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Reconsideration of DPP3 default price-quality path for Firstlight Network Limited – Cyclone Gabrielle catastrophic event

Final decision

Date: 26 June 2025

Final decision – reconsideration of Firstlight's DPP3 price path

Firstlight applied to us to reconsider and amend its DPP3 price path following Cyclone Gabrielle

1 Firstlight Network Limited (Firstlight) applied to us to reconsider and amend its DPP3 default price-quality path (DPP3 price path). It sought $1.4 million under a catastrophic event reopener in relation to the impacts of Cyclone Gabrielle on its network and service.[1]

2 Cyclone Gabrielle (the cyclone) was a severe weather event which struck the upper North Island in mid-February 2023 causing extensive damage. Firstlight is the electricity distribution business (EDB) serving about 26,000 customer connections in the Tairāwhiti and Wairoa regions of the East Coast impacted by the cyclone.

3 Firstlight is regulated by the Commission under Part 4 of the Commerce Act 1986 (the Act). Under Part 4, we limit the revenue it can recover from its consumers and set the quality standards it must meet. Firstlight has applied to recover additional revenue from its consumers to cover costs related to the cyclone. This requires us to amend the default price-quality path in place at the time of the cyclone (DPP3).

Our final decision is to reopen Firstlight's DPP3 price path

4 Our final decision is that the impact of Cyclone Gabrielle on Firstlight's network meets the criteria to qualify as a catastrophic event,[2] and to amend Firstlight's DPP3 price path to determine a catastrophic event allowance of $1.381 million.

5 This becomes a recoverable allowance for the regulatory year ending 31 March 2025 (RY25). Firstlight is then able to start recovering this revenue through consumer pricing from 1 April 2026. Averaged over the approximately 26,000 consumer connections (ICPs) in Firstlight's network, the total additional allowance would be approximately $53 each. If Firstlight recovers the allowance over one year, it would equate to an average one-off increase of about $4 per month per ICP for that year.

6 We have made this decision because we are satisfied that reopening Firstlight's DPP3 price path in these circumstances is in the long-term interests of consumers and would promote the s 52A purpose of Part 4 in the Act. The cyclone was a high impact, low probability event, costs for which were not included in DPP3. Allowing Firstlight to recover costs prudently incurred in remediating cyclone damage promotes network investment to meet consumer needs.

[1] Firstlight Network, Application for Catastrophic Event Reopener and Allowance, 30 July 2024

[2] EDB Input Methodologies clause 4.5.1, see Attachment B for our assessment of these criteria.

7 Alongside this paper, we have published an amendment determination that gives effect to our final decision.[3] We have also published a workbook setting out the calculation of the components of the catastrophic event allowance.[4]

Table 1. Summary of Firstlight's application and our final decision.

Applicant	Firstlight Network Limited
Reopener type	Catastrophic Event (DPP3).
Application link	Firstlight catastrophic event application (Cyclone Gabrielle)
Catastrophic event	The impact of Cyclone Gabrielle on Firstlight's network (12-16 February 2023) qualifies as a catastrophic event.
Materiality threshold	The materiality threshold has been met. The DPP3 price path impact is \$1.363 million which exceeds 1% of aggregate FNAR \$765,000 for the DPP3 years in which event remediation costs were or will be incurred.
Final outcome	Reopening Firstlight's DPP3 price path and determining a catastrophic event reopener allowance of \$1.381 million, as a recoverable cost for RY25. Effective date 31 March 2025, the last day of the DPP3 period.
Estimated consumer bill impact	Total (non-recurring) impact of \$1.381 million. This is about 0.6% of Firstlight's maximum allowable revenue (MAR) for DPP4, the period in which the allowance becomes recoverable. For Firstlight's approximately 26,000 ICPs, this averages to about \$53 per ICP. If recovered in one year this is an average increase of \$4.40 per ICP per month for that year.

Consultation on the draft decision

8 We published our draft decision on 1 May 2025 and accepted submissions until 15 May 2025.[5] We received submissions from Vector[6] and Unison[7], both of whom have similar applications under consideration by the Commission for the impacts of the cyclone, and from Firstlight[8] whom we granted a submission extension until 28 May 2025. There were no confidential submissions, and we are publishing these submissions with our final decision package.

