

# Final revenue limits and quality standards for electricity lines companies for 2025-2030

Transpower RCP4 and EDB DPP4 final decisions

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# Briefing outline

- Main features of RCP4 and DPP4
- Key drivers
- Consumer impact
- Context
- Final decisions:
  - Transpower (RCP4)
  - Local lines companies (DPP4)
- Summary
- Q&A

# RCP4 and DPP4 main features

## Transpower \$5.9 billion

Up \$1.8 billion compared to RCP3 (projected)

Breaks down to a revenue allowance increase of:

- **16%** in years one and two; and
- **5%** for years three to five.

## Electricity distributors \$11.5 billion

Up \$3.5 billion compared to DPP3

Breaks down to a revenue allowance increase of:

- **24%** for year one (on average); and
- lower business-specific increases for years two to five.

- Higher revenue limits for both Transpower and local lines companies are to maintain reliability and support growth.
- Current quality standards are largely fit for purpose, and we propose only minor refinements.
- Collectively this represents around an **extra \$10 on the average household's monthly bill from 1 April 2025** for affected networks(will vary across regions and consumer profiles).

# Final decisions: key drivers

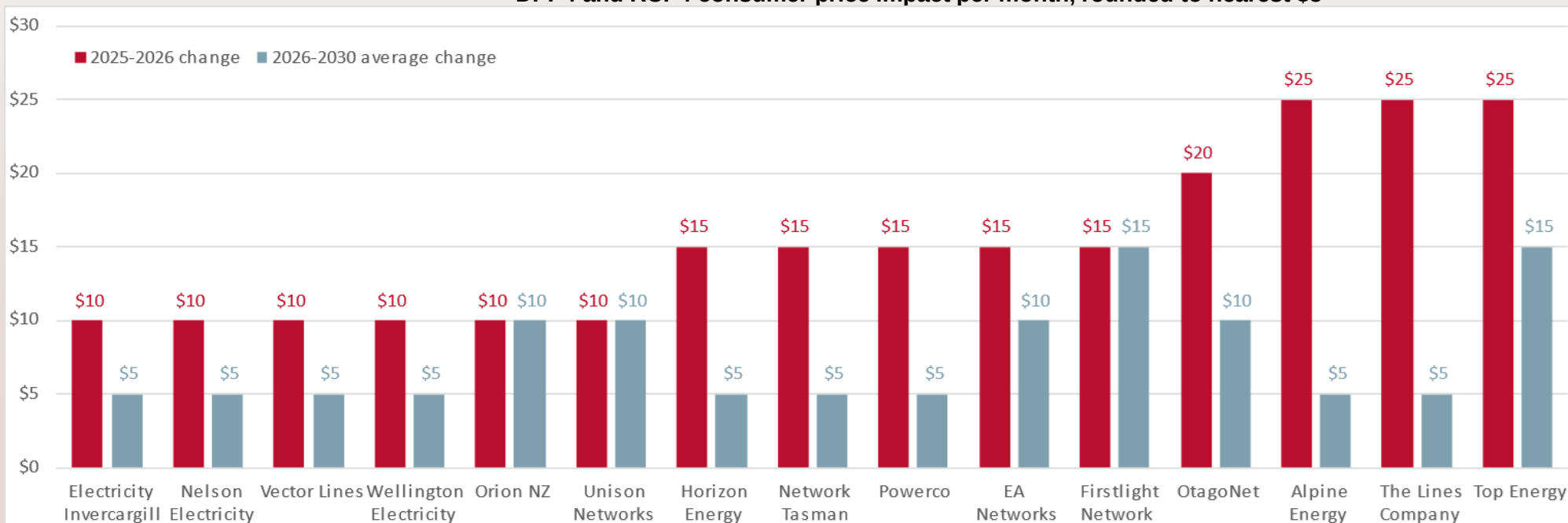
There are three main drivers behind the increase in revenue:

- An **increase in interest rates** since 2019 – this is reflected in the weighted average cost of capital (WACC) of 7.1% compared to 4.6% for RCP3/DPP3. The average across all regulatory periods is 6.9%.
- An **increase in expenditure** to maintain reliability, meet growing demand, and address resilience needs.
- **Recent higher input costs (inflation)** due to strong international competition for skilled workers and equipment.

