



COMMERCE COMMISSION

Decision No. 704

Amendment to Decision 685 – Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010 pursuant to Part 4 of the Commerce Act 1986 (the Act).

The Commission:

- Dr M Berry**
- S Begg**
- P Duignan**
- S Gale**
- PJM Taylor**

Summary of the Amendment Determination: The attached amendment determination amends clause 8.4 of Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010 under section 52Q of the Act to include a revenue differential term. The amendment determination takes effect on and from 1 April 2011 and applies for the period 1 April 2011 to 31 March 2015.

Date of Decision: 30 November 2010

**COMMERCE ACT (ELECTRICITY DISTRIBUTION
DEFAULT PRICE-QUALITY PATH) AMENDMENT DETERMINATION 2010**

Pursuant to Part 4 of the Commerce Act 1986, the Commerce Commission makes the following “amendment determination”:

1 Title

1.1 This amendment determination is the Commerce Act (Electricity Distribution Default Price-Quality Path) Amendment Determination 2010.

1.2 In this amendment determination, the Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010 is called the “principal determination”.

2 Commencement date

This amendment determination comes into force on 1 April 2011.

3 Amendment to price path compliance assessment formulae

The principal determination is amended by omitting clause 8.4, and substituting the following:

8.4 Compliance with the price path

The notional revenue (NR_t) of a Non-exempt EDB at any time during the Assessment Period must not exceed the allowable notional revenue (R_t) for the Assessment Period, such that:

$$\frac{NR_t}{R_t} \leq 1$$

where:

NR_t is the notional revenue for the Assessment Period t , being equal to:

$$\sum_i P_{i,t} Q_{i,t-2} - K_t$$

R_t is the allowable notional revenue for the Assessment Period t , other than the First Assessment Period, being equal to:

$$\left(\left(\sum_i P_{i,t-1} Q_{i,t-2} - K_{t-1} \right) + (R_{t-1} - NR_{t-1}) \right) \times ((1 + \Delta CPI_t) \times (1 - X))$$

where:

t denotes the year of the Assessment Date in the Assessment Period, for which compliance is being assessed;

i denotes each Price relating to an Electricity Lines Service;

$P_{i,t}$ is the i^{th} Price during any part of the Assessment Period t ;

$P_{i,t-1}$ is the i^{th} Price during any part of the Pricing Period $t-1$;

$Q_{i,t-2}$ is the Quantity corresponding to the i^{th} Price during the Pricing Period $t-2$;

K_t is the sum of all Pass-Through Costs during the Assessment Period t ;

- K_{t-1} is the sum of all Pass-Through Costs during the Pricing Period $t-1$;
- R_{t-1} is the allowable notional revenue during the Assessment Period $t-1$;
- NR_{t-1} is the notional revenue during the Assessment Period $t-1$;
- X is the rate of change for the Non-exempt EDB as specified in Schedule 2; and
- ΔCPI_t is the derived change in the CPI to be applied during the Assessment Period t , being equal to:

$$\frac{CPI_{Dec,t-3} + CPI_{Mar,t-2} + CPI_{Jun,t-2} + CPI_{Sep,t-2}}{CPI_{Dec,t-4} + CPI_{Mar,t-3} + CPI_{Jun,t-3} + CPI_{Sep,t-3}} - 1$$

where:

$CPI_{q,t}$ is the CPI for the quarter q of year t

Dated at Wellington this 30th day of November 2010.
 COMMERCE COMMISSION.

EXPLANATORY NOTE

On 30 November 2009, the Commission reset the default price-quality path for electricity distribution businesses as required by section 54K(1) of the Commerce Act 1986 (the “Act”) by publishing Decision 685 – Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010 (the “Initial Reset Determination”).

The Initial Reset Determination sets out the default price-quality path that applies from 1 April 2010 to 31 March 2015 to all electricity distribution businesses except those that are “consumer-owned” as defined in section 54D of the Act. Electricity distribution businesses meeting the requirements of section 54D are exempt from default/customised price-quality regulation under section 54G(2) of the Act.

The Commerce Act (Electricity Distribution Default Price-Quality Path) Amendment Determination 2010 amends clause 8.4 of the Initial Reset Determination to specify a revenue differential term within the compliance assessment formulae. Further information, including a consolidated version of the Initial Reset Determination; the Commission’s reasons for the revenue differential term; and submissions received during consultation can be found on the Commission’s website at: www.comcom.govt.nz/2010-2015-default-price-quality-path/.