

Input methodologies review

Technical consultation update paper

Date of publication: 13 October 2016

Associated documents

| Publication date | Reference | Title |
|------------------|-----------|--|
| 13 October 2016 | 1178-2560 | [REVISED DRAFT] Electricity Distribution Services Input Methodologies Amendments Determination 2016 |
| 13 October 2016 | 1178-2560 | [REVISED DRAFT] Gas Distribution Services Input Methodologies Amendments Determination 2016 |
| 13 October 2016 | 1178-2560 | [REVISED DRAFT] Gas Transmission Services Input Methodologies Amendments Determination 2016 |
| 13 October 2016 | 1178-2560 | [REVISED DRAFT] Transpower Input Methodologies Amendments Determination 2016 |
| 13 October 2016 | 1178-2560 | [REVISED DRAFT] Airports (Specified Airport Services) Input Methodologies Amendments Determination 2016 |
| 13 October 2016 | 1178-2560 | [REVISED DRAFT] Commerce Act (Specified Airport Services) Information Disclosure Amendments Determination 2016 |

Commerce Commission
Wellington, New Zealand

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Chapter 1: Introduction

Purpose of this paper

1. The purpose of this paper is to explain the changes we have made to our June 2016 draft determinations¹ in the revised draft determinations² published today for technical consultation as part of the input methodologies review (**IM review**).³

Context for this technical consultation

2. The input methodologies (**IMs**) are the upfront rules, requirements, and processes applying to regulation under Part 4 of the Commerce Act 1986 (the **Act**).
3. We commenced the IM review in June 2015 under s 52Y of the Act.⁴ We must review all IMs within the scope of the notice of intention. We may then amend, replace, decide to amend or replace the IMs at a later point, or make no changes to the IMs we have reviewed.
4. We published our draft decisions on the IM review on 16 and 22 June 2016 (**June Draft Decisions**), which included draft amended IM determinations.⁵ We also published draft amendments to the airports information disclosure (**ID**) determination at that time under s 52Q of the Act.⁶
5. This technical consultation is expected to be the final consultative step before we reach final decisions on the IM review in December 2016.

¹ These are: Draft amendments to Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26 (22 June 2016); Draft amendments to Gas Distribution Services Input Methodologies Determination 2012 [2012] NZCC 27 (22 June 2016); Draft amendments to Gas Transmission Services Input Methodologies Determination 2012 [2012] NZCC 28 (22 June 2016); Draft amendments to Commerce Act (Specified Airport Services Input Methodologies) Determination 2010 (Decision 709, 22 December 2010) (22 June 2016); Draft amendments to Transpower Input Methodologies Determination 2012 [2012] NZCC 17 (22 June 2016); Draft amendments to Commerce Act (Specified Airport Services Information Disclosure) Determination 2010 (Decision 715, 22 December 2010) (22 June 2016) (together, the **June Draft Determinations**).

² These are: [REVISED DRAFT] Electricity Distribution Services Input Methodologies Amendments Determination 2016 (13 October 2016); [REVISED DRAFT] Gas Distribution Services Input Methodologies Amendments Determination 2016 (13 October 2016); [REVISED DRAFT] Gas Transmission Services Input Methodologies Amendments Determination 2016 (13 October 2016); [REVISED DRAFT] Transpower Input Methodologies Amendments Determination 2016 (13 October 2016); [REVISED DRAFT] Airports (Specified Airport Services) Input Methodologies Amendments Determination 2016 (13 October 2016); [REVISED DRAFT] Commerce Act (Specified Airport Services) Information Disclosure Amendments Determination 2016 (13 October 2016) (together, the **Revised Draft Determinations**).

³ Not all drafting refinements made in the Revised Draft Determinations are explained in this paper; minor refinements, such as error corrections, are simply marked up in the Revised Draft Determinations.

⁴ Commerce Commission “Notice of intention: Input methodologies review” (10 June 2015); subsequently amended by Commerce Commission “Amended notice of intention: Input methodologies review” (14 September 2016).

⁵ See footnote 1.

⁶ See footnote 1.

6. Other than the specific amendments that we fast tracked,⁷ we have not yet made any final decisions on the IM review. Further changes may be made to the Revised Draft Determinations in light of this technical consultation and our further deliberations. The reasons for our final decisions will be explained at the time our final decisions are published.

Purpose of this technical consultation

7. This technical consultation is intended to contribute to workable final determinations that will accurately give effect to our decisions on the IM review.
8. As such, we are seeking submissions on whether the drafting in the Revised Draft Determinations accurately gives effect to our June Draft Decisions, subject to the updated views explained in this paper. In some areas of the paper we also note specific areas where we are particularly interested in your views.

We have published Revised Draft Determinations for technical consultation

9. We have published a revised draft of each of our June Draft Determinations. The Revised Draft Determinations update the June Draft Determinations to include:
- 9.1 drafting refinements to better give effect to our June Draft Decisions;
 - 9.2 new drafting to give effect to areas where we have updated our views since our June Draft Decisions; and
 - 9.3 new drafting to give effect to timing and transition arrangements for the introduction of the amendments.
10. The Revised Draft Determinations contain red mark-ups, on top of the existing blue mark-ups from our June Draft Determinations, in order to show the changes we have made to our June Draft Determinations.⁸
11. The changes we have made in the Revised Draft Determinations are the result of our further deliberations in light of submissions on our Draft Decisions and Draft Determinations. Most of the changes in the Revised Draft Determinations were prompted by submissions, including a number of submissions on suggested drafting improvements. We have not comprehensively cited submissions in this paper for the changes we have made in the Revised Draft Determinations, but we have done so where we consider it useful in helping submitters understand the changes.

⁷ We published our decision on the fast track CPP amendments on 12 November 2015 (*Electricity and Gas (Customised Paths) Input Methodology Amendments Determination 2015* [2015] NZCC 28), and the airports fast track amendments on 24 February 2016 (*Airport Services (Land Valuation) Input Methodologies Amendments Determination 2016* [2016] NZCC 3).

⁸ Note: In the Revised Draft Determinations, we have square bracketed the WACC parameters that are fixed numbers because the numbers themselves do not require technical consultation.

Structure of this paper

12. Chapters 2 to 8 of this paper explain changes we have made to the Revised Draft Determinations. We have grouped the changes as follows:
 - 12.1 Chapter 2: changes that apply to the Revised Draft Determinations for electricity distribution businesses (**EDBs**), gas distribution businesses (**GDBs**), and gas transmission businesses (**GTBs**);
 - 12.2 Chapter 3: changes we have made in the Revised Draft Determination for EDBs that do not also apply to both GDBs and GTBs;
 - 12.3 Chapter 4: changes we have made in the Revised Draft Determination for GDBs that do not also apply to both EDBs and GTBs;
 - 12.4 Chapter 5: changes we have made in the Revised Draft Determination for GTBs that do not also apply to both EDBs and GDBs;
 - 12.5 Chapter 6: changes that apply to the Revised Draft Determination for Transpower;
 - 12.6 Chapter 7: changes that apply to the Revised Draft IM and ID Determinations for airports; and
 - 12.7 Chapter 8: changes that we have made in the Revised Draft Determinations that relate to the customised price-quality path (**CPP**) requirements.
13. Chapter 9 explains the timing and transition provisions we have included in the Revised Draft Determinations for the introduction of amendments made as a result of the IM review.
14. Attachment A further explains two matters relating to the cost of capital input methodologies:
 - 14.1 our proposal to remove debt issuance costs from the cost of debt; and
 - 14.2 an alternative approach to determining the debt premium that we are considering – a ‘historical average’ approach.
15. Attachment B provides further explanation of the price-setting and wash-up processes under a revenue cap for EDBs and GTBs.

Invitation to make submissions

Scope of submissions

16. We invite submissions on:
 - 16.1 our updated views; and
 - 16.2 whether the drafting in the Revised Draft Determinations accurately gives effect to our June Draft Decisions, subject to the updates and drafting refinements explained in this paper.
17. Submissions outside the scope of this technical consultation might not be considered in reaching our final decisions.
18. Please indicate clearly in your submission which of the Revised Draft Determinations it relates to.
19. Where you consider that the drafting in the Revised Draft Determinations does not accurately give effect to our June Draft Decisions and any updates described in this paper, we would particularly welcome suggested alternative drafting.

Timeframes for submissions

20. We invite submissions on this paper by **5pm on 3 November 2016**. To allow more time for primary submissions, we do not intend to invite cross submissions.
21. Material provided outside of this timeframe might not be considered in reaching our final decisions, as it may be difficult for us to give it due consideration.⁹ In the past we have received late material where we have had to inform the submitter concerned that we have been unable to have regard to it.

Address for submissions

22. Please address submissions to:

Keston Ruxton
 Manager, Input Methodologies Review
 Regulation Branch
im.review@comcom.govt.nz

Format for submissions

23. Please provide submissions in a file format suitable for word processing, as well as in the PDF file format.

⁹ See s 52V(2)(d) of the Act.

24. Submissions on our determination drafting may be provided in a combination of your written submission, your mark ups of a MS Word copy of the draft determination, and a tabular form in an unlocked MS Excel spreadsheet.

Requests for confidentiality

25. We encourage full disclosure of submissions so that all information can be tested in an open and transparent manner. However, we offer the following guidance where you wish to provide information in confidence:¹⁰
 - 25.1 If you include confidential material in a submission, both confidential and public versions of the submissions should be provided.
 - 25.2 The responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.
26. We request that you provide multiple versions of your submission if it contains confidential information or if you wish for the published electronic copies to be 'locked'. This is because we intend to publish all submissions on our website. Where relevant, please provide both an 'unlocked' electronic copy of your submission, and a clearly labelled 'public version'.

¹⁰ You can also request that we make orders under s 100 of the Act in respect of information that should not be made public. Any request for a s 100 order must be made when the relevant information is supplied to us, and must identify the reasons why the relevant information should not be made public. We will provide further information on s 100 orders if requested by parties. A benefit of such orders is to enable confidential information to be shared with specified parties on a restricted basis for the purpose of making submissions. Any s 100 order will apply for a limited time only as specified in the order. Once an order expires, we will follow our usual process in response to any request for information under the Official Information Act 1982.

Chapter 2: Changes in the Revised Draft Determinations for electricity distribution and gas pipeline businesses

Purpose of this chapter

27. This chapter explains changes we have made in the Revised Draft Determinations that apply to both electricity distribution and gas pipeline businesses.¹¹ The table of changes below (Table 1) also indicates:

27.1 where in the Revised Draft Determinations the changes are located; and

27.2 which existing IM decision the changes relate to (as per the Report on the IM review¹²).

Table 1: Changes in the Revised Draft Determinations for EDBs, GDBs, and GTBs

| Explanation of change from June Draft Determinations to Revised Draft Determinations | Relates to existing decision | Clause reference in Revised Draft Determination |
|---|------------------------------|--|
| <p>Next closest alternative removed</p> <p>We have removed the next closest alternative (NCA) provisions and associated reopeners that we proposed in our June Draft Decisions. We consider that the issues the provisions were introduced to solve can, in most cases, be appropriately addressed through the IM amendment process, and that the benefits of the added flexibility are not likely to outweigh the potential added uncertainty that it may introduce.¹³</p> <p>However, an exception to where such issues can be addressed through the IM amendment process is where an IM is rendered unworkable due to a regulatory or legislative change, and the change does not result in costs that meet the materiality threshold for the change event reopener. To address this, we have introduced an exception to the materiality threshold for the change event reopener where the change event results in an IM being incapable of being applied. This change is described below</p> | GE01 | <p>1.1.2(4) and 1.1.5 4.5.6(1) of the EDB (4.5.5(1) of the GDB and GTB) 4.5.7(2) of the EDB (4.5.6 of the GDB and GTB) 5.6.7(1) of the EDB (5.7.7(1) of the GDB and GTB) 5.6.7(9)-(10) of the EDB (5.7.7(9)-(10) of the GDB and GTB) 5.6.8(4)-(5) of the</p> |

¹¹ Changes that do not apply equally to EDBs, GDBs, and GTBs are listed separately in chapters 3, 4 and 5 respectively. Changes in the Revised Draft Determinations that relate to the CPP requirements are recorded separately in Chapter 8.

¹² Commerce Commission "Input methodologies draft decisions: Report on the IM review" (22 June 2016).

¹³ We received a number of submissions on this point. See, for example: Orion "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016) para 105.

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| as it relates to RP01. | | EDB (5.7.8(4)-(5) of the GDB and GTB) |
| <p>Cost allocation</p> <p>We have made changes to Part 2, subpart 1: Cost allocation. These changes are to reflect our updated draft decision to remove ACAM as an option and retain both ABAA and OVABAA as the only cost allocation options.¹⁴ We note that the OVABAA option allows EDBs, GDBs and GTBs to allocate up to the ACAM level across all regulated services.¹⁵</p> | CA02 and CA03 | 2.1.1-2.1.6 |
| <p>Finance leases</p> <p>We have reversed our draft decision to exclude payments associated with a finance lease from the definition of ‘operating cost’, which we had proposed in our June Draft Determinations. That drafting effectively duplicated the exclusion in paragraph (c) of the ‘operating cost’ definition and is not required.</p> <p>Also, in response to a submission that our draft decision did not achieve the policy objective of aligning with the generally accepted accounting practices (GAAP) treatment of finance leases, we have amended the EDB ‘value of commissioned asset’ to clarify that a finance lease excludes the value of any assets to the extent that annual lease charges are instead included as a recoverable cost.¹⁶</p> | AV05 | The definition of ‘operating cost’ in 1.1.4(2) 2.2.11(1) and 5.3.11(1) of the EDB |
| <p>Asset acquired from regulated supplier</p> <p>We have clarified clause 2.2.11(1)(e) to avoid a circular reference in the cost value to be used for an asset acquired from a regulated supplier. As now drafted in the Revised Draft Determinations, clause 2.2.11(1)(e) references the ‘unallocated closing RAB value’ of the transferor for the purpose of setting the value. This change is intended to</p> | AV17 | 2.2.11(1) |

¹⁴ Commerce Commission “Input Methodologies Review: Updated draft decision on cost allocation for electricity distribution and gas pipeline businesses” (22 September 2016).

¹⁵ For the purposes of technical consultation, if we decide after considering submissions not to remove ACAM as a cost allocation option, submitters should refer for comparison to the determination drafting included in our June Draft Determinations.

¹⁶ ENA “[DRAFT] Electricity Distribution Services Input Methodologies Determination 2012” (18 August 2016), p. 26, 55-135.

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| enhance clarity. | | |
| <p>Debt issuance costs</p> <p>As discussed further in Attachment A of this paper, we propose to remove debt issuance costs from the calculation of weighted average cost of capital (WACC) and instead propose determining an allowance in allowed regulatory cash flows. We have made changes in the Revised Draft Determination that would give effect to this.</p> <p><i>Consequential changes for EDBs</i></p> <p>As the term credit spread differential (TCSD) definitions in relation to CPP applications currently cross-reference the IMs for ID, and because the ID provisions will not apply until the next amendments to the ID determinations, we have replicated the ID provisions for TCSD into the CPP IMs for EDBs so they can have effect with all of the other amended CPP requirements.</p> <p><i>Consequential changes for GDBs and GTBs</i></p> <p>As the TCSD definitions in relation to default price-quality paths (DPPs) currently cross-reference the IMs for ID, and because the ID provisions will not apply until the next amendments to the ID determinations, we have replicated the ID provisions for TCSD into the DPP IMs for GDBs and GTBs so they can have effect with all of the other amended DPP IMs for the next DPP reset in 2017.</p> | CC05 | <p>2.4.1(4)-(6), 2.4.9(3)-(4), 4.4.1(4)-(5), 4.4.2(6)</p> <p>1.1.4(2), 4.4.8- 4.4.10 of the GDB and GTB</p> <p>1.1.4(2), 5.3.23- 5.3.25 of the EDB</p> <p>The definitions of 'qualifying debt', 'qualifying supplier', 'term credit spread difference' and 'term credit spread differential'</p> |
| <p>Debt premium approach</p> <p>As discussed further in Attachment A of this paper, we are considering an alternative approach to determining the debt premium in the cost of capital. Drafting that we consider would give effect to this alternative approach is included in Attachment A (rather than in the Revised Draft Determinations).</p> | CC05 | See Attachment A of this paper |
| <p>Debt premium estimation</p> <p>We have reinstated the restriction on using bonds issued by</p> | CC05 | 2.4.4(3), 2.4.4(4), 4.4.4(3) and |

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| <p>government-owned entities when estimating the debt premium.¹⁷ (Our June Draft Decisions proposed removing that restriction.) However, we now propose that the restriction will only apply to 100% government-owned entities. We agree with CEG’s submission that the yields on 100% government-owned bonds are likely to behave differently than other types of bond. We have therefore made a distinction between the bonds that are issued by partially privatised firms and those that are issued by firms which are 100% government-owned.¹⁸</p> | | 4.4.4(4) |
| <p>TCSD clarification</p> <p>To provide more clarity in the methodology for estimating the term credit spread differential, we have replaced the phrase ‘date to which’ with ‘balance date’.¹⁹</p> | CC06 | <p>2.4.9(3)</p> <p>4.4.8(b) of the GDB and GTB</p> <p>5.3.23(b) of the EDB</p> |
| <p>Capex wash-up for CPPs</p> <p>We have made a change to the recoverable costs provisions to include a capex wash-up mechanism for CPPs.²⁰ This is intended to operate and achieve the same outcomes as the DPP capex wash-up mechanism.</p> | SP05, SP06 and SP07 | <p>The definition of ‘capex wash-up adjustment’ in 1.1.4(2)</p> <p>3.1.3(8) of the EDB (3.1.3(5) of the GDB and 3.1.3(6) of the GTB)</p> <p>3.1.3(9) of the EDB (3.1.3(6) of the GDB and 3.1.3(7) of the GTB)</p> |

¹⁷ See, for example: ENA “[DRAFT] Electricity Distribution Services Input Methodologies Determination 2012” (18 August 2016), p. 12, 79-80.

