input Methodology Amendments Determination 2014
27 November 2014	[2014] NZCC 34	Transpower Input Methodologies Amendments Determination 2014 (No. 2)
11 December 2014	[2014] NZCC 38	Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for information disclosure regulation) 2014
5 February 2015	[2015] NZCC 3	Transpower Input Methodologies Amendment Determination 2015
21 October 2015	[2015] NZCC 27	Transpower Input Methodologies Amendment Determination 2015 (No. 2)
20 December 2016	[2016] NZCC 27	Transpower Input Methodologies Amendments Determination 2016
29 June 2017	[2017] NZCC 17	Transpower Input Methodologies Amendment Determination 2017
28 August 2019	[2019] NZCC 10	Transpower Input Methodologies Amendments Determination 2019
13 November 2019	[2019] NZCC 16	Transpower Input Methodologies Amendments Determination (No. 2) 2019
13 December 2023	[2023] NZCC 38	Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023
29 August 2024	[2024] NZCC 19	Transpower Input Methodologies Amendment Determination 2024
11 December 2024	[2024] NZCC 39	Transpower Input Methodologies (treatment of insurance entitlements) Amendment Determination 2024
27 March 2025	[2025] NZCC 4	Transpower Input Methodologies (Reopeners and Other Matters) Amendment Determination 2025
25 November 2026	[2026] NZCC 52	Transpower Input Methodologies (Common Cost of Capital) Amendment Determination 2026

* The principal determination re-determined the input methodologies contained in the *Commerce Act (Transpower Methodologies) Determination 2010* (Commerce Commission Decision No.713, 22 December 2010), as amended by the *Commerce Act (Transpower Input Methodologies) Amendment Determination (No. 1) 2011* (Commerce Commission Decision 736, 1 November 2011). A complete history of determinations relevant to the input methodologies applicable to Transpower is available on the Commission's website.

[Drafting notes:

- This determination amends the Transpower Input Methodologies Determination, as previously amended, ('principal determination').
- The included amendments which are secondary legislation are made under the Legislation Act 2019 and Part 4 of the Commerce Act 1986.
- The amendments to the body of the principal determination are marked as tracked changes in red in Attachment B.]

Transpower Input Methodologies (Common Cost of Capital) Amendment Determination 2026

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2. DETERMINATION AMENDED
3. COMMENCEMENT AND APPLICATION
4. PRINCIPAL DETERMINATION AMENDMENTS

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

1. TITLE

1.1. This determination is the Transpower Input Methodologies (Cost of Capital) Amendment Determination 2026.

2. DETERMINATION AMENDED

2.1. This determination amends the Transpower Input Methodologies Determination [2012] NZCC 17 (the **principal determination**).

3. COMMENCEMENT AND APPLICATION

3.1. This determination comes into force on 1 August 2029.

4. PRINCIPAL DETERMINATION AMENDMENTS

4.1. Replace the contents page of the **principal determination** with the contents page in Attachment A.

4.2. The amendments to the body of the **principal determination** are the deletions, substitutions and additions shown in red in Attachment B.

Attachment A:

TRANSPOWER INPUT METHODOLOGIES (COMMON COST OF CAPITAL) AMENDMENT DETERMINATION 2026

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Attachment B:

PART 1 GENERAL PROVISIONS

1.1.1 Title

This determination is the Transpower Input Methodologies Determination 2010.

1.1.2 Application

(1) The **input methodologies** in this determination apply to **electricity transmission services**.

(2) The **input methodologies** in-

(a) Part 2 of this determination apply in relation to information disclosure regulation under Part 4 Subpart 4 of the **Act**; and

(b) Part 3 of this determination apply in relation to individual price-quality regulation under Part 4 Subpart 7 of the **Act**.

1.1.3 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**.

1.1.4 Interpretation

(1) In this determination-

(a) unless stated otherwise, references to Parts and Subparts are to named and numbered parts and subparts of the determination;

(b) references to Subparts are to subparts within the same part in which the reference is made;

(c) unless the context otherwise requires, a word which denotes the singular also denotes the plural and vice versa;

(d) unless stated otherwise, any reference to an allowance, amount, cost, sum or value is a reference to an allowance, amount, cost, sum or value calculated in relation to **Transpower** in respect of a **disclosure year**;

(e) unless stated otherwise, any reference to "includes" means "includes, but is not limited to";

(f) examples in this determination are for guidance purposes only and do not form part of this determination; and

(g) materials incorporated by reference into this determination, including standards promulgated by other bodies, are incorporated in accordance with Schedule 5 of the **Act**.

(2) In this determination, including in the schedule, the words or phrases in bold type bear the following meanings:

65th percentile estimate of WACC means, for the purpose of-

(a) Part 2, the 65th percentile estimate for the post-tax **mid-point estimate of WACC**, determined in accordance with clause 2.4.5(4);

(b) Part 3, in determining the price path for the **IPP**, the 65th percentile for the

	vanilla **mid-point estimate of WACC**, determined in accordance with clause 3.5.5(1); and (c) Part 3, in reconciling the opening and closing balances of the **EV account**, the 65th percentile for the post-tax **mid-point estimate of WACC**, determined in accordance with clause 3.5.5(2);
2011 thresholds regulatory asset base	means the regulatory asset base as defined in the **thresholds notice** as of 30 June 2011;

A

Act	means the Commerce Act 1986;
actual opex	has the meaning specified in clause 3.6.3(8);
allocator type	means the basis for the attribution or allocation of an **operating cost** or **regulated service asset value** to **electricity transmission services** and **unregulated services**, namely, '**directly attributable**', 'causal' or 'proxy';
alternative depreciation method	means a method, other than the **standard depreciation method**, for determining **depreciation** and **unallocated depreciation**, as determined under clause 3.3.2(1);
amount carried forward	means, for any given **disclosure year**, the amount determined in accordance with clause 3.6.3;
anticipatory capacity	means, in relation to an **anticipatory connection asset**, the amount of capacity of the asset that is not subject to a **new investment contract**;
anticipatory capacity project	has the meaning specified in clause 3.7.9A(1);
anticipatory connection asset	means an asset that has been designated, or a part of which has been designated, as anticipatory by **Transpower** in accordance with clause 26(1) of Schedule 12.4 of the **code**;
arm's-length deduction	means, in respect of- (a) **operating costs** not **directly attributable**, an amount of **operating costs** incurred by **Transpower** in the **supply** of **unregulated services** that have been recouped in an **arm's-length transaction**; and (b) **regulated service asset values** not **directly attributable**, the amount of

regulated service asset values in respect of assets used by **Transpower** in the **supply** of **unregulated services** for which a recoupment of **capital costs** has been made by **Transpower** in an **arm's-length transaction**,

that **Transpower** wants to be taken into account for cost allocation purposes;

arm's-length transaction means a transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests;

asset allocator means a ratio used to allocate **regulated service asset values** that are not **directly attributable** and whose quantum is-

(a) based on a **causal relationship**; or
(b) equal to a **proxy cost allocator**;

auditor means-

(d) whilst **Transpower** is a public entity (as defined in s 4 of the Public Audit Act 2001), the Auditor-General; and
(e) where paragraph (a) does not apply, a **person** who is-
  (i) qualified for appointment as an auditor of a company under the Companies Act 1993; and
  (ii) **independent**;

average debt premium has the meaning specified in, and is the amount determined in accordance with-

(a) Part 2, clause 2.4.4(2); and
(b) Part 3, clause 3.5.4(2);

B

base capex has the same meaning as defined in the **Capex IM**;

base capex allowances has the same meaning as defined in the **Capex IM**;

base capex threshold has the same meaning as defined in the **Capex IM**;

base year adjustment to the opex incentive means the amount calculated in accordance with clause 3.6.4(1);

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;
	C
cap	has the same meaning as defined in the **Capex IM**;
Capex IM	means the *Transpower Capital Expenditure Input Methodology Determination* [2012] NZCC 2, as amended;
capital costs	means return on **regulated service asset values**, return of **regulated service asset values**, or both;
capital expenditure or **capex**	means costs that- (a) have been incurred in the acquisition or development of an asset that is, or is intended to be, **commissioned**; and (b) are intended to be included in the **value of commissioned asset**;
catastrophic event	has the meaning specified in clause 3.7.4;
causal relationship	means, in relation to- (a) **operating costs**, a circumstance in which a cost driver leads to an **operating cost** being incurred during the 18-month period ending on the last day of the **disclosure year** in respect of which the cost allocation is carried out; and (b) **regulated service asset values**, a circumstance in which a factor influences the utilisation of an asset during the 18-month period ending on the last day of the **disclosure year** in respect of which the asset allocation is carried out;
change event	has the meaning specified in clause 3.7.5;
closing ACA capacity	means, for a **disclosure year**,- (a) the **opening ACA capacity** for an **anticipatory connection asset** for the year; less (b) the amount of any **anticipatory capacity** of an **anticipatory connection asset** that has, during the year, become subject to **new investment contracts**;
closing RAB value	means the value determined in accordance with, for the purpose of-

	(a) Part 2, clause 2.2.3(4); and (b) Part 3, clause 2.2.3(4) as modified under clause 3.3.1;
code	has the same meaning as defined in s 5 of the Electricity Industry Act 2010;
collar	has the same meaning as defined in the **Capex IM**;
Commission	has the same meaning as defined in s 2 of the **Act**;
commissioned	means used by **Transpower** to provide **electricity transmission services**, save that in relation to- (c) **land** that is not **easement land**; or (d) an **easement**, 'commissioned' means acquired by **Transpower** where – (a) the **land** or **easement** is **base capex**, or (b) the acquisition was approved by the– (i) **Electricity Commission** under Part F of the Electricity Governance Rules 2003; (ii) **Commission** under s 54R(3)(b) of the **Act**; or (iii) **Commission** in accordance with an input methodology determined pursuant to s 54S of the **Act**, and 'commission' shall be construed accordingly;
commissioning	has the same meaning as defined in the **code**;
commissioning date	means the date that an asset is first **commissioned**;
compensatory entitlement	means, for the purposes of Part 3, money or the monetary value of other consideration relating to an event, other than an **insurance entitlement** or **capital contribution**, that is received or receivable from **consumers** or other parties, for any of the following purposes: (a) restoring damaged assets to the same operating condition and location as prior to the event; (b) relocating assets if required; and (c) compensating for damaged or destroyed assets;

consumer	has the same meaning as defined in s 52C of the **Act**;
corporate tax rate	means the rate of income taxation applying to companies as specified in the **tax rules**;
cost allocator	means a ratio used to allocate **operating costs** that are not **directly attributable**, and whose quantum is- (a) based on a **causal relationship**; or (b) equal to a **proxy cost allocator**;
cost of debt	means the amount specified for r_d in clause 2.4.1(3);
CPI	means,- (a) subject to paragraph (b), the consumer price index stipulated for each quarter in the "All Groups Index SE9A' as published by Statistics New Zealand; and (b) in respect of quarters prior to any quarter in which the rate of **GST** is amended after this determination comes into force, the same index as described in paragraph (a), multiplied by the Reserve Bank of New Zealand's forecast change in that index (expressed as a decimal) arising from the amendment;
customer	means any generator, **EDB**, **consumer**, or other entity in New Zealand that is connected, or applies to be connected, to the **grid**;

D

debt issuance costs	means costs associated with the issuance of debt by a supplier (including, but not limited to, arrangement fees, legal fees, brokerage, advertising, credit rating fees, registry costs, listing fees, syndicate fees, trustee fees, facility fees, line fees, roadshow and marketing costs, paying agency fees and any fee or premium incurred in entering into an interest rate or cross-currency derivative);
debt premium	for the purpose of Part 2 or Part 3, has the meaning specified in, and is the amount determined in accordance with, clause 2.4.4(4);

debt premium reference year means a 12-month period ending on 31 August;

Example: 'debt premium reference year 2016' means the 12-month period ending 31 August 2016;

decommissioning has the same meaning as defined in the **code**;

delivery risk adjustment means an increase to a **base capex allowance** or an **opex allowance** (or both) that reflects **Transpower's** management of a delivery risk and is provided for in the **IPP determination**;

depreciation in relation to a **disclosure year**, means the allowance for that **disclosure year** to account for the diminution in an asset's remaining service life potential in the **disclosure year** in question determined in accordance with clause 2.2.4(2);

directly attributable means, in relation to-

(a) **operating costs**, wholly and solely incurred by **Transpower** in or in relation to its **supply** of **electricity transmission servces**; and

(b) **regulated service asset values**, wholly and solely related to an asset used by **Transpower** in or in relation to its **supply** of **electricity transmission services**;

disclosure year means 12-month period ending on 30 June;

Example: 'disclosure year 2012' means 12-month period ending on 30 June 2012;

disposed asset means an asset (other than a **lost asset**) that, in the **disclosure year** in question,-

(a) has been sold or transferred;

(b) has been irrecoverably removed from **Transpower's** possession without consent; or

(c) is the portion of an **anticipatory connection asset** that has become subject to a **new investment contract** in the **disclosure year**;

document has the same meaning as defined in s 2 of the **Act**;

E

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- (e) creating an **easement** in respect of it; and (f) disposing of the **land** thereafter;
EDB	has the same meaning as defined in the Electricity Distribution Input Methodologies Determination 2012;
E & D base capex project	has the same meaning as defined in the **Capex IM**;
E & D project	has the meaning specified in clause 3.7.9(1);
Electricity Authority	means the Authority established under s 12 of the Electricity Industry Act 2010;
Electricity Commission	means the same body as the Electricity Governance Board established under s 172M of the Electricity Act 1992 as in force immediately before its substitution by s 14 of the Electricity Amendment Act 2004;
electricity transmission services	has the same meaning as defined in the **Capex IM**;
engineer	means an individual who is- (g) a chartered professional engineer as defined in s 6 of the Chartered Professional Engineers of New Zealand Act 2002; (h) acting in that professional capacity; and (i) **independent**;
error event	has the meaning specified in clause 3.7.6;
EV account	means a memorandum account maintained by **Transpower** on an after-tax basis to record each **EV account entry** not yet returned to or recovered from **Transpower's customers**, and to record interest calculated on the balance of that account for each **disclosure year** using the post-tax estimate corresponding to **WACC** in accordance with clause 3.5.5(2);
EV account entry	has the meaning as defined in an **IPP determination**;
excluded asset	means an asset that is-

