

# Amendment to the input methodologies for electricity distribution businesses – accounting for shifted revenue

## Final decision

19 May 2026



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## Associated documents

| Publication date | Reference               | Title   |
|------------------|-------------------------|---|
| 19 May 2026      | ISSN: 1178-2560         | Electricity Distribution Services Input Methodologies (Accounting for shifted revenue) Amendment Determination 2026 [2026] NZCC 15      |
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## Introduction

1. This paper sets out our final decision to amend the input methodologies (IMs) for electricity distribution businesses (EDBs) to account for revenue shifted (either accelerated or deferred) in the regulatory period immediately before an EDB moves to a customised price-quality path (CPP).
2. This paper describes:
  - 2.1 the amendment; and
  - 2.2 how the final decision is likely to promote the Part 4 purpose of the Commerce Act 1986 (the Act) or the s 52R purpose of the IMs.
3. The final decision is based on the framework for IM amendments set out in Attachment A.

## Accounting for shifted revenue when transitioning to a CPP

### How revenue smoothing works in the DPP

4. When setting a default price path (DPP) using a building blocks model,<sup>1</sup> we build up a revenue allowance based on forecast costs to create the building blocks allowable revenue (BBAR) for each year. We then set a smoothed maximum allowable revenue (MAR) series that is equivalent in present value terms to the BBAR over the period of the DPP.
5. This MAR series takes the form of a starting price year that then increases by  $(CPI-X)$ ,<sup>2,3</sup> where X is a value determined by the Commission when setting the price path, for the remaining years of the regulatory period.
6. An EDB-specific X-factor can be set by the Commission to either prevent price shocks to consumers or to mitigate undue financial hardship to suppliers.<sup>4</sup> Use of an X-factor ‘tilts’ the revenue path, changing the timing of when revenue will be recovered. Depending on the chosen X-factor, revenue is deferred to later in the DPP or brought forward to earlier in the DPP.
7. The net present value of the two revenue series (ie with X-factor or without) are the same when considering the whole five-year regulatory period. All the X-factor changes is the timing of revenue recovery.

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<sup>1</sup> For more information on the building blocks model, see slides 37-44 of [Commerce Commission “Introduction to the DPP for stakeholders -2020 reset of the DPP for EDBs” \(5 November 2018\)](#).

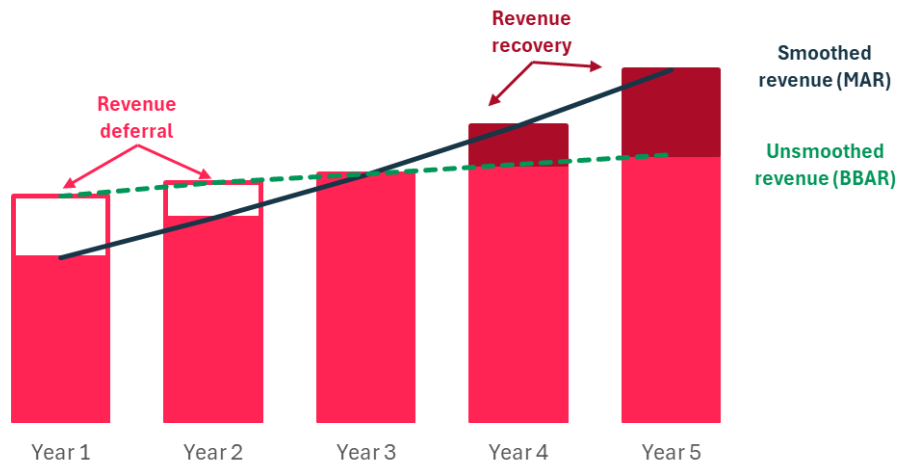
<sup>2</sup> A starting price year is the first year of a regulatory period. It provides a baseline from which the subsequent years of the regulatory period are based.

<sup>3</sup> CPI stands for consumer price index, a measure of economy wide inflation.