# Estimated consumer price impacts

- Delivering the service we need into the future requires investment.
- What this means for consumers is that from 1 April 2025, we estimate that the transmission and distribution component of a household's electricity bill will increase on average, **by \$10 per month**, for the affected networks for the first year of the period. This represents an **additional \$120 per year** on average across most of New Zealand.
- The regional range is for average increases between approximately \$10 and \$25 per month, for the first year of the period. There are various drivers for differences between lines companies, but a significant factor is the number of consumers to spread costs over.

DPP4 and RCP4 consumer price impact per month, rounded to nearest \$5



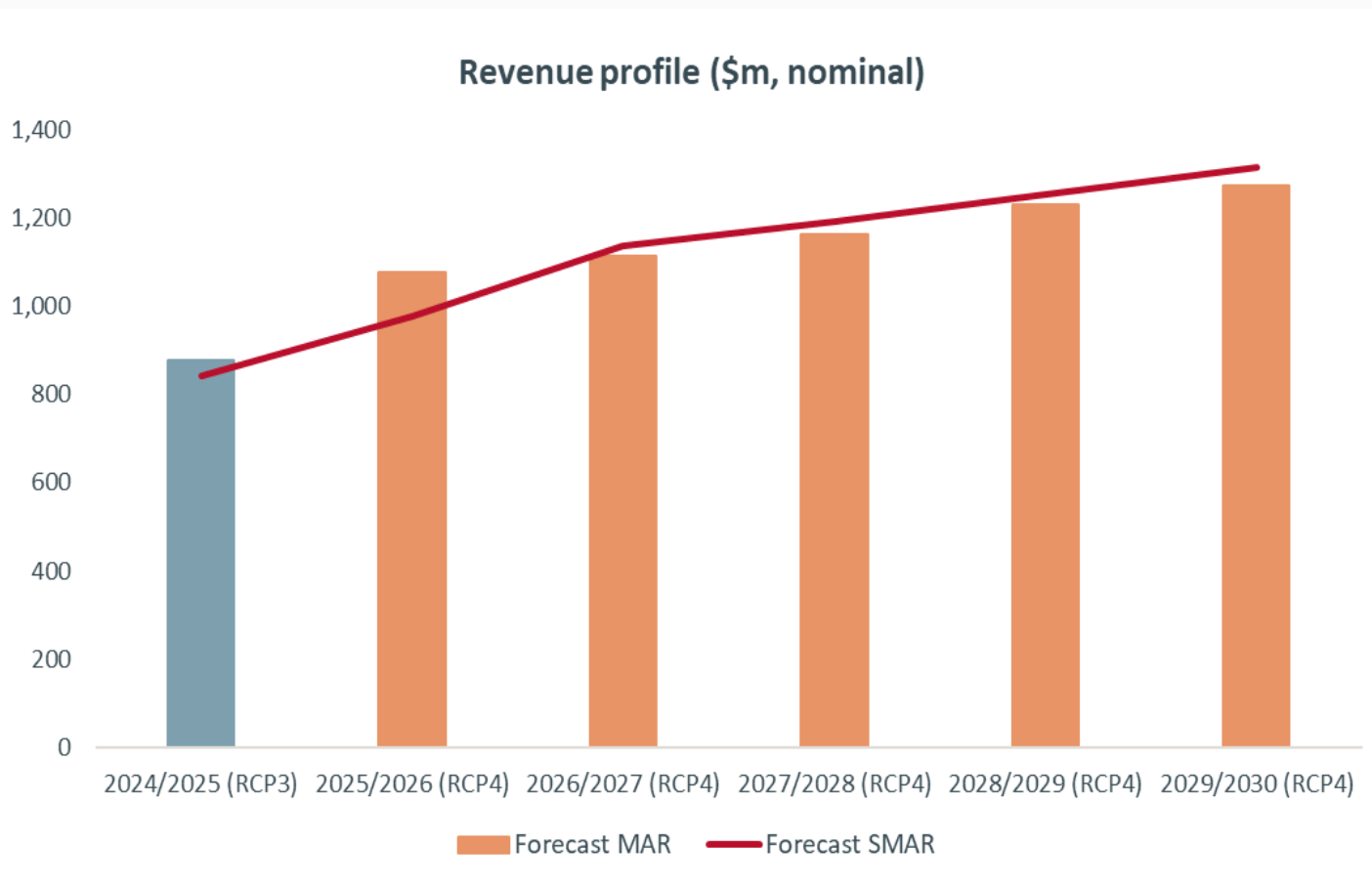
# Context for our final decisions

- **Underlying macroeconomic conditions** – higher interest rates and inflation.