	(a) not used to **supply electricity transmission services** as on the last day of the **disclosure year** 2011; or (b) **easement land**;
	F
false or misleading information	has the meaning specified in clause 3.7.7;
finance lease	has the same meaning as under **GAAP**;
fixed life easement	means an **easement** that- (a) is of fixed duration; or (b) whilst of indefinite duration, is to be held for a fixed period;
forecast EV adjustment	means an input to the **forecast MAR** calculation specified in an **IPP determination**, for the purpose of returning to or recovering from **customers** the balance of the **EV account** applying to those **customers** which is available to draw down, where this input is calculated in accordance with the formula in clause 3.1.1(5);
forecast MAR	means, for each **pricing year** in the **regulatory period**, the unsmoothed forecast maximum allowable revenue as determined by the **Commission** in an **IPP determination**, as amended from time to time in accordance with clause 3.7.11;
forecast SMAR	means, for each **pricing year** in the **regulatory period**, the **forecast MAR** converted to a smoothed price path as determined by the **Commission** using the methodology in clause 3.1.1(3)(b)-(d) and as determined in an **IPP determination**, or as amended from time to time in accordance with an **IPP determination**;
forecast opex	has the meaning specified in clause 3.6.3(7);
foreseeable E & D project	has the meaning specified in clause 3.7.9(3);
found asset	has the meaning specified in clause 2.2.11(1);
	G
GAAP	means generally accepted accounting practice in New Zealand, save that, where the cost of an asset is being determined in accordance with this determination, only the cost model of recognition is applied, insofar as an election may be made between the cost model of

	recognition and the fair value model of recognition;
GPB	means GDB or GTB, as- (a) 'GDB' is defined in the Gas Distribution Input Methodologies Determination 2012; and (b) 'GTB' is defined in the Gas Transmission Input Methodologies Determination 2012;
grid	has the same meaning as defined in the **Capex IM**;
grid output	has the same meaning as defined in the **Capex IM**;
grid output incentive rate	has the same meaning as defined in the **Capex IM**;
grid output target	has the same meaning as defined in the **Capex IM**;
grid reliability standards	has the same meaning as defined in the **Capex IM**;
GST	has the same meaning as defined in s YA 1 of the Income Tax Act 2007;
	I
ID determination	means an information disclosure determination in relation to **Transpower** made by the **Commission** under s 52P of the **Act**;
identifiable non-monetary asset	has the same meaning as under **GAAP** (which, for the avoidance of doubt, includes **right-of-use assets** and excludes goodwill);
independent	means that, in relation to a person, the person is not in a relationship with, and does not have an interest in, **Transpower** that is likely to involve the person in a conflict of interest between the person's duties to **Transpower** and their duties to the **Commission**;
initial RAB	has the meaning specified in clause 2.2.1;
initial RAB value	means value of an asset in the **initial RAB** determined in accordance with clause 2.2.2;
input methodology	has the same meaning as defined in s 52C of the **Act**;
insurance entitlement	means, for the purposes of-

	(a) Part 2, money or the monetary value of other consideration relating to an event, that is received or receivable from a 'licensed insurer' as that term is defined in the Insurance (Prudential Supervision) Act 2010, in respect of a contract of insurance that insures against damaged or destroyed assets or **operating costs** arising from damaged or destroyed assets, excluding business interruption insurance or **third-party liability entitlements**; and (b) Part 3, money or the monetary value of other consideration relating to an event that is received or receivable from, or forecast to be received or receivable from, a 'licensed insurer' as that term is defined in the Insurance (Prudential Supervision) Act 2010, in respect of a contract of insurance that insures against damaged or destroyed assets or **operating costs** arising from damaged or destroyed assets, excluding business interruption insurance or **third-party liability entitlements**;
investment grade credit rated	means 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;
IPP	means **Transpower's** individual price-quality path;
IPP determination	means an individual price-quality determination applying to **Transpower** made by the **Commission** under s 52P of the **Act**;
IPP revenue growth rate	means, for each **pricing year** in the **regulatory period**, the annual percentage growth in **forecast SMAR**, as determined in an **IPP determination**;
	L
land	excludes- (a) buildings; and (b) **easements**;
large buildup in EV account balance	has the meaning specified in clause 3.7.8;

lease payment has the same meaning as under **GAAP** except that it only applies to lease payments under an **operating lease**;

leverage means the ratio of debt capital to total capital and, for the purpose of-

(a) Part 2, is the amount specified in clause 2.4.2(1); and

(b) Part 3, is the amount specified in clause 3.5.2(1);

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 transmission services**;

listed project has the same meaning as defined in the **Capex IM**;

local authority has the same meaning as defined in s 5(1) of the Local Government Act 2002;

lost asset means an asset-

(c) not included in the **initial RAB**; and

(d) having, in relation to the **disclosure year** in question, an **unallocated opening RAB value**,

but determined by **Transpower** in that **disclosure year** never to have been used to provide **electricity transmission services**;

M

major capex has the same meaning as defined in the **Capex IM**;

major capex allowance has the same meaning as defined in the **Capex IM**;

major capex project has the same meaning as defined in the **Capex IM**;

mid-point estimate of WACC means, for the purpose of-

(e) Part 2, the mid-point estimate of-

(i) vanilla **WACC**; or

(ii) post-tax **WACC**,

as the case may be, as each is estimated in accordance with clause 2.4.1; and

(f) Part 3, the mid-point estimate of-
  (i) vanilla **WACC**; or
  (ii) post-tax **WACC**,

as the case may be, as each is estimated in accordance with clause 3.5.1;

multi-rate PIE	has the same meaning as defined in s YA 1 of the Income Tax Act 2007;

N

Nelson-Siegel-Svensson approach	has the meaning specified in clause 2.4.4(8);
network spare	means an asset that is held by **Transpower** to replace any other asset it holds should that other asset be withdrawn from use owing to failure or damage;

new investment contract	means a contract between **Transpower** and another person, for the provision of **electricity transmission services** that are new or that have been previously been provided using an **anticipatory connection asset**, in respect of which-
	(g) 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
	(h) **Transpower** demonstrates beyond a reasonable doubt that the terms and conditions of the contract were determined following a process that provided opportunities for-
	  (i) **Transpower's** 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**;

non-recurrent amount	has the meaning specified in clause 3.6.3(5);
NZ IAS 24	means *New Zealand Equivalent to International Accounting Standard 24, Related Party Disclosures (NZ IAS 24)*, issued by the New Zealand Accounting Standards Board of the External Reporting Board in November 2009, incorporating amendments to 31

December 2015, under s 24(1)(a) of the Financial Reporting Act 1993;

O

opening ACA capacity means,-

(a) for the **disclosure year** in which an **anticipatory connection asset** is **commissioned**, the asset's **anticipatory capacity** on the **commissioning date**; and

(b) for a **disclosure year** thereafter, the asset's **closing ACA capacity** in the preceding year;

opening RAB value means the value determined in accordance with, for the purpose of-

(a) Part 2, clause 2.2.3(3); and

(b) Part 3, clause 2.2.3(3) as modified under clause 3.3.1;

operating lease has the same meaning as under **GAAP**;

operating cost means a cost incurred by **Transpower** relating to the **supply** of **electricity transmission services**, net of any **insurance entitlement**, **compensatory entitlement**, or **third-party liability entitlement** for the same cost, up to the amount of that cost, which **Transpower** chooses to net off in calculating that cost, and excludes-

(a) a cost that is treated as a cost of an asset by **GAAP**;

(b) amounts that are depreciation, tax, subvention payments, revaluations or an interest expense, in accordance with their meanings under **GAAP**;

(c) **debt issuance costs**;

(d) **pass-through costs**;

(e) **recoverable costs**; and

(f) **pecuniary penalties**;

operating expenditure or **opex** means-

(a) for the purpose of Subpart 6 of Part 3, **operating costs** after applying clause 3.2.1(1) plus any **lease payments**; and

(b) in any other case, **operating costs** after applying clause 3.2.1(1);

opex incentive amount means the amount determined in accordance with clause 3.6.2;

P

pass-through cost	has the meaning specified in clause 3.1.2(1);
pecuniary penalties	means fines or penalties imposed- (a) by a court; or (b) by any other body with a statutory power to impose fines or penalties;
person	has the same meaning as defined in s 2 of the **Act**;
physical asset life	has the meaning specified in clause 2.2.7(1);
prescribed investor rate	has the same meaning as defined in the Income Tax Act 2007 or any subsequent legislation that supplements or replaces the provisions relating to prescribed investor rate in the Income Tax Act 2007;
pricing year	means a 12 month period ending on 31 March;
programme	has the same meaning as defined in the **Capex IM**;
project	has the same meaning as defined in the **Capex IM**;
proxy asset allocator	means a ratio- (a) used to allocate **regulated service asset values** for which a **causal relationship** cannot be established; (b) whose quantum is based on factors in existence during the 18-month period ending on the last day of the most recent **disclosure year** in respect of which the proxy allocation is carried out; (c) that is consistent with similar ratios (both within a **disclosure year** and from year to year); and (d) that is reasonable;
proxy cost allocator	means a ratio- (a) used to allocate **operating costs** for which a **causal relationship** cannot be established; (b) whose quantum is based on factors in existence during the 18-month period ending on the last day of the most recent **disclosure year** in respect of which the cost allocation is carried out;

(c) that is consistent with similar ratios (both within a **disclosure year** and from year to year); and
(d) that is reasonable;

Q

qualifying debt has the meaning specified in clause 2.4.7;

qualifying issuer means a New Zealand resident limited liability company-

(a) that-

(i) undertakes the majority of its business activities in Australia and New Zealand; or
(ii) is part of a corporate group that undertakes the majority of its business activities in Australia and New Zealand;

(b) that-

(i) does not operate predominantly in the banking or finance industries; or
(ii) is part of a corporate group that does not operate predominantly in the banking or finance industries; and

(c) that issues **vanilla NZ$ denominated bonds** that are publicly traded;

qualifying rating means-

(a) a Standard and Poor's long-term credit rating of the specified grade; or
(b) an equivalent long-term credit rating of another internationally recognised rating agency;

R

RCP1 pseudo asset means the asset calculated in accordance with clause 2.2.12(2);

RCP4 means the **regulatory period** from 1 April 2025 to 31 March 2030;

RCP4 HVDC transitional adjustment has the same meaning as defined in the **IPP determination**;

recoverable cost has the meaning specified in clause 3.1.3;

regulated goods or services	has the same meaning as defined in s 52C of the **Act**;
regulated service asset	means an asset used by **Transpower** in the **supply** of- (a) **electricity transmission services** only; or (b) **electricity transmission services** and one or more **unregulated services**;
regulated service asset value	means, in relation to a **regulated service asset**,- (a) for the **disclosure year** 2011, the asset's **unallocated initial RAB value**; and (b) in any other case, the asset's **unallocated closing RAB value**;
regulated supplier	means a supplier of **regulated goods or services**;
regulatory period	means the period to which an **IPP determination** relates;
regulatory period term	means the number of years equal to the number of years in the relevant **regulatory period**;
regulatory tax allowance	has the meaning specified in clause 2.3.1(1);
regulatory tax asset value	has the meaning specified in clause 2.3.2(1);
regulatory year	means: (a) a 12-month period ending on 31 March; and (b) when followed by a year, the 12-month period ending on 31 March of that year (for example, "**regulatory year** 2027" means the 12-month period ending on 31 March 2027);
related party	means- (a) a person that, if **Transpower** were a 'reporting entity' within the meaning of **NZ IAS 24**, would be related to **Transpower** under the definition of 'related party' in **NZ IAS 24**, other than as a result of **Transpower** being a Crown-owned entity; or (b) any part of **Transpower** that does not **supply electricity transmission services**;
related party transaction	means:

	(a) the procurement of an asset, good, or service by **Transpower** from a **related party**; or (b) the sale or supply of an asset, good, or service by **Transpower** to a **related party**;
remaining asset life	means the term remaining of an asset's **physical asset life**, for the purposes of: (a) clauses 2.2.4(1)(a) and 2.2.4(2)(a), at the commencement of the **disclosure year** in question; and (b) clauses 2.2.4(1)(b) and 2.2.4(2)(b), at the asset's **commissioning date**;
reopener event	has the meaning specified in clause 3.7.1(2);
reopener event (prospective)	means a **reopener event** of a type specified in clause 3.7.1(2)(b);
reopener event (responsive)	means a **reopener event** of a type specified in clause 3.7.1(3) and meeting the criteria in clause 3.7.1(2)(a);
reopener event allowance	means an amount, determined by the **Commission**, that reflects the following: (a) any additional net costs (over and above those provided for in an **IPP determination**) prudently incurred by **Transpower** as a result of a **reopener event (responsive)** (other than costs that are foregone revenue); (b) in the case of an **error event** or the discovery of **false or misleading information**, any amounts to mitigate the effect of the event or information on the **IPP**; and (c) any gains resulting from a **reopener event (responsive)**, that are, in each case, incurred in or relating to the period before the date on which the **reopener event** was nominated under clause 3.7.2;
resilience capex	means **capex** for the purpose of preparing to mitigate or respond to 1 or more high-impact, low-probability events that, if they were to occur, may reasonably be expected to: (a) affect one or more transmission assets; and

	(b) result in an extended transmission asset outage;
retained entitlement	means, for the purpose of Part 3, the **base capex standard incentive rate** multiplied by (the sum of any **insurance entitlements**, **compensatory entitlements**, and **third-party liability entitlements**, excluding the sum of any of those entitlements netted off, or forecast to be netted off, in calculating an **operating cost** or applied to reduce the value of a **commissioned** asset under clause 2.2.10(1)(j));
revaluation	means the amount determined in accordance with clause 2.2.8(2);
revaluation rate	has the meaning specified in clause 2.2.8(4);
revenue-linked grid output measure	has the same meaning as defined in the **Capex IM**;
right-of-use asset	has the same meaning as under **GAAP** except that it excludes any part of the cost of that asset that is a **pass-through cost** or **recoverable cost**;
	S
services	has the same meaning as defined in s 2 of the **Act**;
standard depreciation method	means the method specified in clause 2.2.4(2) for determining **depreciation**;
standard error	means estimated standard deviation;
standard physical asset life	means life for an asset as specified in Schedule A;
supply	has the same meaning as defined in s 2 of the **Act**, and **supplied** must be construed accordingly;
system operator	has the same meaning as defined in s 5 of the Electricity Industry Act 2010;
	T
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);

term credit spread difference	means the amount determined in accordance with clause 2.4.8(1);
term credit spread differential	means the amount determined in accordance with, for the purpose of- (a) Part 2, clause 2.4.9(3); and (b) Part 3, clause 3.5.8(3);
term credit spread differential allowance	means the sum of **term credit spread differentials**;
third-party liability entitlement	means, for the purposes of- (a) Part 2, money or the monetary value of other consideration relating to an event, that is received or receivable from a 'licensed insurer' as that term is defined in the Insurance (Prudential Supervision) Act 2010, in respect of a contract of insurance that insures against third-party liability; and (b) Part 3, money or the monetary value of other consideration relating to an event, that is received or receivable from, or forecast to be received or receivable from, a 'licensed insurer' as that term is defined in the Insurance (Prudential Supervision) Act 2010, in respect of a contract of insurance that insures against third-party liability;
thresholds notice	means the Commerce Act (Transpower Thresholds) Notice 2008;
TPM	means the transmission pricing methodology applicable to a **pricing year** in a **regulatory period**, as specified in the **code**, as amended from time to time;
transmission alternative	has the same meaning as defined in the **Capex IM**;
Transpower	has the same meaning as defined in s 54B of the **Act**;