¹⁸ CEG (report prepared for ENA) submission on IM review draft decisions papers "Review of the proposed TCSD calculations" (4 August 2016), para 19-20.

¹⁹ See, for example: Transpower “[DRAFT] Transpower Input Methodologies Determination” (11 August 2016), p. 42.

²⁰ See, for example: PwC "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016), p.5.

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| <p>Urgent project allowance</p> <p>As part of our draft decision we introduced a new recoverable cost intended to allow suppliers to recover the prudently incurred costs (not already provided for in the DPP) of responding to an urgent project, after a CPP has been submitted but before it comes into effect.</p> <p>We have clarified that the prudently incurred costs of responding to the urgent project can be incurred between the submission of a CPP and its commencement, not only between the CPP’s submission and determination.</p> | <p>SP05, SP06 and SP07</p> | <p>3.1.3(11) EDBs</p> <p>3.1.3(4) GDBs</p> <p>3.1.3(5) GTBs</p> |
| <p>Catastrophic event reopener – materiality threshold</p> <p>We have changed the wording for the materiality thresholds for the catastrophic event DPP and CPP reopeners. The change is to clarify that the materiality threshold for the reopener can be met by costs that have already been incurred, as well as those that need to be incurred in responding to the catastrophic event.</p> | <p>RP01</p> | <p>4.5.1(d)(iv)</p> <p>5.6.1(d)(iv) of the EDB (5.7.1(d)(iv) of the GDB and GTB)</p> |
| <p>Change event reopener – materiality threshold</p> <p>We have changed the wording for the materiality thresholds for the change event DPP and CPP reopeners. The change is to clarify that the materiality threshold for the reopener can be met by costs that have already been incurred, as well as costs that need to be incurred, in responding to the change event.</p> <p>We have also made an amendment to allow an exception from the materiality threshold where the change event causes the IMs to become unworkable – that is, incapable of being applied. (See the entry regarding the removal of the NCA provision earlier in this table.)</p> <p>We have also made minor drafting changes to improve the clarity of the change event definition.</p> | <p>RP01</p> | <p>4.5.2(e)-(f)</p> <p>5.6.2(e)-(f) of the EDB (5.7.2(e)-(f) of the GDB and GTB)</p> |
| <p>Contingent projects</p> <p>We have added ‘or dates’ after ‘date’ and ‘of relevance to the contingent project’ after ‘the Commission’, which relates to the reconsideration for contingent projects under a CPP.</p> <p>We have changed this to improve the clarity of the</p> | <p>RP04</p> | <p>5.6.7(7) of the EDB (5.7.7(7) of the GDB and GTB)</p> |

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| <p>determinations by making it clear that (a) trigger events can apply on multiple days; and (b) any additional information required by the Commission for the purpose of evaluating a contingent project must be relevant to the contingent project.</p> | | |
| <p>Unforeseen projects</p> <p>We have inserted ‘of relevance to the unforeseen project’ after ‘the Commission’ for the circumstances where a CPP can be reconsidered following commencement of an unforeseen project.</p> <p>This change is intended to clarify that any additional information required by the Commission for the purpose of evaluating an unforeseen project must be relevant to the unforeseen project.</p> | RP04 | 5.6.7(8) of the EDB (5.7.7(8) of the GDB and GTB) |
| <p>Removal of redundant clauses</p> <p>To increase clarity about which IM requirements are currently in force, we have removed previous transitional provisions which no longer have any application.</p> | Various | <p>Paragraph (b) in the definition of ‘CPI’ in 1.1.4(2)</p> <p>2.4.1(1)-(3)</p> <p>5.4.11 of the EDB (5.5.9 in the GDB and GTB)</p> <p>5.4.13-5.4.16 of the EDB (5.5.11-5.5.14 in the GDB and GTB)</p> <p>5.4.18 of the EDB (5.5.16 in the GDB and GTB)</p> |
| <p>Forecast CPI definitions</p> <p>We have refined the drafting of Forecast CPI by introducing new defined terms and their definitions specific to the use of Forecast CPI. We propose introducing the following terms and their definitions: ‘forecast CPI’, ‘forecast CPI for IRIS transitional provision’, ‘forecast CPI for DPP revaluation rate’ and ‘forecast CPI for CPP revaluation rate’. We have introduced these additional terms to improve clarity in the determination.</p> | N/A | <p>The definition of ‘forecast CPI’, ‘forecast CPI for CPP revaluation rate’, ‘forecast CPI for DPP revaluation rate’ in 1.1.4(2), 4.2.3(3),4.2.3(4), 5.3.10(5), 5.3.10(5)5.4.13(1),</p> |

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| | | 5.6.8(5) The definition of 'forecast CPI for IRIS transitional provision' in 1.1.4(2), 3.1.1(4), 3.1.1(8), 3.3.15(6) of the EDB |
| Legislative cross-references We amended the definition of 'engineer' to provide a more accurate reference to the relevant Act. The full name of the Act is 'Chartered Professional Engineers of New Zealand Act 2002'. | N/A | The definition of 'engineer' in 1.1.4(2) |

Chapter 3: Changes in the Revised Draft Determinations for electricity distribution businesses

Purpose of this chapter

28. This chapter explains changes we have made in the Revised Draft Determination for EDBs that do not also apply to both GDBs and GTBs.²¹ The table of changes below (Table 2) also indicates:

28.1 where in the Revised Draft Determination the changes are located; and

28.2 which existing IM decision the changes relate to (as per the Report on the IM review²²).

Table 2: Changes in the Revised Draft Determination for EDBs

| Explanation of change from June Draft Determination to Revised Draft Determination | Relates to existing decision | Clause reference in Revised Draft Determination |
|--|------------------------------|---|
| <p>Remaining asset life</p> <p>We have amended the definition of remaining asset life in Part 1 to be: ‘remaining asset life means term remaining of an asset's asset life at the commencement of the disclosure year in question, taking into account the reduction in asset life as specified in clause 2.2.8(4)(a)’. This is to provide more clarity around the definition of remaining asset life.</p> | AV17 | The definition of ‘remaining asset life’ in 1.1.4(2) and 2.2.8(4) |
| <p>Reduced life asset</p> <p>Removing the word ‘physical’ from clause 2.2.8(5)(d), which relates to asset lives adjustments, was an error in our June Draft Determination. We consider instead that it is more appropriate to remove the term ‘reduced life asset’ from clause 2.2.2(5)(d) and amend clauses 2.2.8(1)(c) and (d) to distinguish different circumstances where the ‘physical asset life’ of an asset for the purposes of regulatory depreciation is reduced:</p> <ol style="list-style-type: none"> 1. Where an asset has a service life potential of less than the standard physical asset life and where an engineer determines that new asset life (clause | AV17 | 2.2.8(5) |

²¹ Changes in the Revised Draft Determinations that relate to the CPP requirements are recorded separately in Chapter 8.

²² Commerce Commission “Input methodologies draft decisions: Report on the IM review” (22 June 2016).

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| <p>2.2.8(1)(c)); and/or</p> <p>2. Where the Commission has determined an adjustment factor to reduce the asset life (clause 2.2.8(1)(d)).</p> <p>We note that the adjustments to asset lives under these clauses are not mutually exclusive and it is feasible that for an asset where an engineer has made a determination of the physical asset life, an adjustment factor determined by the Commission may also apply.</p> | | |
| <p>Standard physical asset lives</p> <p>We have made changes to the list of assets in Schedule A to include additional asset descriptions with associated new standard physical asset lives.</p> <p>We have made these changes because the list of assets in Schedule A requires updating to reflect new technology, and submitters responded to our invitation to provide that information.²³</p> <p>The additions to Schedule A mean suppliers will no longer require an independent engineer's report to estimate asset lives for the applicable assets.</p> | AV17 | Schedule A |
| <p>Weighted average remaining useful life</p> <p>We have changed references to 'weighted average remaining useful life of relevant assets' to 'opening weighted average remaining useful life of relevant assets'. This change is to align with the language in the EDB ID determination.²⁴</p> <p>We have defined this term in the EDB IM Revised Draft Determination to provide greater clarity about what the term means. In our June Draft Decisions, we suggested that the ID requirements provide appropriate guidance to interpret the term 'weighted average remaining useful life</p> | TX02 | 2.3.5(1), 2.3.5(4), 5.3.17(1) and 5.3.17(4) |

²³ Letter from Graeme Peters (Chief Executive, ENA) to Keston Ruxton (Manager, Commerce Commission) re ENA submission on DRAFT Electricity Distribution Services Input Methodology Determination (18 August 2016); and ENA technical drafting comments on "[DRAFT] Electricity Distribution Services Input Methodologies Determination 2012" (18 August 2016).

²⁴ See, for example: ENA "[DRAFT] Electricity Distribution Services Input Methodologies Determination 2012" (18 August 2016), p. 63, 143.

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| <p>of relevant assets'. Although we have not included a different meaning to the EDB ID determination, including a definition in the Revised Draft Determination will provide greater clarity in the IMs without requiring a supplier to look to our ID determination for an interpretation.</p> | | |
| <p>Definition of prices</p> <p>We have removed the word 'posted' from the definition of 'prices' and the definition of 'discount' because we do not consider it necessary under a revenue cap.</p> | SP01 | 3.1.1(8) and (10) |
| <p>Revenue wash-up cap</p> <p>In our June Draft Decisions, we proposed that the IMs would allow for the cap on the revenue wash-up amount in respect of large demand shocks (particularly due to a catastrophic event), and that the DPP/CPD would specify how this cap would be calculated and applied. We now consider that it is appropriate to provide greater certainty about the application of this feature in the IMs by specifying the value of the cap and providing some rules on how it will be applied. We have updated the drafting in the Revised Draft Determination accordingly. This is in response to submissions on our draft decision which requested more detail on the revenue cap wash-up mechanism features and more certainty in the IMs.²⁵ In particular, Powerco requested that, if we retain the cap on the wash-up amount, we specify the value of the cap in order for stakeholders to be able to comment on its appropriateness.²⁶</p> <p>We propose that the cap on the wash-up amount be set at 20% of the forecast maximum allowable revenue in the first year of the relevant regulatory period. Although the selection of this value is subjective, we consider that 20% provides an appropriate balance between being high enough to ensure that ex-ante compensation is not required, but it is low enough to still provide an incentive to suppliers to prepare for large demand shocks.</p> | SP05 | 3.1.3(13)(c)-(g) |

²⁵ See for example: Vector "Submission to Commerce Commission on the IM review draft decision and IM report" (4 August 2016), para 139 -140; and Alpine Energy "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016), para 7.

²⁶ See for example: Powerco "Submission on input methodologies review – Draft decisions" (4 August 2016).

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| <p>The cap does not apply to the recovery of pass-through costs or recoverable costs from regulated revenue. In the event of a large demand shock, suppliers will be able to wash-up (and therefore consumers will pay for) up to 20% of the maximum allowable revenue in the first year (which is an amount net of pass-through costs and recoverable costs) of the regulatory period. In addition, this will be unaffected by any draw down of the wash-up balance or the impact of the cap on the calculated average price increase.</p> <p>We have provided more detail on how the cap might operate as part of the combined revenue cap wash-up mechanisms in the flow charts in Attachment B. We have revised these diagrams from the Gas DPP paper which we published in June 2016.²⁷ Although these diagrams were created as part of the Gas DPP process, many of these features are also likely to be relevant to how we might implement a revenue cap when setting future DPPs/CPPs for EDBs.</p> <p>We have also made the cap on the wash-up amount a mandatory feature. This change is to give stakeholders the certainty that this feature will be applied, as opposed to being discretionary in the DPP/CPP.</p> | | |
| <p>Cap on increase in average prices</p> <p>We have updated the IMs to allow a s 52P determination to specify the ‘function of demand’ that will be used to apply the cap on increases in average prices as part of the revenue cap wash-up mechanism. The function of demand could, for example, be as simple as a single unit of demand, a (weighted) combination of different units of demand, or the choice of demand unit for which there is the greatest change. This change is intended to improve the workability of the cap.²⁸</p> | SP05 | 3.1.1(2) and (5) |

²⁷ Commerce Commission "Default price-quality paths for gas pipeline services from 1 October 2017 – Implementing matters arising from proposed input methodologies changes" (28 June 2016).

²⁸ See, for example: First Gas "Submission on DPP for gas pipeline services from 1 October 2017" (4 August 2016), p.1.

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| <p>Removal of cap and collar on draw downs</p> <p>We have removed the cap and collar on the draw down amount from the list of features in the revenue cap wash-up mechanism. This change is in response to submissions that considered the combined wash-up mechanisms to be overly complex.²⁹</p> | SP05 | 3.1.3(13)(h) removed from June Draft Determination |
| <p>Cap on voluntary undercharging</p> <p>We have clarified that the cap on voluntary undercharging will be a standard feature in the DPP/CPD for EDBs, which will mean provisions will be required as to how the cap will be implemented in the DPP/CPD determination.³⁰ The amount of the cap may differ (or not apply) for different EDBs.</p> | SP05 | 3.1.3(13)(a) |
| <p>Mandatory draw down in favour of consumers</p> <p>We have specified in the IMs that if there is a balance in favour of consumers in the wash-up account, then the balance must be drawn down. We have made this change to ensure that a balance in favour of consumers does not build up in the wash-up account and that the revenue is returned to consumers as soon as possible.</p> | SP05 | 3.1.3(13)(h)(ii) |
| <p>Compliance requirements</p> <p>We have removed some of the detail about compliance timings and process from the IMs. We consider that this detail is more appropriate to specify in the DPP/CPD rather than in the IMs. This change will remove over-specification and potential inflexibility in the IMs where it is not considered necessary.</p> | SP01, SP05 | 3.1.3(13)(i)-(l) removed from June Draft Determination |
| <p>Quality standard variation reopener</p> <p>For the purposes of clarity, we have added the criteria that we will consider when considering a quality standard variation reopener.</p> | RP01 | 4.5.5(4) |

²⁹ See, for example: Wellington Electricity "Input methodologies review: Response to draft decisions" (4 August 2016), p.2.

³⁰ See, for example: Vector "Submission to Commerce Commission on the IM review draft decision and IM report" (4 August 2016), para 139-140.

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| <p>Quality standard variation reopener information requirements</p> <p><i>Updating the information</i></p> <p>We have updated the information required for suppliers proposing a quality-standard variation as part of a DPP reopener to better reflect how we currently set quality standards.</p> <p><i>Removing the requirement to show effect of variation if applied for previous 5 years</i></p> <p>When a supplier proposes a quality standard variation as part of a DPP reopener or as part of a CPP proposal, our June Draft Decisions required that the supplier provide information demonstrating the estimated effect of the proposed quality standards had the proposed quality standards applied over the previous 5 years. We have removed the reference to 5 years, to allow some flexibility in how the supplier demonstrates the estimated historical effect of the proposed quality standard variation as suggested by submissions.³¹ We may still request further information if the supplier does not provide adequate information for us to assess the quality standard variation proposal.</p> | RP01 | 4.5.5(2) |
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³¹ See, for example: ENA “[DRAFT] Electricity Distribution Services Input Methodologies Determination 2012” (18 August 2016), p 116.

Chapter 4: Changes in the Revised Draft Determinations for gas distribution businesses

Purpose of this chapter

29. This chapter explains changes we have made in the Revised Draft Determination for GDBs that do not also apply to both EDBs and GTBs.³² The table of changes below (Table 3) also indicates:
- 29.1 where in the Revised Draft Determination the changes are located; and
- 29.2 which existing IM decision the changes relate to (as per the Report on the IM review³³).