<sup>4</sup> Section 53P(8)(a) of the Act.

8. For example, if revenue was deferred via an X-factor, the first two years of a regulatory period will have reduced revenue, and the final two years will have increased revenue as the EDB ‘catches up’.<sup>5</sup> This effect is illustrated in Figure 1 below.

**Figure 1. Revenue deferral under an alternate X-factor**



### The issue when transitioning to a CPP

9. An issue arises when an EDB applies for a CPP part way through a regulatory period. When the EDB transitions from the DPP to a CPP mid-period, either the EDB (in the case of deferral) or consumers (if revenue has been accelerated) will not have been made whole for building blocks revenue during the DPP period.
10. Currently, when an EDB applies for a CPP, we assess the EDB’s expenditure proposal and set a revenue path sufficient to compensate the EDB for the level of forecast expenditure we consider is prudent and efficient. The IMs do not prescribe how (if at all) any outstanding shifted revenue from the prior regulatory period should be accounted for in the CPP revenue path.
11. The further through a regulatory period that an EDB applies for a CPP, the less exposed it is to the impact of shifted revenue. However, if an EDB applies in years one or two of a DPP period, it (and consumers) will have experienced some (or all) of one side of the equation, without having experienced any of the other.
12. Given the potential quantum of revenue at stake,<sup>6</sup> we consider that the lack of certainty may create a material disincentive for EDBs to apply for a CPP.

<sup>5</sup> The opposite happens when accelerating revenue: the early years have increased revenue with the final two years having decreased revenue to compensate. In the third year (of a five year period) revenue is approximately equal on smoothed and unsmoothed terms. Note that even absent an alternate X-factor some shifting of revenue occurs when smoothing BBAR to MAR, albeit a much less material amount.

<sup>6</sup> For example, our DPP4 decision deferred the equivalent of approximately 15% of a year’s BBAR revenue on average (approx. 10% in year one and another 5% in year 2).

## Our draft decision was to amend the IMs

13. To address the issue outlined above and account for shifted revenue, our draft decision was to reference a new defined term ‘shifted revenue’ in the MAR calculation for a CPP found in clause 5.3.4(1) of the IMs.<sup>7</sup>
14. We proposed that the definition of ‘shifted revenue’ would be:

the sum of the differences, in present value terms, between the BBAR before tax, and the MAR before tax, for each **disclosure year** of the **DPP regulatory period** immediately before the start of the **CPP regulatory period**

## Alternatives considered

15. We considered two alternative approaches as part of our draft decision, an IM variation or accounting for the shifted revenue via recoverable cost. Submissions on the draft decision agreed that our proposed IM amendment better addressed the issue of shifted revenue than either of the alternatives proposed.<sup>8</sup> For full consideration of these alternatives see the Alternatives Considered section of our draft decision reasons paper.<sup>9</sup>

## What we heard in submissions

16. We received five submissions on our draft decision, from Unison and Centralines, Orion, Powerco, Electricity Networks Aotearoa and Wellington Electricity.<sup>10</sup>
17. All five submissions supported the intent of the amendment and agreed that making an amendment to the IMs now was preferable to relying on ad hoc variations prior to any upcoming CPP applications.
18. Four submissions agreed that the draft decision as drafted was appropriate, with Unison and Centralines submitting:<sup>11</sup>

We consider this approach to be well balanced, technically robust, and aligned with both investment efficiency and consumer protection outcomes.
19. Orion submitted that while the draft decision addressed the issue, it would be useful if the ‘shifted revenue’ definition set out:<sup>12</sup>

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<sup>7</sup> [Electricity Distribution Services Input Methodologies Determination 2012 \[2012\] NZCC 26 \(as amended\)](#).

<sup>8</sup> [Powerco “Submission on IM amendment \(Accounting for shifted revenue\) draft decision”, \(5 December 2025\)](#).