- **Further emergence of new technologies** – growing scope for innovation and non-network solutions.
- **Wider cost pressures for consumers** – price increases may be felt more as consumers face higher costs across their budgets.
- **Stakeholder feedback** – we received 50 submissions and 14 cross submissions in total for both the RCP4 and DPP4 draft decisions. We also held a workshop on the implementation design and application process for the innovation and non-traditional solutions allowance (INTSA).

# Transpower (RCP4)



# RCP4: Revenue path



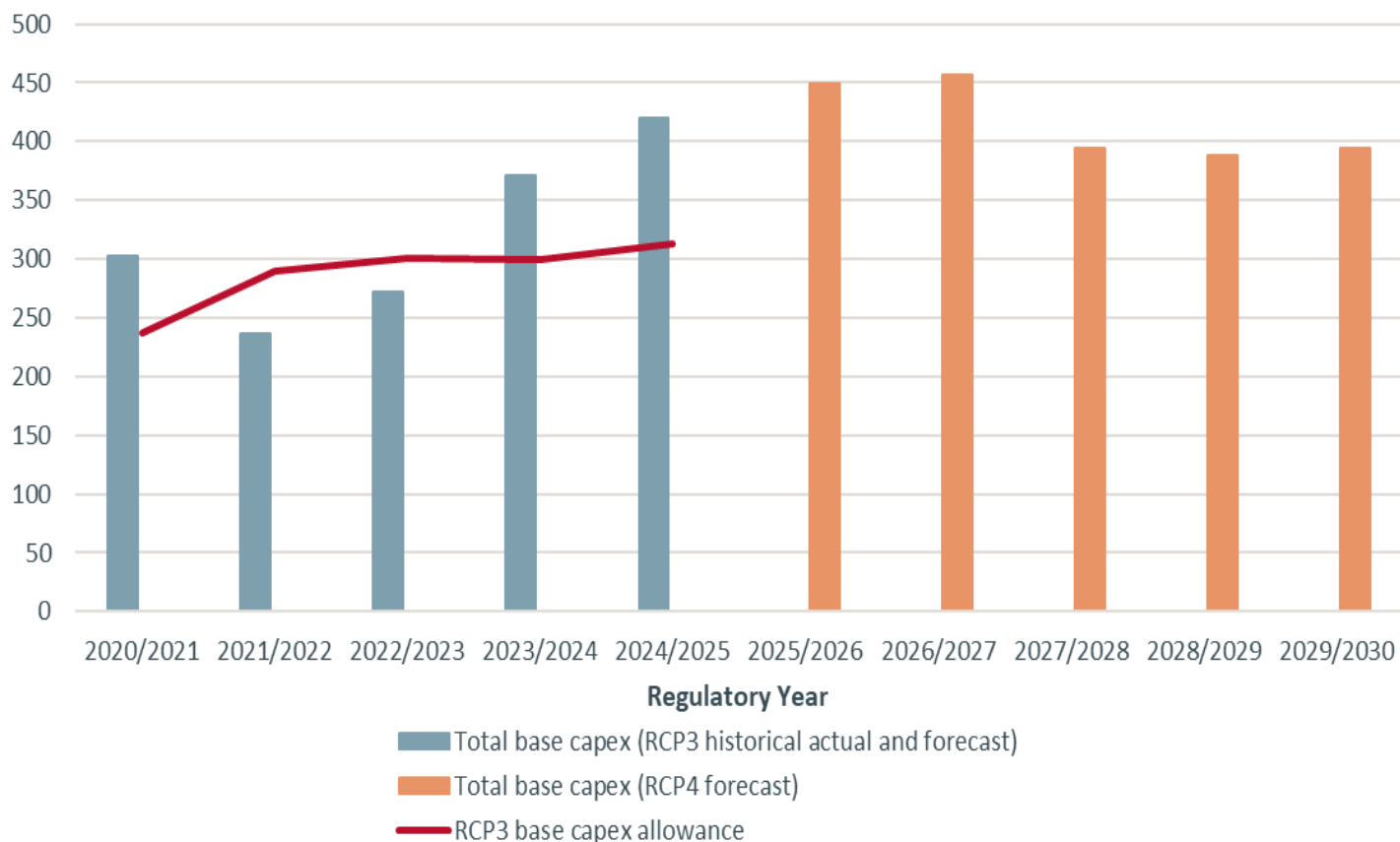
- Total RCP4 revenue allowance of \$5.9 billion – a \$76 million increase from our draft decision.
- WACC and inflation are significant drivers.
- Smoothing the price path to soften initial consumer impacts.
- 16% annual increase for years one and two.
- 5% annual increase for years three to five.