Table 3: Changes in the Revised Draft Determination for GDBs

| Explanation of change from June Draft Determination to Revised Draft Determination | Relates to existing decision | Clause reference in Revised Draft Determination |
|---|------------------------------|---|
| <p>Definition of temporary differences</p> <p>In our June Draft Determination we removed the definition for ‘temporary differences’ in error. We have now reinstated this.</p> | TX01 | The definition of ‘temporary differences’ in 1.1.4(2) |
| <p>Weighted average remaining useful life</p> <p>We have changed references to ‘weighted average remaining useful life of relevant assets’ to ‘opening weighted average remaining useful life of relevant assets’. This change is to align with the language in the GDB ID determination, and for EDBs in TX02</p> <p>We also defined this term in the GDB IM Revised Draft Determination to provide greater clarity about what the term means. In our June Draft Decisions, we suggested that the ID requirements provide appropriate guidance to interpret the term ‘weighted average remaining useful life of relevant assets’. Although, we have not included a different meaning to the GDB ID determination, including a definition in the Revised Draft Determination will provide greater clarity in the IMs without requiring a supplier to look to our ID determination for an interpretation.</p> | TX08 | 2.3.5(1), 2.3.5(4), 5.3.17(1) and 5.3.17(4) |

³² Changes in the Revised Draft Determinations that relate to the CPP requirements are recorded separately in Chapter 8.

³³ Commerce Commission “Input methodologies draft decisions: Report on the IM review” (22 June 2016).

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| <p>Accounting for pass-through costs and recoverable costs</p> <p>We have changed back to the ‘ascertainable’ approach to the recovery of pass-through costs and recoverable costs for GDBs. This reinstates the current IMs, as opposed to the ‘pass-through balance’ approach we proposed in our June Draft Decisions.</p> <p>We changed this because we agree with the submissions that argued that the benefits we identified in terms of prices reflecting recovery of pass-through costs and recoverable costs earlier are not significant enough to justify change.³⁴</p> | SP01, SP03, SP06 | 3.1.1(1)-(3) |
| <p>Price cap in first year of regulatory period</p> <p>The weighted average price cap for GDBs requires an allowable notional revenue to be determined:</p> <ul style="list-style-type: none"> • for the first year of a regulatory period; and • for all subsequent years. <p>The IM determination currently specifies how the allowable notional revenue is determined for the subsequent years, but not for the first year. We have updated the specification of price requirements in the Revised Draft Determination to clarify that in the first year of a regulatory period, the Commission will set an allowable notional revenue in a s 52P determination as a function of the starting price.</p> | SP01 | 3.1.1(2) |
| <p>Discounts</p> <p>We have deleted ‘discounts’ from ‘prices’ in clause 3.1.1 because GDBs do not provide discounts.</p> | SP01 | 3.1.1(4)-(5) |
| <p>Recoverable costs</p> <p>We have removed clause 3.1.3(1)(g), which we proposed in our June Draft Determinations, which related to recoverable costs providing for claw-back. We have done this because clause 3.1.3(1)(a) already captures the correct statutory cross-references relating to claw-back for GDBs.</p> | SP06 | 3.1.3(1)(g) removed from June Draft Determination |

³⁴ See, for example: Powerco "Submission on input methodologies review – Draft decisions" (4 August 2016), para 85.

Chapter 5: Changes in the Revised Draft Determinations for gas transmission businesses

Purpose of this chapter

30. This chapter explains changes we have made in the Revised Draft Determination for GTBs that do not also apply to both EDBs and GDBs.³⁵ The table of changes below (Table 4) also indicates:
- 30.1 where in the Revised Draft Determination the changes are located; and
- 30.2 which existing IM decision the changes relate to (as per the Report on the IM review³⁶).

Table 4: Changes in the Revised Draft Determination for GTBs

| Explanation of change from June Draft Determination to Revised Draft Determination | Relates to existing decision | Clause reference in Revised Draft Determination |
|---|------------------------------|---|
| <p>Naming references</p> <p>We have removed references to ‘Maui Development Limited’ in the definition for ‘disclosure year’, as well as the references which indicate that Maui Development Limited’s disclosure year ‘means the preceding calendar year’. These references are no longer required due to First Gas’ purchase of Maui Development Limited’s GTB. Removing these references will allow the GTB ID determination to specify First Gas’ disclosure year.</p> | AV54 | The definition of ‘disclosure year’ in 1.1.4(2) |
| <p>Revenue wash-up cap</p> <p>In our June Draft Decisions, we proposed that the IMs would allow for the cap on the revenue wash-up amount in respect of large demand shocks (particularly due to a catastrophic event), and that the DPP/ CPP would specify how this cap would be calculated and applied. We now consider that it is appropriate to provide greater certainty about the application of this feature in the IMs by specifying the value of the cap and providing some rules on how it will be applied. We have updated the drafting in the Revised Draft Determination accordingly. This is in response to submissions which requested more detail on the</p> | SP02, SP07 | 3.1.3(10)(b)-(f) |

³⁵ Changes in the Revised Draft Determinations that relate to the CPP requirements are recorded separately in Chapter 8.

³⁶ Commerce Commission “Input methodologies draft decisions: Report on the IM review” (22 June 2016).

revenue cap wash-up mechanism features and more certainty in the IMs.³⁷ In particular, Powerco requested that, if we retain the cap on the wash-up amount, we specify the value of the cap in order for stakeholders to be able to comment on its appropriateness.³⁸

We propose that the cap on the wash-up amount be set at 20% of the forecast maximum allowable revenue in the first year of the relevant regulatory period. Although the selection of this value is subjective, we consider that 20% provides an appropriate balance between being high enough to ensure that ex-ante compensation is not required, but is low enough to still provide an incentive to suppliers to prepare for large demand shocks. We consider that the same value is appropriate for both EDBs and GTBs.

The cap does not apply to the recovery of pass-through costs or recoverable costs from regulated revenue. In the event of a large demand shock, suppliers will be able to wash-up (and therefore consumers will pay for) up to 20% of the maximum allowable revenue in the first year (which is an amount net of pass-through costs and recoverable costs) of the regulatory period. In addition, this will be unaffected by any draw down of the wash-up balance or the impact of the cap on the calculated average price increase.

We have provided more detail on how the cap might operate as part of the combined revenue cap wash-up mechanisms in the flow charts in Attachment B. We have revised these diagrams from the Gas DPP paper which we published in June 2016.³⁹ Although these diagrams were created as part of the Gas DPP process, many of these features are also likely to be relevant to how we might implement a revenue cap when setting future DPPs/CPPs for GTBs.

We have also made the cap on the wash-up amount a

³⁷ See for example: Vector "Submission to Commerce Commission on the IM review draft decision and IM report" (4 August 2016), para 139 -140; and Alpine Energy "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016), para 7.

³⁸ See for example: Powerco "Submission on input methodologies review – Draft decisions" (4 August 2016).

³⁹ Commerce Commission "Default price-quality paths for gas pipeline services from 1 October 2017 – Implementing matters arising from proposed input methodologies changes" (28 June 2016).

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| <p>mandatory feature. This change is to give stakeholders the certainty that this feature will be applied, as opposed to being discretionary in the DPP/CPP.</p> | | |
| <p>Removal of cap and collar on draw downs</p> <p>We have removed the cap and collar on the draw down amount from the list of features in the revenue cap wash-up mechanism. This change is in response to submissions that considered the combined wash-up mechanisms to be overly complex.⁴⁰</p> | SP02, SP07 | 3.1.3(11)(g) removed from June Draft Determination |
| <p>Definition of prices</p> <p>We have deleted ‘discounts’ from ‘prices’ in clause 3.1.1 because GTBs do not provide discounts.</p> <p>We have also clarified that prices exclude prices relating to capacity auctions, as proceeds from capacity auctions will form part of other regulated income.</p> | SP02 | 3.1.1(8)-(9) 3.1.1(10) removed from June Draft Determination |
| <p>Compliance requirements</p> <p>We have removed some of the detail about compliance timings and process from the IMs. We consider that this detail is more appropriate to specify in the DPP/CPP rather than in the IMs. This change will remove over-specification and potential inflexibility in the IMs where it is not considered necessary.</p> | SP02 | 3.1.3(11)(h)-(k) removed from June Draft Determination |
| <p>Cap on increase in average prices</p> <p>We have updated the IMs to allow a s 52P determination to specify the ‘function of demand’ that will be used to apply the cap on increases in average prices as part of the revenue cap wash-up mechanism. The function of demand could, for example, be as simple as a single unit of demand, a (weighted) combination of different units of demand, or the choice of demand unit for which there is the greatest change. This change is intended to improve the workability of the cap.⁴¹</p> | SP02, SP07 | 3.1.1(2) and (5) |

⁴⁰ See, for example: Wellington Electricity "Input methodologies review: Response to draft decisions" (4 August 2016), p.2.

⁴¹ See, for example: First Gas "Submission on DPP for gas pipeline services from 1 October 2017" (4 August 2016), p.1.

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| <p>Recoverable costs</p> <p>We have removed clause 3.1.3(1)(h), which we proposed in our June Draft Determinations, which related to recoverable costs providing for claw-back. We have done this because clause 3.1.3(1)(a) already captures the correct statutory cross-references relating to claw-back for GTBs.</p> | SP07 | 3.1.3(1)(h) removed from June Draft Determination |
| <p>Compressor fuel recoverable cost</p> <p>We changed clause 3.1.3 so that First Gas is able to recover all compressor fuel costs related to the Mokau compressor on the Maui Pipeline through a recoverable cost.</p> <p>We have also removed the 'lowest cost' test, and excluded all compressor fuel costs used on the other parts of the transmission system from the recoverable cost.</p> <p>In our June Draft Decisions, we proposed making compressor fuel used in lieu of balancing actions recoverable to ensure that GTBs are not penalised for choosing the lowest cost option when deciding between balancing gas transactions or running compressors. The change we are proposing is a less complex way of achieving the policy intent.</p> <p>First Gas submitted that it is difficult to determine:</p> <ul style="list-style-type: none"> • the circumstances in which compressor fuel is a lower cost alternative to balancing;⁴² and • on the non-Maui pipelines in the gas transmission system, whether compressor fuel was used for balancing reasons or for general system operation reasons. <p>To deal with these issues, we are proposing a straightforward distinction between compressor fuel used on different parts of First Gas' network. Compressor fuel used on the Maui Pipeline (which First Gas has indicated is currently used predominantly for balancing⁴³) is to be recoverable as a recoverable cost, and other compressor fuel will be treated as ordinary opex.</p> | SP07 | 3.1.3(1)(k). 3.1.3(8) removed from June Draft Determination |

⁴² First Gas "Submission on Input methodologies review draft decisions (excluding cost of capital)" (4 August 2016), p 5.

⁴³ First Gas "Submission on DPP for gas pipeline services from 1 October 2017" (4 August 2016), p 4.

Chapter 6: Changes in the Revised Draft Determination for Transpower

Purpose of this chapter

31. This chapter explains changes we have made in the Revised Draft Determination for Transpower. The table of changes below (Table 5) also indicates:

31.1 where in the Revised Draft Determination the changes are located; and

31.2 which existing IM decision the changes relate to (as per the Report on the IM review⁴⁴).

Table 5: Changes in the Revised Draft Determination for Transpower

| Explanation of change from June Draft Determination to Revised Draft Determination | Relates to existing decision | Clause reference in Revised Draft Determination |
|---|------------------------------|---|
| <p>Next closest alternative removed</p> <p>We have removed the next closest alternative (NCA) provisions and associated reopeners that we proposed in our June Draft Decisions. We consider that the issues the provisions were introduced to solve can, in most cases, be appropriately addressed through the IM amendment process, and that the benefits of the added flexibility are not likely to outweigh the potential added uncertainty that it may introduce.⁴⁵</p> <p>However, an exception to where such issues can be addressed through the IM amendment process is where an IM is rendered unworkable due to a regulatory or legislative change, and the change does not result in costs that meet the materiality threshold for the change event reopener. To address this, we have introduced an exception to the materiality threshold for the change event reopener where the change event results in an IM being incapable of being applied. This change is described below as it relates to RP05.</p> | GE01 | 1.1.2(3), 1.1.5, 3.7.4(1), 3.7.4(7)-(8), 3.7.5(3)-(4) |

⁴⁴ Commerce Commission "Input methodologies draft decisions: Report on the IM review" (22 June 2016).

⁴⁵ We received a number of submissions on this point. See, for example: Orion "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016) para 105.

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| <p>Cost of financing</p> <p>We have replaced references to 'capex' with 'capital expenditure' because 'capex' is not a defined term.</p> | AV33 | 2.2.7(3) |
| <p>Asset acquired from regulated supplier</p> <p>We have clarified clause 2.2.7(1)(f) to avoid a circular reference in the cost value to be used for an asset acquired from a regulated supplier. Clause 2.2.7(1)(f) references the 'unallocated closing RAB value' of the transferor for the purpose of setting the value. This change is intended to enhance clarity.</p> | AV35 | 2.2.7(1)(f) |
| <p>Finance leases</p> <p>We have reversed our draft decision to exclude payments associated with a finance lease from the definition of 'operating cost', which we had proposed in our June Draft Determinations. That drafting effectively duplicated the exclusion in paragraph (c) of the 'operating cost' definition and is not required.</p> | AV35 | The definition of 'operating cost' in 1.1.4(2) |
| <p>Debt issuance costs</p> <p>As discussed further in Attachment A of this paper, we propose to remove debt issuance costs from the calculation of WACC and instead propose determining an allowance in allowed regulatory cash flows. We have made changes in the Revised Draft Determination that would give effect to this.</p> | CC15 | 2.4.1(4)-(5), 2.4.2(6), 2.4.9(3)-(4), 3.5.1(4)-(5), 3.5.2(5) and 3.5.8(3)-(4). |
| <p>Debt premium approach</p> <p>As discussed further in Attachment A of this paper, we are considering an alternative approach to determining the debt premium. Drafting that we consider would give effect to this alternative approach is included in Attachment A (rather than in the Revised Draft Determination).</p> | CC15 | Attachment A of this paper |
| <p>Debt premium estimation</p> <p>We have reinstated the restriction on using bonds issued by</p> | CC15 | 2.4.4(3)-(4) and 3.5.4(3)-(4) |

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| <p>government-owned entities when estimating the debt premium.⁴⁶ (Our June Draft Decisions proposed removing that restriction.) However, we now propose that the restriction will only apply to 100% government-owned entities. We agree with CEG’s submission that yields on 100% government owned bonds are likely to behave differently than other types of bond. We have therefore made a distinction between the bonds that are issued by partially privatised firms and those that issued by firms which are 100% government-owned.⁴⁷</p> | | |
| <p>TCS D clarification</p> <p>To provide more clarity in the methodology for estimating the term credit spread differential, we have replaced the phrase ‘date to which’ with ‘balance date’.⁴⁸</p> | CC16 | 3.5.8(3) |
| <p>Types of error events</p> <p>We have added ‘revenue-linked grid output measure’ to the error event provisions for reconsideration of the IPP. We have made the change to clarify that an error in the data used for a grid output measure in setting the price path is included as a type of error which allows for the reconsideration of the IPP.</p> | RP05 | 3.7.3(1) |
| <p>Catastrophic event reopener – materiality threshold</p> <p>We have changed the wording for the materiality thresholds for the catastrophic event reopener. The change is to clarify that the materiality threshold for the reopener can be met by costs that have already been incurred, as well as need to be incurred, in responding to the catastrophic event.</p> | RP05 | 3.7.1(c) |
| <p>Change event – materiality threshold</p> <p>We have changed the wording for the materiality thresholds for the change event reopener. The change is to clarify that the materiality threshold for the reopener can</p> | RP05 | 3.7.2(e)-(f) |

⁴⁶ See, for example: ENA “[DRAFT] Electricity Distribution Services Input Methodologies Determination 2012” (18 August 2016), p. 12, 79-80.

⁴⁷ CEG (report prepared for ENA) submission on IM review draft decisions papers “Review of the proposed TCS D calculations” (4 August 2016), para 19-20.

⁴⁸ See, for example: Transpower “[DRAFT] Transpower Input Methodologies Determination” (11 August 2016), p. 42.

