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COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

Reconsideration of DPP3 default price-quality path for Vector Lines Limited – Cyclone Gabrielle catastrophic event

Draft decision

3 July 2025

Overview of Vector's application and our draft decision

1. This paper sets out our draft decision under section 52P of the Commerce Act 1986 (the Act) on Vector Lines Limited's (Vector) application to reopen its DPP3 default price-quality path in response to Cyclone Gabrielle.

2. Cyclone Gabrielle was a severe weather event which struck the upper North Island in mid-February 2023 causing extensive damage.

3. Vector is the electricity distribution business (EDB) serving about 625,000 customer connections in the greater Auckland region impacted by the cyclone.

4. Vector applied to us to be able to recover from its consumers an additional $2.1 million related to the costs of the cyclone.[1] It also asked us to reconsider some of our earlier advice related to the scope of its application.

5. Our draft decision is to reopen Vector's DPP3 price path and determine a catastrophic event reopener allowance of $3.649 million.

6. We are seeking views on our draft decision by Thursday 17 July 2025.

Cyclone Gabrielle and Vector's catastrophic event reopener application

7. Cyclone Gabrielle brought sustained high winds and rainfall to the Auckland region over a week (11-17 February 2023) causing flooding, toppled trees and land subsidence. This resulted in extensive damage to electricity network infrastructure, with flooding, slips and road closures hampering remediation works. A national state of emergency declared on 14 February 2023 remained in place for a month.

8. The impacts of the cyclone on the Vector Network were exacerbated by the effects of proximate weather events, including the Auckland anniversary weekend floods 26-28 January 2025 (the floods). The floods caused damage, not all of which was repaired when the cyclone struck, and contributed to saturated ground conditions making network assets more vulnerable to cyclone damage.

9. Under the provisions of the input methodologies that we set, EDBs can apply for additional revenues for catastrophic events in their default price-quality path. This is called a 'catastrophic event reopener'.

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[1] Vector Limited, Catastrophic event allowance application for Cyclone Gabrielle, 15 November 2024

10. Vector applied to us for a catastrophic event reopener on 30 July 2024 seeking an additional $2.1 million due to the impacts of the cyclone on its network and service.[2] If accepted, this would amend Vector's DPP3 price path, and allow it to recover additional revenues from its consumers.[3]

11. Vector applied for $1.713 million additional net costs associated with cyclone remediation opex incurred in RY23 and $400,337 for the impact of the cyclone on its quality incentive adjustment.[4] There are no insurance proceeds to consider.

12. Vector asked us to reconsider some of our earlier advice related to how its application would be assessed, including the eligibility of $4.90 million of RY23 cyclone remediation capex.

13. Vector also provided additional information, in response to questions we asked, to enable our assessment of its application.

Our draft decision is to reopen Vector's DPP3 price path and determine a catastrophic event reopener allowance of $3.649 million

14. Our draft decision is:

    14.1 that the impact of Cyclone Gabrielle on Vector's network qualifies as a catastrophic event;

    14.2 event remediation opex and capex spent in RY23 are both eligible for consideration;

    14.3 to reopen Vector's DPP3 price path and determine a catastrophic event allowance of $3.649 million (present value 1 April 2025). This is for additional net costs associated with the accepted event remediation costs, determined as the amounts not recovered through opex IRIS and capex retention, plus the impact of the Vector's quality incentive adjustment (QIA);[5]

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[2] Vector Limited, Catastrophic event allowance application for Cyclone Gabrielle, 15 November 2024

[3] Vector's price-quality path under DPP3, for the period 1 April 2020 – 31 March 2025 was set in the Electricity Distribution Services Default Price-Quality Path Determination 2020 [2019] NZCC 21, 27 November 2019.

[4] By EDB IMs clause 1.1.4(2), a catastrophic event allowance can include the impact of the event on an EDB's quality incentive adjustment (QIA). The QIA is an incentive if an EDB exceeds quality targets, and a penalty if it falls short.

[5] See Attachment E for details of how the catastrophic event allowance has been calculated.

14.4 to accept most, but not all, of the event opex remediation costs presented by Vector. Approving in nominal terms $6.396 million RY23 opex (declining $265,859 opex);

14.5 to assess Vector's RY23 capex as part of its application, and to accept all $4.90 million RY23 capex and all $4.747 million of the associated value of commissioned assets (VCA) in RY24;

14.6 to accept Vector's claim for $400,337 as the impact of the cyclone on its QIA; and

14.7 this is a recoverable allowance for RY25 which Vector may recover through consumer pricing from RY27.[6]

15. Averaged over the approximately 625,000 consumer connections (ICPs) in Vector's network, this allowance comes to about $6 per ICP.