<sup>9</sup> [Commerce Commission “Proposed amendment to the input methodologies for electricity distribution businesses – accounting for shifted revenue – Draft decision” \(4 November 2025\)](#), pp 5-6.

<sup>10</sup> [Unison Network and Centralines “Submission on IM amendment \(Accounting for shifted revenue\) draft decision”, \(5 December 2025\)](#); [Electricity Networks Aotearoa “Submission on IM amendment \(Accounting for shifted revenue\) draft decision”, \(5 December 2025\)](#); [Orion “Submission on IM amendment \(Accounting for shifted revenue\) draft decision”, \(5 December 2025\)](#); [Wellington Electricity “Submission on IM amendment \(Accounting for shifted revenue\) draft decision”, \(5 December 2025\)](#); [Powerco “Submission on IM amendment \(Accounting for shifted revenue\) draft decision”, \(5 December 2025\)](#).

<sup>11</sup> [Unison Network and Centralines “Submission on IM amendment \(Accounting for shifted revenue\) draft decision”, \(5 December 2025\)](#), pg 2.

<sup>12</sup> [Orion “Submission on IM amendment \(Accounting for shifted revenue\) draft decision”, \(5 December 2025\)](#), pg. 2.

- 19.1 the rate that should be used to discount the values; and
- 19.2 the date that the present values should be calculated to.
20. We considered whether the definition could be improved by including the information proposed by Orion and concluded that an amended definition did not improve the clarity of the amendment. The information Orion proposed we should include would be duplicating information already contained in the clause directly associated with the clause 5.3.4 (1) and the follow-up clause at 5.3.4 (3). Specifically:
- 20.1 The rate that must be used to discount values is the same rate used in the MAR calculation as specified in clause 5.3.22 -- currently the 65<sup>th</sup> percentile of WACC.<sup>13</sup>
- 20.2 Present values should be calculated to the same date as the rest of the building blocks allowable revenue series and any applicable clawback, before being spread across the CPP regulatory period as part of the MAR series.
21. In addition, Orion noted that the proposed amendment may introduce a perceived disincentive for EDBs applying to move to a CPP under 'normal' circumstances, ie when the industry wide rate of change (X factor) of 0% is applied. This is because in these circumstances, EDBs will have to return revenue as part of the CPP process due to the front loading of MAR.<sup>14</sup>
22. As we explain below in our justification for our final decision, we consider it appropriate that EDBs are unable to 'double recover' and that consumers are made whole in cases where revenue has been front loaded. While front loaded revenue is 'returned' to consumers as part of any adjustment for accelerated revenue, EDBs will still be correctly compensated for prudent and efficient expenditure that occurs within the CPP period. The adjustment simply prevents EDBs from recovering this revenue twice.

## **Our final decision is to amend the IMs**

23. Our final decision is to add a new definition for 'shifted revenues' (as specified in paragraph 14 above) in clause 1.1.4 (2) and to reference the new defined term 'shifted revenue' in the MAR calculation for a CPP found in clause 5.3.4(1) of the IMs.<sup>15</sup> This confirms our draft decision.

### **Reasons**

24. This amendment ensures that EDBs are not deterred from applying for a CPP at any point during the DPP when doing so would be in the best interest of consumers. We consider the amendment better promotes the s 52A(1)(a) limb of the Part 4 purpose in the Act by ensuring there are incentives to invest.

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<sup>13</sup> *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26, clause 5.3.22.

<sup>14</sup> [Orion "Submission on IM amendment \(Accounting for shifted revenue\) draft decision", \(5 December 2025\)](#), pg. 2.

<sup>15</sup> *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (as amended).