U

unallocated closing RAB value	means the value determined in accordance with clause 2.2.3(2);
unallocated depreciation	means an allowance to account for the diminution in an asset's remaining service life potential in the **disclosure year** in question determined in accordance with clause 2.2.4(1);

unallocated initial RAB value	means value of an asset in the **initial RAB** determined in accordance with clause 2.2.2(1);
unallocated opening RAB value	means the value determined in accordance with clause 2.2.3(1);
unallocated revaluation	means the amount determined in accordance with clause 2.2.8(1);
unforeseeable E & D project	has the meaning specified in clause 3.7.9(2);
unregulated service	means any good or service **supplied** by **Transpower** other than **electricity transmission services**;
	V
value of commissioned asset	means the value determined in accordance with clause 2.2.10(1);
value of found asset	means the value determined in accordance with clause 2.2.11(2);
valuer	means an individual who- (c) is registered as a valuer under the Valuers Act 1948; (d) holds a current practising certificate issued by- (i) the Property Institute of New Zealand; or (ii) the New Zealand Institute of Valuers; (e) has been engaged to act in his or her professional capacity as a valuer; and (f) is **independent**;
vanilla NZ$ denominated bonds	means senior unsecured nominal debt obligations denominated in New Zealand dollars without callable, puttable, conversion, profit participation, credit enhancement or collateral features;
	W
WACC	means weighted average cost of capital;
working day	has the same meaning as defined in s 2 of the **Act**; and
works under construction	means an asset, or a collection of assets that- (a) has been or is being constructed by, or on behalf of, **Transpower**; (b) has not been **commissioned**; and

(c) **Transpower** intends to **commission**.

PART 2 INPUT METHODOLOGIES FOR INFORMATION DISCLOSURE

SUBPART 1 **Cost allocation**

2.1.1 Cost allocation process

(1) For the purpose of any requirement in an **ID determination** to disclose-

(a) **regulated service asset values**;
(b) **capital expenditure**; or
(c) **operating costs**,

amounts or values thereof allocated to activities undertaken by **Transpower** to **supply electricity transmission services** other than **system operator** services must be net of amounts implicitly or explicitly recoverable by **Transpower** in respect of its **supply** of **system operator** services under any agreement in respect of such services between **Transpower** and the **Electricity Authority**.

(2) Subclause (3) applies if, in a **disclosure year**,-

(a) the **regulated service asset values** that are not **directly attributable** exceed 2% of total **regulated service asset values**; or
(b) **operating costs** that are not **directly attributable** exceed 2% of total **operating costs**.

(3) If this subclause applies, **regulated service asset values** and **operating costs** must be allocated in accordance with subclauses (4) and (5) for the purposes of-

(a) a requirement in an **ID determination** to disclose **operating costs** or **regulated service asset values**, from the beginning of the next **disclosure year**; and
(b) an **IPP determination**, from the beginning of the next **regulatory period**.

(4) Any **operating costs** and **regulated service asset values** that are **directly attributable** to-

(a) **electricity transmission services supplied** by **Transpower** must be allocated to **electricity transmission services**; and
(b) any **unregulated services supplied** by **Transpower** must be allocated to **unregulated services**.

(5) Any **operating costs** and **regulated service asset values** that are not allocated in accordance with subclause (4) must be allocated to **electricity transmission services** or to **unregulated services** in accordance with clause 2.1.2.

2.1.2 Accounting-based allocation approach (ABAA)

(1) **Cost allocators** must be used to proportionally allocate **operating costs** not **directly attributable**, less any **arm's-length deduction**, to-

(a) **electricity transmission services**; and
(b) **unregulated services**.

(2) **Asset allocators** must be used to proportionally allocate **regulated service asset values** not **directly attributable**, less any **arm's-length deduction**, to-

(a) **electricity transmission services**; and

(b) **unregulated services**.

(3) If **Transpower** uses a **proxy cost allocator** or a **proxy asset allocator** for the purposes of this clause, **Transpower** must, in accordance with the requirements in the relevant **ID determination**, explain-

(a) why a **causal relationship** cannot be established; and
(b) the rationale for using that **proxy cost allocator** or **proxy asset allocator**.

SUBPART 2 **Asset valuation**

2.2.1 Composition of initial RAB

Initial RAB means assets included in the **2011 thresholds regulatory asset base**, less-

(a) **excluded assets**;
(b) intangible assets, unless they are-

(i) **finance leases**; or
(ii) **identifiable non-monetary assets**; and

(c) **works under construction**.

2.2.2 Initial RAB values for assets

(1) Subject to subclause (2), the unallocated initial RAB value of an asset is its value determined as of 30 June 2011 in accordance with the **thresholds notice**.
(2) For the purpose of subclause (1), where an asset is used by **Transpower** in the **supply** of **system operator** services, the unallocated initial RAB value is the value of the asset had no allocation of asset value relevant to the **thresholds notice** been undertaken.
(3) The initial RAB value of an asset is determined as the value allocated to **electricity transmission services** as a result of-

(a) adopting its **unallocated initial RAB value**; and
(b) applying clause 2.1.1 to it.

2.2.3 RAB roll forward

(1) Unallocated opening RAB value in respect of an asset in relation to-

(a) the **disclosure year** 2012, is its **unallocated initial RAB value**; and
(b) a **disclosure year** thereafter, is its **unallocated closing RAB value** in the preceding **disclosure year**.

(2) Unallocated closing RAB value means, in the case of-

(a) a **found asset**, its **value of found asset**;
(b) a **disposed asset**, nil;
(c) a **lost asset**, nil;
(d) an **anticipatory connection asset** of which any **anticipatory capacity** has, during the **disclosure year** in question, become subject to a **new investment contract**, the value determined in accordance with subclause (2A);
(e) any other asset with an **unallocated opening RAB value**, the value determined in accordance with the formula-

unallocated opening RAB value - **unallocated depreciation** + **unallocated revaluation**;

(f) an asset to which clause 2.2.10(4)(b)(i) applies, the result of the formula in paragraph (e), increased by the amount of expenditure described in clause 2.2.10(4)(b)(i) in the **disclosure year** in question; and

(g) any other asset having a **commissioning date** in the **disclosure year** in question, the value determined in accordance with the formula-

value of commissioned asset – **unallocated depreciation**.

(2A) Unallocated closing RAB value means, in respect of an **anticipatory connection asset** described in subclause (2)(d),-

(a) if the asset has an **unallocated opening RAB value**, an amount determined in accordance with the following formula:
(**unallocated opening RAB value** – **unallocated depreciation**)
-
[(**opening ACA capacity** – **closing ACA capacity**) ÷ **opening ACA capacity**
×
(**unallocated opening RAB value** – **unallocated depreciation**)]; or

(b) if the asset has a **commissioning date** in the **disclosure year** in question, an amount determined in accordance with the formula:
(**value of commissioned asset** – **unallocated depreciation**)
-
[(**opening ACA capacity** – **closing ACA capacity**) ÷ **opening ACA capacity**
×
(**value of commissioned asset** – **unallocated depreciation**)].

(3) Opening RAB value in respect of an asset, is, for-

(a) the **disclosure year** 2012, its **initial RAB value**; and

(b) a **disclosure year** thereafter, its **closing RAB value** in the preceding **disclosure year**.

(4) Closing RAB value, in respect of an asset, is determined as the value allocated to **electricity transmission services** by-

(a) adopting its **unallocated closing RAB value**; and

(b) applying 2.1.1 to it.

(5) Subclause (6) applies to an **anticipatory connection asset** that is **commissioned** before the start of **disclosure year** 2026.

(6) Despite subclause (1), the **unallocated opening RAB value** of the asset is the value that would apply if the asset had been given an **unallocated closing RAB value**-

(a) for the **disclosure year** in which it was **commissioned**; and

(b) for each **disclosure year** between that **disclosure year** and **disclosure year** 2026,

in accordance with clause 2.2.10(1) and subclauses (2)(d) and (2A) as if those clauses were in force on the date on which the asset was **commissioned**, and had remained in force since that date.

2.2.4 Depreciation

(1) Unallocated depreciation is determined, subject to subclause (3) and clauses 2.2.5 and 2.2.6, in accordance with the formula, in the case of –

(a) an asset with an unallocated opening RAB value –
[1 ÷ **remaining asset life**] × **unallocated opening RAB value**; and

(b) an asset having a **commissioning date** in the **disclosure year** in question–
[1 ÷ **remaining asset life**] × **value of commissioned asset** × *the fraction of the* **disclosure year** *from the* **commissioning date** *to the last day of the* **disclosure year**.

(2) Depreciation is determined, subject to subclause (3)(a), in accordance with the formula, in the case of-

(a) an asset with an **opening RAB value**–
[1 ÷ **remaining asset life**] × **opening RAB value**; and

(b) an asset having a **commissioning date** in the **disclosure year** in question–
[1 ÷ **remaining asset life**]
×
Value allocated to **electricity transmission services** *by adopting the* **value of commissioned asset** *and applying clause 2.1.1 to it as if it were an asset value*
×
the fraction of the **disclosure year** *from the* **commissioning date** *to the last day of the* **disclosure year**.

(3) For the purposes of subclauses (1) and (2)-

(a) unallocated depreciation and depreciation are nil in the case of-

(i) **land**;
(ii) an **easement** other than a **fixed life easement**; and
(iii) a **network spare** in respect of the period before which depreciation for the **network spare** in question commences under **GAAP**; and

(b) in all other cases, where an asset's **physical asset life** at the end of the **disclosure year** is nil-

(i) unallocated depreciation is the asset's **unallocated opening RAB value**; and
(ii) depreciation is the asset's **opening RAB value**.

2.2.5 Depreciation – alternative depreciation method

Where, under an **IPP**, an **alternative depreciation method** is applied to an asset, **unallocated depreciation** and **depreciation** for that asset, for each **disclosure year** of the **regulatory period**, are determined in accordance with that **alternative depreciation method**, subject to clause 2.2.6 in the case of **unallocated depreciation**.

2.2.6 Unallocated depreciation constraint

(1) For the purpose of clause 2.2.4 and 2.2.5, and subject to subclause (2), the sum of **unallocated depreciation** of an asset calculated over its **physical asset life** may not exceed the sum of-

(a) all **unallocated revaluations** applying to that asset in all **disclosure years**; and

(b) in the case of an asset-

(i) in the **initial RAB**, its **unallocated initial RAB value**; or

(ii) not in the **initial RAB**, its **value of commissioned asset** or **value of found asset**.

(2) For the purpose of subclause (1), the sum of increases to which clause 2.2.3(2)(f) refers for all **disclosure years** is treated as an increase in the **value of commissioned asset** of the asset in question.

2.2.7 Physical asset life

(1) Physical asset life means a finite period relating to an asset, being, in the case of-

(a) a **fixed life easement**, the fixed duration or fixed period (as the case may be) referred to in the definition of **fixed life easement**;
(b) a dedicated asset which is not expected to be used by **Transpower** to provide **electricity transmission services** beyond the term of the fixed term agreement relating to the asset between **Transpower** and the customer, at **Transpower's** election, the term of that agreement;
(c) an extended life asset or a refurbished asset, its physical service life potential as determined by **Transpower**;
(d) a stranded asset, the service life potential specified by the **Commission**;
(e) a reduced life asset, its physical service life potential determined by an **engineer**, subject to subclause (2);
(f) a **found asset** for which a similar asset exists as described in subclause 2.2.11(2)(b)(i), the asset life applying to the similar asset;
(g) the HVAC lines pseudo asset described in Schedule 1, clause 3(4)(d) of the **thresholds notice**, five years from 1 July 2011;
(h) a non-network asset or **right-of-use asset**, its asset life determined under **GAAP**;
(i) an asset acquired or transferred from a **regulated supplier**, the asset life that the vendor would have assigned to the asset at the end of its **disclosure year** had the asset not been transferred;
(j) an asset acquired or transferred from an entity other than a **regulated supplier**:

(i) where a similar asset exists, the asset life assigned to the similar asset; or
(ii) where a similar asset does not exist, the physical service life potential determined by an **engineer**, subject to subclause (2);

(k) an asset not referred to in paragraphs (a) to (h)-

(i) having a **standard physical asset life**, its **standard physical asset life**;
(ii) not having a **standard physical asset life**, if there is a similar physical asset in terms of asset type with an **unallocated opening RAB value**, the physical asset life of that similar physical asset; and
(iii) in all other cases, its physical service life potential determined by an **engineer**, subject to subclause (2);

(l) a composite asset, the average asset life of the assets comprising it determined in accordance with paragraphs (a) to (i), with the modification that each such asset life must be weighted with respect to the proportion of its respective **opening RAB value** to the sum of the

opening RAB values of the components in the earliest **disclosure year** in which all component assets were held by **Transpower**; and

(m) the **RCP1 pseudo asset**, 31 years.

(2) For the purpose of subclauses (1)(e) and (1)(k)(iii), a determination of physical service life potential made by an **engineer**-

(a) in relation to an asset with an **unallocated opening RAB value** is deemed applicable to all assets of similar asset type for which there is a requirement in this clause for an **engineer's** determination of physical service life potential; and

(b) must be evidenced by a report written by that **engineer** that includes an acknowledgement that the report may be publicly disclosed by **Transpower** pursuant to an **ID determination**.