16. We have made this draft decision because we are satisfied that reopening the price path in these circumstances is in the long-term interests of consumers and would promote the s 52A purpose of Part 4 of the Act. Allowing Vector to recover costs prudently incurred in remediating cyclone damage promotes network investment to meet consumer needs.

Table 1. Summary of Vector's application and our draft decision

Reopener type	**Catastrophic Event (DPP3)**
Application link	Vector catastrophic event application (Cyclone Gabrielle)
Catastrophic event	The impact of Cyclone Gabrielle (11-17 February 2023) on Vector's network qualifies as a catastrophic event.
Materiality threshold	The materiality threshold has been met. As set out in Attachment B, the DPP3 price path impact resulting from event remediation opex and capex in Vector's application is $7.405 million. This exceeds 1% of the aggregate forecast net allowable revenue (FNAR) for the DPP3 years in which event remediation costs were or will be incurred (RY23 only here), being $4.043 million.
Draft outcome	Reopening Vector's DPP3 price path and determining a catastrophic event reopener allowance of $3.649 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 $3.649 million. This is about 0.1% of Vector's $3.5 billion total maximum allowed revenue for DPP4, the period in which the allowance is recoverable. For Vector's about 625,000 ICPs, this averages to about $6 per ICP.
Specific consultation questions	We have not included specific consultation questions. We welcome views on all aspects of the draft decision.

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

Our assessment of Vector's application

17. We have assessed Vector's application to amend its DPP3 price path, and made our draft decision, in accordance with the Electricity Distribution Business Input Methodologies (EDB IMs) in effect at the time of the cyclone.[7]

18. We have scrutinised Vector's application in a way which seeks to balance the materiality of the application with our requirements when assessing applications. In particular, we can reopen Vector's price path only in relation to costs we assess as prudent, efficient and related to the event. To enable this assessment, we needed to ask Vector for additional information, and it provided more details on event costs, assets commissioned and processes and controls.

19. The regulatory framework, interpretations and assessments of Vector's application, and our draft decision are consistent with our recent decision to reopen Firstlight Network's DPP3 price path following a similar application (Firstlight catastrophic event final decision).[8]

20. Details of the regulatory framework, interpretations and assessments underpinning our draft decision are presented in the following attachments.

    20.1 'Attachment A – Reconsideration framework' sets out the regulatory requirements against which we must assess Vector's application.

    20.2 'Attachment B – Assessment of catastrophic event criteria' presents our assessment of Vector's application against the catastrophic event criteria.

    20.3 'Attachment C – Assessment of event remediation costs' sets out our assessment of event remediation costs presented by Vector.

    20.4 'Attachment D – Impact on QIA' assesses the cyclone's impact on Vector's quality incentive adjustment.

    20.5 'Attachment E – Reopening Vector's price path' sets out our draft decision to reopen Vector's DPP3 price, ie, whether to, how, and by how much.

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[7] That is the Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26 (as amended). For convenience, we recommend referring to the consolidated version of the IMs: Commerce Commission, Electricity Distribution Services Input Methodologies Determination 2012 – consolidated as of 23 April 2024.

[8] Commerce Commission, Reconsideration of DPP3 default price-quality path for Firstlight Network Limited – Cyclone Gabrielle catastrophic event Final decision, 26 June 2025.

Vector's application asked us to consider some matters of interpretation

21. Vector's application took an approach in line with its understanding of how we would interpret the IMs relevant to its application, while encouraging us to reconsider some aspects. We have, and our draft decision reflects the following:

    21.1 The scope of this reopener is limited to Cyclone Gabrielle. Our view remains that "the impacts of Cyclone Gabrielle and Auckland floods of 2023 cannot be combined into one catastrophic event for the purposes of a reopener, as the two are separate meteorological events with different causes."[9]

    21.2 Based on the information currently before us, we are not satisfied that combining multiple events into one is consistent with the relevant IMs or better promotes the long-term benefit of consumers under s 52A of the Act. Cyclone remediation costs may have been higher for reasons related to the floods, but costs directly related to the floods are ineligible under this reopener.

    21.3 Vector noted but excluded $4.90 million of event remediation capex spent in RY23 from its application, based on the interpretation that including this expenditure would mean the application fails the materiality test. However, our interpretation that event capex is considered a cost incurred in the year of spend means that Vector can meet the materiality threshold with this expenditure included.[10] We have included this RY23 capex when assessing Vector's application. See Attachment C.