9 We respond to points raised in submissions below. We have not changed our draft decision as a result of these submissions.

[3] Electricity Distribution Services Default Price-Quality path (Firstlight Catastrophic Event) Amendment Determination 2025, 26 June 2025

[4] Calculation of Firstlight catastrophic event reopener allowance final determination – 26 June 2025

[5] Commerce Commission, [Draft] Reconsideration of DPP3 default price-quality path for Firstlight Network Limited – Cyclone Gabrielle catastrophic event, 1 May 2025

[6] Vector submission – Firstlight catastrophic event reopener draft decision – 15 May 2025

[7] Unison submission – Firstlight catastrophic event reopener draft decision – 15 May 2025

[8] Firstlight submission – Firstlight catastrophic event reopener draft decision – 28 May 2025

Our final decision follows our draft decision with one change

10 Our final decision includes the following unchanged elements of the draft decision:

10.1 the impact of the cyclone on Firstlight's network qualifies as a catastrophic event;

10.2 the cyclone had no impact on Firstlight's quality incentive adjustment (QIA) amount and we decline Firstlight's claim for such impact ($28,000);

10.3 to accept approved event costs of $668,000 opex and $4.924 million capex (and associated value of commissioned assets (VCA) in the DPP3 period of $4.591 million);

10.4 to reopen Firstlight's DPP3 price path and determine an RY25 catastrophic event allowance for additional net costs, being the approved event remediation costs not recovered through IRIS[9] opex amounts carried forward or the recovery on and of capital via the capex washup.

11 There is one change from our draft decision. Using a more detailed method to calculate the value of additional net costs, we have determined a catastrophic event allowance of $1.381 million (present value 1 April 2025). This is an increase of $9,000 from the draft allowance, which was calculated directly by multiplying approved event opex and VCA by the DPP3 IRIS penalty rate of 23.5%.

12 We have made this change and published a workbook setting out the calculation to improve the accuracy and transparency of our decision. It is a change in the method to implement our policy intent, not a change in intent or interpretation. We discuss this in more detail below in the section '*Our final decision applies a more detailed calculation of the IRIS penalty*'.

Refer to our draft decision for matters not covered here

13 Other than the change in how we calculate the opex IRIS penalty, the approach and reasons for our final decision are the same as for our draft decision. For the full reasoning and analysis, please refer to our draft decision reasons paper.[10]

Submissions

All submissions generally supported our draft decision

14 The submissions from Firstlight, Vector and Unison generally supported most aspects of our draft decision:

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[9] Incremental rolling incentive scheme.

[10] Commerce Commission, [Draft] Reconsideration of DPP3 default price-quality path for Firstlight Network Limited – Cyclone Gabrielle catastrophic event, 1 May 2025

14.1 no submissions opposed the draft decision that the catastrophic event criteria were met and that the cyclone qualified as a catastrophic event;

14.2 Vector and Unison supported the materiality threshold being assessed on reasonable costs presented in the application;[11]

14.3 Unison supported the interpretation that capex is a cost incurred in the year of spend when determining the materiality of a catastrophic event reopener;[12]

14.4 there were no submissions on our draft decision related to our assessment, acceptance and declining of event costs presented by Firstlight; and

14.5 there were no submissions on our draft decision to reopen Firstlight's DPP3 price path to determine a catastrophic event allowance for RY25.

Scrutiny and assessment of applications

15 All submissions referred to the level of scrutiny and effort in assessing catastrophic event applications. Our recently published draft *reopener guidance for electricity distribution businesses (DPP)* considers this topic and has been informed by the Cyclone Gabrielle reopeners, being the first catastrophic event reopener applications to date.[13]

16 The purpose of the scrutiny we apply when assessing catastrophic event reopener applications is to enable us to assess the costs presented as being prudent, efficient and related to the event, which is required so that we may amend the price-quality path.

17 Where EDBs have not provided information of a type and detail to enable this assessment, we have sought it. Whatever the type, format and detail of information provided we may still have follow-up questions as part of our assessment.