(3) In this clause-

(a) 'dedicated asset' means an asset operated for the benefit of a particular customer pursuant to a fixed term agreement for the **supply** of **electricity transmission services** between **Transpower** and that customer;

(b) 'extended life asset' means an asset whose physical service life potential is greater than its **standard physical asset life**;

(c) 'refurbished asset' means an asset on which work (other than maintenance) has been carried out resulting in an extension to its physical service life potential;

(d) 'reduced life asset' means an asset determined by **Transpower** to have a physical service life potential shorter than its **standard physical asset life**;

(e) 'stranded asset' means an asset-

(i) that has an **opening RAB value**; and

(ii) in respect of which, on application by **Transpower** and in accordance with any process for the purpose specified in an **IPP determination**, the **Commission** has determined a service life potential shorter than its **standard physical asset life**; and

(f) 'composite asset' means a configuration of two or more assets that is not capable of operation in the absence of any of those assets.

2.2.8 Revaluation

(1) Unallocated revaluation is the amount determined, subject to subclause (3), in accordance with the formula-

(**unallocated opening RAB value** – **unallocated depreciation**) × **revaluation rate**.

(2) Revaluation is the amount determined, subject to subclause (3), in accordance with the formula-

(**opening RAB value** – **depreciation**) × **revaluation rate**.

(3) For the purposes of subclauses (1) and (2), where the asset is-

(a) a **disposed asset**;

(a) a **lost asset**; or

(b) any other asset having a **commissioning date** in the **disclosure year** in question,

unallocated revaluation and revaluation are nil.

(4) Revaluation rate means, in respect of a **disclosure year**, the rate determined in accordance with the formula-

$(CPI_4 \div CPI_4^{-4}) - 1$,

where-

CPI_4 means **CPI** for the last quarter of the **disclosure year**; and

CPI_4^{-4} means **CPI** for the last quarter of the preceding **disclosure year**.

2.2.9 Revaluation treated as income

Revaluation, for the purpose of determining profitability, must be treated as income.

2.2.10 Value of commissioned assets

(1) Value of commissioned asset, in relation to an asset, is the cost of the asset to **Transpower** determined by applying **GAAP** to the asset as on its **commissioning date**, except that the cost of-

(a) an intangible asset, unless it is-

(i) a **finance lease**; or
(ii) an **identifiable non-monetary asset**,

is nil;

(b) an **easement** created by **Transpower** in respect of **easement land**, is limited to the sum of-

(i) legal and administrative costs incurred by **Transpower** in relation to the **easement's** creation;
(ii) compensation, determined by a **valuer**, for any amount that would otherwise have been paid by **Transpower** on arm's-length terms to a third party owner of **easement land** as compensation for the permanent and material reduction in the value of the **land** or disruption, on account of the **easement's** creation; and
(iii) the cost of financing the purchase of the **easement land**, determined in respect of the period on and from the date of acquisition until the **easement's** creation,

where any gain or loss made by **Transpower** on the sale or disposal of the **easement land** is ignored;

(c) **easement land**, is nil;
(d) an asset used in providing **electricity transmission services** pursuant to a **new investment contract**, is nil;
(e) a **network spare** whose cost is not treated wholly as or part of the cost of an asset under **GAAP**, is nil;
(f) an asset-

(i) acquired from another **regulated supplier**; and
(ii) used by that **regulated supplier** in the **supply** of **regulated goods or services**,

is the unallocated closing RAB value of the asset that would have applied for the other **regulated supplier**, had the asset not been acquired by **Transpower** in the **disclosure year** of the **regulated supplier** when the asset was transferred (as 'unallocated closing RAB value' is defined in the **input methodologies** applying to the **supply** of **regulated goods or services** by the other **regulated supplier**);

(g) an asset that was previously used by **Transpower** in its **supply** of other **regulated goods or services** is limited to the unallocated opening RAB value of the asset in relation to those other **regulated goods or services** as on the day before the **commissioning date** (as 'unallocated opening RAB value' is defined in the **input methodologies** applying to the **regulated goods or services supplied** by **Transpower**);

(h) an asset or a component of a **commissioned** asset acquired in a **related party transaction**, other than an asset to which paragraph (f) or (g) applies, is the cost specified in subclause (5); and

(i) an **anticipatory connection asset** is its value as determined under any other relevant provision of this clause, multiplied by the **anticipatory capacity** of the asset on its **commissioning date**, divided by the asset's total capacity; and

(j) an asset in respect of which-

(i) an insurance entitlement was received or is receivable; and

(ii) such an **insurance entitlement** does not reduce the cost of the asset when applying **GAAP**,

is the cost of the asset by applying **GAAP**, reduced (at **Transpower's** choice) by the amount of the **insurance entitlement**.

(2) When applying **GAAP** under subclause (1),-

(a) the cost of financing is applicable only in respect of the period commencing on the date the asset becomes a **works under construction** and terminating on its **commissioning date**; and

(b) the value of a **commissioned** asset that, before its **commissioning date**, **Transpower** acquired from another **regulated supplier** as **works under construction**, is limited to the sum of:

(i) the cost incurred by the other **regulated supplier** in constructing those works; and

(ii) any additional costs of **Transpower** in completing the construction of those works (excluding any amount paid to the other **regulated supplier**).

(3) For the purposes of subclause (2)(a), the 'cost of financing' is calculated for a **disclosure year** using principles set out in **GAAP**, where:

(a) the cost of financing rate is the weighted average of the costs applicable to borrowings in respect of **capital expenditure** that are outstanding during the **disclosure year**;

(b) the total costs applicable to borrowings outstanding, as used in calculating the weighted average, must include costs of borrowings made specifically for the purpose of any particular –

(i) **capital expenditure projects**; or
(ii) **capital expenditure programmes**; and

(c) the amount of borrowing costs capitalised during the **disclosure year** must not exceed the amount of borrowing costs incurred during the **disclosure year**.

(4) For the avoidance of doubt-

(a) revenue derived in relation to **works under construction** that is not included in regulatory income under an **ID determination** or preceding regulatory information disclosure requirements reduces the cost of an asset by the amount of the revenue where such reduction is not otherwise made under **GAAP**;

(b) where expenditure on an asset which forms part of the cost of that asset under **GAAP** is incurred by **Transpower** after the asset was first **commissioned**, such expenditure may be treated, at **Transpower's** election, as relating to-

(i) that asset; or
(ii) a separate asset; and

(c) where an **insurance entitlement** is applied to reduce the cost of an asset under subclause (1)(j), any subsequent adjustment to the amount of that **insurance entitlement**, to reflect the full and final settlement of the associated insurance contract, must be treated as expenditure or negative expenditure relating to a separate asset or negative asset, adjusted by the amount of $b - a$, where-

a is the nominal amount of the expenditure or negative expenditure referred to in this paragraph expressed at the date the **insurance entitlement** was first applied to reduce the cost of the asset under subclause (1)(j); and

b is the present value of *a* at the date the separate asset or negative asset referred to in this paragraph is recognised, calculated using the **WACC** for each **disclosure year** applied by the **Commission** in setting prices for the relevant **IPP**.

(5) For the purpose of subclause (1)(h), the cost of a **commissioned** asset, or a component of a **commissioned** asset, acquired in a **related party transaction**, must be set on the basis that:

(a) the cost is not greater than either of the following amounts determined under **GAAP**:

(i) the value that would have applied if that transaction had been an **arm's-length transaction**; or
(ii) the actual amount charged to **Transpower** by the **related party**; and

(b) for the purpose of paragraph (a)(i), an objective and independent measure must be used in determining the terms of an **arm's-length transaction**.

(6) For the purpose of subclause (5)(a), a **related party transaction** will be treated as if it had the terms of an **arm's-length transaction** if the **commissioned** asset, or the component of the **commissioned** asset, acquired from a **related party** is valued at the cost incurred by the **related party**, provided that this is:

(a) fair and reasonable to **Transpower**; and
(b) substantially the same as the cost that has been incurred or would be incurred by the **related party** in providing the same type of asset to third parties.

2.2.11 Value of found assets

(1) Found asset means, in relation to a **disclosure year**, an asset-

(a) other than **easement land**;
(b) other than an intangible asset, unless it is-

(i) a **finance lease**; or
(ii) an **identifiable non-monetary asset**; and

(c) not having a **commissioning date** in the **disclosure year** in question;
(d) the value of which-

(i) is not included as an **unallocated opening RAB value** in the **disclosure year** in question nor was so included in any prior disclosure year in accordance with clause 2.2.3(1); and
(ii) was not included in an **unallocated closing RAB value** in any prior **disclosure year** in accordance with clause 2.2.3(2); and

(e) first determined by **Transpower** in the **disclosure year** in question to have a **commissioning date** after the **disclosure year** 2011.

(2) The value of found asset for a **found asset** is-

(a) its cost calculated consistently with **GAAP**; or
(b) where sufficient records do not exist to establish its cost for the purposes of **GAAP**,

(i) where an asset with an **unallocated opening RAB value** for that **disclosure year** is similar (in terms of asset type and age) to the **found asset**, the **unallocated opening RAB value** of the similar asset; and
(ii) in all other cases, its market value as determined by a **valuer** as at the date that the asset was first determined by **Transpower** to have been **commissioned** in a prior **disclosure year** after the **disclosure year** 2011.

2.2.12 Adjustment to asset values and establishment of RCP1 pseudo asset

(1) Each asset with a **commissioning date** in the period commencing

(a) on the first day of **disclosure year** 2012; and
(b) ending on the last day of the **disclosure year** 2015

shall have its values calculated under-

(c) clause 2.2.3(1); and

(d) clause 2.2.3(3),

for the **disclosure year** 2016 adjusted by the amounts necessary to produce the value for each asset as if **depreciation** had applied for the **disclosure year** in which the asset's **commissioning date** occurred.

(2) The 'RCP1 pseudo asset' is an asset established as of the first day of the **disclosure year** 2016 with-

(a) an **unallocated opening RAB value** equal to the sum of adjustments for all assets made under subclause (1) in respect of clause 2.2.3(1); and

(b) an **opening RAB value** equal to the sum of all adjustments for all assets made under subclause (1) in respect of clause 2.2.3(3).

SUBPART 3 **Treatment of taxation**

2.3.1 Regulatory tax allowance

(1) Regulatory tax allowance 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 amount of 'regulatory profit / (loss) before tax', as determined in accordance with an **ID 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) any tax deduction for depreciation in respect of an asset must be calculated by applying the **tax rules** to the **regulatory tax asset value**; and

(c) the effect of any-

(i) tax losses (other than those produced from the **supply** of **electricity transmission services**); and

(ii) subvention payment,

made by **Transpower** must be ignored.

(4) For the purpose of subclause (3)(a), 'notional deductible interest' means the amount determined in accordance with the formula-

(*sum of* **opening RAB values** × **leverage** × **cost of debt**) + **term credit spread differential allowance**.

2.3.2 Regulatory tax asset value

(1) Regulatory tax asset value, in relation to an asset, means the value determined in accordance with the formula-

tax asset value ´ result of asset allocation ratio.

(2) For the purpose of subclause (1), 'tax asset value' means, in respect of-

(a) an asset-

(i) acquired from a **regulated supplier** who used it to **supply regulated goods or services**; or

(ii) acquired or transferred from a **related party**,

the value of the asset determined by applying the tax depreciation rules to its notional tax asset value; and

(b) any other asset, its adjusted tax value.

(3) In this clause-

(a) 'tax depreciation rules' means the **tax rules** that relate to the determination of depreciation allowances for tax purposes;

(b) 'adjusted tax value' has the same meaning as in the tax depreciation rules.

(4) 'Notional tax asset value' means, for the purpose of-

(a) Subclause (2)(a)(i), the value after applying the tax depreciation rules to the tax asset value (as 'tax asset value' is defined in the **input methodologies** applying to the **regulated goods or services** in question) in respect of the **disclosure year** in which the asset was acquired; and

(b) Subclause (2)(a)(ii), the value in respect of the **disclosure year** in which the asset was acquired or transferred that is-

(i) consistent with the **tax rules**; and

(ii) limited to its **value of commissioned asset** plus the sum of any **insurance entitlements** applied to reduce the value of a **commissioned** asset under clause 2.2.10(1)(j).

(5) For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the **tax rules**-

(a) has a matching asset or group of assets maintained for the purpose of Subpart 2, the value obtained in accordance with the formula-

opening RAB value *or sum of* **opening RAB values**, *as the case may be*

÷

unallocated opening RAB value *or sum of* **unallocated opening RAB values**, *as the case may be*,

applying the formula in respect of the asset or smallest group of assets maintained for the purpose of Subpart 2 that has a matching asset or group of assets maintained under the **tax rules**; and

(b) does not have a matching asset or group of assets maintained for the purpose of Subpart 2, the value of the asset allocated to the **supply** of **electricity transmission services** were clause 2.1.1 to apply to the asset or group of assets.

SUBPART 4 **Cost of capital**

2.4.1 Methodology for estimating weighted average cost of capital

(1) The **Commission** will determine a mid-point estimate of vanilla **WACC** for each **disclosure year**-

~~(a) in respect of the **regulatory period term** commencing on the first day of the **disclosure year** in question;~~

~~(b)~~(a) within 1 month of the start of the **disclosure year** in question; and

~~(c)~~(b) in accordance with the formula-

$$r_d L + r_e(1 - L).$$

(2) The **Commission** will determine a mid-point estimate of post-tax **WACC** for each **disclosure year** -

~~(a) in respect of the **regulatory period term** commencing on the first day of the **disclosure year** in question;~~

~~(b)~~(a) within 1 month of the start of the **disclosure year** in question; and

~~(c)~~(b) in accordance with 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 in accordance with the formula:

$r_{fd} + p + d$;

r_e is the cost of equity and is estimated in accordance with the formula:

$r_{fe}(1 - T_i) + \beta_e TAMRP$;

T_c is the average corporate tax rate;

r_{fd} is the average risk-free rate for the cost of debt;

r_{fe} is the risk-free rate for the cost of equity;

p is the **average debt premium**;

d is the debt issuance costs;

T_i is the average investor tax rate;

β_e is the equity beta; and

TAMRP is the tax-adjusted market risk premium.

(4) For the purpose of this clause-

(a) the fixed WACC parameters comprising leverage, average investor tax rate, the equity beta, the debt issuance costs and~~,~~ the average corporate tax rate ~~and the tax-adjusted market risk premium~~ are the values specified in or determined in accordance with clause 2.4.2; ~~and~~

(b) the risk-free rate for the cost of equity must be estimated in accordance with clause 2.4.3;

(c) the average risk-free rate for the cost of debt must be estimated in accordance with clause 2.4.3A; and

~~(b)~~(d) the 'tax-adjusted market risk premium' is the tax-adjusted market risk premium most recently determined in accordance with the methodology specified in an input methodology determined by the **Commission** (whether under Part 4 of the **Act** or under Part 6 of the Telecommunications Act 2001).