    21.4 Vector put forward an interpretation of additional net costs related to the building blocks allowable revenue (BBAR) impact of event costs. We have not adopted this approach. Our interpretation is that additional net costs are the approved event remediation costs not recovered through capex retention or opex IRIS mechanisms. We have applied this to the costs presented in Vector's application. See Attachment E.

Submissions on this paper

22. We seek your views on the matters discussed in this paper and the proposed drafting of the amended Vector Limited Default Price-Quality Path Determination (DPP3) by 5pm, Thursday 17 July 2025.

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[9] Commerce Commission, Catastrophic Event Reopener letter responding to queries relating to Cyclone Gabrielle, 23 October 2023.

[10] Commerce Commission, [Draft] Reconsideration of DPP3 default price-quality path for Firstlight Network Limited – Cyclone Gabrielle catastrophic event, 1 May 2025. This interpretation was unchanged in our final decision.

23. Please address your submission to Ben Woodham c/o infrastructure.regulation@comcom.govt.nz with 'Vector catastrophic event reconsideration consultation' in the subject line of your email.

24. We prefer submissions in both a format suitable for word processing (such as a Microsoft Word document), as well as a 'locked' format (such as a PDF) for publication on our website.

Confidential submissions

25. While we encourage public submissions so that all information can be tested in an open and transparent manner, we recognise that there may be cases where parties that make submissions wish to provide information in confidence. We offer the following guidance:

    25.1 If it is necessary to include confidential material in a submission, the information should be clearly marked, with reasons why that information is considered to be confidential.

    25.2 Where commercial sensitivity is asserted, submitters must explain why publication of the information would be likely to unreasonably prejudice their commercial position or that of another person who is the subject of the information.

    25.3 Both confidential and public versions of the submission should be provided.

    25.4 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. Please note that all submissions we receive, including any parts that we do not publish, can be requested under the Official Information Act 1982. This means we would be required to release material that we do not publish unless good reasons exist under the Official Information Act 1982 to withhold it. We would normally consult with the party that has provided the information before any disclosure is made.

27. 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.

Attachment A Reconsideration framework

A1 This attachment presents the regulatory framework for assessing Vector's application to us to reconsider and amend its DPP3 price path using a catastrophic event reopener for the impacts of Cyclone Gabrielle on its network and service.

The DPP price path and quality standards may only be reconsidered in limited circumstances

A2 Vector is a non-exempt EDB subject to price-quality regulation by the Commission under Part 4 of the Commerce Act 1986 (the Act). The revenues it may recover from its consumers for the period in which the cyclone occurred were determined in the default price-quality path DPP3.[11]

A3 We determined the DPP3 price path under the EDB Input Methodologies (EDB IMs) on a forecast, *ex-ante* basis to cover the regulatory period 1 April 2020 to 31 March 2025. Once determined, the DPP3 price path and quality standards may not be reconsidered (or reopened) except in limited circumstances.[12] Under s 52T(1)(c)(ii) of the Act, these circumstances include those specified in Subpart 5 of Part 4 of the EDB IMs.

A4 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.

A5 We can only undertake a reopener in accordance with the EDB IMs. The EDB IMs applicable to this application are those which were in effect at the time of the cyclone.[13] We refer to these as the 'DPP3 IMs' to be clear that subsequent amendments, including those related to reopeners published in March 2025, do not apply here.[14]

A6 Under clause 4.5.6(1)(a)(vi) of the DPP3 IMs, one of the specified circumstances where we may reconsider the DPP3 price path is if an EDB applies to the Commission and satisfies us that a 'catastrophic event' has occurred under clause 4.5.1.

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11 Commerce Commission, Electricity Distribution Services Default Price-Quality Path Determination 2020 [2019] NZCC 21, (27 November 2019).

12 Sections 52T(1)(c)(ii) and 53ZB of the Act.

13 That is the Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26 (as amended). For convenience, we recommend referring to the consolidated version of the IMs: Commerce Commission, Electricity Distribution Services Input Methodologies Determination 2012 – consolidated as of 23 April 2024.

14 Commerce Commission, Amendments to input methodologies for electricity distribution businesses and Transpower (Reopeners and other matters), 27 March 2025.

A catastrophic event reopener enables an EDB to remediate the impacts of an event beyond its control on its network and on its service to consumers

A7 The aim of catastrophic event reopeners is to provide certainty to a regulated supplier that it can recover the prudent costs of rectifying the adverse consequences of the catastrophic event and restore service to consumers, while maintaining appropriate incentives for suppliers to manage risks.

