

Amendment to DPP4 default price-quality path – Quality incentive adjustment correction

Final decision reasons paper

26 March 2026



Associated documents

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Introduction

1. This paper sets out our final decision to re-exercise our power under section 52P of the Commerce Act 1986 (Act) to correct an error we made in determining the 2025-2030 default price-quality path (DPP4) for electricity distribution businesses (EDBs).
2. The error we have identified relates to the removal of the time value of money (TVOM) adjustment for the Quality Incentive Adjustment (QIA). The error was introduced when we reset DPP4 and reduces the incentive strength of the Quality Incentive Scheme (QIS).

Our implementation of the Quality Incentive Scheme in DPP4 contains an error

3. The DPP4 determination's QIS is designed to reward or penalise an EDB for its performance against its quality standards.¹ The financial rewards or penalties are applied to the price-path via the QIA recoverable cost.
4. Due to the timing of when an EDB's performance against its quality standards becomes known, there is a two-year lag between the EDB's performance and when it can include the QIA recoverable cost in its allowed revenue.²
5. Prior to DPP4, the DPP3 determination's QIA included a TVOM adjustment term to ensure the present value of the recoverable cost was maintained in the two years between calculation and recovery.³
6. While the TVOM adjustment term was included in the DPP4 draft determination's QIA,⁴ this adjustment term was removed in the DPP4 final determination on the incorrect understanding that changes to the washup made in the 2023 Input Methodologies Review made the term redundant.⁵
7. While the washup does include a TVOM adjustment, the QIA recoverable cost sits outside the washup mechanism. As such, the QIA is not affected by the washup's TVOM calculation.⁶

¹ *Electricity Distribution Services Default Price-Quality Path Determination 2025 [2024] NZCC 28, (20 November 2024), Schedule 4.*

² Eg, the quality incentive amount calculated for year 1 of a regulatory period (which must occur within 50 working days of the end of that period) will be available for draw down as a recoverable cost in year 3 of the regulatory period.

³ *Electricity Distribution Services Default Price-Quality Path Determination 2020 [2019] NZCC 21, (27 November 2019), Schedule 4, para (5)(b).*

⁴ Commerce Commission, *[Draft] Electricity Distribution Services Default Price-Quality Path Determination 2025, (29 May 2024), Schedule 4 Clause 5b.*

⁵ For a full description of the changes made to the washup in the 2023 IM review, see [Commerce Commission "Financing and incentivising efficient expenditure during the energy transition topic paper" \(13 December 2023\), Attachment D.](#)

⁶ See [Commerce Commission "Financing and incentivising efficient expenditure during the energy transition topic paper" \(13 December 2023\), Attachment D, Figure D1.](#)

8. The impact of this error is that both the reward for outperformance of quality standards, and the penalty for underperformance are reduced relative to our policy intent when setting DPP4. The lack of TVOM adjustment results in an approximately 13% decrease in incentive strength.

Draft decision

9. Our draft decision was to re-exercise the power under section 52P of the Act to correct the error in determining DPP4 by reinstating the time value of money adjustment for the QIA.⁷

What we heard in submissions

10. We received two submissions on our draft decision from Unison Networks Limited and Centralines Limited (joint submission), and Orion New Zealand Limited (Orion).⁸
11. Both submissions were fully supportive of the draft decision to correct the error, with Orion submitting that “timely and effective correction of errors, when detected, is critical to the integrity of regulatory frameworks.”⁹

Our final decision is to correct the error

12. Our final decision is to re-exercise the power under section 52P of the Act to correct the error in determining DPP4 by reinstating the time value of money adjustment for the QIA.¹⁰ This confirms our draft decision.

Reasoning

13. Our final decision corrects the error in the QIS and reinstates the time value of money adjustment for the QIA.
14. The formulation of the TVOM adjustment is the same as the formulation consulted on in the EDB DPP4 draft decision, which had also been used in previous DPPs.
15. Amending the DPP4 determination to correct the error in the QIA:
 - 15.1 reverses the effect of an error in our determination and gives effect to the intention of the QIS, as summarised above; and
 - 15.2 is consistent with the section 52A(1)(b) limb of the Part 4 purpose of the Act because it promotes the long-term benefit of consumers by ensuring EDBs are appropriately incentivised to improve the quality of their service.

⁷ Under section 46 of the Legislation Act 2019, we can re-exercise a power to correct for errors in the original exercise of that power.

⁸ We have published these submissions alongside our final decision.

⁹ Orion “Submission – DPP4 Quality Incentive Adjustment Correction” (20 February 2026), page 1.

¹⁰ See footnote 7.

Legal basis for the decision

16. Under section 46 of the Legislation Act 2019, we can re-exercise a power to correct for errors or omissions in the original exercise of that power. Section 46 provides:

46 Power to do things may be exercised to correct errors

- (1) The power to do anything may be exercised to correct an error or omission in a previous exercise of the power.
- (2) Subsection (1) applies even though the power is not generally capable of being exercised more than once.
17. The relevant power that we are re-exercising in this final decision is under section 52P of the Act, which empowers the Commission to make determinations specifying how price-quality regulation applies to regulated suppliers. Section 52Q is related to section 52P and outlines the relevant consultation and notice requirements which apply when the Commission amends a section 52P determination.
18. In re-exercising this power, we are not making any changes to our original DPP4 determination decision other than the correction of the error outlined above.