2.4.2 Fixed WACC parameters

(1) Leverage is 41%.

(2) 'Average investor tax rate' is the average of the investor tax rates that, as at the date that the estimation is made, will apply to each of the **disclosure years** in the **regulatory period term** commencing on the first day of the **disclosure year** in question.

(3) For the purpose of subclause (2), 'investor tax rate' is, for each **disclosure year**, the maximum **prescribed investor rate** applicable at the start of that **disclosure year** to an individual who is-

(a) resident in New Zealand; and

(b) an investor in a **multi-rate PIE**.

(4) The 'average corporate tax rate' is the average of the **corporate tax rates** that, as at the date that the estimation is made, will apply during the **regulatory period term** commencing on the first day of the **disclosure year** in question.

(5) 'Equity beta' is 0.61.

(6) 'Debt issuance costs' are ~~0.2%~~0.16% where the **regulatory period term** is five years and 0.25% where the **regulatory period term** is four years.

~~(7) 'Tax-adjusted market risk premium' is 7.0%.~~

2.4.3 Methodology for estimating risk-free rate for the cost of equity

The **Commission** will estimate a risk-free rate for the cost of equity-

(a) for each **disclosure year**; and

(b) within 1 month of the start of the **disclosure year** in question,

by-

(c) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds the wholesale market linearly-interpolated bid yield to maturity, for a residual period to maturity equal to the **regulatory period term** on each **business day** in the 3 months preceding the start of the **disclosure year**;

(d) calculating the annualised interpolated bid yield to maturity for each **business day**; and

(e) calculating the unweighted arithmetic average of the daily annualised interpolated bid yields to maturity.

2.4.3A Methodology for estimating the average risk-free rate for the cost of debt

(1) The **Commission** will determine an estimate of an amount for the average risk-free rate for the cost of debt-

(a) for each **disclosure year**; and

(b) within 1 month of the start of each **disclosure year** in question.

(2) For the purposes of subclause (1), 'average risk-free rate for the cost of debt' means the unweighted arithmetic average of the values of the risk-free rate for the cost of debt estimated in accordance with subclause (3) for each of-

(a) the current **disclosure year**; and
(b) the four **disclosure years** preceding the current **disclosure year**.

(3) For the purpose of subclause (2), the risk-free rate for the cost of debt for a **disclosure year** will be estimated by-

(a) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds, the wholesale market linearly-interpolated bid yield to maturity for a residual period to maturity equal to five years on each **business day** in the 3 months preceding the start of the **disclosure year**;
(b) calculating the annualised interpolated bid yield to maturity for each **business day**; and
(c) calculating the unweighted arithmetic average of the daily annualised interpolated bid yield to maturity.

2.4.4 Methodology for estimating average debt premium

(1) The **Commission** will determine an estimate of an amount for the **average debt premium**-

(a) for each **disclosure year**; and
(b) within 1 month of each **disclosure year**.

(2) For the purpose of subclause (1), 'average debt premium' means the unweighted arithmetic average of the five **debt premium** values estimated in accordance with subclauses (4) and (5) for:

(a) the current **debt premium reference year**; and
(b) the four previous **debt premium reference years**.

(3) For the purpose of subclause (2)(a), 'current debt premium reference year' refers to the **debt premium reference year** that contains the start of the **disclosure year**.

(4) Debt premium means the spread between-

(a) the bid yield to maturity on **vanilla NZ$ denominated bonds** that-

(i) are issued by an **EDB** or a **GPB**;
(ii) are publicly traded;
(iii) have a **qualifying rating** of grade BBB+; and
(iv) have a remaining term to maturity of 5 years; and

(b) the contemporaneous interpolated bid yield to maturity of benchmark New Zealand government New Zealand dollar denominated nominal bonds having a remaining term to maturity of 5 years.

(5) For the purpose of subclause (2), the amount of the debt premium will be estimated by-

(a) identifying publicly traded **vanilla NZ$ denominated bonds** issued by a **qualifying issuer** that are-

(i) **investment grade credit rated**; and
(ii) of a type described in the paragraphs of subclause (6);

(b) in respect of each bond identified in accordance with paragraph (a)-

(i) obtaining its wholesale market annualised bid yield to maturity;
(ii) calculating by linear interpolation with respect to maturity, the contemporaneous wholesale market annualised bid yield to maturity for a notional benchmark New Zealand government New Zealand dollar denominated nominal bond with the same remaining term to maturity; and
(iii) calculating its contemporaneous interpolated bid to bid spread over notional benchmark New Zealand government New Zealand dollar denominated nominal bonds with the same remaining term to maturity, by deducting the yield calculated in accordance with sub-paragraph (ii) from the yield obtained in accordance with sub-paragraph (i),

for each **business day** in the 12 months immediately preceding the start of the **debt premium reference year**;

(c) calculating, for each bond identified in accordance with paragraph (a), the unweighted arithmetic average of the daily spreads identified in accordance with paragraph (b)(iii); and
(d) subject to subclause (6), estimating, by taking account of the average spreads identified in accordance with paragraph (c), and having regard to the debt premium estimated from applying the **Nelson-Siegel-Svensson approach**, the average spread that would reasonably be expected to apply to a **vanilla NZ$ denominated bond** that-

(i) is issued by an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
(ii) is publicly traded;
(iii) has **a qualifying rating** of grade BBB+; and
(iv) has a remaining term to maturity of 5 years.

(6) For the purpose of subclauses (5)(a) and (5)(d), the **Commission** will have regard, subject to subclause (7), to the spreads observed on the following types of **vanilla NZ$ denominated bonds** issued by a **qualifying issuer**:

(a) those that-

(i) have a **qualifying rating** of grade BBB+; and
(ii) are issued by an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;

(b) those that-

(i) have a **qualifying rating** of grade BBB+; and
(ii) are issued by an entity other than an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;

(c) those that-

(i) have a **qualifying rating** of a grade different to BBB+; and
(ii) are issued by an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;

(d) those that-

(i) have a **qualifying rating** of a grade different to BBB+; and
(ii) are issued by an entity other than an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**; and

(e) those that are-

(i) **investment grade credit rated**; and
(ii) issued by an entity that is 100% owned by the Crown or a **local authority**.

(7) For the purpose of subclause (6) -

(a) progressively lesser regard will ordinarily be given to the spreads observed on the bond types in accordance with the order in which the bond types are described in subclause (6);
(b) the spread on any bond of the type described in subclause (6) that has a remaining term to maturity of less than 5 years will ordinarily be considered to be the minimum spread that would reasonably be expected to apply on an equivalently credit-rated bond issued by the same entity with a remaining term to maturity of 5 years; and
(c) the **Commission** will adjust spreads observed on bonds described under subclauses (6)(b) to (6)(e) to approximate the spread that is likely to have been observed had the bonds in question been of the type described in subclause (6)(a).

(8) For the purposes of subclause (5)(d), the **'**Nelson-Siegel-Svensson approach' means a method for modelling yield curves and term structures of interest rates which establishes a relationship between term to maturity and the **debt premium**, and where a curve is generated by changing the parameters of a yield curve functional form to minimise the squared deviation between estimated and observed values.

2.4.5 Methodology for estimating the WACC range and the 65th percentile of WACC

(1) The **Commission** will determine a WACC range for each **mid-point estimate of WACC**-

(a) for each **disclosure year**; and
(b) within 1 month of the start of the disclosure year in question.

(2) For the purpose of subclause (1), 'WACC range' means the values falling between the 25th percentile and 75th percentile, inclusive, of the **mid-point estimate of WACC**.

(3) For the purpose of subclause (2)-

(a) the **mid-point estimate of WACC** must be treated as the 50th percentile; and
(b) the

(i) 75th percentile must be determined in accordance with the formula-

mid-point estimate of WACC + 0.674 x standard error; and

(ii) 25th percentile must be determined in accordance with the formula-

mid-point estimate of WACC - 0.674 x standard error,

where the **standard error** of the relevant **mid-point estimate of WACC** is 0.0108.

(4) The **Commission** will determine a 65th percentile estimate of vanilla **WACC** and post-tax **WACC** –

(a) for each **disclosure year**; and
(b) within 1 month of the start of the **disclosure year** in question.

(5) For the purpose of subclause (4)-

(a) the **mid-point estimate of WACC** must be treated as the 50th percentile; and
(b) the 65th percentile must be determined in accordance with the formula-

mid-point estimate of WACC + 0.385 x standard error,

where the **standard error** of the relevant **mid-point estimate of WACC** is 0.0108.

2.4.6 Publication of estimates relating to cost of capital

The **Commission** will publish all determinations and estimates that it is required to make under this Subpart-

(a) on the **Commission's** website; and
(b) no later than 1 month after having made them.

2.4.7 Qualifying debt

(1) Qualifying debt means a line of debt-

(a) with an original tenor greater than 5 years; and
(b) issued by **Transpower**.

2.4.8 Term credit spread difference

(1) Term credit spread difference is determined in accordance with the formula-

$T \times U$,

where-

(a) 'T' is the amount determined in accordance with the formula-

0.00085 × (original tenor of the **qualifying debt** – 5)

(b) 'U' is the book value in New Zealand dollars of the **qualifying debt** at its date of issue.

(2) For the purpose of this clause, where the **qualifying debt** is issued to a **related party**, 'original tenor of the **qualifying debt**' means the-

(a) tenor of the **qualifying debt**; or
(b) period from the **qualifying debt's** date of issue to the earliest date on which its repayment is or may be required,

whichever is the shorter.

2.4.9 Methodology for estimating term credit spread differential

(1) This clause applies to the determination of the amount of any **term credit spread differential** in respect of a **qualifying debt** for the purpose of disclosure under an **ID determination** of a-

(a) **term credit spread differential allowance**; or
(b) **term credit spread differential**.

(2) Disclosure to which this clause applies may only be made by **Transpower** if its debt portfolio, as at the date of its most recently published audited financial statements, has a weighted average original tenor greater than 5 years.

(3) Term credit spread differential is the amount determined in accordance with the formula-

(A ÷ B) × C × D,

where-

(a) 'A' is the sum of the **term credit spread difference** ~~and~~, the debt issuance cost re-adjustment, and the interest rate swap cost allowance;
(b) 'B' is the book value of **Transpower's** total interest-bearing debt as at **Transpower's** balance date in its audited financial statements published in the **disclosure year**;
(c) 'C' is **leverage**; and
(d) 'D' is the average of-

(i) the sum of **opening RAB values**; and
(ii) the sum of **closing RAB values**.

(4) For the purpose of subclause (3)(a), the 'debt issuance cost re-adjustment' is the amount determined in accordance with the formula-

(~~0.01~~0.008 ÷ *original tenor of the qualifying debt* - ~~0.002~~0.0016) × *book value in New Zealand dollars of the* **qualifying debt** *at its date of issue,*

which amount, for the avoidance of doubt, will be a negative number.

(5) For the purpose of subclause (3)(a), 'interest rate swap cost allowance' is the amount determined in accordance with the formula-

0.0004 x book value in New Zealand dollars of the **qualifying debt** *at its date of issue*

PART 3 INPUT METHODOLOGIES APPLYING TO INDIVIDUAL PRICE-QUALITY PATH

SUBPART 1 Specification of price

3.1.1 Price

(2) For the purpose of s 53M(1)(a) of the **Act**, the maximum revenues that may be recovered by **Transpower** for **electricity transmission services** will be specified in an **IPP determination** as a revenue cap.

(3) To comply with the revenue cap, the forecast revenue that **Transpower** uses for setting transmission charges under the **TPM** for each **pricing year** must not exceed the **forecast SMAR** for that **pricing year** of the **regulatory period**.

(4) For the purpose of setting the 'forecast SMAR':

(a) the **Commission** must determine in an **IPP determination** for each **pricing year** of the **regulatory period**:

(i) the **forecast MAR**; and
(ii) the **IPP revenue growth rate**;

(b) the present value of the aggregated **forecast SMAR** values for the **regulatory period** must equal the present value of the aggregated **forecast MAR** values for the **regulatory period**;

(c) the **IPP revenue growth rate** must be applied when calculating the **forecast SMAR** for each **pricing year** of the **regulatory period** after the first **pricing year**; and

(d) the respective present values in paragraph (b) must be calculated using the **WACC**.

(5) For the purpose of subclause (3)(a), inputs to the calculation of the **forecast MAR** for each **pricing year** in a **regulatory period** must include, but are not limited to:

(a) the **WACC**;
(b) **forecast EV adjustments**;
(c) forecast **pass-through costs**; and
(d) forecast **recoverable costs**.

(6) For the purposes of subclause (4)(b), the **forecast EV adjustment** for the calculation of **forecast MAR** for each **pricing year** of **RCP4** is calculated in accordance with the formula-

$$= -x \frac{WACC}{\left(1-\frac{1}{(1+WACC)^{y}}\right)}$$

where-

x is the forecast closing post-tax **EV account** balance for the final **disclosure year** of *RCP3* (minus any **RCP4 HVDC transitional adjustment**) converted to a pre-tax revenue value by the addition of a tax gross-up amount, as specified in an **IPP determination**;

y is the number of years in **RCP4**;

RCP3 is the **regulatory period** immediately before **RCP4**; and

WACC is the **65th percentile estimate of WACC** for **RCP4**.

(7) For the purposes of subclause (4)(b), the **forecast EV adjustment** for the calculation of **forecast MAR** for each **pricing year** of any other **RCP** is calculated in accordance with the formula-

$$= -x \frac{WACC}{\left(1-\frac{1}{(1+WACC)^{y}}\right)}$$

where-

x is the forecast closing post-tax **EV account** balance for the final **disclosure year** of RCP_{t-1} converted to a pre-tax revenue value by the addition of a tax gross-up amount, as specified in an **IPP determination**;

y is the number of years in RCP_t;

RCP_{t-1} is the **regulatory period** immediately before the **regulatory period** for which the **forecast MAR** is being calculated;

RCP_t is the **regulatory period** to which the **forecast MAR** relates; and

WACC is the **65th percentile estimate of WACC** for RCP_t.

3.1.2 Pass-through cost requirements

(1) Subject to subclause (4), a pass-through cost is a cost that-

(a) is listed in subclause (2); or
(b) is a **levy**, other than one listed in subclause (2), that meets the criteria specified in subclause (3).

(2) For the purpose of subclause (1)(a), the costs are-

(a) rates on system fixed assets paid or payable by **Transpower** to a **local authority** under the Local Government (Rating) Act 2002; and
(b) **levies** payable -

(i) under regulations made under s 53ZE of the **Act**;
(ii) under regulations made under the Electricity Industry Act 2010; or
(i) by all members of the approved scheme under Schedule 4 of the Electricity Industry Act 2010.