Reopener criteria under clause 4.5.1 of the EDB IMs

A8 To qualify as a catastrophic event, the event must meet the criteria below from clause 4.5.1 of the DPP3 IMs. The event must be:

(a) beyond the reasonable control of the EDB;

(b) in relation to which expenditure is not explicitly or implicitly provided for in the ***DPP****;*

(c) that could not have been reasonably foreseen at the time the ***DPP*** *was determined; and*

(d) in respect of which –

(i) action required to rectify its adverse consequences cannot be delayed until a future ***regulatory period*** *without quality standards being breached;*

(ii) remediation requires either or both of ***capital expenditure*** *or* ***operating expenditure*** *during the* ***regulatory period****;*

(iii) the full remediation costs are not provided for in the ***DPP****; and*

(iv) in respect of an ***EDB*** *subject to a* ***DPP****, the cost of remediation net of any insurance or compensatory entitlements has had or will have an impact on the price path over the* ***disclosure years*** *of the* ***DPP*** *remaining on and after the first date at which a remediation cost is proposed to be or has been incurred, by an amount equivalent to at least 1% of the aggregated* ***forecast net allowable revenue*** *for the* ***disclosure years*** *of the* ***DPP*** *in which the cost was or will be incurred.*

A9 Clause 4.5.6(2) of the DPP3 IMs also states that where the costs to rectify the adverse consequences of the catastrophic event are fully covered by either the DPP (eg, through an operational expenditure allowance for self-insurance); or commercial insurance held by the EDB, then the Commission will only reconsider the quality standards of the DPP.

Materiality threshold and interpretation of costs incurred

A10 The catastrophic event ‘materiality threshold’ under the DPP3 IMs is set out in clause 4.5.1(d)(iv) above.

A11 The terms ‘cost’ and ‘incurred’ here are not defined in the IMs, and require interpretation. The timing of when costs are incurred is important because it determines FNAR from which years is included in the 1% of aggregate FNAR threshold.

A12 For assessing clause 4.5.1(d)(iv), operating expenditure (opex) is uncontroversially a cost incurred in the year of spend. Our interpretation is that capital expenditure (capex) is likewise a cost incurred in the year of spend.[15]

A13 Hence if event remediation opex and capex are incurred in a single year, with no further expenditure, then the 1% of FNAR calculation is confined to that single year. The materiality threshold calculation should ignore the commissioning date of the same capex if it occurs in a later year. If opex and capex are incurred in additional years then those additional years should also be included in the 1% of aggregate FNAR calculation.

Our discretion to reopen and amend the DPP3 price-quality path

A14 Our decision making to reopen and amend a price-quality path is a two-step process:

A14.1 first, we assess whether the event meets the criteria for a 'catastrophic event' under clause 4.5.1 of the DPP3 IMs;

A14.2 then, if we decide the event does meet the clause 4.5.1 criteria, under clauses 4.5.6(1)(a)(i) and 4.5.6(2) of the DPP3 IMs, we exercise our discretion on whether and how to reopen and amend the DPP3 price-quality path.

A15 Our discretion on whether to reopen the price-quality path is guided by the extent to which reopening the price path in these circumstances would promote the s 52A purpose of Part 4 of the Act.

A16 Under clause 4.5.7(1), where we have determined that the DPP should be amended, we may amend either or both of the price path or the quality standards and quality measures specified in the DPP determination.

A17 Vector has not applied for any reconsideration of its quality standards or measures, and we have limited our reconsideration to its price path.

A18 If we decide to reopen the price path under clause 4.5.6(1), then under clause 4.5.7(2), we cannot amend the price path more than is necessary to mitigate the effect of the catastrophic event on price.

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[15] This supersedes any previous views, including that capital costs (ie, the return on and of capital) on assets commissioned in event remediation are the costs relevant to capital works when assessing this threshold.

Reopening the DPP3 price path could involve one or both of a catastrophic event reopener allowance and an amendment to price path allowed revenues

A19 Under the DPP3 IMs, if we reopen the DPP3 price path, we may amend the price path to mitigate the catastrophic event with one or both of two mechanisms:

A19.1 a catastrophic event (CE) allowance in relation to costs incurred between the date of the event and the effective date of our decision, applied as a recoverable cost to the DPP3 price path; and/ or

A19.2 a forward-looking price path amendment, in which we may update the forecast net allowable revenue (FNAR) and forecast aggregate value of commissioned asset (FAVCA) for relevant years in the DPP3 regulatory period.

A20 Each option allows us to apply a quality incentive scheme adjustment caused by the impact of the CE.