Additional net costs and IRIS penalties

18 Firstlight submitted on our approach to assessing additional net costs incurred in responding to the cyclone. Our interpretation of additional net costs here is costs not recovered through IRIS opex amounts carried forward or through the capex retention mechanism.

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11 Unison submission – Firstlight catastrophic event reopener draft decision – 15 May 2025, p. 1; Vector submission – Firstlight catastrophic event reopener draft decision – 15 May 2025, p. 1.

12 Unison submission – Firstlight catastrophic event reopener draft decision – 15 May 2025, p. 1

13 Commerce Commission, Reopener guidance for electricity distribution businesses (DPP)[Draft for feedback], 8 Apr 2025, p. 7

19 The regime's opex IRIS and capex retention mechanisms allow most of any opex and VCA 'overspend' (ie, exceedance of price path allowances) to be recoverable in the following regulatory period. As an incentive to manage allowances, there is an amount not recoverable (in present value terms) sometimes called the 'IRIS penalty'.

20 By including the present value of this IRIS penalty in a catastrophic event allowance, all approved event remediation costs become recoverable in the DPP4 period in a present value-neutral way, either through normal operation of the IRIS and capex retention mechanisms, or through the catastrophic event allowance.

21 Relatedly, Vector submitted that additional net costs should be "*at least the difference between building blocks allowable revenue with and without the costs incurred*…".[14]

22 We have not assessed Firstlight's application using this method because it would lead to double recovery. In particular, 'capital costs' (ie, the regulated return and depreciation on the accepted event costs) related to Firstlight's actual VCA will be recovered in the capex wash up in the second year of DPP4. We have omitted these costs from additional net costs included in the catastrophic event allowance because the DPP3 Input Methodologies (IMs) lack a mechanism to address this double recovery.[15]

Quality incentive adjustment

23 Neither Firstlight nor Vector submitted on our draft decision to decline Firstlight's claim of $28,000 for the impact of the cyclone on its QIA amount. Which was because we assessed that the cyclone had no impact on Firstlight's QIA amount.

24 Unison submitted on our approach, contending that it was "*too narrow and potentially does not encompass all the impacts of the event on quality*" and that "*the impact of an event on quality is not always limited to the period of the event [..]. There can also be implications for quality in the period beyond the actual event*."[16]

25 This is not relevant to the outcome of our Firstlight decision. Firstlight had exceeded its RY23 quality standards with the impacts of the cyclone and would have exceeded them had the cyclone not occurred, so the cyclone had no impact on its QIA, regardless of the period over which quality impacts are considered.

[14] Vector submission – Firstlight catastrophic event reopener draft decision – 15 May 2025, p. 1.

[15] See Attachment D of our draft decision reasons paper for more discussion. Commerce Commission, [Draft] Reconsideration of DPP3 default price-quality path for Firstlight Network Limited – Cyclone Gabrielle catastrophic event, 1 May 2025

[16] Unison submission – Firstlight catastrophic event reopener draft decision – 15 May 2025, p. 2

26 Furthermore, accounting for the effect of an event beyond the major event period is not ruled out by our interpretation in the draft decision. Our draft decision stated, "*the impact of the event on an EDBs QIA [is] the difference between the actual QIA (which includes the effect of the event) and the counterfactual case had the event not occurred.*"[17]

27 We agree that quality impacts of an event may extend beyond the major event period, having previously acknowledged Vector's position that the 'tail' effect of Cyclone Gabrielle contributed to it contravening its RY23 quality standards.[18]

Works deferred into the DPP4 period

28 Firstlight clarified in its submission that some planned sub-transmission remediation works (to a value of about $1.3 million) were deferred to the DPP4 period due to timing and procurement constraints.[19] It asked if adjustments would be applied in DPP5 to neutralise any penalties arising from temporary overspend during its cyclone response.[20]

29 Under the DPP3 IMs, only the price path in which the catastrophic event occurred can be reopened, and only in relation to the remediation costs falling in that period.[21] Costs falling in later periods would need to be managed against allowances in the price path for that period, or via a customised price-quality path (CPP). In the present case, we may only reopen Firstlight's DPP3 price path in relation to costs falling in, and assets commissioned in, the DPP3 period.