(3) For the purpose of subclause (1)(b), the criteria are that the **levy**-

(a) is-

(i) associated with the provision of **electricity transmission services**;
(ii) outside the control of **Transpower**;
(iii) not a **recoverable cost**;
(iv) appropriate to be passed through to **Transpower's** customers; and
(v) one in respect of which provision for its partial or full recovery is not made explicitly or implicitly in the **IPP**;

(b) was reasonably unforeseen at the time the **IPP determination** was made; and
(c) comes into effect during any **disclosure year** commencing in a **regulatory period**.

(4) If clause 2.1.1(3) applies, where a cost relates to both **electricity transmission services** and other services **supplied** by **Transpower**, only the proportion of the cost attributable to the **supply** of **electricity transmission services** (as determined in accordance with clause 2.1.1), may be a pass-through cost.

3.1.3 Recoverable costs

(1) Subject to subclause (4), a recoverable cost is a cost that is-

(a) any amount that is an **opex incentive amount**;
(b) subject to subclause (2), an instantaneous reserves availability charge, being a charge allocated to **Transpower** under-

(i) clause 8.59 of the **code**; or
(ii) any legislation that replaces that clause,

net of any rebate received by **Transpower** in accordance with clause 8.65 of the **code**;

(c) a **transmission alternative** operating cost, subject to the requirements in subclause (3), not to exceed the-

(i) actual **transmission alternative** operating cost incurred by **Transpower**; or
(ii) upper limit of **transmission alternative**operating costs approved in accordance with subclause (3),

whichever is lower;

(d) in relation to a **major capex project** that has been approved by the **Commission** under the **Capex IM**, and subject to the requirements in subclause (3), any operating costs –

(i) incurred after the date of approval of the **major capex project** and in relation to the **major capex project**;
(ii) are not otherwise able to be recovered as part of the **major capex allowance** on the basis that the costs are not **capital expenditure**; and
(iii) where the sum of the operating costs and the **major capex** approved by the **Commission** in relation to the **major capex project** does not exceed the **major capex allowance**;

(e) a **reopener event allowance**, as specified in an **IPP determination**; and
(f) any levy payable to Fire and Emergency New Zealand under the Fire and Emergency New Zealand Act 2017.

(2) For the purpose of subclause (1)(b), an instantaneous reserves availability charge excludes-

(a) any 'event charges' payable by **Transpower**, as defined under-

(i) clause 8.64 of the **code**, or
(ii) any legislation that replaces that clause;

(b) 50% of any such charge incurred by **Transpower**, in relation to an asset remaining out of service after an initial period of 14 consecutive days out of service, insofar as the cumulative amount so incurred is less than or equal to 1% of **Transpower's forecast MAR** for the **disclosure year** in which the event causing the asset to be out of service commences, as specified in the **IPP determination**;

(c) any such charge treated as **capital expenditure** (in accordance with **GAAP**) by **Transpower** in relation to the control systems integration of Pole 2 and the commissioning of Pole 3 of the HVDC link; and

(d) any such charge that is treated as having been inefficiently incurred under **GAAP**.

(3) For the purpose of subclause (1)(c) and subclause (1)(d), the requirements are that the cost must-

(a) be **operating expenditure**;

(b) be incremental to the **operating expenditure** allowance specified by the **Commission** in the **IPP determination**; and

(c) have been approved by the-

(i) **Electricity Commission** under Part F of the Electricity Governance Rules 2003;

(ii) **Commission** in accordance with s 54R(3)(b) of the **Act**; or

(iii) **Commission** in accordance with any input methodology determined pursuant to s 54S of the **Act**.

(4) If clause 2.1.1(3) applies, where a cost relates to both **electricity transmission services** and other services **supplied** by **Transpower**, only the proportion of the cost attributable to the **supply** of **electricity transmission services** (as determined in accordance with clause 2.1.1), may be a recoverable cost.

SUBPART 2 **Cost allocation**

3.2.1 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 2.1.1 with necessary modifications.

(2) For the avoidance of doubt, in applying subclause (1), any reference to 'any requirement in an **ID determination**' in Subpart 1 of Part 2 means 'any requirement specified by the **Commission**'.

SUBPART 3 **Asset valuation**

3.3.1 Asset valuation

For the purpose of making an **IPP determination**-

(a) the value of an asset;

(b) any allowance for depreciation; and

(c) the treatment of **revaluation**,

must be determined in accordance with the **input methodologies** specified in Subpart 2 of Part 2, subject to-

(d) the necessary modifications to allow-

(i) the values or allowances to be calculated on a forecast basis where required; and

(ii) for the purposes of determining **forecast MAR** and associated annual wash-ups, the determination of the **value of commissioned asset** by reference to approved amounts of **capital expenditure**;

(e) clause 3.3.2; and

(f) any other necessary modifications.

3.3.2 Depreciation – alternative depreciation method

(1) **Depreciation** and, subject to subclause (2), **unallocated depreciation** may be determined in respect of a **regulatory period** using an **alternative depreciation method**, provided the **Commission** is satisfied that the result of applying the **alternative depreciation method** would better promote the purpose of Part 4 of the **Act** than the result of applying the **standard depreciation method**.

(2) Clause 2.2.6 applies with any necessary modifications to **unallocated depreciation** determined by applying an **alternative depreciation method**.

SUBPART 4 **Treatment of taxation**

3.4.1 Treatment of taxation

(1) For the purpose of making an **IPP determination**, **Transpower's regulatory tax allowance** whether on an actual or forecast basis, must be determined in accordance with the **input methodologies** specified in Subpart 3 of Part 2 with necessary modifications.

(2) For the avoidance of doubt, in applying subclause (1), 'as determined in accordance with an **ID determination'** in clause 2.3.1(2) must be construed as 'as specified by the **Commission**'.

SUBPART 5 **Cost of capital**

3.5.1 Methodology for estimating weighted average cost of capital

(1) The **Commission** will determine a mid-point estimate of vanilla **WACC**-

(a) as of the first **business day** of the month 7 months prior to the start of each ~~**regulatory period**~~**regulatory year**;

~~(b) in respect of the **regulatory period term** for that **regulatory period**;~~

~~(c)~~(b) no later than 6 months prior to the start of each ~~**regulatory period**~~**regulatory year**; and

~~(d)~~(c) in accordance with the formula-

$$r_d L + r_e(1 - L).$$

(2) The **Commission** will determine a mid-point estimate of post-tax **WACC**–

(a) as of the first **business day** of the month 7 months prior to the start of each ~~**regulatory period**~~**regulatory year**;

~~(b) in respect of the regulatory period term for that regulatory period;~~

~~(c)~~(b) no later than 6 months prior to the start of each ~~**regulatory period**~~ **regulatory year**; and

~~(d)~~(c) in accordance with 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 in accordance with the formula:

$$r_{fd} + p + d;$$

r_e is the cost of equity and is estimated in accordance with the formula:

$$r_{fe}(1 - T_i) + \beta_e TAMRP;$$

T_c is the average corporate tax rate;

r_{fd} is the average risk-free rate for the cost of debt;

r_{fe} is the risk-free rate for the cost of equity;

p is the **average debt premium**;

d is the debt issuance costs;

T_i is the average investor tax rate;

β_e is the equity beta; and

TAMRP is the tax-adjusted market risk premium.

(4) For the purpose of this clause-

(a) the fixed WACC parameters comprising leverage, average investor tax rate, the average corporate tax rate, equity beta, ~~the debt issuance costs and tax-adjusted market risk premium~~ and the debt issuance costs are the values specified in or determined in accordance with clause 3.5.2; and

(b) ~~the risk-free rate must be estimated for the first **business day** of the month 7 months preceding the start of the **regulatory period** in accordance with clause 3.5.3~~the risk-free rate for the cost of equity must be estimated in accordance with clause 3.5.3;

~~(b) and~~

(c) the amount of the average debt premium must be estimated for the first **business day** of the month 7 months preceding the start of the **regulatory period** in accordance with clause 3.5.4;

(d) the tax-adjusted market risk premium must be estimated in accordance with clause 3.5.4A; and

(e) the average risk-free rate for the cost of debt must be estimated in accordance with clause 3.5.4B.

3.5.2 Fixed WACC parameters

(1) Leverage is 41%.

(2) 'Average investor tax rate' is the average of the investor tax rates that, as at the date that the estimation is made, will apply to each of the ~~disclosure years~~regulatory years in the **regulatory period**.

(3) For the purpose of subclause (2), 'investor tax rate' is, for each ~~disclosure year~~regulatory years, the maximum **prescribed investor rate** that, as at the date that the estimation is made, will apply at the start of the **regulatory period** to an individual who is-

(a) resident in New Zealand; and
(b) an investor in a **multi-rate PIE**.

(4) 'Equity beta' is 0.61.

(5) 'Debt issuance costs' are ~~0.2%~~0.16% where the **regulatory period term** is five years and 0.25% where the **regulatory period term** is four years.

~~(6) 'Tax-adjusted market risk premium' is 7.0%.~~

~~(7)~~(6) The 'average corporate tax rate' is the average of the **corporate tax rates** that, as at the date that the estimation is made, will apply during the **regulatory period** commencing on the first day of the **regulatory period** in question.

3.5.3 Methodology for estimating risk-free rate for the cost of equity

(1) The Commission will estimate a risk-free rate for the cost of equity-

(a) as of the first **business day** of the month 7 months prior to the start of each **regulatory period**;
(b) in respect of the **regulatory period term** for that **regulatory period**; and
(c) no later than 6 months prior to the start of each **regulatory period**,

by-

(d) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds the wholesale market linearly-interpolated bid yield to maturity, for a residual period to maturity equal to the **regulatory period term** on each **business day** in the 3 month period of 8 to 10 months prior to the start of each **regulatory period**;
(e) calculating the annualised interpolated bid yield to maturity for each **business day**; and
(f) calculating the unweighted arithmetic average of the daily annualised interpolated bid yields to maturity.

3.5.4 Methodology for estimating average debt premium

(1) The **Commission** will determine an estimate of an amount for the **average debt premium**-

(a) for each **regulatory period**; and
(b) no later than 6 months prior to the start of each **regulatory period**.

(2) For the purpose of subclause (1), 'average debt premium' means the unweighted arithmetic average of the five **debt premium** values estimated in accordance with clause 2.4.4(5) for-

(a) the current **debt premium reference year**; and
(b) the four previous **debt premium reference years**.

3.5.4A Methodology for estimating tax-adjusted market risk premium

(1) The **Commission** will determine the TAMRP-

(a) as of the first **business day** of the month 7 months prior to the start of each **regulatory period**;

(b) in respect of the **regulatory period term** for that **regulatory period**; and

(c) no later than 6 months prior to the start of each **regulatory period**.

(2) Subject to subclause 8, the **Commission** will determine the TAMRP by:

(a) determining the following TAMRP values in accordance with Schedule B:

(i) the Ibbotson TAMRP; and

(ii) the Siegel 2 TAMRP;

(b) making adjustments to the TAMRP values determined under subclause (2)(a), where:

(i) if subclause (3)(a) applies, adding 25 basis points to the Ibbotson TAMRP if the foreign Ibbotson TAMRP is greater than the Ibbotson TAMRP, or subtracting 25 basis points if it is lower; and

(ii) if subclause (3)(b) applies, adding 25 basis points to the Siegel 2 TAMRP if the foreign Siegel 2 TAMRP is greater than the Siegel 2 TAMRP, or subtracting 25 basis points if it is lower;

(c) calculating the average of the TAMRP values determined under:

(i) paragraph (a) if subclause (3) does not apply; or

(ii) paragraph (a), with the adjustments set out in paragraph (b), if subclause (3) applies;

and then rounding that average to the nearest 25 basis points, to determine a hybrid TAMRP; and

(d) if subclause (4) applies, adding 25 basis points if the dividend growth model TAMRP is greater than the hybrid TAMRP or subtracting 25 basis points if the dividend growth model TAMRP is less than the hybrid TAMRP.

(3) This subclause applies if:

(a) the Ibbotson TAMRP produced using foreign data differs from the Ibbotson TAMRP determined under subclause (2)(a) by more than one percentage point; or

(b) the Siegel 2 TAMRP produced using foreign data differs from the Siegel 2 TAMRP determined under subclause (2)(a) by more than one percentage point.

(4) This subclause applies if the TAMRP estimate produced by the dividend growth model differs from the hybrid TAMRP determined under (2)(c) by more than two percentage points.

(5) For the purpose of subclause (3), the foreign Ibbotson and foreign Siegel 2 TAMRP estimates are those specified by the **Commission** for use in determining the hybrid TAMRP.

(6) For the purpose of subclause (4), the dividend growth model is the three-stage dividend growth model specified by the **Commission** for use in determining the hybrid TAMRP.

(7) If the final TAMRP estimate produced by subclause (2) is:

(a) less than 5%; or

(b) greater than 9%,

the TAMRP will be determined in accordance with subcluase (8).

(8) If subclause (7) applies the **Commission**:

(a) will determine whether to adopt the estimate produced by subclause (2), set TAMRP at either 5% or 9%, or estimate TAMRP by applying a different methodology that the Commission considers reflects the best estimate of the hybrid TAMRP; and

(b) will consult with interested persons before determining TAMRP under this subclause.

3.5.4B Methodology for estimating the average risk-free rate for the cost of debt

(3) The **Commission** will determine an estimate of an amount for the average risk-free rate for the cost of debt-

(a) as of the first **business day** of the month 7 months prior to the start of each **regulatory year;**

(b) no later than 6 months prior to the start of each **regulatory year**.

(4) For the purpose of subclause (1), 'average risk-free rate for the cost of debt' means the unweighted arithmetic average of the values of the risk-free rate for the cost of debt estimated in accordance with subclause (3) for each of-

(a) the current **regulatory year**; and

(b) the four **regulatory years** preceding the current **regulatory year**.

(5) For the purpose of subclause (2), the risk-free rate for the cost of debt for a **regulatory year** will be estimated by-

(a) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds, the wholesale market linearly-interpolated bid yield to maturity for a residual period to maturity equal to five years on each **business day** in the 3-month period of the 8 to 10 months prior to the start of the **regulatory year;**

(b) calculating the annualised interpolated bid yield to matruirty for each **business day**; and

(c) calculating the unweighted arithmetic average of the daily annualised interpolated bid yields to maturity.