# RCP4: Overview

- **We have made minor changes from draft to final decisions to reflect submitter feedback** - we consulted and updated the settings for the deliverability reopener to reflect updates from Transpower on its progress towards workforce targets.
- **Increased replacement and renewal need** - Transpower proposed a substantial work programme to replace and renew assets that were built mid-last century to ensure a safe and reliable supply as New Zealand becomes more reliant on electricity.
- **We are largely satisfied by Transpower's proposal** - we have reviewed Transpower's proposal and the independent verifier's report and allowed for the majority of Transpower's proposed expenditure.
- **We have applied a downward adjustment to address deliverability concerns** - additional expenditure can be unlocked during the period if Transpower meets predetermined recruitment targets.
- **We are introducing an annual delivery reporting requirement** - given the increase in Transpower's work programme.
- **Grid output measures remain largely unchanged** - we based Transpower's grid output measures largely on the previous period with minor refinements based on Transpower's actual performance.

# RCP4: Capex

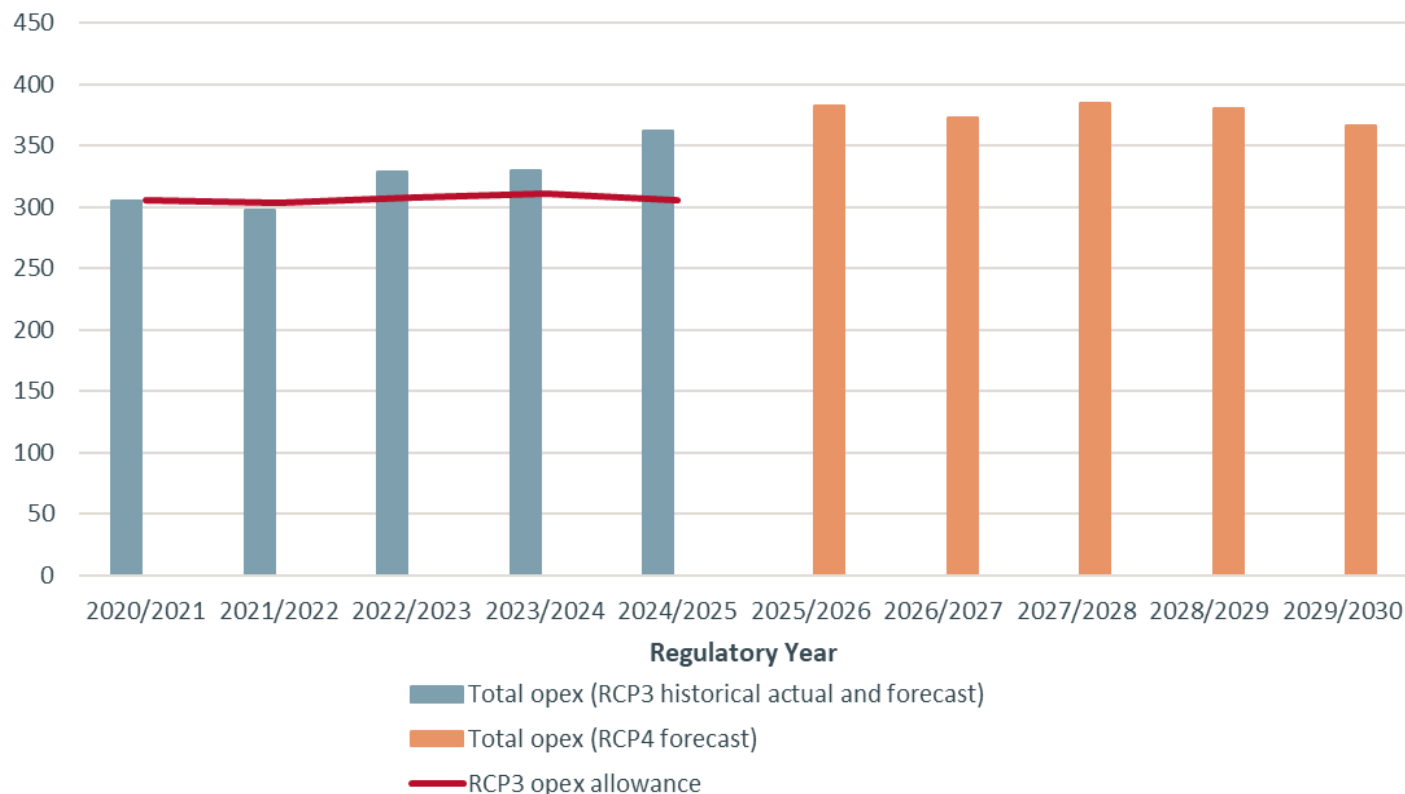
RCP3-RCP4 Base Capex (\$million, constant 2022/2023)



