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23 January 2025

Proposed amendments to input methodologies for Transpower (reopeners and other matters) – Draft decision

Transpower welcomes the opportunity to submit to the Commission's further clarification and drafting decisions on the input methodologies for some of the policy decisions finalised under the 2023 IMs review. This submission discusses two of the matters in the draft decision:

1. The reopener event allowance under the new *responsive* reopener category
2. Change events affecting quality standards and grid output measures.

The reopener event allowance as a recoverable cost

The Commission's proposed changes to the 2023 IMs determinations allow the Commission to determine a reopener event allowance (REA) when responding to any ex-post costs following a responsive reopener event, and this allowance is classed as a recoverable cost.[1] Transpower's wash-up process returns costs identified as "recoverable" (Transpower IMs clause 3.1.3).

We support the REA as the best mechanism for responding to a change in expenditure following a change event. However, we seek clarification as to the amount of any REA given Transpower's wash-up mechanism. Due to Transpower's comprehensive wash-up mechanism, Transpower's exposure to any change event is only on the incentive outcome. Therefore:

- the REA should only account for the incentive impact of any change to expenditure in responding to the event (refer to the appendix for illustration); and

[1] Refer clause 3.1.3 (e) 5BDraft5D-Transpower-Input-Methodologies-Reopeners-and-Other-Matters-Amendment-Determination-2025-12-December-2024.pdf. This clause tied with the revised definition of a "reopener event allowance" as a "responsive reopener event" appears to mean that the costs of the responsive reopeners are returned through recoverable costs, and not returned by re-opening the price-path.

- there should be no amendment to Transpower's IPP in any capacity as there is no exposure to double recovery of capital costs, as the REA would only shield Transpower against any unintended incentive outcome.[2]

We also note that Transpower's wash-up process occurs every five years which means that the effect of any REA would not be realised until the following RCP. A such, we support the Commission's intent to give effect to reopeners through amendments to the revenue path, where possible [section 3.15.2.1] *"for all categories of reopener, where possible, changes to the revenue path resulting from a reopener will be given effect via simplified adjustments…to the 'net' revenue path."*

Change events affecting quality standards and grid output measures

In the reasons paper [3.138], the Commission writes *"As part of the price-quality path reset process for Transpower's RCP4, we amended the Transpower IMs to allow us to amend the quality standards applying to Transpower after reconsidering Transpower's IPP."*

We support the Commission's further clarification for *change event* policy that allows for quality standards to be amended if a legislative or regulatory change affects Transpower's ability to meet its quality standards.[3] An example of such a change event could be a government agency introducing new legislation which reduces our ability to access and maintain our assets or regularly trim trees affecting out lines.

We note that the drafting for the thresholds for being able to claim a change event because of a positive or negative effect on quality of supply metrics (for Transpower, as grid output measure) differs between the proposed Transpower and EDB IMs. For EDBs, the trigger is a percentage change (5%) to the quality standard; for Transpower, the trigger is a revenue impact (which is calculated through the proposed formula). However, due to the setting of our quality incentives and standards a legislative / regulatory change may result in us breaching a quality standard without a revenue change of ± $5m. In our view the drafting as proposed does not achieve the Commission's intent.

Instead, we propose that for Transpower a trigger (the threshold level) should also be set as a "percentage" change amount, such as 5% of our grid output measure **targets**, rather than by a dollar value for each grid output measure. This approach would create consistent policy for change events for the two regulatory regimes.

Yours sincerely

Joel Cook

Head of Regulation

[2] With the return on and of any additional capital expenditure being recovered through Transpower's EV account as part of Transpower's regular wash-up mechanism.

[3] Refer 3.121.5 5BDraft5D-Transpower-Input-Methodologies-Reopeners-and-Other-Matters-Amendment-Determination-2025-12-December-2024.pdf.

Appendix – Transpower's wash-up mechanism for changes in expenditure

The nature of Transpower's wash-up mechanism means that Transpower is only exposed to the incentive portion of any change in expenditure.

For example, if Transpower incurs additional expenditure in RCP4 of $100 that was not previously allowed for then:

In the case of capital expenditure

- Transpower incurs an additional $100 in the year.
- $100 is added to the RAB and $100 (in real terms) is recovered over the life of the asset.
- An incentive penalty of $32 applies to the additional capex.
- Transpower is $32 worse off.

In the case of operating expenditure

- Transpower incurs an additional $100 in the year.
- Transpower washes up an opex allowance exclusive of this additional expenditure.
- The IRIS carry forward mechanism results in Transpower recovering $100 from the customer in six years following, $68 in real terms, when discounted at the WACC.
- Transpower is $32 worse off.

Therefore, the reopener event allowance only needs to offset the incentive outcome of this additional expenditure (as discounted by the WACC in the case of opex) meaning that $32 is to be returned as a recoverable cost.