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| <p>be met by costs that have already been incurred, as well as need to be incurred, in responding to the change event.</p> <p>We have also made an amendment to allow an exception from the materiality threshold, where the change event causes the IMs to become unworkable – that is, incapable of being applied. (See the entry regarding the removal of the NCA provision earlier in this table.)</p> <p>We have also made some minor drafting amendments to the reconsideration provisions to improve clarity, including a change to improve the clarity of the ‘change event’ definition.</p> | | |
| <p>Removal of redundant clauses</p> <p>To increase clarity about which IM requirements are currently in force, we have removed previous transitional provisions which no longer have any application.</p> <p>We have also removed the redundant phrase ‘the paragraphs of’ in clause 3.5.4(3).</p> | Various | 3.5.1(3) and 3.5.4(3) |
| <p>Definition of CPI</p> <p>We have deleted the defined term ‘CPI’ because ‘CPI’ is not used as a bolded, defined term. Rather, ‘CPI’ is defined at clause 3.6.6(7) below where it is used at 3.6.6(6).</p> | N/A | The definition of ‘CPI’ in 1.1.4(2) |
| <p>Legislative cross-references</p> <p>We amended the definition of ‘engineer’ to provide a more accurate reference to the relevant Act. The full name of the Act is ‘Chartered Professional Engineers of New Zealand Act 2002’.</p> | N/A | The definition of ‘engineer’ in 1.1.4(2) |

Chapter 7: Changes in the Revised Draft Determinations for airports

Purpose of this chapter

32. This chapter explains changes we have made in the Revised Draft IM and ID Determinations for airports. The tables below (Tables 6 and 7) also indicate:
- 32.1 where in the Revised Draft Determinations the changes are located; and
 - 32.2 for changes to the Revised Draft IM Determination, which existing IM decision the changes relate to (as per the Report on the IM review⁴⁹).

Changes in the Revised Draft Input Methodologies Determination for airports

33. The table below (Table 6) explains the changes we have made the in the Revised Draft IM Determination for airports.

Table 6: Changes in the Revised Draft Input Methodologies Determination for airports

| Explanation of change from June Draft Determination to Revised Draft Determination | Relates to existing decision | Clause reference in Revised Draft Determination |
|--|------------------------------|---|
| <p>Next closest alternative removed</p> <p>We have removed the next closest alternative (NCA) provisions that we proposed in our June Draft Decisions. We consider that the issues the provisions were introduced to solve can, in most cases, be appropriately addressed through the IM amendment process, and that the benefits of the added flexibility are not likely to outweigh the potential added uncertainty that it may introduce.⁵⁰</p> | GE01 | 1.2(2) and (draft) 1.5 |
| <p>Cost allocation</p> <p>We have changed the requirements for the use of proxy allocators when applying ABAA for cost allocation and asset allocation. We have changed this to also allow airports to use proxy allocators if it is impractical to use a causal relationship.</p> <p>This change reflects BARNZ's submission that the ability for airports and airlines to develop commercial solutions to</p> | CA12 | The definition of 'proxy asset allocator' and 'proxy cost allocator' in 1.4(2) and 2.2(3) |

⁴⁹ Commerce Commission "Input methodologies draft decisions: Report on the IM review" (22 June 2016).

⁵⁰ We received a number of submissions on this point. See, for example: Orion "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016) para 105.

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| <p>cost allocation should not be limited by a requirement that if a causal relationship exists it must be used.⁵¹</p> | | |
| <p>Asset category definition removed</p> <p>We have removed the definition for ‘asset category’ and changed the term ‘asset category’ to the undefined term ‘asset’. We have made this change to reflect that airports can have different revaluation approaches for assets within each asset category.⁵²</p> | AV40 | The definition of ‘asset category’ in 1.4(2) and 3.7(1), 3.7(6) and 3.7(7) |
| <p>Forecast CPI definition removed</p> <p>We have deleted the new definition of forecast CPI that we proposed in our June Draft Determination.</p> <p>We previously proposed a method for the forecasting of CPI so airports could disclose an IM-consistent forecast of CPI alongside the forecast of CPI they used when setting prices.</p> <p>We have removed this method for the forecasting of CPI (and the associated disclosure requirement – see Table 7 below) as both airports and airlines consider that forecasting of CPI has not been a material issue in the past.⁵³</p> | AV40 | The definition of ‘CPI’ and ‘forecast CPI’ in 1.4(2) |
| <p>Aligning ID revaluations with price setting</p> <p>We have updated the drafting that describes what airports must do when applying the IMs to calculate revaluations for an asset. Rather than ‘using the same approach for that asset when setting prices and for complying with the requirements of the ID determination’, we have amended the clause so the ID compliance requirement is for airports to use the same approach for ID as used when setting</p> | AV40 | 3.7(6) |

⁵¹ BARNZ “Submission by BARNZ on the Commerce Commission proposed changes to the Input Methodology and Information Disclosure determinations in relation to the Airport topic” (4 August 2016), p. 13.

⁵² Auckland Airport “Review of input methodologies – Submission on commerce commission draft decision” (4 August 2016), para 14.

⁵³ Auckland International Airport Ltd “Input Methodologies Review: Cross-submission on Draft Decision and submission on Draft IM and ID Determinations” (18 August 2016), para 2(c); BARNZ “Submission by BARNZ on the Commerce Commission proposed changes to the input methodology and information disclosure determinations in relation to the airport topic” (4 August 2016), p. 5; NZ Airports Association “Cross-submission on Commerce Commission’s input methodologies review draft decision” (18 August 2016), para 70-71.

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| prices. | | |
| <p>Interpolated land values</p> <p>In our June Draft Decisions, we introduced the ability for airports to use a pragmatic proxy for the setting of the initial RAB value for land as at 2010 by interpolating 2009 and 2011 land values based on existing MVAU valuations.</p> <p>As part of our June Draft Decisions, when implementing this decision in clause 3.2(1)(b) and 3.2(3) we unintentionally limited airports' ability to use this pragmatic proxy to land used for specified airport services whereas previous drafting had established the value of land on an unallocated basis before determining the allocation to the RAB.</p> <p>We have removed references to ' , as used to provide specified airport services' in clause 3.2(3) (ie, we have removed the phrase from items 'a' and 'd' in the formula in clause 3.2(3)).</p> <p>We have removed these references because the setting of the initial RAB should start with an unallocated basis for the value of land (in clause 3.2(3)) and then apply the cost allocation rules to that value under clause 3.2(2)(b).</p> | AV41 | 3.2(3) |
| <p>Specification of revenue for cost of financing and excluded assets</p> <p>There are instances where revenues received are applied against the cost of an asset or against the financing cost on an asset.</p> <p>We have clarified that 'revenue' in clause 3.9(5) is 'post-tax'. This change is to reflect that the cost of financing of assets that are not yet commissioned should be applied to the net carrying cost of those assets. The carrying cost of an asset is the cost of the asset less the net benefit of any associated revenues received. The net benefit comprises the associated gross revenues less the amount paid in taxes on those revenues.⁵⁴</p> <p>We have also removed 'after tax' from 'net after tax revenue' used in the formula for the cost of an excluded</p> | AV42 | 3.9(5), 3.11(2) |

⁵⁴ See, for example: NZ Airports Association "[DRAFT] ID and IM determinations" (18 August 2016), p. 24.

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| asset in clause 3.11(2). We have removed this as ‘after tax’ is superfluous to the concept of ‘net revenue’. ⁵⁵ | | |
| <p>Cost of financing</p> <p>We have reversed our inclusion of a provision requiring airports to use their GAAP cost of financing, capped at its New Zealand dollar weighted average cost of borrowing, when calculating the cost of financing for assets under construction. This provision was included in our June Draft Determination in error, and did not reflect our proposal⁵⁶ set out in the Report on the IM review.⁵⁷</p> <p>Consequently, we have also removed the definitions of ‘project’ and ‘programme’ from the airports IM determination. These terms are no longer required for the airports’ GAAP cost of financing.</p> | AV43 | The definition of ‘project’ and ‘programme’ in 1.4(2), 3.9(3)(b), 3.9(6) |
| <p>Asset acquired from regulated supplier</p> <p>We have clarified clause 3.9(1)(d) to avoid a circular reference in the cost value to be used for an asset acquired from a regulated supplier. As now drafted in the Revised Draft Determination, clause 3.9(1)(d) references the ‘unallocated closing RAB value’ of the transferor for the purpose of setting the value. This change is intended to enhance clarity.</p> | AV48 | 3.9(1) |
| <p>Finance leases</p> <p>We have reversed our draft decision to exclude payments associated with a finance lease from the definition of ‘operating costs’, which we had proposed in our June Draft Determination. That drafting effectively duplicated the exclusion in paragraph (c) of the operating cost definition and is not required.</p> | AV48 | The definition of ‘operating cost’ in 1.1.4(2) |
| <p>Non-standard depreciation disclosure</p> <p>We have updated the definition of ‘non-standard depreciation disclosure’ to include the phrase ‘the disclosure of information in accordance with requirements</p> | AV50 | The definition of ‘non-standard depreciation disclosure’ in |

⁵⁵ See, for example: NZ Airports Association “[DRAFT] ID and IM determinations” (18 August 2016), p. 26.

⁵⁶ Commerce Commission “Input methodologies draft decisions: Report on the IM review” (22 June 2016), para 408.

⁵⁷ See, for example: NZ Airports Association “[DRAFT] ID and IM determinations” (18 August 2016), para 13.

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| <p>in an ID determination' at the start of the definition. Having the phrase at the start of the definition provides further clarity that we are requiring a disclosure about an airport's use of a non-standard depreciation methodology.</p> | | 1.4(2) |
| <p>Depreciation and the s 52A purpose</p> <p>We have refined our view on principle 3 for non-standard depreciation from the airport profitability assessment topic paper⁵⁸ to require that, despite principle 2, an airport can only apply or disclose a non-standard depreciation profile if it is able to explain why the time profile of capital recovery, implied in its price setting, promotes the s 52A purpose.</p> <p>This refinement is intended to help us and other interested persons understand how the airport's approach to non-standard depreciation contributes to the long-term benefit of consumers.⁵⁹</p> <p>As a result, we have updated clause 3.4 to make appropriate reference to the s 52A purpose.</p> | AV50 | 3.4(5) |
| <p>Clarifying the AMWEE</p> <p>To reduce ambiguity about the scope of the alternative methodologies with equivalent effect (AMWEE), we have amended clauses 3.13, 3.14 and 4.3 to now refer to the:</p> <ul style="list-style-type: none"> • 'alternative asset valuation methodology', rather than the 'alternative methodology'; and • 'alternative taxation methodology', rather than the 'alternative methodology'. <p>We have added 'be likely to' to clause 3.13(2). We recognise that a categorical 'equivalent effect' is difficult to produce. Our airports ID determination certification requires a senior manager to certify that, having made all reasonable enquiry, the AMWEE is likely to have an equivalent effect, based on facts that they must disclose.</p> | AV55 | 3.13(1)-(3), 3.14 and 4.3 |

⁵⁸ Commerce Commission "Input methodologies review draft decisions: Topic paper 5 – Airports profitability assessment" (16 June 2016).

⁵⁹ BARNZ "Submission on airports for input methodology review draft decision" (4 August 2016).

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| <p>Debt issuance costs</p> <p>As discussed further in Attachment A of this paper, we propose to remove debt issuance costs from the calculation of WACC and instead propose determining an allowance in allowed regulatory cash flows. We have made changes in the Revised Draft Determination that would give effect to this.</p> | CC22 | 5.1(4)-(5) and 5.2(6) |
| <p>Debt premium approach</p> <p>As discussed further in Attachment A of this paper, we are considering an alternative approach to determining the debt premium. Drafting that we consider would give effect to this alternative approach is included in Attachment A (rather than in the Revised Draft Determination).</p> | CC22 | See Attachment A |
| <p>Debt premium estimation</p> <p>We have reinstated the restriction on using bonds issued by government-owned entities when estimating the debt premium.⁶⁰ (Our June Draft Decisions proposed removing that restriction.) However, we now propose that the restriction will only apply to 100% government-owned entities. We agree with CEG's submission that the yields on 100% government-owned bonds are likely to behave differently than other types of bond. We have therefore made a distinction between the bonds that are issued by partially privatised firms and those that are issued by firms which are 100% government-owned.⁶¹</p> | CC22 | 5.4(3)-(4) |
| <p>WACC at price setting events</p> <p>We have added a new defined term 'post-tax WACC at price setting event'.</p> <p>This new definition is intended to ensure that a specific post-tax WACC estimate is published at the time of a price setting event (or on request from an airport). The estimate of the 'post-tax WACC at price setting event' is an input when calculating a WACC percentile equivalent.</p> | CC22 | The definition of 'post-tax WACC at price setting event' in 1.4(2), 5.5(2), 5.5(3), 5.6 |

⁶⁰ See, for example: ENA "[DRAFT] Electricity Distribution Services Input Methodologies Determination 2012" (18 August 2016), p. 12, 79-80.

⁶¹ CEG (report prepared for ENA) submission on IM review draft decisions papers "Review of the proposed TCSD calculations" (4 August 2016), para 19-20.

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| <p>WACC percentile equivalent</p> <p>We moved the proposed methodology for estimating a WACC percentile equivalent from the ID determination to the IM determination.</p> <p>We have also defined two WACC percentile equivalent methodologies: one related to forecast cost of capital and one related to forecast post-tax IRR to improve clarity.</p> | CC22 | <p>New defined terms ‘forecast cost of capital’, ‘forecast post-tax IRR’, ‘WACC percentile equivalent for forecast cost of capital’, and ‘WACC percentile equivalent for forecast post-tax IRR’ in 1.4(2), 5.6</p> |
| <p>Revision of drafting related to standard error</p> <p>We have revised drafting relating to the standard error for airports to improve clarity in the Revised Draft Determination.</p> | CC22 | <p>5.1(1), 5.1(2), 5.5(1), 5.5(2), 5.5(3), 5.6 (1), 5.6(2)</p> |
| <p>Remove redundant provision</p> <p>To increase clarity about which IM requirements are currently in force, we have removed the previous transitional provision which no longer has any application.</p> | N/A | <p>Paragraph (b) of the definition of ‘CPI’ in 1.4(2)</p> |
| <p>Legislative references</p> <p>The definition of ‘person’ incorrectly referred to s 52C of the Act. We have corrected this to now refer to s 2 of the Act instead.</p> | N/A | <p>The definition of ‘person’ in 1.4(2)</p> |

Changes in the Revised Draft Information Disclosure Determination for airports

34. The table below (Table 7) explains drafting changes in the Revised Draft ID Determination for airports.

Table 7: Changes in the Revised Draft Information Disclosure Determination for airports

| Explanation of change from June Draft Determination to Revised Draft Determination | Clause reference in Revised Draft Determination |
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| <p>Start date for calculating un-forecast revaluation gains and losses</p> <p>We have now specified a start date for calculating un-forecast revaluation gains or losses (in real terms). This is a change following submissions – our June Draft Determination did not specify such a date.⁶²</p> <p>This change allows airports to calculate un-forecast revaluation gains or losses (in real terms) for inclusion in the carry forward mechanism to adjust the opening investment value:</p> <ul style="list-style-type: none"> • from the commencement of the ID regime as at 2010 for the first price setting event after 31 December 2016; and • from the previous price setting event for the second and subsequent price setting events after 31 December 2016. | <p>The definition of 'un-forecast revaluation gain / loss' in 1.4(3)</p> |
| <p>Cash flow timing assumptions</p> <p>We have changed the cash flow timing assumption for revenues from mid-year (182 days before year end) to 148 days before year end. This is reflecting comments from Christchurch Airport and BARNZ noting that this is common practice in the industry.⁶³</p> <p>The new drafting specifies mid-year timing assumptions for all expenditures, and 148 days before year end for all revenues.</p> | <p>Definition of 'default cash – flow timing assumption' in 1.4(3)</p> |

⁶² Wellington Airport submission on IM review draft decisions papers "IM review" (4 August 2016), para 91; BARNZ "Submission on airports for input methodology review draft decision" (4 August 2016).

⁶³ BARNZ "Submission on airports for input methodology review draft decision" (4 August 2016); Christchurch Airport submission on IM review draft decisions papers "IM review submission" (4 August 2016), para 27.

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| <p>Closing carry forward mechanism</p> <p>We have updated our view in relation to requirements 3 and 4 below in order to provide more transparency when airports make use of the closing carry forward mechanism. This will put us in a position to better comment on the use of the mechanism when we perform summary and analysis. It addresses some of BARNZ's comments made in submissions.⁶⁴</p> <p>The new drafting requires airports, with regard to forecast over and under-recoveries included in the carry forward mechanism which adjust the forecast closing investment value, to provide information on:</p> <ol style="list-style-type: none"> 1. their purpose and appropriateness; 2. why the resulting forecast closing investment value is a good indicator of the remaining capital to be recovered at the end of the current pricing period; 3. the intended duration until they have been fully offset (as at the time prices were set); and 4. why a closing carry forward adjustment is the most appropriate method of accounting for these forecast under and over-recoveries compared to other alternative approaches provided for under the airport IMs and ID Determinations is less appropriate (eg, non-standard depreciation, revaluations, and offsetting revenues associated with assets held for future use against the forecast value of assets held for future use). | 2.5(1)(e) |
| <p>Summarising the views of substantial customers as expressed during consultation</p> <p>We have changed the scope of the information airports need to provide when using the carry forward mechanism from the 'degree of acceptance by airlines' to summarising the views of substantial customers as expressed during consultation. This addresses comments made by airports and airlines in submissions indicating that providing the 'degree of acceptance' can be an onerous task.⁶⁵</p> | 2.5(1)(d)(ii) |

⁶⁴ BARNZ "Submission on airports for input methodology review draft decision" (4 August 2016).