25. By comparing BBAR with the MAR of the DPP that the EDB is on when it applies for the CPP, we ensure that EDBs and consumers correctly bear appropriate costs from that DPP, while also ensuring that expenditure in the out years of that DPP (and therefore likely to be included in any CPP expenditure proposal) is not ‘double counted’.
26. By amending the MAR calculation, shifted revenue can be included in any revenue smoothing that occurs during the CPP. This means that the revenue can be spread across the CPP period, mitigating the initial price shock consumers could experience.
27. In the case where revenue has been accelerated in a prior regulatory period,<sup>16</sup> we consider that it is in the long-term interest of consumers, and in keeping with s 52(1)(d) of the Act, that EDBs are unable to ‘double recover’ revenue from consumers when applying for a CPP.
28. We consider the amendment promotes the IM purpose under s 52R of the Act by providing certainty to both suppliers and consumers on how changes in the timing of revenue recovery in the regulatory period prior to a CPP will impact the CPP revenue path. We consider that our approach provides sufficient certainty to stakeholders such that they are reasonably able to estimate the material effects of the methodology, while still leaving us some discretion to account for variations that may arise due to the flexibility of the CPP provisions.
29. CPPs can represent a substantial uplift in allowed expenditure and consequently revenue recovered from consumers. Given the potential materiality of the shifted revenue, we consider it is appropriate to include it alongside the revenue of the CPP when making revenue smoothing decisions for the CPP.
30. In keeping with our IM amendments framework for making IM amendments outside of the statutory review cycle, we consider the amendment:
  - 30.1 incrementally improves the price-quality paths by clarifying and providing certainty around how the IMs account for shifted revenue; and
  - 30.2 does not amend a ‘fundamental IM’.<sup>17</sup>
31. By making an amendment to the IMs now, the amendment will be in effect for any CPPs that occur during the DPP4 period after our final decision. Waiting for the next full IM review would mean that only CPPs from 2031 would be impacted.<sup>18</sup> Given the extensive use of alternate X-factors in the DPP4 final decision, and signals from multiple EDBs that they are contemplating a CPP, we consider it is appropriate to make an amendment now.

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<sup>16</sup> Either through the natural tendency of MAR smoothing to accelerate revenue recovery – especially where expenditure in a DPP period is backloaded – when compared to BBAR expenditure or through explicit acceleration to relieve undue financial hardship.

<sup>17</sup> As listed in s 52T(1)(a) of the Act.

<sup>18</sup> The IMs must be reviewed at least every seven years. As the previous IM review was completed in November 2023, the next full IM review must be completed by November 2030, with any amendments taking effect at the start of any price-quality path that commences after November 2030 (ie 1 April 2031).

## Attachment A Decision-making framework

A1 This attachment sets out the framework we have applied in reaching our final decision. It explains:

A1.1 our framework for considering potential IM amendments, which is relevant in considering what IMs may be appropriate to amend outside of the statutory IM review cycle under s 52Y of the Act; and

A1.2 the decision-making framework we have applied in proposing the potential amendments.

### Framework for considering the scope of potential IM amendments

A2 Our framework considers:

A2.1 the statutory context;

A2.2 our specific powers to amend IMs; and

A2.3 what we must take account of when amending IMs outside of the statutory IM review cycle under s 52Y of the Act.

### Statutory context

A3 When considering amendments to IMs, we must consider the purpose of IMs and the purpose of Part 4 of the Act. This section discusses the tensions between making changes to improve the regime and the certainty intended by the IMs.

A4 The purpose of IMs, set out in s 52R of the Act, is to promote certainty for suppliers and consumers in relation to the rules, requirements and processes applying to the regulation, or proposed regulation, of goods or services under Part 4. To that end, s 52T(2)(a) requires all IMs, as far as is reasonably practicable, to set out relevant matters in sufficient detail so that each affected supplier is reasonably able to estimate the material effects of the methodology on the supplier. In that way, the IMs constrain our evaluative judgements in subsequent regulatory decisions and increase predictability.<sup>19</sup>

A5 However, some uncertainty remains inevitable.<sup>20</sup> As the Court of Appeal observed (in relation to a judicial review against decisions made in the IMs under Part 4) “certainty is a relative rather than an absolute value”,<sup>21</sup> and “there is a continuum between complete certainty at one end and complete flexibility at the other”.<sup>22</sup>

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<sup>19</sup> *Wellington International Airport Ltd & others v Commerce Commission* [2013] NZHC 3289 at [213].

