29 September 2022 (distributor) – Updates to connection asset replacement costs and Transpower's allowable revenue

Question:

As part of the new TPM, connection asset values are being updated. How does this fit with Transpower's DHC regulation where the WACC allowance is given against original asset costs and values are not indexed? By comparison, EDB asset values are indexed but we must deduct that indexation allowance from our WACC. On the face of it, it looks like Transpower might be updating asset values as well as applying the full WACC allowance?

If the total revenue allowance is still capped by the DHC approach, then my follow up question/concern is: Is the relative magnitude of connection charges being preserved, or will this update in value lead to a higher level of connection charges and a lower residual charge?

Response:

The changes we made to our connection asset replacement costs do not impact on either (i) Transpower's total revenue allowance set by the Commerce Commission (which, as you note, includes a WACC return on the DHC of our regulatory asset base), or (ii) the total cost of connection assets allocated under the TPM through connection charges (i.e. the total amount of connection charges).

The connection asset replacement costs are only relevant to how capital and some maintenance costs of connection assets are allocated amongst our customers through their connection charges. The impact of the changes on a particular customer depends on the mix of connection assets to which it is connected. We are unable to provide this information indicatively in advance of formally notifying transmission charges in December.

The role of the connection asset replacement costs in the calculation of connection charges is more fully explained in our connection charges information sheet, which includes a worked example (see sections 4 and 5).

We updated the connection asset replacement costs because they were well overdue for updating, having not been reviewed for many years.