⁶⁵ BARNZ "Cross submission by BARNZ responding to airport submissions on the Commerce Commission proposed changes to the input methodology and information disclosure determinations in relation to the airport topic" (18 August 2016); NZ Airports "Submission on Commerce Commission's input methodologies review draft decision" (4 August 2016), para 241.

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| <p>Forecast CPI requirement removed</p> <p>We have removed the draft disclosure requirement on airports to disclose both the forecast of CPI used to set prices and the IM-consistent forecast of CPI (including identifying the impact of any differences on the value of forecast revaluations), which we included in our June Draft Determination. We removed this because both airports and airlines consider that forecasting of CPI has not been a material issue in the past.⁶⁶</p> | <p>Definition of 'forecast IM CPI' in 1.4(3) and 2.5(1)(s)</p> |
| <p>Asset category revaluation rate</p> <p>We have included a definition of asset category revaluation rate. This definition reflects that airports can have different revaluation approaches for assets within each asset category.⁶⁷</p> | <p>Definition of 'asset category revaluation rate' in 1.4(3) and</p> |
| <p>Remove term credit spread difference allowance</p> <p>As a result of our draft decision to remove the TSCD allowance, we have removed or amended as appropriate the following definitions that are now unused:⁶⁸</p> <ul style="list-style-type: none"> • term credit spread difference; • allowance for long term credit spread; • attribution rate; • book value; • coupon rate; • execution cost for an interest rate swap; • issue date; • non-qualifying debt; | <p>1.4(3)</p> |

⁶⁶ Auckland International Airport Ltd "Input Methodologies Review: Cross-submission on Draft Decision and submission on Draft IM and ID Determinations" (18 August 2016), para 2(c); BARNZ "Submission by BARNZ on the Commerce Commission proposed changes to the input methodology and information disclosure determinations in relation to the airport topic" (4 August 2016), p. 5; NZ Airports Association "Cross-submission on Commerce Commission's input methodologies review draft decision" (18 August 2016), para 70-71.

⁶⁷ Auckland Airport "Review of input methodologies – Submission on commerce commission draft decision" (4 August 2016), para 14.

⁶⁸ Commerce Commission "Input methodologies review draft decisions: Topic paper 4 – Cost of capital issues" (16 June 2016), para 740.

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| <ul style="list-style-type: none"> • notional debt issue cost readjustment; • original tenor; • pricing date; • qualifying debt; • regulatory profit/(loss) before tax & allowance for long term credit spread; and • regulatory profit/(loss) before tax (amended). | |
| <p>Reference to RAB to be read as pricing asset base</p> <p>We have amended the clause requiring disclosure of information on pricing asset base in Schedule 19 to clarify that any references to the RAB, in Schedule 19 or in the definitions in Schedule 19, should be read as references to the pricing asset base. This avoids the need to create two definitions for each defined term, one for the RAB and one for the pricing asset base.</p> | 2.5(1)(a)(ii) |
| <p>Assets held for future use</p> <p>We have amended the definitions of ‘assets held for future use operating cost’ and ‘assets held for future use revenue’ to ensure that tax is not treated as an operating cost and that revenue is treated as net of tax. This approach will ensure consistency with the treatment of tax for ‘excluded assets’ in the IMs.</p> | The definition of ‘assets held for future use operating cost’ and ‘assets held for future use revenue’ in 1.4(3) |
| <p>Revaluation of assets held for future use</p> <p>We have amended the definition of ‘forecast assets held for future use revaluations’ so it is consistent with the definition of ‘forecast revaluations’.⁶⁹</p> | The definition of ‘forecast assets held for future use revaluations’ in 1.4(3) |
| <p>Consistency of financial items between IMs and GAAP</p> <p>We have amended the requirement for financial items to be consistent with GAAP so that financial items need not be consistent with GAAP where that would be inconsistent with the IMs.</p> | 1.4(1)(e) |

⁶⁹ See: NZAA “NZ Airports cover submission on determinations” (18 August 2016), p. 71.

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| <p>Assets being developed not included in assets held for future use</p> <p>We have amended the definition and formula of ‘assets held for future use forecast closing cost’ to include ‘transfer to works under construction’ as a cost in the formula. This approach reflects that the value of assets that are currently being developed should not be included in assets held for future use, because they should be reflected in the works under construction balance.⁷⁰</p> | <p>The definition of ‘transfer to works under construction’ and ‘assets held for future use forecast closing cost’ in 1.4(3)</p> |
| <p>Forecast total revenue requirement</p> <p>We have amended the definition of ‘forecast total revenue requirement’ to clarify that it does not include ‘forecast assets held for future use revenue’.</p> | <p>The definition of ‘forecast total revenue requirement’ in 1.4(3)</p> |
| <p>Net operating charges</p> <p>We have amended the definitions of ‘net operating charges from specified passenger terminal activities’ and ‘net operating charges from airfield activities’ to clarify that they do not include ‘assets held for future use revenue’.</p> | <p>The definition of ‘net operating charges from specified passenger terminal activities’ and ‘net operating charges from airfield activities’ in 1.4(3)</p> |
| <p>Opening RAB</p> <p>We have amended the definition of ‘opening RAB’ so that it means the RAB value disclosed in the most recent ex-post disclosure rather than the RAB value for the previous disclosure year, which may not be available in time for the price setting event to which the opening RAB relates.⁷¹</p> | <p>The definition of ‘opening RAB’ in 1.4(3)</p> |
| <p>Proposed risk allocation adjustment</p> <p>We have amended the definition of ‘proposed risk allocation adjustment’ so that it refers to an ‘intention’ by airports to adjust the opening investment value rather than a ‘commitment’ to recognise that airports cannot irrevocably commit to future pricing outcomes.⁷²</p> | <p>The definition of ‘proposed risk allocation adjustment’ in 1.4(3)</p> |

⁷⁰ See: NZAA “NZ Airports cover submission on determinations” (18 August 2016), p. 62.

⁷¹ See: NZAA “NZ Airports cover submission on determinations” (18 August 2016), p. 80.

⁷² See: NZAA “NZ Airports cover submission on determinations” (18 August 2016), p. 86.

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| <p>Amended drafting on closing carry forward adjustment</p> <p>We have amended the clause that requires disclosure of information on the closing carry forward adjustment to recognise that airports cannot irrevocably commit to the remaining capital to be recovered in future pricing periods.⁷³</p> | 2.5(1)(e) |
| <p>Requirement to provide explanation of cost of capital differences</p> <p>We have updated the ID determination to better reflect the draft decision requirement for airports to provide an explanation of the differences between the airport’s cost of capital, the airport’s targeted return, and our estimate of the WACC.</p> | 2.5(1)(i) |
| <p>Pricing asset base disclosure requirements</p> <p>We have updated the ID determination to reflect that airports do not need to provide WACC percentile equivalents or an explanation of the differences between the airport’s cost of capital, the airport’s targeted return, and our estimate of the WACC in the Schedule 19 disclosure of the pricing asset base.</p> <p>We have updated Schedule 19 to better reflect the draft decision requirement for airports to provide an explanation of the differences between the airport’s post-tax IRR for the pricing asset base and its post-tax IRR for the regulated asset base.</p> | 2.5(1)(h) |
| <p>WACC percentile equivalent</p> <p>We have removed the term ‘WACC percentile equivalent’ and its previous definition. We have introduced the terms ‘post-tax WACC at price setting event’, ‘WACC percentile equivalent for forecast cost of capital’, and ‘WACC percentile equivalent for post-tax IRR’.</p> <p>To be consistent with our draft decision, we have added a requirement for airports to publish reasons for differences between their WACC estimate and our WACC estimate, and their targeted return and their WACC, supported by evidence. Airports may also publish the WACC percentile equivalents to their WACC estimate and targeted return.</p> | 1.4(3), 2.5(1), 2.5(2) |

⁷³ See: NZAA “NZ Airports cover submission on determinations” (18 August 2016), p. 101.

Chapter 8: Changes in the Revised Draft Determinations relating to CPP requirements

Purpose of this chapter

35. This chapter explains changes we have made in the Revised Draft Determinations that relate to the CPP requirements.
36. The changes that relate to the CPP requirements are presented in two tables:
- 36.1 Table 8 contains those changes that have been made in each of the EDB, GDB and GTB Revised Draft Determinations; and
- 36.2 Table 9 contains those changes that have been made in only the EDB Revised Draft Determination.

Table 8: Changes in the Revised Draft Determinations for EDBs, GDBs, and GTBs relating to CPP requirements

| Explanation of change from June Draft Determinations to Revised Draft Determinations | Relates to existing decision | Clause reference in Revised Draft Determination |
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| <p>Provision of quantitative information in spreadsheets</p> <p>We have introduced explicit requirements for how EDBs, GDBs and GTBs provide spreadsheet information as part of a CPP proposal.</p> <p>In the CPP draft decision topic paper we set out our expectations for how this information should be provided, but did not make a change to the IMs.⁷⁴ Submissions suggested that we expressly set out in the IMs how this information must be provided in spreadsheets.⁷⁵</p> <p>The change clarifies our requirements and will ensure our assessment of CPP proposals is efficient and not unduly time-consuming, for example by requiring the applicant to provide cross-references.</p> | CP01 | 5.4.7(2), (3), (4) of the EDB 5.5.5(2), (4), (5) of the GDB and 5.5.5(2), (3), (4) of the GTB) |
| <p>Schedules B and C</p> <p>We have changed Schedules B and C which relate to the provision of information on cost allocation. These changes</p> | CP13 | 5.4.9 of the EDB (5.5.7 of the GDB and GTB) |

⁷⁴ Commerce Commission “Input methodologies review draft decisions: Topic paper 2 – CPP requirements (16 June 2016).

⁷⁵ See, for example: ENA “[DRAFT] Electricity Distribution Services Input Methodologies Determination 2012” (18 August 2016), p. 151-152.

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| <p>are to reflect submissions that indicated these schedules were not aligned and consistent with the equivalent tables in the ID determinations.⁷⁶</p> <p>The particular changes we have made are set out below.</p> <p>Schedule B and related IMs:</p> <ul style="list-style-type: none"> Existing tables are deleted and replaced with ID Schedules 5d, 5e, 5f and 5g. The new tables are labelled Table 1 to Table 4. New table (Table 5) to specify that the requirements of existing clauses 5.4.9(5) and (6) of the EDB IM determination and clauses 5.5.7(5) and (6) of GDB and GTB IM that require the applicant to explain the rationale for selecting proxy allocators should be provided in tabular form as part of Schedule B. It was not previously specified how this information was to be provided. Clause 5.4.9 of the EDB IM determination and clause 5.5.7 of the GDB and GTB IM are modified to clarify that this information is required for the next period only where there is a change in cost allocation or the cost allocation methodology affecting the CPP regulatory period. This is intended to reduce compliance costs on the CPP applicant during the CPP application process. We have introduced a materiality factor so the CPP applicant does not need to submit updated information during the assessment of the CPP application unless the quantum of the allocator metric changes by 5% or more. This is intended to reduce compliance costs on the CPP applicant during the CPP application process. <p>Schedule C and related IMs:</p> <ul style="list-style-type: none"> Existing tables are deleted and replaced with ID Schedules 5d, 5e, 5f and 5g. These tables have been modified to show existing and revised values relating to cost allocation, and are labelled Table 1 | | Schedule B and C |
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⁷⁶ See, for example: PwC "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016) para 189.

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| <p>to Table 4.</p> <ul style="list-style-type: none"> • New table (Table 5) to specify that the requirements of existing clauses 5.4.9(5) and (6) of the EDB IM and clauses 5.5.7(5) and (6) of the GDB and GTB IM that requires the applicant to explain the rationale for selecting a proxy allocator, should be provided in tabular form as part of Schedule C. It was not previously specified how this information was to be provided. • We have introduced a materiality factor so the CPP applicant does not need to submit updated information during the assessment of the CPP application unless the quantum of the allocator metric changes by 5% or more. This is intended to reduce unnecessary compliance costs on the CPP applicant during the CPP application process. | | |
| <p>Verification and certification</p> <p><u>5.5.2 Verification</u></p> <p>We have made a change to expressly require the CPP applicant to provide information on the projects that form the CPP proposal to the verifier, prior to its selection of identified projects. This information will be used by the verifier to select the ‘identified projects’.</p> <p>This change clarifies that this information must be provided to the verifier prior to the selection of identified projects.</p> <p><u>5.5.4 Certification</u></p> <p>Due to the verification change described above, we have made a consequential change to the certification requirements to require directors to certify that this information on the projects was provided to the verifier, prior to the selection of identified projects.</p> <p>Note, the previous drafting required directors to certify that this information was provided, by reference to the high level summary, however the requirement to include this information in the high level summary has now been removed.</p> | <p>CP21</p> | <p>5.5.2(3) of the EDB (5.6.2(3) of the GDB and GTB)</p> <p>5.5.4(4) of the EDB (5.6.4(4) of the GDB and GTB)</p> |

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| <p>CPP high level summary</p> <p>We have retained the requirement to provide a high level summary of the intended CPP proposal to the Commission before the Verifier is engaged. However, we have made some small refinements to its design in Schedule F to ensure that compliance costs are kept to a minimum.</p> <p><u>F5 Summary of intended CPP proposal</u></p> <p>We have made minor drafting changes to clarify expectations and avoid unintended costs for suppliers of producing the high level summary. We have also introduced flexibility for the information to be provided through a workshop instead, with agreement of the Commission.</p> | CP21 | F5(1)-(2), F6(5) of Schedule F |
| <p>Verifier role</p> <p><u>G2 Verifier’s role, purpose and obligations</u></p> <p>We have made several changes to the verifier’s role section in Schedule G to improve clarity of the role and ensure consistency with the terminology used elsewhere in the IMs and the Act. For example, we have linked the verifier’s assessment of the applicant’s policies to the expenditure objective.</p> | CP21 | G2(1)-(3) of Schedule G |
| <p>Verifier review of quality standards</p> <p><u>G3 Service categories, measures and levels and quality standards</u></p> <p>Our June Draft Determinations removed the requirement for a CPP applicant to provide a report from an independent engineer, where a quality standard variation is proposed. Instead, the verifier will now review a report prepared by the applicant.</p> <p>We have made consequential minor changes to the verifier’s terms of reference in Schedule G to clarify the verifier’s role in reviewing any proposed quality standard variations.</p> | CP21 | G3 of Schedule G |
| <p>Verifier selection of identified programmes</p> <p><u>G4 Selection of identified programmes</u></p> <p>We have made changes to the criteria that the verifier uses</p> | CP21 | G4(2) of Schedule G |

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| <p>to select the number of 'identified projects' in Schedule G.</p> <p>As suggested in submissions we have narrowed the criteria to ensure that the considerations are directly relevant to the verifier's selection of an appropriate sample.⁷⁷ For example, we have removed the requirement for the verifier to consider the extent to which the number of projects in the CPP proposal is consistent with the number of projects in previous asset management plans.</p> <p>We have also made some minor refinements to the drafting to improve clarity and ensure consistency with the terminology used elsewhere in the IMs and the Act.</p> | | |
| <p>Verifier and expenditure objective</p> <p><u>Verifier's assessment</u></p> <p>We have changed the verifier requirements to require the verifier to provide an opinion on whether the project is reasonably required of a supplier 'in meeting the expenditure objective'.⁷⁸ This will focus the verifier's opinion on the relevant evaluation criteria – the expenditure objective.</p> | CP21 | G11(1) |
| <p>Record of information provided by applicant</p> <p><u>G12 Completeness of the CPP proposal</u></p> <p>Under the current IM determinations, the verifier is required to provide us with a list of all information provided to it by the applicant.</p> <p>We have limited the list required in the verifier's report to information relied upon by the verifier in fulfilling its obligations under Schedule G.</p> <p>This will remove the requirement for the verifier to record all information provided to it by the CPP applicant, but will still ensure that the information relied on is documented for the Commission's assessment.</p> | CP21 | G12(a) of Schedule G |

⁷⁷ See, for example: PwC "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016) para 138.

