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20 February 2026

Proposed amendment to Transpower Capex IM Determination relating to major capex incentive formula, Schedule B3

We support amending the incentive formula in clause B3(3) of Schedule B of the Capex IM, that ensures Transpower to be rewarded or penalised appropriately when comparing actual capex with the approved allowance, considering the deadband (P30–P70) and exempt major capex. We also propose a drafting change to ensure continued incentives for efficiently operating any Non-Transmission Solution (NTS).

Incentives formula drafting

There are definitional differences between the major capex allowance and the P30/P70. Therefore, adjustments—such as those for forecast vs. actual CPI, foreign exchange rates, and exempt capex (including non-transmission solutions)—are necessary to make P30 and P70 comparable with the allowance and ensure the deadband serves its purpose. We reviewed the amendment and have proposed minor drafting changes that may be needed to fully reflect the Commission's intent.

Clause	Comment
B3 Calculation of major capex expenditure and output adjustment (1) The amount of the major capex expenditure and output adjustment is calculated in accordance with this clause.	**1. accounting for disparities between forecast and actual CPI and FX, and any other allowances included in the major capex allowance** We consider additional drafting is needed for the P30 and P70 that set the deadband, to adjust their values for *disparities between forecast CPI and forecast FX that applied when the major capex allowance was determined, and actual CPI and FX.*
(2) The amount of the adjustment for the project is zero if the amount of capex for the project is:	**2. accounting for exempt capex** The amount of the adjustment for the project should be zero if outturn capex is between the P30 and the major capex allowance less exempt capex (if major capex allowance less exempt capex is lower than the P30).
(a). less than or equal to the project's P70; and (b). equal to or more than the project's P30.	For example, replacing B3(2)(b) with: *equal to or more than the lower of the project's P30 or the major capex allowance less exempt capex (after adjusting for the disparity between forecast and actual CPI and FX)*

Ensuring full recovery of prudent and efficient NTS costs

As we identified in an earlier submission[1] on policy settings for Non-Transmission Solutions (NTS) we consider a clause in the Transpower IMs creates risk for Transpower for non-recovery of prudent and efficient operating costs for an NTS.

Clause 3.1.3 d (iii) of the Transpower Input Methodologies[2] states

> 3.1.3 Recoverable costs
> A recoverable cost is a cost that is...
>
> (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**;

Clause 3.1.3 (d) (iii) creates risk that Transpower may not be able to fully recover NTS expenditure even when prudent and efficient. For example, if Transpower is successful in procuring an NTS for deferral, but the capex build still needs to proceed, if the capex increases above the major capex allowance (P50) but is still below the P70, the clause implies that we would only be able to recover the capex element and would be 100% penalised for the NTS spend.

To ensure confidence on cost recovery of NTS operation we consider the Transpower IM clause 3.1.3 (d) (iii) should be is amended to convey that the recoverable costs *can be* recovered up to the approved MRC. This approach would be consistent with the Commission's view through the 2017/18 Capex IM review "*We agree that Transpower should generally be able to recover all costs of providing the NTS, as most of the costs will typically be outside its control…"*[3]. Alternatively, since the major capex allowance definition in the Capex IM includes NTS expenditure, then if this clause (3.1.3 (d) (iii)) is not adjusted the Commission could increase the major capex allowance, in the example given, to ensure Transpower can recover the full cost of the NTS.

Your sincerely
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[1] TP_Sub_WBoP_draft_decision_29April2025
[2] Transpower input methodologies | Commerce Commission
[3] Transpower-capex-IM-review-Decisions-and-reasons-29-March-2018 Para. 93 and footnote 92