A21 CE allowance is defined in the DPP3 IMs in clause 1.1.4(2) as:

... the amount determined by the Commission for–

(a) additional net costs (over and above those provided for in a DPP determination or CPP determination) prudently incurred by an EDB in responding to a catastrophic event, other than costs that are foregone revenue;

(b) recoverable costs and pass through costs the EDB was permitted to recover under the applicable DPP determination or CPP determination through prices, but did not recover due to a catastrophic event; and

(c) the impact of a catastrophic event on any quality incentive adjustment.

incurred in or relating to the period between a catastrophic event and the effective date of an amendment to the DPP or CPP following reconsideration of the price-quality path under clause 4.5.6(1)(a)(i) or clause 5.6.7(2)(a).

Additional net costs

A22 Additional net costs is not a defined term in the DPP3 IMs. It has been defined in subsequent IM Amendments, which do not apply to this decision.[16] For discussion of our interpretation of additional net costs in the present case, see Attachment D.

[16] Commerce Commission, Amendments to input methodologies for electricity distribution businesses and Transpower (Reopeners and other matters), 27 March 2025, paragraph 2.73.

Attachment B Assessment of catastrophic event criteria

B1 This attachment presents our assessment of Vector's application against the catastrophic event (CE) criteria.

Assessment of catastrophic event criteria

B2 Table B1 below sets out the CE criteria in the DPP3 IMs, Vector's views and supporting evidence on meeting them, and our assessment of that evidence for the purpose of our draft decision.

B3 In summary, we are satisfied that the impacts of Cyclone Gabrielle on its network was an event beyond Vector's control, could not have been foreseen when the DPP was set, and that significant expenditure not provided in the DPP3 price path was required to remedy the adverse consequences.

B4 We interpret the materiality threshold here as a gate through which an application must pass for further assessment. To increase certainty to applicants, our view is that it is preferable to assess the materiality threshold on the basis of reasonable costs presented in an application.[17] The alternative is to base it on accepted event remediation costs, only available after engagement and assessment of the application and costs presented.

B5 Also see Attachment A, section *materiality threshold and interpretation of costs incurred* for interpretations relevant to assessing the materiality threshold.

[17] In exercising our discretion to reconsider the price path, we reserve the right to reject applications where our scrutiny of the accepted costs demonstrates that an objective assessment of the costs presented would not have met the materiality threshold.

Table B1 Assessment of Vector's Cyclone Gabrielle application against the DPP3 IMs catastrophic event criteria

Criteria	Summary of Vector's view and evidence[18]	Our assessment
DPP3 EDB IMs, clause 4.5.1 – CE means an event -		
(a) beyond the reasonable control of the **EDB**;	"The January floods and Cyclone Gabrielle were both historically unprecedented natural disasters, beyond Vector's control and ability to prevent or further mitigate. The floods had a significant impact on network performance in the cyclone (e.g. due to already wet ground) which was outside Vector's control and ability to further mitigate." [application included links to supporting evidence related to weather conditions, including NIWA's Climate Summary February 2023.]	Criterion has been met. The CE to which this reopener applies is Cyclone Gabrielle. We accept that the cyclone was an unforeseeable natural disaster which incurred significant damage to the Vector Network region of greater Auckland. Rainfall totals during the cyclone exceeded 200 mm in the Auckland region, and close to 250 mm in the Waitakere ranges. This is about two months of average rainfall, occurring in just a week. The occurrence of the cyclone was clearly beyond Vector's control, and mitigation efforts were hampered by preceding events beyond Vector's control. In particular, the impacts of the cyclone were compounded by the proximate Auckland anniversary weekend floods, with saturated ground and un-remediated floods damage making some assets more susceptible to cyclone damage. While cyclone remediation costs may have been higher for reasons related to the floods, costs directly related to the floods are ineligible under this reopener.
(b) in relation to which expenditure is not explicitly or implicitly provided for in the **DPP**;	"Expenditure associated with a low probability/high impact event comparable to the CE was not included in the base,	Criterion has been met.

[18] Vector Limited, Catastrophic event allowance application for Cyclone Gabrielle, 15 November 2024, Appendix 1 unless stated otherwise.