- Total capex allowance of \$2.3 billion.
- Mature asset health modelling underpins Transpower forecast.
- Providing funding for resilience expenditure.
- Reducing capex by \$110 million due to deliverability concerns.
- Re-openers available for deliverability and other uncertain expenditure.

# RCP4: Opex

RCP3-RCP4 Opex (\$million, constant 2022/2023)



- Total opex allowance of \$1.9 billion.
- Opex is forecast using base, step and trend methodology.
- Step change to support delivery of increased work programme.
- Increase in maintenance to manage aging asset base.
- Reduced opex by \$62 million due to deliverability concerns.

# RCP4: Quality and IM amendments

## *Quality*

- Keep Transpower's package of quality standards and grid output measures largely unchanged – to ensure Transpower maintains the current quality of service it is providing to customers.
- Metrics updated to reflect improving performance and to take into account Transpower's work programme, where relevant.

## *Input methodologies*

- Targeted IM amendments to give effect to our IPP reset.

## *Next steps*

- Transpower sets prices from 1 April 2025 based on its Transmission Pricing Methodology.

# Electricity distribution businesses (DPP4)

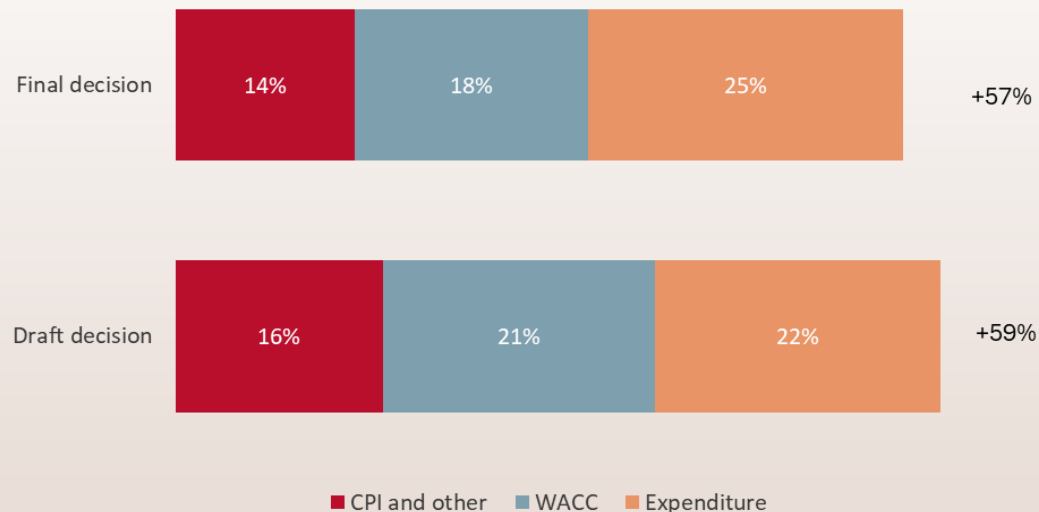
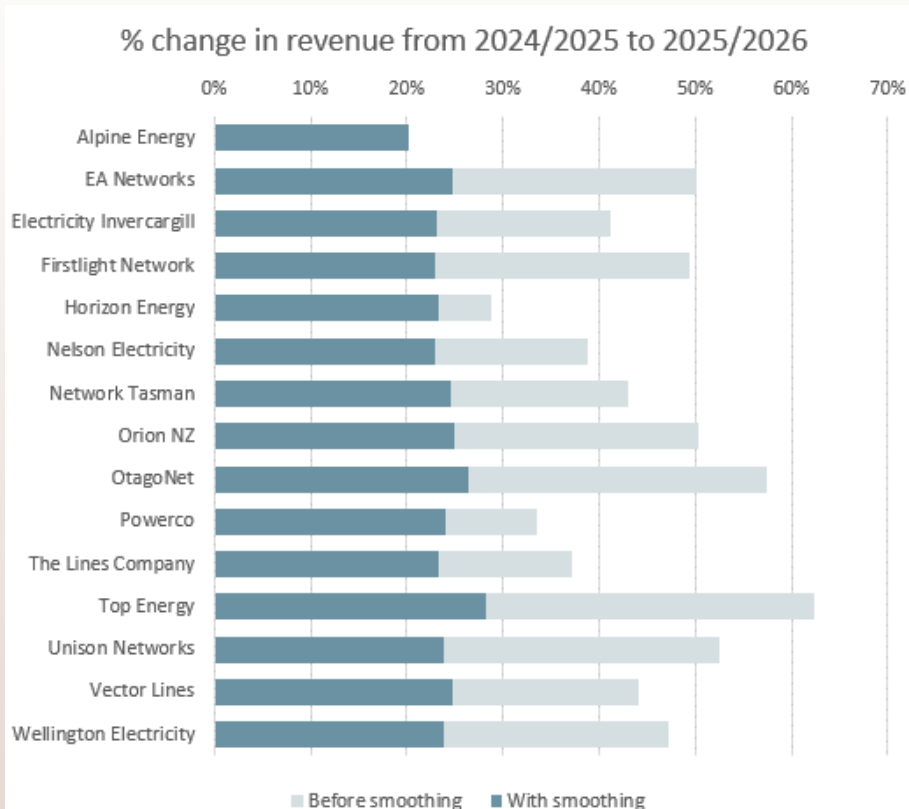


# DPP4: Overview

- **The final decision** - total forecast net allowable revenue allowances of **\$11.5 billion** in nominal terms over a five-year DPP4 regulatory period.
- **Higher overall costs** – uplift in revenues compared to DPP3 to cover costs and enable investment to maintain reliability and support growth.
- **Flexible regulatory framework enables us to get the best for consumers** – our final decision allows for a small increase in expenditure from the draft decision but does not accept businesses' forecasts in full due to uncertainty and deliverability concerns.
- **We have provided for some specific increases in operating costs** – our final decision allows for six step changes for new or above inflationary operating cost increases.
- **We are further incentivising innovation within the regime** –the innovation and non-traditional solutions allowance encourages EDBs to find new solutions for the long-term benefit of consumers.
- **We have introduced revenue smoothing to help mitigate price increases for consumers** –we have limited initial increases in revenue to soften the impact of price rises for consumers.
- **Key changes from draft decision** - expand the innovation allowance and exclude specified insurance and low-voltage data costs from the cap applied to opex step change increases.