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| <p>Consumer consultation</p> <p>In our June Draft Decisions, we introduced a requirement for CPP applicants to consult on the price versus quality trade-offs made in the expenditure alternatives considered. Submissions pointed out that consulting on these trade-offs for <i>all</i> expenditure alternatives considered in preparing the expenditure forecasts for the CPP proposal might be impractical, and provide little value, compared with the costs of doing so.⁷⁹</p> <p>We have changed the determinations to limit this requirement so that the CPP applicant would only need to consult on the expenditure alternatives that are directly associated with the rationale for seeking the CPP proposal. This would reduce the cost and complexity for the CPP applicant and aims to focus the consumer consultation on the most material components of the CPP proposal.</p> | CP23 | 5.5.1(1) of the EDB (5.6.1(1) of the GDB and GTB) |
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⁷⁹ See, for example: ENA "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016), p. 28.

Table 9: Changes in the Revised Draft Determination for EDBs relating to CPP requirements

| Explanation of change from June Draft Determination to Revised Draft Determination | Relates to existing decision | Clause reference in Revised Draft Determination |
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| <p>Quality standard variation information requirements</p> <p><i>Updating the information</i></p> <p>We have updated the information required for suppliers proposing a quality-standard variation as part of a CPP proposal to better reflect how we currently set quality standards.</p> <p><i>Removing the requirement to show effect of variation if applied for previous 5 years</i></p> <p>When a supplier proposes a quality standard variation as part of a DPP reopener or as part of a CPP proposal, our June Draft Decisions required that the supplier provide information demonstrating the estimated effect of the proposed quality standards had the proposed quality standards applied over the previous 5 years. We have removed the reference to 5 years,⁸⁰ to allow some flexibility in how the supplier demonstrates the estimated historical effect of the proposed quality standard variation as suggested by submissions.⁸¹ We may still request further information if the supplier does not provide adequate information for us to assess the quality standard variation proposal.</p> | CP12 | 5.4.5(a), 5.4.5(d), Schedule D5 |
| <p>Schedule D</p> <p>We have made some changes to Schedule D, which relates to the provision of qualitative expenditure information for</p> | CP02 | D2(6), D3(3), D5(c), D9(3), D10(1) and D13(2)(c) of |

⁸⁰ As a result, we have also made a consequential change to Schedule D5.

⁸¹ See, for example: ENA “[DRAFT] Electricity Distribution Services Input Methodologies Determination 2012” (18 August 2016), p 151.

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| <p>CPP applications.</p> <p>The changes are intended to further improve clarity and reduce the complexity of the requirements set out in Schedule D as suggested by submissions.⁸²</p> <p>The particular refinements we have made are described below.</p> <p><u>Changes to reduce complexity and costs</u></p> <p>D2 Instructions relating to provision of information</p> <p>We have removed the link to the ‘high level summary’ of the CPP proposal in D2(6)(a) and D2(6)(b) because the requirements for the ‘high level’ summary are set out in detail in Schedule G.</p> <p>D3 Governance, organisation structure and business processes</p> <p>We have removed the requirement for the applicant to provide certain information relating to industry costs as this information is likely to be difficult to obtain by the applicant, due to its commercially sensitive nature.</p> <p>D10 Identified programmes</p> <p>We have removed the requirement to provide evidence that unit costs are consistent with industry costs because industry unit costs are commercially sensitive to the suppliers and therefore may not be available to the applicant for comparison.</p> <p><u>Changes to improve clarity</u></p> <p>D9 Business support, system operations and network support operating expenditure</p> <p>We have removed the phrase ‘including changes to cost allocations’ because this phrase is superfluous and does not add to the meaning of the clause.</p> <p>D13 Deliverability</p> | | Schedule D |
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⁸² See, for example: Orion "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016) paras 77-81.

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| <p>We have amended D13(2)(c) to enhance clarity around the information we require.</p> | | |
| <p>Schedule D clause D12</p> <p>In response to submissions we have made changes to clause D12 of Schedule D.⁸³ Clause D12 relates to the provision of information on related parties.</p> <p>The changes clarify what is required by the CPP applicant.</p> <p>The changes require the CPP applicant to:</p> <ul style="list-style-type: none"> • identify and describe any current, ongoing or potential future contracts with related parties or prospective related parties; • describe the relationships with, and services provided by, related parties; and • describe the processes for procuring services from related parties or prospective related parties, including the methodology used to value the services. | CP02 | D12(1)-(5) of Schedule D |
| <p>Schedule D clause D14</p> <p>We have changed some aspects of clause D14 in Schedule D: Capital and Operating Expenditure Information. Clause D14 relates to the provision of information on unit costs and cost escalators.</p> <p><u>D14 Unit costs and expenditure escalators</u></p> <ul style="list-style-type: none"> • We have increased flexibility in the manner in which CPP applicants can provide information on cost escalation. This should reduce cost by allowing suppliers to provide this information in a way that is better suited to their existing practices. • To support increased flexibility, we are also requiring the applicant to justify its methodology, key assumptions and the resulting values, and explain | CP02 | D14 of Schedule D |

⁸³ See, for example: ENA "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016), p. 22.

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| <p>why these are reasonable.</p> <ul style="list-style-type: none"> We have removed the requirement to provide detailed information on unit costs because this information may not be required in every instance. This does not impact our ability to request this information if required. | | |
| <p>Schedule E</p> <p>We have made drafting refinements to Schedule E, which relates to the provision of quantitative expenditure information for CPP applications.</p> <p>The proposed changes are intended to further improve clarity and reduce the complexity of the requirements set out in Schedule E, as suggested by submissions.⁸⁴</p> <p>The particular refinements we have made are as follows:</p> <p><u>Table 1: Projects and programmes</u></p> <p>We have amended Table 1 to require some additional information relating to the summary of projects and programmes.</p> <p><u>Table 5: Capex by asset expenditure categories</u></p> <p>We have split the ‘subtransmission’ asset expenditure category into two categories: ‘subtransmission lines’ and ‘subtransmission cables’. This change distinguishes lines and cable assets and allows the supplier to depreciate them at different rates, if needed. This change also affects the new Table 8: ‘Forecast commissioned assets disaggregated by asset expenditure categories’ (Table 10 in the June Draft Determination) and definition of asset expenditure category in Schedule D.</p> <p><u>Table 8: Cost allocation</u></p> <p>We have deleted Table 8 from Schedule E because it asks for the information on ‘cost allocation’ that is also requested in Table 2 of Schedule B.</p> | CP03 | 5.4.29(2), 5.4.30(3), 5.4.30(6), 5.4.30(9)-(11), Tables 1-12 of Schedule E |

⁸⁴ See, for example: PwC "Submission to the Commerce Commission on input methodologies review: Draft decisions papers" (4 August 2016), paras 186-187.

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| <p><u>Table 9: Unit cost escalators</u></p> <p>We have amended unit costs, to ‘Cost escalation factors’. Suppliers will not need to publically disclose their unit costs.</p> <p>There are minor changes to the following tables to improve clarity in the precise information required by the IMs:</p> <ul style="list-style-type: none"> • Table 2: Capex summary; • Table 3: Opex summary; • Table 4: Capex projects and programmes; • Table 6: Opex projects and programmes; and • Table 7: Non-network opex. <p>There are consequential changes to IM clauses 5.4.29 and 5.4.30.</p> <p><u>Table 10: Capex disaggregated by asset expenditure categories</u></p> <p>We have renamed Table 10 in the draft decision as Table 8 to reflect the deletion of other tables from the draft decision.</p> <p><u>Table 11: Network demand forecasts</u></p> <p>We have renamed Table 11 in the draft decision as Table 10 to reflect the deletion of other tables from the draft decision.</p> <p><u>Table 12: Capex projects/programmes for alternative depreciation methods</u></p> <p>We have deleted Table 12 as this information can be provided in narrative form as per clause 5.4.12(3).</p> | | |
| <p>Schedule A Table A.2</p> <p>We have made minor amendments to Table A.2 in Schedule A.</p> <p>We have changed the name of Table A.2 from ‘Asset lives for Expenditure Forecast Information’ to ‘Asset lives for CPP commissioned assets’. We have changed this to reduce potential ambiguity, as the table does not require actual expenditure information in the form of capital expenditure</p> | CP14 | The definition of ‘asset expenditure category’ and ‘asset life for CPP commissioned assets’ in 1.1.4(2) and Table A.2: Asset lives for CPP |

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| <p>or operating expenditure.</p> <p>We have also changed the column heading ‘asset life’ to ‘asset life for CPP commissioned asset’. We have changed this to differentiate standard physical asset lives from the CPP asset life information in the table. We have defined ‘asset life for CPP commissioned asset’ with reference to the ‘lives specified in Table A.2 of Schedule A’.</p> <p>We have also amended the asset expenditure categories and asset lives in Table A.2. We have separated the expenditure category ‘subtransmission’ into ‘subtransmission lines’ and ‘subtransmission cables’ to align the categories with those required in the EDB ID determination.</p> <p>To provide more clarity about the asset lives for ‘other network assets’ and non-network assets’, we have also included specific asset life years for these expenditure categories.</p> | | <p>commissioned assets of Schedule A</p> |
| <p>Use of proxy depreciation rates for additional assets</p> <p>We have changed the definition for ‘tax depreciation rules’ to allow the use of proxy depreciation rates for additional assets. We have changed this as existing assets are recorded at an asset level for information disclosure using the actual tax depreciation rates. However, the tax depreciation rates do not accurately capture additional assets.⁸⁵</p> <p>To implement this change, we have added two new definitions: ‘existing CPP assets’ and ‘additional CPP assets’. ‘Existing CPP assets’ is used for the assets included in the closing RAB for the previous year of the current period. ‘Additional CPP assets’ is used for assets in a CPP proposal which are forecast for commissioning in the assessment period for the CPP regulatory period.</p> | <p>CP15</p> | <p>The definition of ‘additional CPP assets’, ‘existing CPP assets’ and ‘tax depreciation rules’ in 1.1.4(2)</p> |

⁸⁵ See, for example: ENA “[DRAFT] Electricity Distribution Services Input Methodologies Determination 2012” (18 August 2016), p. 8, 19, 33.

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| <p><u>G5 Cost allocation</u></p> <p>We have removed the requirements for the verifier to review CPP applicants' cost allocation decisions in the EDB IM Revised Draft Determination, as this task is better suited for the auditor.</p> <p><u>Audit and assurance</u></p> <p>For the avoidance of doubt, we have explicitly set out our expectations of the auditor, in relation to reviewing cost allocation.</p> | CP21 | 5.5.3 and G5 of Schedule G |
| <p>Definition of asset category</p> <p><u>Definition of asset category and asset expenditure category</u></p> <p>We have made changes to the definition of 'asset category'. The new definition aligns the definition of asset category with the categories used in the EDB ID Schedules 4 and 5. It also eliminates the need for defining asset expenditure category, which was proposed in our draft EDB IM determination.</p> <p>Aligning the usage of 'asset category' in the ID and IM determinations should improve clarity and reduce the complexity of providing information on expenditure forecast, depreciation and tax.</p> <p>The changes include:</p> <ol style="list-style-type: none"> 1. Updating the definitions of 'asset category' and 'asset expenditure sub-category' in the definitions to: <ol style="list-style-type: none"> a. remove the term 'asset category', as previously drafted in our EDB IM determination; b. rename the term 'asset expenditure category', proposed in our draft EDB IM determination, as 'asset category'; and c. rename the term 'asset expenditure sub-category', proposed in our draft EDB IM determination, as 'asset sub-category'. 2. Renaming the heading of 'asset expenditure sub-category' in Table A1 to 'asset sub-category'. 3. Removing the definition of 'asset expenditure class' in clause D1, as this term will no longer be used in the EDB IM Revised Draft Determination. 4. Updating referencing from 'asset expenditure' to | CP45 | 5.4.12(2), 5.4.29(2), Table A.2 of Schedule A and D1 of Schedule D |

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| <p>'asset category' in Table 8 of Schedule E.</p> <p>5. Replacing 'asset expenditure category' with 'asset category' in:</p> <ul style="list-style-type: none"> a. clause 5.4.12(2) – depreciation information; and b. Table A2. <p><u>Implication of this change on information on tax</u></p> <p>The change in definition of 'asset category' means that the level of disaggregation of information on tax in clauses 5.4.22, 5.4.25 and 5.4.26 is considerably reduced. We do not have to amend these clauses.</p> | | |
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Chapter 9: Timing and transition provisions in the Revised Draft Determinations

Purpose of this chapter

37. The purpose of this chapter is to explain the timing and transition provisions we have included in the Revised Draft Determinations. The timing and transition provisions relate to when and how determination amendments made as a result of the IM review come into effect.
38. Our approach to the timing and transition provisions is to address the potential for complexity in making changes in different parts of the IM determinations and in having those changes apply at different times. Recognising that some complexity is unavoidable, the general intent of our proposed drafting of these provisions is to make the key updated provisions of the IMs as accessible as possible.

Structure of this chapter

39. In this chapter we begin by explaining:
 - 39.1 our approach to timing and transition provisions; and
 - 39.2 what we have tried to achieve with our proposed timing and transition provisions.
40. We then set out the specific timing and transition provisions we have proposed for each of the Revised Draft Determinations.

Explanation of our approach

41. As a result of the IM review, we will publish:⁸⁶
 - 41.1 five IM amendments determinations, where we have marked our amendments to the determinations as tracked changes so that users of the determinations can identify all amendments in the context of the principal IM determinations; and
 - 41.2 five consolidated IM determinations that consolidate the changes in the amendments determinations and which include transition information for amendments which come into effect after the completion of the IM review.
42. Amendments to the IMs take effect on the day after notice is given in the New Zealand Gazette, which will be the 'commencement date'. This is anticipated to be mid-December 2016.⁸⁷

⁸⁶ We will also publish an airports ID amendments determination under s 52Q of the Act, and a consolidated airports ID determination. The amendments to the airports ID determination will enter into force on publication, as discussed further at paragraph 49 below. As such, the focus of this chapter is on when changes to the IM determinations come into effect (including for airports).

43. However, section 53ZB of the Act does not allow price-quality paths to be reopened during a regulatory period on the grounds of an IM amendment. Therefore, although the amendments will come into effect immediately, we consider that, under the Act, not all amendments can be applied immediately to suppliers.
44. There are also amendments that from a practical perspective are not able to be applied immediately to suppliers as, for example, we may need to amend a s 52P determination before the IM amendments can apply to suppliers.⁸⁸ Therefore there are some selected variations to the general rule about when the amendments are first to be applied.

Application of changes to instruments and sectors

45. We describe below how we propose the IM amendments in relation to our ID regulation, DPP regulation, individual price-quality path (**IPP**) regulation and CPP regulation will apply.
46. We also describe below how we propose our consolidated determinations will operate for each sector, in light of the timing provisions in the amendments determinations.

Amendments to the airports IM determination in relation to ID regulation

47. We propose that amendments to the airports IM determination for ID regulation apply from the date on which the amendments determination takes effect (ie, mid-December 2016).
48. IM amendments will apply for airports from the commencement date in the airports IM determination, as the IM amendments apply to certain disclosure requirements in the airports ID determination, to which we are also making amendments which will enter into force at the same time as the IM amendments. There is therefore no period for which the IM amendments would be in force but not yet applicable.⁸⁹

Amendments in relation to CPP proposals

49. We propose that amendments to the EDB, GDB and GTB IMs in relation to new CPP proposals will apply from the date on which the EDB, GDB and GTB IM amendments determinations take effect (ie, mid-December 2016). We would consider dealing with any transition issues through the use of the modification and exemption provisions where appropriate.

⁸⁷ See Commerce Act, 1986, s 52W.

⁸⁸ See discussion on amendments in relation to ID requirements and quality only CPPs.

⁸⁹ Most of the amendments to the Airports ID determination are to the forward looking disclosure requirements, which will be applied at the next price setting event. This is in 2017 for Christchurch and Auckland Airports. There are some minor amendments to the backward looking disclosures which will be applied for the 2017 disclosure year for all airports.

50. IM amendments in relation to CPP proposals will generally apply from the date the amendment determinations take effect, as EDBs, GDBs and GTBs may want to propose a CPP at any time after the IM amendments come into effect. This would mean that any CPP application submitted to us after the commencement date would be expected to apply the updated CPP requirements in our amended IM determinations. We would expect that any variation from this general assumption would be dealt with under the ability of an applicant to apply for a modification or exemption under the IM rules for CPP proposals.
51. As our CPP IM amendments are primarily intended to improve the CPP process, increase clarity and remove unnecessary costs and complexities, having the amendments apply immediately should assist potential CPP applicants.
52. Our proposed amendments to remove the ability to apply for a quality-only CPP for EDBs will not apply until the start of the next EDB regulatory period, beginning on 1 April 2020.
53. This is because, as described below, we do not consider that amendments to reconsideration provisions in relation to DPP regulation are able to apply until 1 April 2020. This means that our proposed amendment to include a quality-only DPP reopener for EDBs will not be available until 1 April 2020.
54. To avoid a gap in the ability of an EDB subject to a DPP to apply for a quality-only variation to their price-quality path, we propose allowing those EDBs to retain the opportunity to apply for a quality-only CPP until the new quality reopener provision comes into effect at the next DPP reset. We propose retaining a quality-only CPP in the EDB IM determination until 31 March 2020.
55. This will allow suppliers to apply for a quality-only CPP up until 12 months prior to the next EDB DPP reset. As identified during the IM review process, the use of the quality-only CPP option would likely present some difficulties in practice. If an EDB subject to a DPP applies for a quality-only CPP, we would work with the applicant to ensure cost and complexity are minimised, consistent with our intention to move to a lower cost approach for assessing quality variations. The modification and exemption provisions would be available if needed to achieve this. However, at this time, we are not aware of any pending EDB quality standard variation CPP application.