Criteria	Summary of Vector's view and evidence[18]	Our assessment
	step, trend opex forecast used to set DPP3 or in Vector's 2019 AMP". Vector also notes on p.12 of its application: "As regards capex, the Commission utilised EDBs' 2019 AMP forecasts as a starting point. Vector's 2019 AMP did not include in the asset replacement and renewal capex forecast an expectation of adverse weather events on the scale seen in 2023. In contrast, our 2024 AMP includes a significant uplift in reactive expenditure ($71m) as a result of increasing significant adverse weather events."	The DPP reflects the typical costs of running each EDB, which includes some budget towards responding to weather events as these would have been included in the historic data set used for setting capex and opex forecasts. However, Cyclone Gabrielle was an extreme weather event for which a comparable event doesn't exist in the EDB historic datasets nor was additional expenditure for responding to CEs either explicitly or implicitly provided for when DPP3 was set. Significant storm events may have occurred on these networks in the reference period (i.e. April 2018 storm event in Auckland), but none of equivalent severity or impact (eg, none were declared states of emergency).[19] So it could be argued that events of this magnitude were not provided explicitly or implicitly in the DPP.
(c) that could not have been reasonably foreseen at the time the **DPP** was determined and;	"Given the historically unprecedented nature of the floods and cyclone, the occurrence of this CE within the planning horizon of the DPP could not have been reasonably foreseen."	Criterion has been met. A rare event with high network impact such as Cyclone Gabrielle could not have been reasonably foreseen to occur specifically within the DPP3 period at the time DPP3 was determined. While we would expect some storm event preparation, and consideration of high impact low probability events, we would not expect these events to be 'reasonably foreseen', nor the consequences allowed for in setting a DPP. In general, we would expect to see in AMPs the resilience standards used and the annual recurrence interval used to assess the impact to assets. EDBs should also be re-considering the annual recurrence interval with climate changes creating more extreme weather events.

[19] https://www.civildefence.govt.nz/resources/previous-emergencies/declared-states-of-emergency/.

Criteria	Summary of Vector's view and evidence[18]	Our assessment
(d) in respect of which- (i) action required to rectify its adverse consequences cannot be delayed until a future **regulatory period** without quality standards being breached;	"Even with its response, Vector breached the quality standards in circumstances where, absent the event, it would not have done so. This demonstrates that, in the absence of Vector's response, the impact on the quality standards would have been significantly greater."	Criterion has been met. The natural disaster occurred in February 2023, over two years before the start of the next DPP. The actions taken were of urgency to resolve extensive loss of service, with 221,000 ICPs affected according to its RY23 Annual Compliance Report.[20] Vector took action to reinstate the network and reduce the impact to consumers. From the damage to the network, it was evident that it had to be reinstated to provide supply. Prior to the floods and cyclone, Vector was projecting to not exceed its RY23 unplanned SAIDI cap. As a result of these events it did exceed this cap, even with its remedial actions. As such, it was not possible for Vector to defer the works until DPP4 without *further* exceeding the relevant quality standards.
(ii) remediation requires either or both of **capital expenditure** or **operating expenditure** during the **regulatory period**;	"Remediation required both capex and opex."	Criterion has been met. On the basis of the information provided in Vector's application, we are satisfied that its response required both operational expenditure and capital expenditure during the DPP3 period in which Cyclone Gabrielle occurred.
(iii) the full remediation costs are not provided for in the **DPP**; and	"Expenditure associated with a low probability/high impact event comparable to the catastrophic event was not included in the base, step, trend opex forecast used to set DPP3 or in Vector's 2019 AMP."	Criterion has been met. DPP3 opex forecasts were set based upon a base-step-trend methodology, with the total 2019 actual opex setting the base-level.

[20] Vector, 2023 Annual Compliance Statement For the assessment period 1 April 2022 - 31 March 2023, 30 August 2023.

Criteria	Summary of Vector's view and evidence[18]	Our assessment
		Vector's base-level network opex did include System Interruption and Emergency from 2019 actual opex, but not at a level to absorb full remediation costs of an event of this magnitude. No relevant remediation costs were provided for within either "step" or "trend" assessments either. So, Vector's DPP3 opex allowance did not provide for full remediation costs.
(iv)in respect of an **EDB** subject to a **DPP** the cost of remediation net of any insurance or compensatory entitlements has had or will have an impact on the price path over the **disclosure years** of the **DPP** remaining on and after the first date at which a remediation cost in proposed to be or has been incurred, by an amounts equivalent to at least 1% of the aggregated **forecast net allowable revenue** for the for the **disclosure years** of the DPP in which the cost was or will be incurred.	"The cost of remediation net of any insurance or compensation exceeds 1% of FNAR in RY23." [The materiality threshold, assessed only on RY23 opex (ie, excluding RY23 capex) is shown in Table 5 of Vector's application].	Criterion has been met, Materiality threshold has been met, assessed on the reasonable costs presented in Vector's application. Vector's application says there were "no insurance proceeds to apply to the costs of remediating the CE."[21] The costs applied for (RY23 opex and RY23 capex) were incurred in RY23 only. The materiality threshold, being 1% of RY23 FNAR is then $4.043 million. We have calculated the price path impact of the event costs presented in Vectors' application, using the DPP3 financial model to be $7.405 million, exceeding the materiality threshold. In line with our view that the materiality threshold is a 'gate to pass through' and assessed on the reasonable costs included in the application, the inputs to this price path impact calculation were: (a) RY23 opex of $6.66 million opex, and (b) RY24 VCA associated with RY23 capex of $4.90 million.