3.5.5 Methodology for estimating 65th percentile of vanilla and post-tax WACC

(1) The **Commission** will determine a 65th percentile estimate of vanilla **WACC**-

(a) for each ~~**regulatory period**~~ **regulatory year**; and

(b) no later than 6 months prior to the start of each ~~**regulatory period**~~**regulatory year**.

(2) The **Commission** will determine a 65th percentile estimate of post-tax **WACC**-

(a) for each ~~**regulatory period**~~ **regulatory year**; and

(b) no later than 6 months prior to the start of each ~~**regulatory period**~~**regulatory year**.

(3) For the purposes of subclause (1) or (2), the 65th percentile must be determined in accordance with the formula-

mid-point estimate of WACC + 0.385 x *standard error*,

where the **standard error** of the **mid-point estimate of WACC** is 0.0108.

3.5.6 Publication of estimates

The **Commission** will publish all determinations and estimates that it is required to make by this subpart-

(a) on its website; and
(b) no later than 1 month after having made them.

3.5.7 Use of published estimates of WACC

For the purpose of setting a price path in an **IPP determination**, the **WACC** published under clause 3.5.6 most recently prior to the start of the **regulatory period** in question must be applied in respect of each **disclosure year** commencing in the **regulatory period**.

3.5.8 Methodology for estimating term credit spread differential

(1) This clause applies to the determination of the amount of any **term credit spread differential** in respect of a **qualifying debt** for the purpose of determining a **term credit spread differential allowance** in an **IPP determination.**

(2) The **Commission** will only determine a **term credit spread differential allowance** if **Transpower's** debt portfolio, as at the date of its most recently published audited financial statements, has a weighted average original tenor greater than 5 years.

(3) Term credit spread differential is the amount determined in accordance with the formula-

$(A \div B) \times C \times D$,

where-

(a) 'A' is the sum of the **term credit spread difference** ~~and~~, the debt issuance cost re-adjustment, and the interest rate swap cost allowance;
(b) 'B' is the book value of **Transpower's** total interest-bearing debt as at the balance date of **Transpower's** financial statements audited and published most recently before the **IPP determination** is made;
(c) 'C' is **leverage**; and
(d) 'D' is the average of-

(i) the sum of **opening RAB values**; and
(ii) the sum of **closing RAB values**.

(4) For the purpose of subclause (3)(a), the 'debt issuance cost re-adjustment' is determined in accordance with the formula-

(~~0.01~~0.008 ÷ *original tenor of the qualifying debt* - ~~0.002~~0.0016) × *book value in New Zealand dollars of the* **qualifying debt** *at its date of issue,*

which amount, for the avoidance of doubt, will be a negative number.

(5) For the purpose of subclause (3)(a), 'interest rate swap cost allowance' is the amount determined in accordance with the formula-

0.0004 x book value in New Zealand dollars of the **qualifying debt** *at its date of issue*

SUBPART 6 Incremental rolling incentive scheme

SECTION 1 Annual IRIS incentive amounts for operating expenditure

3.6.1 Calculation of annual IRIS incentives for operating expenditure as recoverable costs

(1) **Transpower** must calculate an **opex incentive amount** for each **disclosure year** of each **regulatory period**.

3.6.2 How to calculate opex incentive amounts

(1) The 'opex incentive amount' for a **disclosure year** is an amount equal to the sum of–

(a) all **amounts carried forward** into that **disclosure year** from a **disclosure year** in a preceding **regulatory period**; and

(b) where a **base year adjustment to the opex incentive** is applicable under clause 3.6.4(1)-

the amount calculated in accordance with the following formula for a **disclosure year** in the **regulatory period**-

$$\left(\frac{\boldsymbol{Base\ year\ adjustment\ to\ the\ opex\ incentive}}{l-1}\right) \times (1+r)^{y-1}$$

where–

l is the number of **disclosure years** in the **regulatory period**;

r is the **cost of debt** applying to the **IPP** in question; and

y is the number of **disclosure years** preceding the **disclosure year** in question in the **regulatory period**.

3.6.3 How to calculate the amount carried forward to subsequent disclosure years

(1) An 'amount carried forward' must be calculated for each **disclosure year** of a **regulatory period**.

(2) The 'amount carried forward' for the first **disclosure year** of a **regulatory period** is calculated in accordance with the formula–

forecast opex$_t$ – **actual opex**$_t$

where–

t means the **disclosure year** in question.

(3) The 'amount carried forward' for a **disclosure year** other than the first or final **disclosure year** of a **regulatory period** is calculated in accordance with the formula–

(**forecast opex**$_t$ – **actual opex**$_t$) – (**forecast opex**$_{t-1}$ – **actual opex**$_{t-1}$)

where–

t means the **disclosure year** in question; and

t-1 means the **disclosure year** preceding the **disclosure year** in question.

(4) The 'amount carried forward' for the final **disclosure year** of a **regulatory period** is calculated in accordance with the following formula–

(**forecast opex**$_t$ – (**forecast opex**$_t$ – (**forecast opex**$_{t-2}$ – **actual opex**$_{t-2}$) + **non-recurrent amount**) – (**forecast opex**$_{t-1}$ – **actual opex**$_{t-1}$)

where–

t means the final **disclosure year** of the **regulatory period**;

t-1 means the **disclosure year** immediately before the final **disclosure year** of the **regulatory period**; and

t-2 means the **disclosure year** commencing two **disclosure years** before the final **disclosure year** of the **regulatory period**.

(5) For the purposes of subclause (4), 'non-recurrent amount' is the amount, determined by the **Commission** in the final **disclosure year** of a **regulatory period** ('the current **regulatory period**') in order to calculate **forecast opex** for the next **regulatory period**, that accounts for one-off factors in **actual opex** for the third **disclosure year** of the current **regulatory period**.

(6) Each **amount carried forward** is notionally carried forward from the **disclosure year** in respect of which it is calculated into each of the subsequent 5 **disclosure years**.

(7) 'Forecast opex', subject to clause 3.6.5, is, for a **disclosure year**, the amount of forecast **operating expenditure** specified by the **Commission** for the relevant **disclosure year** in an **IPP determination** for the purpose of calculating an **opex incentive amount**.

(8) 'Actual opex' is the sum of-

(a) any **operating costs** allocated to **electricity transmission services** for the relevant **disclosure year** calculated in accordance with Part 2; and

(b) any **lease payments** allocated to **electricity transmission services** other than **system operator** services for the relevant **disclosure year**.

3.6.4 How to calculate a base year adjustment to the opex incentive in the second year of a regulatory period

(1) A **base year adjustment to the opex incentive** must be calculated for the second **disclosure year** of the **regulatory period** ('the current **regulatory period'**) in accordance with the following formula–

$$-\left(\frac{(\mathbf{forecast\ opex}_{t-1} - \mathbf{actual\ opex}_{t-1}) - (\mathbf{forecast\ opex}_{t-3} - \mathbf{actual\ opex}_{t-3}) + NRA}{(1+WACC)^4}\right)$$

where–

WACC means the mid-point estimate of vanilla **WACC** as determined by the **Commission** under clause 3.5.1(1) and as applied by the **Commission** in determining the price path for **Transpower's** current **IPP**;

t-1 means the **disclosure year** immediately before the current **regulatory period**;

t-3 means the **disclosure year** commencing three **disclosure years** before the current **regulatory period**; and

NRA means the **non-recurrent amount** determined in the **disclosure year** immediately before the current **regulatory period**.

SECTION 2 Price-quality path amendments and other events

3.6.5 Calculating incentive adjustments for IPP amendments and other events

(1) Where an **IPP** is amended following a **reopener event (responsive)**, the **forecast opex** required to be used by **Transpower** to calculate the **amount carried forward** for the **disclosure year** in which the event occurred and each subsequent **disclosure year** prior to the effective date of the amendment to the **IPP**, is the amount specified by the **Commission** in the amended **IPP**.

(2) Where an alteration to Part 2 or an **ID determination** requirement affecting the quantification of **operating costs** allocated to **electricity transmission services** after the application of clause 2.1.1 occurs in a **disclosure year** and–

(a) the **Commission** considers; or

(b) **Transpower** satisfies the **Commission** upon application,

that the alteration has, or is likely to have, a material effect on the calculation of the **opex incentive amount** that would otherwise have been calculated by **Transpower**, then the **forecast opex** required to be used by **Transpower** to calculate the **amount carried forward** for that **disclosure year** and each subsequent **disclosure year** in the **regulatory period** may be determined by the **Commission**, and notified to **Transpower**, in order to preserve, to the extent appropriate–

(c) the correct outcomes for expenditure efficiencies achieved before the event; and

(d) the relevant incentive properties after the event.

SUBPART 7 Reconsideration of the individual price-quality path

SECTION 1 When Commission can reconsider the IPP

3.7.1 When the IPP may be amended

(1) The **Commission** may amend the **IPP** if the **Commission** is satisfied that-

(a) a **reopener event** has occurred;

(b) the **IPP** should be amended; and

(c) the amendment to the **IPP** is consistent with clause 3.7.11.

(2) A 'reopener event'-

(a) is a **reopener event (responsive)**, being an event, or a series of related events, of a type specified in subclause (3), that occurs in the period that–

(i) begins on the date that is 18 months before the start of the **regulatory period**; and

(ii) ends at the end of the **regulatory period**; or

(b) is a **reopener event (prospective)**, which occurs when-

(i) **Transpower** applies on the basis that 2 or more **E & D projects** have become reasonably likely to commence in the **regulatory period** and the criteria in clause 3.7.9(5) are met; or

(ii) **Transpower** applies on the basis that an **anticipatory capacity project** is reasonably likely to commence in the **regulatory period** and the criteria in clause 3.7.9A(2) are met; or

(c) occurs when-

(i) **Transpower** forecasts that a **large buildup in EV account balance** is likely to occur in the **regulatory period** and the criteria in clause 3.7.8(2) are met; or

(ii) **Transpower** becomes eligible for a **delivery risk adjustment** under clause 3.7.9B.

(2A) The **Commission** may treat an event as occurring within the period in subclause (2)(a) if:

(a) that event is a **reopener event (responsive)** that occurred earlier than 18 months before the start of the **regulatory period**; and

(b) the **Commission** considers exceptional circumstances existed such that an application to reopen the preceding **regulatory period** was not reasonably possible before the end of that period.

(3) For the purpose of subclause (2)(a), the types of events are:

(a) a **catastrophic event**;
(b) a **change event**;
(c) an **error event**; or
(d) the discovery of **false or misleading information**.

3.7.2 Process for the reconsideration of the IPP

(1) A **reopener event** can be nominated in writing:

(a) in the case of a **reopener event (responsive)**, by the **Commission**; or
(b) in any case, by **Transpower**, by notifying the **Commission**.

(2) The **Commission** or **Transpower** may nominate more than one **reopener event** at the same time.

(3) If **Transpower** nominates a **reopener event**, it must provide in writing, at the time of nomination, sufficient information to enable the **Commission** to assess:

(a) whether a **reopener event** has occurred;
(b) whether and how the **IPP** should be amended; and
(c) whether any proposed amendment to the **IPP** is consistent with clause 3.7.11 and the **Act**.

(4) The **Commission** must publish a notice on its website of each of the following matters as soon as practicable after they occur:

(a) a **reopener event** is nominated; and
(b) the **Commission** decides whether or not-

(i) it is satisfied that a **reopener event** has occurred;
(ii) to reconsider the **IPP**; and
(iii) to amend the **IPP**.

3.7.3 Confidential information

(1) Where **Transpower** considers that it has a right to confidentiality in any information that it provides to the **Commission** in relation to this subpart and it does not waive the right, it must:

(a) include that information in an appendix; and
(b) clearly mark the information as confidential.

(2) Subclause (1) does not prevent the **Commission** from publishing information identified in accordance with that subclause if it considers **Transpower** does not have a right to confidentiality in respect of that information.

(3) Subclause (2) does not affect any of **Transpower's** rights or remedies for breach of any right to confidentiality.

SECTION 2 Events that may be reopener events

3.7.4 Catastrophic event

(1) A 'catastrophic event' is an event-

(a) beyond the reasonable control of **Transpower**;
(b) that could not have been reasonably foreseen at the time the **IPP** was determined; and
(c) for which-

(i) action required to rectify its adverse consequences cannot be delayed until a future **regulatory period** without the **grid outputs** associated with the **revenue-linked grid output measures** being outside the range specified by the relevant **cap** and **collar** in the remaining **disclosure years** of the **regulatory period**;
(ii) remediation requires **capex**, **opex**, or both;
(iii) the full remediation costs are not provided for in the **IPP**; and
(iv) the cost of remediation before the recognition of any **insurance entitlements**, **third-party liability entitlements**, and **compensatory entitlements** exceeds $5 million.

3.7.5 Change event

(1) A 'change event' occurs where there is a change of the type described in subclause (2) or (3), the effect of which is not explicitly or implicitly provided for in the **IPP**.

(2) The first type is a change in a regulatory or legislative requirement that applies to **Transpower** as a result of new or amended legislation, or judicial clarification of the interpretation of legislation, that-

(a) has the effect of increasing or reducing, by an amount that exceeds $5 million, the costs that **Transpower** will incur and/or the revenue that **Transpower** can recover;
(b) will have a net positive or negative effect on any **grid output measure** that monitors or incentivises the quality of supply by **Transpower** that exceeds the threshold specified in subclause (2A); or
(c) causes an **input methodology** to become incapable of being applied.

(2A) For the purposes of subclause (2)(b), the threshold is an amount calculated in accordance with the formula-

(**grid output target** – **collar**) / 2

(3) The second type is a change in a requirement that applies to **Transpower** under **GAAP**, that-

(a) results in a change in the recognition or measurement (including timing) of 1 or more of the following:

(i) **opex**;
(ii) **capex**;
(iii) assets;
(iv) liabilities;
(v) **forecast MAR**;
(vi) actual transmission revenue; or
(vii) taxation; and

(b) if in effect at the time the **IPP** was determined, would have caused the aggregate amount of the **forecast MAR** for all **pricing years** of the **regulatory period** to have differed by an amount that exceeds $5 million as a result of a difference in the forecast amounts or values relied on in setting the price path.

3.7.6 Error event

(1) An 'error event' is an unintended circumstance where the **IPP** was determined or amended based on an error, including where:

(a) incorrect data were used in determining the price path, **revenue-linked grid output measure**, or a quality standard; or
(b) data were incorrectly applied in determining the price path, **revenue-linked grid output measure**, or a quality standard.