Amendments in relation to ID regulation

56. Amendments to the EDB, GDB, GTB and Transpower IM determinations cannot be applied under the ID determinations until each ID determination is amended to incorporate our changes to the IM determinations.
57. Having the IM changes in relation to the ID determinations apply immediately could cause compliance issues. As some of our requirements, defined terms, and formulas in the ID determinations are drafted with reference to the IMs as they stood before the IM review, there would be inconsistencies with the IM amendments

determinations resulting from the IM review until such time as each of the ID determinations is updated.

58. We intend to update the reporting requirements in each of the EDB, GDB, GTB and Transpower ID determinations by the end of 2017 to take account of general amendments to the requirements and to incorporate amendments made to the applicable IM determinations. Our working assumption at this stage is that they would apply for the 2017-18 disclosure year in each case.
59. On the assumption that the EDB, GDB and GTB ID determinations will in the normal course be amended before 1 April 2018, the EDB, GDB and GTB IM amendments in respect of cost allocation will apply when completing asset management plans (AMP) or AMP updates for the disclosure year 2019 and later disclosure years (eg, an EDB which is required to complete an AMP for the 2019 disclosure year before 1 April 2018 must do so using the cost allocation IM amendments as amended as part of this IM review). This assumption is based on our proposed IM amendments in relation to cost allocation in our Revised Draft Determinations being finalised.
60. We have considered whether these amendments in relation to ID regulation should instead apply from the start of the next EDB DPP regulatory period (or in the case of Transpower, the next IPP regulatory period). Having the IM provisions in relation to ID apply after the next amendments to the ID determinations could mean that we would receive data for the evaluation of the performance of EDBs or Transpower under new IM requirements while the entities are still subject to the old IM rules for the purposes of prices and revenues up to the next resets in 2020.
61. Based on our draft IM amendment decisions, we do not currently consider that the differences are likely to be material for the purpose of performance measurement. We therefore consider that it is more workable for the next EDB and Transpower price-quality path resets to have the ID IM amendments apply when the next ID determination amendments are made.

Amendments in relation to DPP regulation and IPP regulation

62. We propose that amendments in relation to DPP regulation and IPP regulation would:
 - 62.1 for EDBs, apply for the setting and monitoring of DPPs having an EDB regulatory period commencing from 1 April 2020 (ie, the start of the next EDB regulatory period);
 - 62.2 for GDBs, apply for the setting and monitoring of DPPs having a GDB regulatory period commencing from 1 October 2017 (ie, the start of the next GDB regulatory period);
 - 62.3 for GTBs, apply for the setting and monitoring of DPPs having a GTB regulatory period commencing from 1 October 2017 (ie, the start of the next GTB regulatory period); and

- 62.4 for Transpower, apply for the setting and monitoring of the IPP for the IPP regulatory period commencing from 1 April 2020 (ie, the start of Transpower's next regulatory period, RCP3).
63. We propose that the amendments to DPP and IPP regulation will apply for use in the next price-quality resets, as it provides certainty for suppliers that are subject to price-quality paths currently in force.
64. For the avoidance of doubt, we propose that any amendments to the reopener provisions, pass-through cost provisions, and recoverable cost provisions in relation to DPP and IPP regulation will not apply until the start of the next applicable regulatory period unless (in the case of EDBs, GDBs and GTBs), a CPP proposal is made in the meantime.⁹⁰
65. As the amendments in relation to DPP and IPP regulation will be used for future price-quality path resets, we have specifically allowed for the amendments to apply before the commencement of each regulatory period for the purpose of calculating forecast values that would apply in the regulatory period, and to allow us to use those forecast values in determining one of the DPPs or the IPP.

Consolidated IM determinations

66. As part of our IM review, we will publish updated consolidated IM determinations which will incorporate the changes to the principal IM determinations from our IM amendments determinations.
67. Because our amendments in relation to ID regulation for EDBs, GDBs, GTBs and Transpower will apply after the applicable ID determinations are amended, we will provide an appendix in the consolidated IM determinations, which will set out any old ID-related provisions in the IMs which may continue to apply for a period after the applicable ID determinations are amended.
68. That appendix will allow users of the IM determinations to identify which provisions currently apply and when they will be required to apply amendments resulting from the IM review. All IM amendments in relation to ID regulation that will apply in the future will be incorporated in the body of the consolidated IM determinations.
69. Our consolidated EDB IM determination will include in its appendix the 'quality-only' CPP provisions which continue to apply until 31 March 2020.
70. As our amendments in relation to ID regulation for airports apply immediately, our consolidated airports IM determination does not require this appendix.

⁹⁰ This is consistent with limitations that apply to the reopening of price-quality paths under s 53ZB of the Act as a result of an IM amendment.

71. Tables 10–14 below briefly explain the timing and transition provisions we have included in the Revised Draft Determinations and indicate where in the Revised Draft Determinations they are located.

Table 10: Timing and transition in Revised Draft IM Determination for EDBs

| Explanation of timing and transition provisions | Clause reference in Revised Draft Determination |
|--|---|
| IM amendments in relation to cost allocation for ID regulation will apply from the commencement of disclosure year 2019. | 1.1.2(5)(a) |
| IM amendments in relation to ID regulation for asset valuation, the treatment of taxation, and the cost of capital will apply in respect of the first disclosure year of a DPP or CPP determined by the Commission after the commencement date of the IM amendments. | 1.1.2(5)(b) |
| IM amendments in relation to DPP regulation will apply for DPPs in force from 1 April 2020. Compliance with the current DPP will apply the existing IMs (even after 1 April 2020 in respect of compliance requirements in the current DPP). | 1.1.2(5)(c)(i), 1.1.2(5)(d) |
| IM amendments in relation to CPP regulation will apply for CPP proposals submitted to us after the commencement date of the IM amendments determination. | 1.1.2(5)(c)(ii), 1.1.2(5)(e) |
| Quality-only CPP provisions and any other necessary associated provisions will apply until 31 March 2020. | 1.1.2(5)(f) |
| IM amendments relating to forecast values or to matters required to be carried out by a supplier or the Commission for a DPP that will be in force from 1 April 2020 will apply from the commencement date of the IM amendments determination. | 1.1.2(6) |
| IM amendments for cost allocation in relation to forecast values or matters required to be carried out by a supplier or the Commission for a future DPP will apply from the commencement date of the IM amendments determination. | 1.1.2(7) |
| To give practical effect as soon as possible to the IM amendments on the TCSD mechanism, we will introduce a TCSD provision into the CPP IMs which allows the TCSD changes to apply for CPP proposals following the completion of the IM review. ⁹¹ | 5.3.23-5.3.25 |

⁹¹ See the debt issuance costs row for CC05 in Table 1.

Table 11: Timing and transition in Revised Draft IM Determination for GDBs

| Explanation of timing and transitional provisions | Clause reference in Revised Draft Determination |
|---|---|
| IM amendments in relation to cost allocation for ID regulation will apply from the commencement of disclosure year 2019. | 1.1.2(5)(a) |
| IM amendments in relation to ID regulation for asset valuation, the treatment of taxation, the cost of capital, and pricing methodologies will apply in respect of the first disclosure year of a DPP or CPP determined by the Commission after the commencement date of the IM amendments. | 1.1.2(5)(b) |
| IM amendments in relation to matters other than cost allocation for DPP regulation will apply for DPPs in force from 1 October 2017. Compliance with the current DPP will apply the existing IMs (even after 1 October 2017 in respect of compliance requirements in the current DPP). | 1.1.2(5)(c)(i), 1.1.2(5)(e) |
| IM amendments in relation to cost allocation for DPP regulation will apply for DPPs in force from 1 October 2022. | 1.1.2(5)(d) |
| IM amendments in relation to CPP regulation will apply for CPP proposals submitted to us after the commencement date of the IM amendments determination. | 1.1.2(5)(c)(ii), 1.1.2(5)(f) |
| IM amendments relating to forecast values or to matters required to be carried out by a supplier or the Commission for a DPP that will be in force from 1 October 2017 will apply from the commencement date of the IM amendments determination. | 1.1.2(6) |
| IM amendments for cost allocation in relation to forecast values or matters required to be carried out by a supplier or the Commission for a future DPP will apply from the commencement date of the IM amendments determination. | 1.1.2(7) |
| To give practical effect as soon as possible to the IM amendments on the TCSD mechanism, we will introduce a TCSD provision into the DPP IMs which allows the TCSD changes to apply for DPPs in force from 1 October 2017. ⁹² | 4.4.8-4.4.10 |

⁹² See the debt issuance costs row for CC05 in Table 1.

Table 12: Timing and transition in Revised Draft IM Determination for GTBs

| Explanation of timing and transitional provisions | Clause reference in Revised Draft Determination |
|---|---|
| IM amendments in relation to cost allocation for ID regulation will apply from the commencement of disclosure year 2019. | 1.1.2(5)(a) |
| IM amendments in relation to ID regulation for asset valuation, the treatment of taxation, the cost of capital, and pricing methodologies will apply in respect of the first disclosure year of a DPP or CPP determined by the Commission after the commencement date of the IM amendments. | 1.1.2(5)(b) |
| IM amendments in relation to matters other than cost allocation for DPP regulation apply for DPPs in force from 1 October 2017. Compliance with the current DPP will apply the existing IMs (even after 1 October 2017 in respect of compliance requirements in the current DPP). | 1.1.2(5)(c)(i), 1.1.2(5)(e) |
| IM amendments in relation to cost allocation for DPP regulation will apply for DPPs in force from 1 October 2022. | 1.1.2(5)(d) |
| IM amendments in relation to CPP regulation will apply for CPP proposals submitted to us after the commencement date of the IM amendments determination. | 1.1.2(5)(c)(ii), 1.1.2(5)(f) |
| IM amendments relating to forecast values or to matters required to be carried out by a supplier or the Commission for a DPP that will be in force from 1 October 2017 will apply from the commencement date of the IM amendments determination. | 1.1.2(6) |
| IM amendments for cost allocation in relation to forecast values or matters required to be carried out by a supplier or the Commission for a future DPP will apply from the commencement date of the IM amendments determination. | 1.1.2(7) |
| To give practical effect as soon as possible to the IM amendments on the TCSD mechanism, we will introduce a TCSD provision into the DPP IMs which allows the TCSD changes to apply for DPPs in force from 1 October 2017. ⁹³ | 4.4.8-4.4.10 |

⁹³ See the debt issuance costs row for CC05 in Table 1.

Table 13: Timing and transition in Revised Draft IM Determination for Transpower

| Explanation of timing and transitional provisions | Clause reference in Revised Draft Determination |
|--|---|
| IM amendments will first apply in relation to ID regulation in respect of the first disclosure year of an IPP determined by the Commission after the commencement date of the IM amendments. | 1.1.2(4)(a) |
| IM amendments in relation to IPP regulation will apply for the IPP in force from 1 April 2020. | 1.1.2(4)(b) |
| IM amendments relating to forecast values or matters required to be carried out by Transpower or the Commission for the IPP in force from 1 April 2020 will apply from the commencement date of the IM amendments determination. | 1.1.2(5) |

Table 14: Timing and transition in Revised Draft IM Determination for airports

| Explanation of timing and transitional provisions | Clause reference in Revised Draft Determination |
|---|---|
| Amendments in relation to ID regulation will apply from the date the IM and ID amendments determinations come into force (ie, take effect for the Commission and airports). | 1.2(3)(b) |

Attachment A: Further explanation of selected proposals relating to the cost of capital input methodologies

Purpose of this attachment

72. The purpose of this attachment is to further explain:
- 72.1 our proposal to remove debt issuance costs from the cost of debt; and
 - 72.2 our alternative 'historical averaging' approach to determining the debt premium.

Further explanation of our proposal to remove debt issuance costs from the cost of debt

73. We propose to remove debt issuance costs from the cost of debt equation for all sectors. This follows our consideration of evidence from submissions to the draft decision and discussion at the WACC workshop on 7 September 2016.⁹⁴

Removal of notional debt issuance costs from the cost of debt

74. We consider that costs associated with prudent refinancing are legitimate expenses for which suppliers should be compensated. We have previously been indifferent on whether this compensation should be through allowed cash flows or as a margin on the cost of debt.⁹⁵
75. We received a number of submissions on our draft decision for debt issuance costs.⁹⁶ There was a significant difference between the suggested compensation for debt issuance costs from different stakeholders.⁹⁷
76. For example, the level of costs suggested by regulated suppliers were around three times higher than the level of costs suggested by other stakeholders. As a result we have a degree of uncertainty over what the efficient level of debt issuance costs should be.
77. Therefore we now consider a more satisfactory approach would be to compensate the cost of debt issuance through allowed regulatory cash flows, rather than as a component of the cost of debt.

⁹⁴ For further information on the WACC workshop see: Commerce Commission notification email "Input Methodologies review – WACC workshop – Further information" (18 August 2016); and Commerce Commission "WACC workshop transcript" (September 2016).

⁹⁵ Commerce Commission "Input methodologies (electricity distribution and gas pipeline services) reasons paper" (22 December 2010), para H5.93.

⁹⁶ Commerce Commission "Input methodologies review draft decisions: Topic paper 4 – Cost of capital issues" (16 June 2016), para 245.

⁹⁷ Contact Energy submission on IM review draft decisions papers "Input methodology review" (4 August 2016), p.28-29; MEUG "Submission on Input methodologies draft review decisions" (4 August 2016), para 26; ENA "Input methodologies review – Topic paper 4 cost of capital issues – Submission to the Commerce Commission" (4 August 2016), para 8; Powerco "Submission on input methodologies review – Draft decisions" (4 August 2016), para 286.

78. This proposed approach provides a direct incentive on suppliers to undertake efficient debt-raising practices that will, over subsequent price-quality path resets, result in efficiency gains and lower overall costs to consumers. The proposed approach would also ensure consistency with other categories of operating expenditure.

Removal of the debt issuance cost re-adjustment

79. The removal of debt issuance costs from the cost of debt would also require the removal of the debt issuance cost re-adjustment from the term credit spread differential (**TCS**D).⁹⁸
80. The existing debt issuance cost re-adjustment adjusts the TCS D allowance to take account of the fact we estimate the notional debt issuance costs based on bonds with an original term to maturity of 5 years. Any suppliers that issue longer-term debt incur lower issuance costs (on a bps per annum basis) than provided for in the notional allowance for debt issuance costs.⁹⁹
81. Removing notional debt issuance costs in favour of a cash flow allowance means that the debt issuance cost re-adjustment in the TCS D would no longer be required. The cash flow allowance for debt issuance costs would be consistent with the maturity term of bonds issued by the supplier.

Other changes to the IMs

82. At this stage we do not consider that the removal of the debt issuance costs from the cost of debt equation would require any other changes to the IMs.
83. Operating cost is currently defined in the IMs and excludes any interest expense.¹⁰⁰ Our proposal is that this definition would not need to be revised as we consider that interest expense would generally not include the type of costs that were provided for as part of the debt issuance cost allowance in the draft decision.¹⁰¹
84. However, we are interested in stakeholder's views on this point and any further changes that would need to be made to the IMs following the removal of debt issuance costs from the cost of debt.¹⁰²

⁹⁸ For example, [DRAFT] amendments to Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26, cl 2.4.9 (4).

⁹⁹ This is because issuance costs are generally one-off costs independent of the length of the bond.

¹⁰⁰ For example, [DRAFT] amendments to Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26, cl 1.1.4.

¹⁰¹ This includes the costs associated with both issuing domestic bonds and the execution costs associated with interest rate swap transactions.

¹⁰² We also note the allowable revenue for debt issuance costs under a price-quality path would be determined at the time of setting the path, consistent with the allowed revenue for other types of expenditure.

Scope of the technical consultation

85. The purpose of this technical consultation is outlined at paragraphs 7–8. We expect stakeholders to focus on the technical implementation of the proposed approach. In particular we ask you to consider whether the draft IM determination gives effect to an approach which allows compensation for debt issuance costs to be provided for under regulatory cash flows rather than as part of the WACC.