[21] Vector Limited, Catastrophic event allowance application for Cyclone Gabrielle, 15 November 2024, p. 15.

Attachment C Assessment of event remediation costs

C1 This attachment sets out our assessment of event remediation costs presented in Vector's application against requirements in our regulations for these costs to be prudent, efficient and related to the cyclone.

C2 These requirements relate to:

C2.1 clause 4.5.7(2) of the DPP3 IMs requiring that price path amendments can be no more than is reasonably necessary to mitigate the effect of the catastrophic event (CE); and

C2.2 the clause 1.1.4(2) definition of CE allowance as including additional net costs "prudently incurred by an EDB in responding to a CE".

C3 Vector's application set out its costs as in the table below:[22]

Table C1. Table of event remediation costs in Vector's application

Event remediation costs, all RY23	Opex ($ million)	Capex ($ million)
Service interruptions and emergencies	5.82	
Vegetation management	0.51	
System operations and network support	0.33	
Asset replacement and Renewal		4.90
Total	**6.66**	**4.90**

C4 In order to be able to assess these costs against the requirements above, we asked Vector for more information. Vector provided:

C4.1 Additional cost descriptions and breakdowns by service provider.

C4.2 Detailed descriptions of its processes and controls, including its emergency operational response to report, triage and assign field works, the underlying processes and signoffs related to its supplier selection and commercial arrangements, and processes for billing, approving and paying invoices.

C4.3 A breakdown on assets commissioned (by asset class, number and cost) as a result of the RY23 capex.

C5 Details of the information above are commercially or operationally sensitive and we have not published them.

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[22] Vector Limited, Catastrophic event allowance application for Cyclone Gabrielle, 15 November 2024, p. 23.

C6 As a result of the information supplied to us, we have calculated the total RY24 VCA resulting from RY23 event remediation capex as $4.747 million.

Our draft decision is to accept $6.396 million of the $6.66 million event remediation opex presented

C7 Of the $6.66 million event opex included in Vector's application, the majority came from Field Service Providers (FSPs) contributing $5.7 million, and Vegetation Management providers contributing $0.51 million.

C8 Of this total, our draft decision is to:

C8.1 deduct $237,000 from the original application following the identification of a double accounting accrual in the amounts included in the application; and

C8.2 decline internal costs of $28,859 for which insufficient information was provided to allow this to be assessed as related to the cyclone rather than business as usual.

C9 Our draft decision is to accept all other opex costs submitted, to a value of $6.396 million, as prudent and efficient costs incurred in response to the cyclone. This is based on our assessment of the details provided and our satisfaction with Vector's descriptions of its processes and controls for emergency response operations to identify, triage and assign field works, its procurement processes including supplier selection and commercial terms, and invoice submission, acceptance and payment.

C10 Vector have fixed rate cards for activities that have been compared against the market. And all FSP invoices are scrutinised before being paid, with cross checks of assets repaired or replaced against works assigned and unplanned network faults.

Our draft decision is to accept $4.747 million RY24 VCA related to the $4.90 million event remediation capex presented

C11 We have included Vector's $4.90 million RY23 event remediation capex in our assessment of its application. Following our interpretation that capex is a cost incurred in the year of spend, RY23 event remediation capex presented in Vector's application can be included in its application while still meeting the materiality threshold, even though the resulting assets were not commissioned until RY24.

C12 It is the value of commissioned assets associated with the event remediation capex that is relevant to the value of the CE allowance. We have assessed the break-down provided by Vector of assets commissioned in RY24 as a result of RY23 event remediation capex. Our draft decision is to accept all of the $4.747 million RY24 VCA set out by Vector.

C13 We are satisfied that the asset mix and quantities in this break-down represent prudent and efficient costs incurred in response to the cyclone. And, as with our opex assessment, we are satisfied that the work assignment, supplier selection, commercial arrangements and billing processes behind these amounts are appropriate.

Attachment D Impact on quality incentive adjustment

D1 This attachment assesses Vector's claim for the cyclone's impact on its quality incentive adjustment (QIA).

D2 Vector applied for $400,337 as the impact of the cyclone on its QIA, calculated as the "*amount representing the difference between the quality incentive adjustment with and without the catastrophic event*."[23]

D3 We agree with this general approach, where the QIA amounts with and without the catastrophic event (CE) having happened are calculated using the methodology and parameters set out in paragraph 5 of Section 4 of the DPP3 Determination.