Our final decision is to reopen Firstlight's DPP3 price path and determine a catastrophic event allowance

30 For the reasons set out in our draft decision, and having considered submissions, our final decision is to reopen Firstlight's DPP3 price path and to determine a catastrophic event allowance for RY25.

31 This allowance includes additional net costs associated with accepted event remediation costs. These are the accepted event remediation costs not recovered through incentive mechanisms, which we have calculated as the present value of the capex retention and opex IRIS penalties related to this expenditure.

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17 Commerce Commission, [Draft] Reconsideration of DPP3 default price-quality path for Firstlight Network Limited – Cyclone Gabrielle catastrophic event, 1 May 2025, Attachment E, p. 25.

18 Commerce Commission, Compliance advice letter for quality standard exceedance – assessment period 2023, 26 September 2024.

19 Firstlight submission – Firstlight catastrophic event reopener draft decision – 28 May 2025, p 3.

20 Firstlight submission – Firstlight catastrophic event reopener draft decision – 28 May 2025, p3.

21 The wording of s 52T(1)(c) indicates that reopeners are limited to within the DPP regulatory period. We cannot reopen a different regulatory period to the one in which the reopener event occurred.

32 As an unforecasted recoverable cost, this allowance will result in a wash up accrual amount available to be drawn down by Firstlight. This may be recovered through consumer prices from 1 April 2026 (RY27).[22]

Our final decision applies a more detailed calculation of the IRIS penalty

33 To improve the accuracy and clarity of our final decision, we have used a more detailed method to calculate the opex IRIS penalty than in our draft decision. We have published a workbook alongside this paper setting out this calculation.

34 This is a change in the method to give effect to our policy intent, not a change in intent or interpretation. It results in an increase in the catastrophic event allowance for Firstlight of $9,000.

35 In our draft decision, we calculated the opex IRIS penalty directly as the approved event remediation opex multiplied by 23.5%. This value is equivalent (within rounding) to applying the DPP3 WACC 4.57% as the discount factor for all years in the IRIS calculation. This reflects the ex-ante expectation of the IRIS penalty when the DPP3 price path was set and when the cyclone related expenditure occurred.

36 In our final decision, we have used this DPP3 WACC as the discount factor in DPP3 years, but used the DPP4 WACC 6.68% in DPP4 years (and the first year of DPP5 RY31).[23] This reflects more accurately what the actual IRIS values will be, when calculated, now that the DPP4 WACC has been determined.

We have calculated the catastrophic event allowance to be $1.381 million

37 Taking into account this change in how the opex IRIS penalty is calculated, the workbook published in our final decision package sets out the components of the catastrophic event allowance:

37.1 The capex incentive calculation applies the capital retention factor, specified as 23.5% in the DPP3 determination, to approved event VCA. This is the same as in the draft decision.

37.2 The opex IRIS incentive calculation applies the updated DPP4 WACC value by adapting the previously published DPP4 IRIS Template file.[24] It sets out

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22 While transitional wash-up balances are now available for drawdown from year one of the following regulatory period under the IMs, the practical timing of this decision means the adjustment to the wash-up account will occur after Firstlight have already set pricing for RY26.

23 For DPP3 the relevant value here is the 67th percentile vanilla WACC, 4.57%. Following an IM amendment the relevant value for DPP4 is the midpoint vanilla WACC, 6.68%.

24 *Template for calculating IRIS Recoverable costs-EDB DPP4 final determination-20 November 2024.xlsx* published with the DPP4 final decision to assist EDBs in calculating their IRIS incentive amounts for the DPP4 years EDB DPP4 Financial modelling suite – 20 November 2024

Firstlight's approved event opex and VCA for different years in DPP3, the IRIS amounts carried forward, and the IRIS incentive amount that results.

37.3 The QIA impact is shown to be zero.

38 Taking into account time value of money, the catastrophic event allowance is $1.381 million (PV 1 April 2025).