Further explanation of our alternative ‘historical averaging’ approach to estimating the debt premium

86. The following section outlines an approach to estimating the debt premium that uses historical averages rather than the prevailing rate. The alternative approach has been developed following the consideration of evidence from stakeholders in submissions to the draft decision and at the WACC workshop.
87. We are still considering whether the purpose of Part 4 is best met by maintaining the approach outlined in the draft decision (ie, the use of a prevailing estimate for the debt premium) or applying an alternative ‘historical averaging’ approach which is explained in this attachment.
88. Given that there are a number of potential options for determining an average debt premium, we have provided details of our proposed alternative approach and how it would be incorporated in the IM determination. We consider that it would be useful to obtain technical feedback on the implementation of this alternative approach in the event that the final decision uses a historical averaging approach to estimate the debt premium.

Historical averaging of the debt premium

89. The alternative approach would use the simple average of 5 years of debt premium estimates. Using the historical averages would lower the potential for mismatches between: the incurred debt premium costs of suppliers with existing debt; and the allowance for the debt premium provided by the regulatory WACC.
90. Potential mismatches of this type were identified as a potential issue with the prevailing approach when we published the draft decision.¹⁰³ They could potentially lead to under (or over) compensation to suppliers when the prevailing rate is different to incurred debt premium costs of the supplier.
91. We continue to consider that, in general, these mismatches would even out over time and that a symmetric risk of this nature can be managed by suppliers.¹⁰⁴ However, we accept that there exists the small potential for abnormal market conditions (for example, a significant financial crisis) to coincide with the regulatory

¹⁰³ Commerce Commission “Input methodologies review draft decisions: Topic paper 4 – Cost of capital issues” (16 June 2016), para 95.2.

¹⁰⁴ Commerce Commission “Input methodologies review draft decisions: Topic paper 4 – Cost of capital issues” (16 June 2016), para 109.

determination window. Under this scenario, suppliers may be subject to significant under (or over) compensation that would not promote the long-term benefit of consumers.

92. We are considering an alternative option, which includes an additional averaging step when estimating the debt premium used in the cost of debt formula, that would minimise this risk. If this alternative approach was included in the IMs it would apply to the WACC methodology for all sectors and for all forms of regulation.

Details of our alternative approach

93. We consider any averaging approach should provide limited additional complexity in the WACC estimation process to ensure that the benefits outweigh the costs. Therefore the first step would be to continue to annually determine a debt premium estimate consistent with our 'prevailing' approach. This (prevailing) debt premium estimate would be made using the three months of bond data prior to the start of each disclosure year and would represent an annual benchmark.
94. The second step would be to undertake the historical averaging process. This step would involve taking a simple average of the five most recent estimates of the (prevailing) debt premium.
95. Our proposed alternative approach is that the same 'average debt premium' would be applied to the WACC determination for both information disclosure and for price-quality paths. This approach means that a simple estimation procedure can be maintained. More complicated alternatives may require additional estimates of the debt premium over periods in which currently there is otherwise not a requirement to do so, which is likely to reduce the net benefits of the approach.¹⁰⁵

Scope of the technical consultation

96. The purpose of this technical consultation is outlined at paragraphs 7–8. We expect stakeholders to focus on the technical implementation of the alternative historical averaging approach for estimating the debt premium. In particular we ask you to consider whether the draft IM determination gives effect to an approach in which the debt premium approach is determined using a five year historical average.
97. For the avoidance of doubt, we are not asking for any further submissions on the relative merits of the prevailing approach outlined in the draft determinations compared to historical averaging approach described here or any alternative averaging options.

Proposed drafting of the alternative approach

98. Box 1 provides drafting that would give effect to the alternative option for clauses in the EDB IM determination.

¹⁰⁵ Under the proposed approach we would not update the average debt premium at the time we set a price-quality path.

99. Although we have restricted the full drafting changes here to the EDB IM determination, we envisage that the introduction of the alternative approach would apply to all sectors.

Box 1: Proposed drafting changes required to implement the alternative approach

1) *The following are the determination clauses we propose changing and the defined terms affected (including any new defined terms).*

- (a) **EDB IM** clauses 1.1.4(2), 2.4.1(4), 2.4.4, 4.4.1(4), 4.4.4.
- (b) **GDB IM** clauses 1.1.4(2), 2.4.1(4), 2.4.4, 4.4.1(4), 4.4.4.
- (c) **GTB IM** clauses 1.1.4(2), 2.4.1(4), 2.4.4, 4.4.1(4), 4.4.4.
- (d) **Transpower IM** clauses 1.1.4(2), 2.4.1(4), 2.4.4, 3.5.1(3), 3.5.4.
- (e) **Airports IM** clauses 1.4(2), 5.1(4), 5.4.
- (f) Introducing new defined term:

average debt premium

2) *How would we propose implementing the changes (EDB examples below; GDB/GTB/Transpower/Airports would have similar drafting)*

(a) *Clause 1.1.4(2): [New and amended definitions]*

average debt premium has the meaning specified in, and is the amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.4.4(2); and
- (b) Part 4, clause 4.4.4(2);

debt premium for the purpose of Part 2 or Part 4 has the meaning specified in, and is the amount estimated in accordance with, clause 2.4.4(3);

(b) *Clause 2.4.1(4): [Amended defined term]*

p is the **average debt premium**;

(c) *Clause 2.4.4 [Introduce new subclauses (1) and (2) with consequential changes to existing subclause (1) (now subclause (3)), existing subclause (3)(a) (now subclause (4)(a)) and consequential renumbering of existing subclauses (4) to (6) as (5) to (7)]*

2.4.4 Methodology for estimating average debt premium

(1) The **Commission** will, in accordance with subclause (2), determine an estimate of an

amount for the **average debt premium**-

- (a) for each **disclosure year**; and
 - (b) subject to clause 2.4.1(3), within 1 month of the start of each **disclosure year**.
- (2) For the purpose of subclause (1), 'average debt premium' means the simple arithmetic average of the five **debt premium** values estimated in accordance with subclause (3) for:
- (a) the current **disclosure year** for which the **WACC** is being determined; and
 - (b) the four previous **disclosure years**.
- (3) For the purpose of subclause (2), 'debt premium' means the spread between-
- (a) the bid yield to maturity on **vanilla NZ\$ denominated bonds** that-
 - (i) are issued by an **EDB** or a **GPB**;
 - (ii) are publicly traded;
 - (iii) have a **qualifying rating** of grade BBB+; and
 - (iv) have a remaining term to maturity of 5 years; and
 - (b) the contemporaneous interpolated bid yield to maturity of notional benchmark New Zealand government New Zealand dollar denominated nominal bonds having a remaining term to maturity of 5 years.
- (4) For the purpose of subclause (3), the **debt premium** will be estimated for each **disclosure year** by-
- (a) identifying publicly traded **vanilla NZ\$ denominated** bonds issued by a qualifying issuer that are-
 - (i) **investment grade credit rated**; and
 - (ii) of a type described in the paragraphs of subclause (5);
 - (b) ...

(d) Clause 4.4.1(4) [Amended defined term]

p is the **average debt premium**;

(e) Clause 4.4.4 [Delete existing clause 4.4.4 and replace with the following wording]

4.4.4 Methodology for estimating average debt premium

- (1) The **Commission** will, in accordance with subclause (2), determine an estimate of an amount for the **average debt premium**-

(a) for each **DPP regulatory period**; and

(b) subject to clause 4.4.1(3), no later than 6 months prior to the start of each **DPP regulatory period**.

(2) For the purpose of subclause (1), the 'average debt premium' means the simple arithmetic average of the five **debt premium** values estimated in accordance with subclause 2.4.4(4) for:

(a) the current **disclosure year** in which the **WACC** is being determined; and

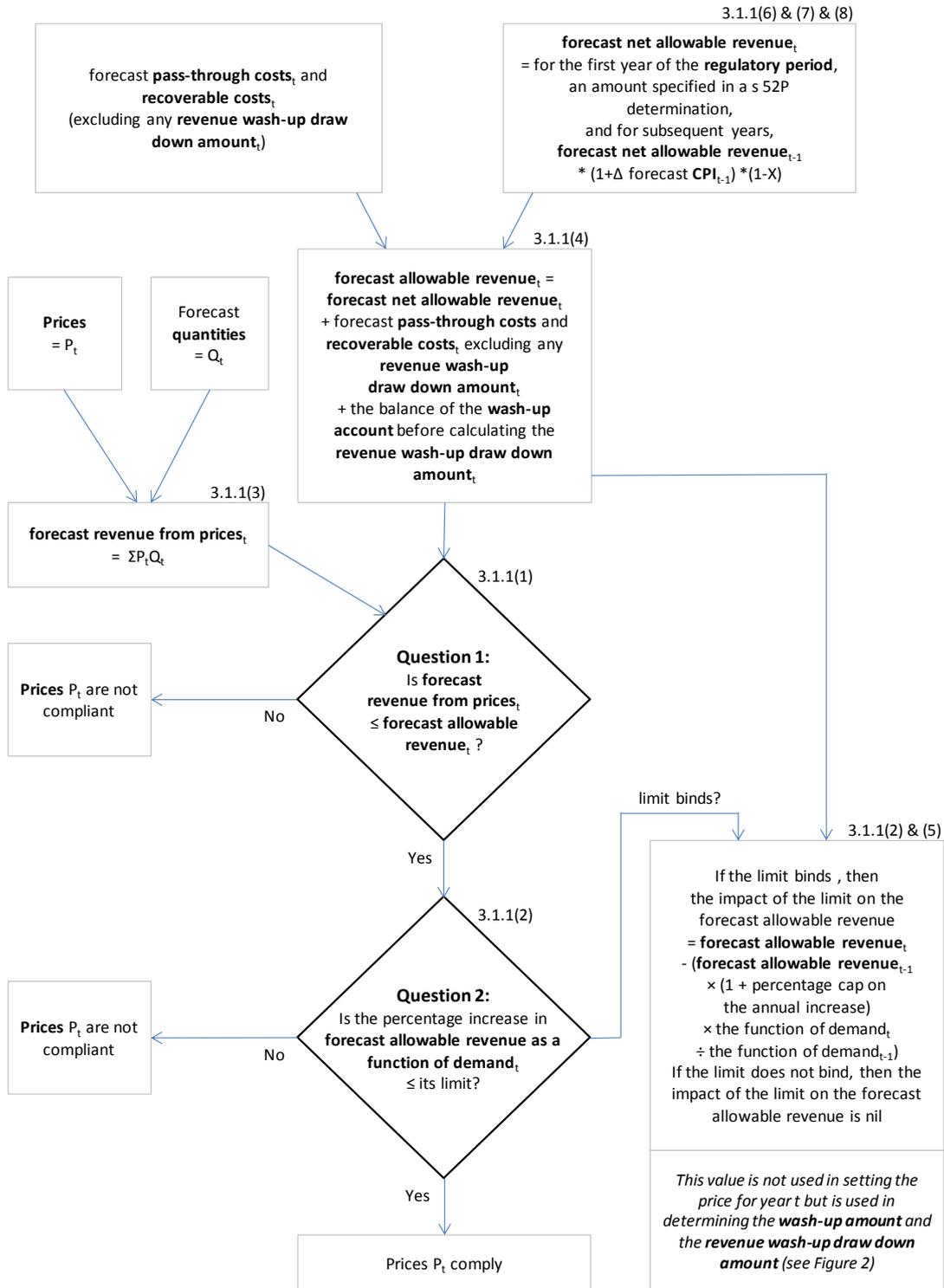
(b) the four previous **disclosure years**.

Attachment B: Further explanation of the price-setting and wash-up processes under a revenue cap

100. The flow charts in this attachment show, for illustrative purposes, a possible implementation of the specification of price input methodologies in a DPP or CPP for a GTB or EDB. The wash-up mechanism in particular reflects a possible implementation of the IMs, rather than a necessary approach. The flow charts have been updated from our June 2016 Gas DPP paper.¹⁰⁶
101. Bolded terms in the flow charts are defined in the relevant determinations.

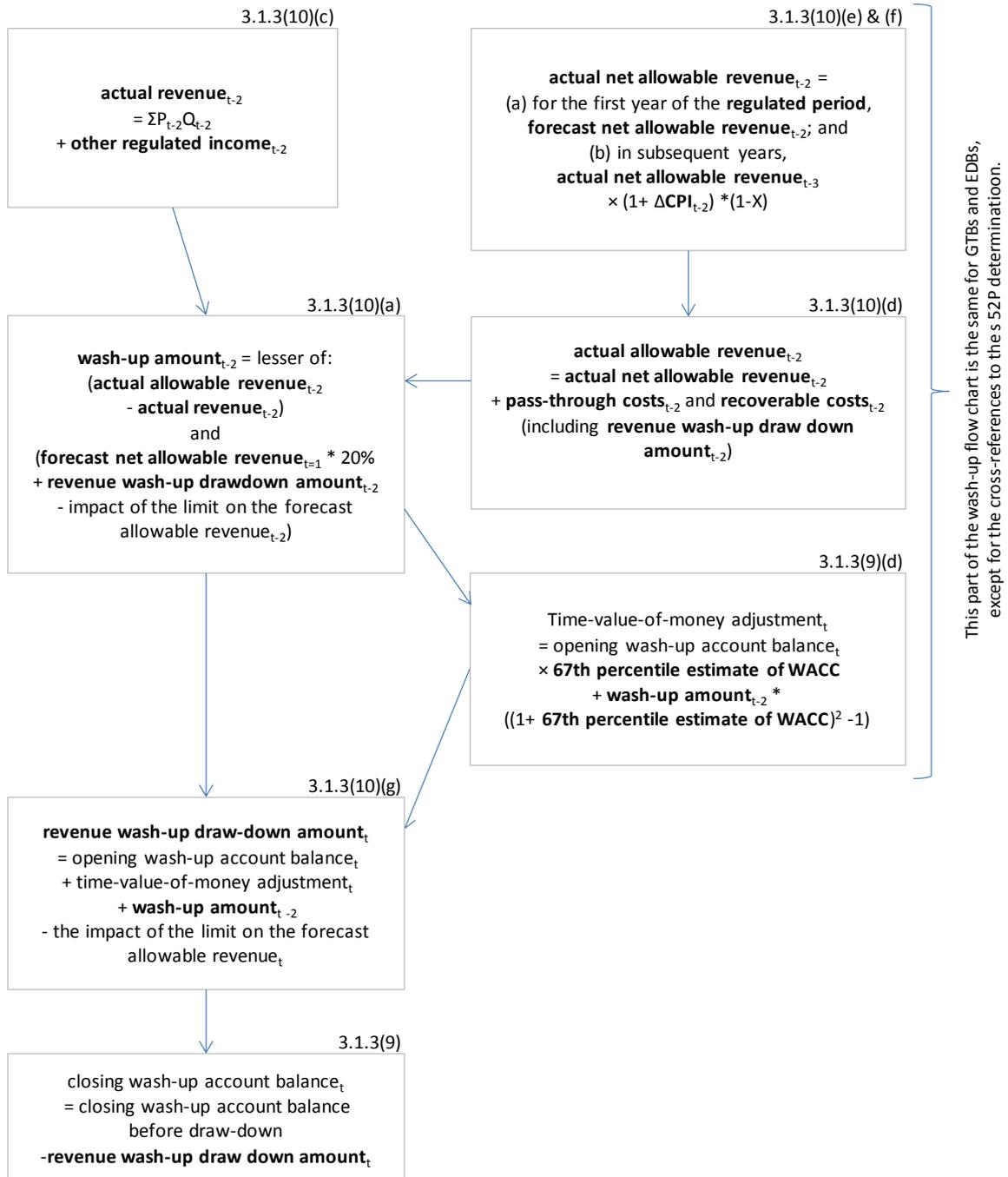
¹⁰⁶ Commerce Commission "Default price-quality paths for gas pipeline services from 1 October 2017 – Implementing matters arising from proposed input methodologies changes" (28 June 2016).

Figure 1: Assessing compliance for Year t for an EDB or GTB



We will consult on our compliance requirements for the GTB DPP in our February 2017 draft decision. We expect to have a similar consultation for the 2020 EDB DPP reset. The revenue cap mechanisms for EDBs would be similar to the GTB mechanisms, with an additional mechanism relating to voluntary undercharging, as discussed at page 30 of Topic Paper 1 of the IM draft decision.

Figure 2: Determining the wash-up recoverable cost to be taken into account in Year t pricing, and the closing balance of the wash-up account for a GTB



The closing wash-up account balance_t before draw-down for Year t arising from the Year t-2 pricing will be able to be calculated by each supplier shortly before setting prices for Year t. The recoverable cost will therefore be able to be taken into account in the Year t price setting process.