<sup>20</sup> *Wellington International Airport Ltd & others v Commerce Commission* [2013] NZHC 3289 at [214].

<sup>21</sup> *Commerce Commission v Vector Ltd* [2012] NZCA 220, [2012] 2 NZLR 525 at [34].

<sup>22</sup> *Commerce Commission v Vector Ltd* [2012] NZCA 220, [2012] 2 NZLR 525 at [60].

- A6 The s 52R purpose is primarily promoted by having the rules, processes and requirements set upfront prior to being applied by regulated suppliers or ourselves.
- A7 However, as recognised in ss 52X and 52Y, these rules, processes and requirements may change over time.
- A8 The power to amend an IM must be used to promote the policy and objectives of Part 4 of the Act as ascertained by reading it as a whole. It is clear that Parliament saw the promotion of certainty as being important to the achievement of the purposes of price-quality regulation. While this is to an extent implicitly inherent in s 52A (for example, providing suppliers with incentives to invest in accordance with s 52A(1)(a)), it is also expressed in s 52R in relation to the purpose of IMs. It is also made clear in other aspects of the regime, such as the restrictions on reopening DPPs during their regulatory periods.<sup>23</sup>
- A9 When considering IM amendments, we must therefore be mindful that this may have a detrimental effect on:
- A9.1 the role that predictability plays in providing suppliers with incentives to invest in accordance with s 52A(1)(a); and
- A9.2 the role that the IMs play in promoting certainty for suppliers and consumers in relation to the rules, requirements, and processes in advance of being applied by us and suppliers in setting the DPP, CPP or Individual Price-Quality Path (IPP), as applicable.
- A10 At times there will be a tension between making changes to improve the regime and better promote the s 52A purpose on the one hand, and certainty on the other.
- A11 While we will have regard to the s 52R purpose (and the other indications of the importance of promoting certainty), ultimately, we must nevertheless make decisions that we consider promote the s 52A purpose.
- A12 Section 52A governs all of our decision-making processes under Part 4, including our IM decisions. The other purpose statements within Part 4 are relevant matters, but they should be applied consistently with s 52A.<sup>24</sup>
- A13 When making our decisions we must only give effect to these other purposes to the extent that doing so does not detract from our overriding obligation to promote the purpose set out in s 52A.

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<sup>23</sup> For further discussion see *Wellington International Airport Ltd & others v Commerce Commission* [2013] NZHC 3289 at [213]-[221].

<sup>24</sup> We note that the High Court, in *Wellington International Airport Ltd & Ors v Commerce Commission* considered that the purpose of IMs, set out in s 52R, is “conceptually subordinate” to the purpose of Part 4 as set out in s 52A when applying the “materially better” test. See *Wellington International Airport Ltd v Commerce Commission* [2013] NZHC 3289 at [165].

A14 Therefore, where the promotion of s 52A requires amendment to an IM, s 52R does not prevent us from making a change that is consistent with s 52A.

### **Amendments inside and outside the IM statutory review cycle**

A15 This section considers the circumstances in which IMs may be amended and what must be taken into account when making amendments to IMs outside the statutory review cycle.

A16 All IMs must be reviewed at least once every seven years, as mandated by s 52Y.<sup>25</sup> This process is key to delivering on the s 52R certainty purpose of the IMs, while at the same time allowing the regime to mature and evolve in response to changing circumstances.

A17 Given the certainty purpose of the IMs and the scheme set out in the Act to promote this purpose, we must carefully assess what amendments are appropriate to consider outside the statutory IM review cycle. As noted previously, the predictability the IMs provide is key to promoting the s 52A purpose and, in particular, incentives to invest as required under s 52A(1)(a).