# DPP4: Total revenue

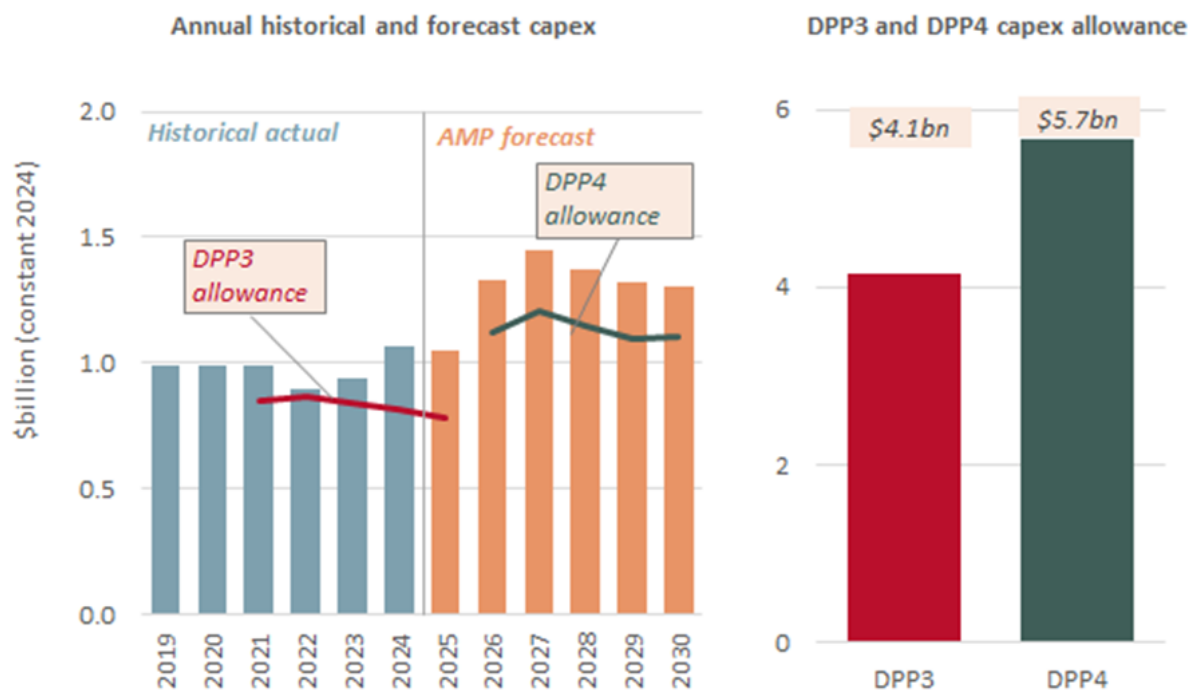
Total forecast net allowable revenue allowances is \$11.5 billion in nominal terms.



# DPP4: Capex

Lines companies have forecast a significant increase in investment. The capex allowance provided reflects our assessment of what is appropriate in an evolving environment with high levels of uncertainty and potential deliverability challenges.

**Capex profile (constant 2024 dollars)**



In 2024 constant prices, our decision is for a DPP4 capex allowance of \$5.7 billion.

This is \$1.5 billion or 37% higher than the DPP3 allowance of \$4.1 billion (in 2024 constant prices).

The allowance is 17% less than EDBs' 2024 asset management plan forecast (nominal).

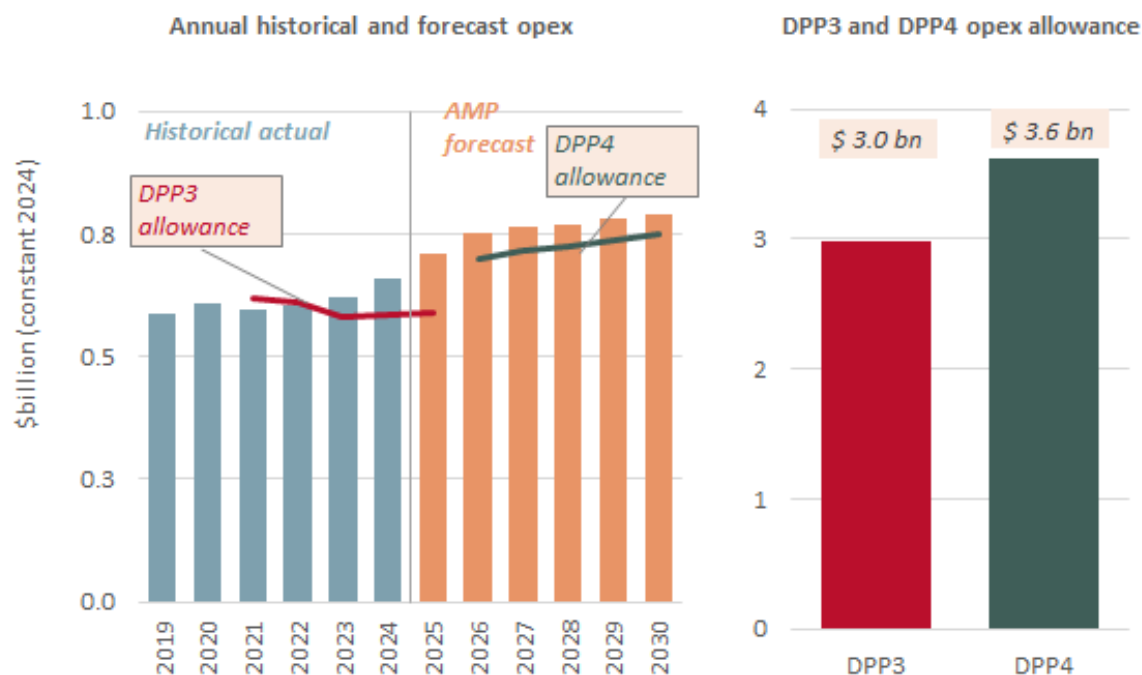
The final decision is \$66 million (nominal) or 1% higher than the draft decision for capex allowance.