(2) For the purposes of subclause (1),-

(a) an error relating to the **IPP** does not constitute an **error event** unless the error has an impact on the **forecast MAR** that exceeds $100,000 for the affected **pricing years** of the **IPP**;
(b) an error relating to the metrics by which quality standards or grid output measures are specified in the **IPP** does not constitute an **error event** unless it is an error in the value of the metric; and
(c) a discrepancy between forecast values and actual values does not constitute an **error event**.

3.7.7 False or misleading information

(1) This subpart applies to 'false or misleading information'-

(a) relating to the making or amending of the **IPP determination** that has been-

(i) provided by **Transpower** or its agents to the **Commission**; or
(ii) disclosed pursuant to an **ID determination** or information disclosure requirements under subpart 3 of Part 4A of the **Act** (as continued in force for a time by s 54W of the **Act**); and

(b) that the **Commission** relied on in making or amending the **IPP determination**.

3.7.8 Large buildup in EV account balance

(1) A 'large buildup in EV account balance' is a situation where the **EV account** balance would be, as of the last day of a **regulatory period**, when divided by the number of years in that **regulatory period**, greater than 5% of the **forecast SMAR** for the final **pricing year** in that **regulatory period**.

(2) The criteria referred to in clause 3.7.1(2)(b)(i) are-

(a) **Transpower** must apply for amendment of the **IPP** in respect of the **large buildup in EV account balance**;

(b) the application must relate to remaining complete **pricing years** in the **regulatory period**;

(c) the application must be made-

(i) if the **regulatory period** is longer than 4 years, in the period of 80 **working days** that commences after the end of the third **disclosure year** commencing in the **regulatory period**; and

(ii) in any other case, in the period of 80 **working days** that commences after the end of,-

(A) the first **disclosure year** commencing in the **regulatory period**; or

(B) the second **disclosure year** commencing in the **regulatory period**; and

(d) the application must include a proposed amendment to the **forecast SMAR** in respect of the remaining complete **pricing years**.

3.7.9 Enhancement and Development project

(1) An 'E & D project' is:

(a) an **unforeseeable E & D project**; or

(b) a **foreseeable E & D project**.

(2) An 'unforeseeable E & D project' is an **E & D base capex project** or a **transmission alternative**, where, in relation to a **regulatory period**:

(a) at the time the **IPP determination** was made for that **regulatory period**, an allowance for that **project** or **transmission alternative** was not included in the **base capex allowances** or in the **opex** allowance specified by the **Commission** in the **IPP determination** for that **regulatory period** because:

(i) the **project** or **transmission alternative** was not forecast to commence in that **regulatory period**; and

(ii) it was reasonably unforeseeable that the **project** or **transmission alternative** was likely to commence during that **regulatory period**;

(b) the **project** or **transmission alternative** has become reasonably likely to commence in that **regulatory period**; and

(c) drivers of the **project** or alternative include one or more of the drivers set out in subclause (4).

(3) A 'foreseeable E & D project' is an **E & D base capex project** or a **transmission alternative**, where, in relation to a **regulatory period**:

(a) at the time the **IPP determination** was made for that **regulatory period**, an allowance for that **project** or **transmission alternative** was not included in the **base capex allowances** or in the **opex** allowance specified by the **Commission** in the **IPP determination** for that **regulatory period**, and it would have been unreasonable to expect **Transpower** to have accurately forecast the expenditure, or timing of, the **project** or **transmission alternative** at the time the **IPP determination** was made;

(b) the **project** or **transmission alternative** has become reasonably likely to commence in that **regulatory period**; and

(c) drivers of the **project** or **transmission alternative** include one or more of the drivers set out in subclause (4).

(4) For the purposes of subclauses (2)(c) and (3)(c), the drivers are:

(a) a step change in demand that necessitates a capacity upgrade in the **grid**;

(b) a generation **commissioning** or generation **decommissioning**;

(c) meeting **grid reliability standards** or reliability service levels agreed between **Transpower** and its **customer**;

(d) ensuring power quality complies with regulatory or legislative requirements;

(e) managing the power system dynamic voltage response to disturbances;

(f) any other development caused by a party outside the control of **Transpower** that requires a transmission network enhancement or transmission network development; or

(g) the potential for a high-impact, low-probability future event that necessitates **resilience capex**.

(5) The criteria referred to in clause 3.7.1(2)(b)(ii) are:

(a) **Transpower** must apply for amendment of the **IPP** in respect of the **E & D projects**;

(b) **Transpower** must not have previously applied in the **regulatory period** for amendment of the **IPP** in respect of **E & D projects**;

(c) the application must include:

(i) an explanation of the reasons why the **E & D projects** have become reasonably likely to commence in the **regulatory period**;

(ii) an explanation of the drivers of each of the **E & D projects** in accordance with subclause (2)(c) or (3)(c) (or both); and

(iii) supporting analysis for the explanations for the matters in subparagraphs (i) and (ii); and

(d) the total forecast value of the **E & D projects**, in aggregate, amounts to at least $20 million.

(6) The detail and rigour of the explanations and analysis referred to in subclause (5)(c) must be commensurate with the estimated expenditure and complexity of each **E & D project** that is the subject of the application.

3.7.9A Anticipatory capacity project

(1) An 'anticipatory capacity project' is a **project** of **base capex** for an **anticipatory connection asset** in respect of which–

(a) **Transpower** has, after the start of the **regulatory period**, entered into a **new investment contract**; and

(b) the forecast **capital expenditure** for the **anticipatory capacity** of the **anticipatory connection asset** exceeds $10 million but does not exceed the **base capex threshold**.

(2) The criteria referred to in clause 3.7.1(2)(b)(iii) are–

(a) **Transpower** must apply for an amendment of the **IPP** in respect of the **project**;

(b) having regard to the matters set out in Schedule A of the **Capex IM**, the **project** is consistent with an expenditure outcome that represents the efficient costs of a prudent supplier, having regard to **good electricity industry practice**;

(c) the forecast **capital expenditure** for **the anticipatory capacity** of the **anticipatory connection asset** is reasonably likely to commence in the regulatory period; and

(d) the **application** must include:

(i) an explanation of the reasons why the **project** is consistent with the expenditure outcome described in (b);

(ii) an explanation of the reasons why the **anticipatory capacity** of the **anticipatory connection asset** is reasonably likely to commence in the **regulatory period**; and

(iii) supporting analysis for the explanations for the matters in subparagraphs (i) and (ii).

(3) The detail and rigour of the explanations and analysis referred to in subclause (2)(d) must be commensurate with the estimated expenditure and complexity of the **project**.

3.7.9B Delivery risk adjustment

(1) **Transpower** is eligible for a **delivery risk adjustment** if:

(a) the **IPP determination** provides for a **delivery risk adjustment** and, in accordance with the **IPP determination**, **Transpower** is eligible for an increase to a **base capex allowance**, an **opex allowance**, or both in respect of the **delivery risk adjustment**;

(b) **Transpower** applies for an amendment of the **IPP** in respect of the **delivery risk adjustment**; and

(c) **Transpower's** application:

(i) includes reasonable evidence that it is eligible for an increase to a **base capex allowance**, an **opex allowance**, or both (as the case may be);

(ii) is accompanied by a certificate from the chief executive officer of **Transpower** certifying the accuracy and completeness of the evidence; and

(iii) complies with any other requirements specified in the **IPP determination**.

SECTION 3 Commission consideration of whether and how to amend the IPP

3.7.10 Commission consideration of whether to amend the IPP

(1) If satisfied that a **reopener event** has occurred, the **Commission** must, when deciding whether to amend the **IPP**, have regard to at least each of the following matters (to the extent that the **Commission** considers the matter is relevant):

(a) the impact of the **reopener event** given the relevant circumstances, including both positive and negative effects, on **Transpower's** costs, revenues, and quality outcomes;

(b) the extent to which the **IPP** provides explicitly or implicitly for the **reopener event**;

(c) if **Transpower** nominated the **reopener event**:

(i) whether the action required to respond to the **reopener event's** adverse consequences can be delayed until a future **regulatory period**;

(ii) the extent to which **Transpower**:

(A) contributed to the adverse consequences of the **reopener event** by its action or omission; and

(B) could have prevented or overcome the adverse consequences of the **reopener event** by exercising reasonable diligence at reasonable cost; and

(iii) whether **Transpower's** planned **capex** and **opex** for the remainder of the **regulatory period** have been appropriately reviewed and reprioritised; and

(d) in the case of a **catastrophic event**, the extent to which **Transpower** has demonstrated that it has reviewed its planned **capex** and **opex** for the remainder of the **regulatory period** and made such substitutions as are possible without adversely affecting its ability to meet the **grid output targets** associated with **revenue-linked grid output measures**.

(2) Subclause (1)(d) does not limit subclause (1)(c)(iii).

3.7.11 Amending IPP after reconsideration

(1) If the **Commission** decides that the **IPP** should be amended, the **Commission** may amend any 1 or more of the following that are specified in the **IPP determination**:

(a) price path;

(ab) quality standard values (that is, any value that, if met, means a quality standard is attained);

(b) **grid output targets**;

(c) **caps**;

(d) **collars**; and

(e) **grid output incentive rates** associated with **revenue-linked grid output measures**.

(2) In the case of a **reopener event (prospective)**, the Commission may amend the price path to account for **opex** incurred or assets **commissioned** only in respect of **opex** incurred or assets **commissioned** after the date on which the **reopener event** was nominated under clause 3.7.2.

(3) In the case of a **reopener event (responsive)**, the **Commission** may amend the price path to account for **opex** incurred or assets **commissioned** only in respect of **opex** incurred or assets **commissioned** after the date of the **reopener event**.

(4) For the purposes of subclause (2), the date on which the **reopener event** was nominated under clause 3.7.2 means the first date on which **Transpower** provides the information referenced in clause 3.7.2(3) to the **Commission**. For the avoidance of doubt, the fact that the **Commission** seeks further information from **Transpower** as part of its assessment will not change that date.

(5) In the case of a **reopener event (prospective)** or **reopener event (responsive)**, the **Commission** must not amend the **IPP**-

(a) more than is reasonably necessary to mitigate the effect of the **reopener event** on the **IPP**;

(b) more than is reasonably necessary to take account of the change resulting from the **reopener event**, less any costs already approved in a **reopener event allowance** for the same **reopener event**; and

(c) by more than the prudent net additional expenditure incurred in responding to the **reopener event**.

(6) In the case of a **large buildup in EV account balance**, the **Commission** must not amend the **IPP** more than is reasonably necessary to take account of the change in **forecast EV adjustment** on the basis of the buildup.

(7) In the case of a **delivery risk adjustment**, the **Commission** must amend the **IPP** as specified in the **IPP determination** in respect of the **delivery risk adjustment**.

SECTION 4 Amendment of IPP for approved capex

3.7.12 Consideration for approved capex

(1) Once in each **disclosure year** commencing in a **regulatory period** except for the last **disclosure year**, the **Commission** must reconsider the **IPP** in respect of the remaining **disclosure years** commencing in the **regulatory period** to take account of the following on the **forecast SMAR**:

(a) the revenue impact of **major capex** approved by the **Commission**; and

(b) the revenue impact of any **base capex** approved by the **Commission** for a **listed project**.

(2) At the time specified in the **IPP determination**, **Transpower** must provide the information specified in the **IPP determination** to enable the **Commission** to reconsider the **IPP**.

(3) If the **Commission** decides, having reconsidered the **IPP** under subclause (1), that the **IPP** should be amended, the **Commission** may amend any 1 or more of the following that are specified in the **IPP determination**:

(a) price path;

(ab) quality standard values (that is, any value that, if met, means a quality standard is attained);

(b) **grid output targets**;

(c) **caps**;
(d) **collars**; and
(e) **grid output incentive rates** associated with **revenue-linked grid output measures**.

(4) The **Commission** must publish a notice on its website of each of the following matters as soon as practicable after—

(a) the **Commission** decides whether or not to reconsider the **IPP**; and
(b) the **Commission** decides whether or not to amend the **IPP**.

SCHEDULE A **STANDARD PHYSICAL ASSET LIVES**

Standard Physical Asset Lives for Transpower

ASSET DESCRIPTION	STANDARD **PHYSICAL** 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

Explanatory note

This note is not part of the determination but is intended to indicate its general effect.

1. This determination, which comes into force on 1 August 2029, amends the input methodologies ('IMs') that apply to Transpower as a supplier of electricity transmission services.

2. The IMs set out how the weighted average cost of capital ('WACC') is determined for Transpower. This determination amends the approach to certain variables used in determining the WACC. WACC is a variable used for the purposes of price-quality regulation and information disclosure regulation.

3. This determination replaces the current approach for estimating the risk-free rate component of the cost of debt with a trailing average approach. The trailing average uses a five-year simple (equally weighted) average of historical risk-free rates, while retaining the existing three-month averaging window used to estimate rates each year.

4. This determination amends the term credit spread differential allowance to compensate qualifying suppliers that issue longer-term debt and incur hedging costs to align their debt portfolios with the regulatory benchmark.

5. This determination inserts a methodology for the Commerce Commission to determine the tax-adjusted market risk premium ('TAMRP'). Previously, a specific TAMRP figure was specified in the IMs (for example, most recently, the TAMRP was specified as 7.0%).

6. The IMs that apply to certain other regulated industries (electricity transmission, gas distribution, gas transmission, airports, and fibre services) are being amended at the same time.

7. The Commerce Commission published a reasons paper with this amendment determination. The paper provides further background information and is available on the Commission's website.

This is secondary legislation issued under the authority of the Legislation Act 2019.	
Title	Transpower Input Methodologies (Common Cost of Capital) Amendment Determination 2026
Principal or amendment	Amendment

Consolidated version	No
Empowering Act and provisions	Commerce Act 1986 Section 52W
Replacement empowering Act and provisions	Not applicable
Maker name	Commerce Commission
Administering agency	Commerce Commission
Date made	25 November 2026
Publication date	25 November 2026
Notification date	25 November 2026
Commencement date	1 August 2029
End date (when applicable)	Not applicable
Consolidation as at date	Not applicable
Related instruments	Transpower Input Methodologies Determination 2012 [2012] NZCC 17

Consistency Accountability Statement: Transpower Input Methodologies (Common Cost of Capital) Amendment Determination 2026

Agency Responsible	Commerce Commission
Portfolio	Commerce and Consumer Affairs
Date finalised	
Identification number	N/A

Statement of Review

I confirm that the Commerce Commission has assessed the above legislation, and the process for developing it, for consistency with the principles of responsible regulation as set out in section 9 of the Regulatory Standards Act 2025. This assessment identified no inconsistencies with the principles of responsible regulation.



Suzanne Stew
Chief Executive
Commerce Commission