A18 On the other hand, it is important that the IMs are fit-for-purpose going into a price-quality path reset, particularly as under s 53ZB(1) IM amendments made after a price-quality path is determined (other than in limited circumstances) will not affect the price-quality path until the next reset.<sup>26</sup>

A19 Leading up to a price-quality path reset, we may therefore need to consider which topics are appropriate to consult on as potential s 52X amendments in order to identify changes to the IMs that are necessary to ensure that the DPPs are workable and effective in promoting the outcomes in s 52A.

### **Amendments outside the statutory IM review cycle**

A20 We generally focus on two types of amendments outside the statutory IM review cycle:

A20.1 those that support incremental improvements to price-quality paths; and

A20.2 those that enhance certainty about – or correct technical errors in – the existing IMs.

A21 We do not generally consider it appropriate to consider 'fundamental' changes outside of the statutory IM review cycle. Fundamental IMs are generally those that define the fundamental building blocks used to set price-quality paths (listed in s 52T(1)(a)), and that are central to defining the balance of risk and benefits between suppliers and consumers.

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<sup>25</sup> The next statutory Part 4 IM review is due to be completed by 2030.

<sup>26</sup> Under s 53ZB(2) a price-quality path must be reset by us with a new price-quality path made by amending the price-quality path determination if: an IM changes as a result of an appeal under s 52Z; and that changed IM would have resulted in a materially different price-quality path being set had the changed IM applied at the time the price-quality path was set.

A22 However, we can and will reconsider fundamental building blocks IMs where there is a compelling and urgent rationale for doing so.<sup>27</sup>

### **The decision-making framework we apply**

A23 In deciding whether to propose IM amendments, we are using a decision-making framework that we have developed over time to support our decision-making under Part 4 of the Act.<sup>28</sup> This has been consulted on and used as part of prior processes, and helps provide consistency and transparency in our decision-making.

A24 Specifically, in respect of each potential amendment we will consider whether it would:

A24.1 promote the Part 4 purpose in s 52A of the Act more effectively;

A24.2 promote the IMs purpose in s 52R of the Act more effectively (without detrimentally affecting the promotion of the s 52A purpose); and

A24.3 significantly reduce compliance costs, other regulatory costs, or complexity (without detrimentally affecting the promotion of the s 52A purpose).

A25 We may also take into account the following where they are relevant and where taking them into account does not compromise our achievement of the s 52A purpose of Part 4:

A25.1 whether there are alternative ways to address the identified issues without changing the IMs;

A25.2 the permissive considerations under s 5ZN of the Climate Change Response Act 2002;<sup>29</sup> and

A25.3 other Part 4 provisions, namely:

A25.3.1 the purpose of ID (s 53A);

A25.3.2 the purpose of default/customised price-quality regulation (DPP/ CPP regulation) (s 53K);

A25.3.3 requirements relating to energy efficiency (s 54Q); and

A25.3.4 decisions made under the Electricity Industry Act 2010 (s 54V).

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<sup>27</sup> An example of this was the re-consideration of the Part 4 WACC percentile decision in 2014. The compelling reason was criticism by the High Court of this decision in the IM merits appeal process, and the urgency was due to the upcoming default price-quality path and individual price-quality resets for EDBs and Transpower New Zealand Limited.

<sup>28</sup> See [Commerce Commission "Part 4 Input Methodologies Review 2023 Framework paper" \(13 October 2022\)](#), para X20-X21.

<sup>29</sup> [Commerce Commission, "Default price-quality paths for gas pipeline businesses from 1 October 2022 – Final reasons paper" \(31 May 2022\)](#) (Gas DPP3 final decision), at paras 2.24-2.25; [Note of clarification – our Part 4 Input Methodologies Review 2023 Framework paper \(21 December 2022\)](#).