# DPP4: Opex

We have set opex allowances to reflect the increases in operating costs faced by the sector since 2020.

We have capped opex step change increases at 5% excluding specified amounts for insurance and low-voltage data costs.

**Opex profile (constant 2024 dollars)**



In 2024 constant prices, our final decision is for a DPP4 opex allowance of \$3.6 billion.

This is \$0.6 billion or 22% higher than the DPP3 allowance of \$3.0 billion (in 2024 constant prices).

This includes six step-changes – Insurance, low-voltage monitoring, cybersecurity, Software as a Service, consumer engagement and a graduate programme.

Our final decision is a \$144 million (nominal) or 3.7% increase from the draft opex allowance.

# DPP4: Innovation and Quality

## *Innovation*

- Maintain equivalence between IRIS incentives for capex and opex, to ensure the regime continues to incentivise EDBs to choose the most efficient solution.
- To introduce an innovation and non-traditional solutions allowance which EDBs will be able to apply. We have increased this from our draft decision to be up to 0.8% of their maximum allowed revenue over the DPP4 period.
- To encourage collaboration between EDBs, 0.2% of the 0.8% will only be available for projects where the EDB is working with at least one other EDB.

## *Quality*

- Retain the same quality standards as applied in DPP3, at levels that ensure no material deterioration in quality.

# DPP4: IM amendments - three packages

## ***Reopener and other matters (EDBs and Transpower)***

- Proposed amendments to reopeners, the reopener event allowance, and other matters, to:
  - ensure the input methodologies (IMs) correctly give effect to our policy decisions;
  - improve the workability of the IMs relating to reopeners; and
  - improve the clarity and certainty of the rules and processes for reopeners, to reduce compliance and regulatory costs.
- Draft decision to be published in December 2024.

## ***Insurance proceeds (EDBs, Transpower and Gas Pipeline Businesses)***

- Proposed amendments in relation to the treatment of insurance entitlements, other compensatory entitlements, and other regulated outcomes.
- Final decision to be published in December 2024.

## ***Wash-up amounts (EDBs)***

- Proposed amendments to the EDB IMs to correct errors in the EDB revenue wash-up and to reduce volatility of the revenue path.
- Final decision published today.

## ***DPP4 Guidance***

- Reopener guidance to be published by April 2025.
- Innovation Allowance (INTSA) guidance to be published by April 2025.

# To conclude

- **We are increasing the maximum allowable revenues** for both Transpower and local lines companies to help ensure consumers have a reliable network that meets their needs now and into the future at a reasonable cost.
- The increase is primarily driven by:
  - an increase in **interest rates**
  - an increase in forecasted **expenditure**
  - recent increases in **input costs** (inflation)
- **Increased investment required** to meet the future needs of consumers.
- **Balance required** between allowing for revenues upfront and relying on other options for flexibility, as there are risks for consumers on both sides.
- **Innovation incentives are heightened** to help improve quality of service and reduce costs over the longer-term.
- **To soften the impact on consumers**, we have smoothed revenue recovery by spreading it over a longer period

# Questions



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