

Media Release

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Commerce Commission finalises input methodology for approving Transpower's national grid spending

The process for approving investment in the national grid took an important step forward today with the release of the Commerce Commission's final determination of Transpower's Capital Expenditure Input Methodology.

The Commerce Commission took over responsibility for approving Transpower's major grid upgrades from the Electricity Commission on 1 November 2010.

The Capital Expenditure Methodology replaces the former Electricity Governance Rules for approving Transpower's grid upgrade expenditure and integrates all regulation of Transpower's capital spending with Part 4 of the Commerce Act 1986.

Input methodologies promote regulatory certainty for the suppliers of regulated services. Increased certainty is important for fostering efficient investment.

"At a time when Transpower plans to invest around \$5 billion over the next 10 years in critical infrastructure upgrades, the quality of that investment is important. The ongoing grid upgrade programme is a central part of New Zealand's infrastructure development," said Commerce Commission deputy chair Sue Begg.

“The Capital Expenditure Input Methodology will ensure the investment expenditure is subject to an appropriate level of scrutiny. This will help ensure the investment provides a secure platform for growth”.

“The new Input Methodology also gives Transpower financial incentives to deliver more efficient investments for the benefit of consumers,” Ms Begg said.

The Input Methodology was developed after an open consultation process across the electricity sector.

“We were pleased with the submissions and discussion during the consultation process and this input has enhanced the quality of the Capital Expenditure Input Methodology,” Ms Begg said.

The release of the Capital Expenditure Input Methodology almost completes the work programme for setting in place the Commission’s regulation of Transpower. Other elements in the regulatory framework include Transpower’s individual price-quality path, effective from 1 April 2011, and other Input Methodologies, released in December 2010. The new Transpower Information Disclosure rules will be released in the second half of 2012.

The final determination and accompanying reasons paper are on the Commission’s website at <http://www.comcom.govt.nz/transpower-input-methodologies/>

Information about Transpower’s grid update plans is at: <http://www.comcom.govt.nz/transpower-grid-upgrade-plans/>

Background

Transpower New Zealand Limited is the sole owner and operator of the New Zealand national electricity transmission grid. It is subject to individual price-quality regulation under Part 4 of the Commerce Act 1986

Part 4 of the Commerce Act regulates suppliers of electricity lines services (including Transpower), gas pipeline services and specified airport services supplied by Auckland, Wellington and Christchurch airports.

Input Methodologies involve setting upfront regulatory rules, processes and requirements that apply to the regulatory instruments under Part 4 of the Commerce Act.

Until the Capital Expenditure Methodology was finalised Transpower's grid upgrade expenditure was approved by the Commission under the Electricity Governance Rules previously administered by the Electricity Commission.

The new Capital Expenditure Methodology includes:

- the requirements which Transpower must meet, including the scope and specifics of information required, the extent of independent verification and audit, and the extent of consultation and agreement with consumers
- the criteria which the Commission will use to evaluate capital expenditure proposals
- the time frames and processes for evaluating the proposals.

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