D4 We accept Vector's approach and value for its 'without cyclone' unplanned SAIDI. It takes into account the cyclone's impact on its quality performance during- and beyond the Cyclone Gabrielle major event period. [24] This is consistent with our enforcement decision on Vector's non-compliance over the RY23 period, in which we acknowledged its position that the 'tail' effect of Cyclone Gabrielle contributed to it contravening its RY23 quality standards.[25] Vector's approach accounts for the SAIDI impact of the floods, consistent with the scope of this reopener being limited to the cyclone.

D5 We confirm that the QIA impact from this approach is the $400,337 sought by Vector. Accordingly, our draft decision is to include this amount in its CE allowance.

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[23] Vector Limited, Catastrophic event allowance application for Cyclone Gabrielle, 15 November 2024, p. 7.

[24] See Vector's unplanned interruptions reporting for the 2023 assessment period and Vector, Electricity Distribution Services 2023 Annual Compliance Statement For the assessment period 1 April 2022 - 31 March 2023, 30 August 2023, p. 18.

[25] Commerce Commission, Compliance advice letter to Vector Limited, 26 September 2024.

Applying the QIA methodology confirms the amount Vector has claimed

D6 Table D1 below sets out the QIA calculation for Vectors' with cyclone and without cyclone cases using the methodology and parameters in the DPP3 determination and values in Vector's RY23 Annual Compliance Statement.[26]

D6.1 The 'with cyclone' RY23 unplanned SAIDI value is 118.74. In the QIA calculation this is capped at 104.83, and results in a QIA amount of negative $1,650,015.

D6.2 Vector's 'without cyclone' unplanned SAIDI value that we have accepted is 100.47. This results in a QIA amount of negative $1,249,678.

D6.3 The difference in these amounts is the $400,337 claimed by Vector.

We accept Vector's approach to calculating its without cyclone unplanned SAIDI

D7 In the absence of a defined method to calculate unplanned SAIDI in the counterfactual 'without cyclone' case, we have assessed Vector's approach. We find it to be reasonable and accept it.

D8 Vector's approach seeks to account for the 'tail' effects of the cyclone beyond the major event window on its RY23 quality standards. There is also no defined way to consider tail impacts, which by definition lie outside the major event window and not normalised.

D9 Vector's approach involves a conservative projection over the last two months of the assessment period, after 10 months of steady performance tracking under its annual unplanned SAIDI cap, and accounts for the major event impact of the floods.

D9.1 The start point is its internal projection on 26 January 2023, immediately before the floods. Its year-to-date unplanned SAIDI was 78.11 and high-case projection to the end of the year 97.61, below its cap of 104.83.[27]

D9.2 Vector added to this the normalised unplanned SAIDI impact of the floods which was 2.86 (for the major event period).[28]

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26 Vector, Electricity Distribution Services 2023 Annual Compliance Statement For the assessment period 1 April 2022 - 31 March 2023, 30 August 2023, p. 32.

27 Vector's unplanned interruptions reporting for the 2023 assessment period, p. 3.

28 Vector, Electricity Distribution Services 2023 Annual Compliance Statement For the assessment period 1 April 2022 - 31 March 2023, 30 August 2023, p. 18.

D9.3 This gives a 'without cyclone (but with floods)' unplanned SAIDI value for RY23 of 100.47.

D10 Vector's high-case projection here amounts to a SAIDI per day rate for the last two months about 17% higher (ie, worse) than its year-to-date performance.[29] This is a conservative approach in that it does not assume quality performance better than the year-to-date rate which would risk overcompensation for the impact of the cyclone on Vector's QIA.

Table D1. Vector's Quality Incentive Adjustment for RY23 with- and without the cyclone[30]

Vector's actual RY23 unplanned SAIDI was 118.74, capped in the QIA clat 104.83. The Total Incentive A+B is -$1.519 m which is below the 2% ANAR revenue at risk. Applying the time value of money adjustment, QIA is -$1.650 million. The without cyclone case (highlighted grey) in Vector's application is for unplanned SAIDI =100.47 and the resulting QIA is $1.250 million. The difference here is $400,337 - the amount claimed by Vector for the cyclone's impact on its QIA.

Parameters	
ANAR 2023	$ 438,352,000
REV RISK	$ 8,767,040
Incentive Rate IR	$ 84,519
WACC 67th post tax	4.23%

Methodology
A = SAIDI(unplanned, target) - SAIDI(unplanned assessed) * IR
B = SAIDI(planned, target) - SAIDI(planned assessed) * IR * 0.5
See FN 42 screen shot - the cap applies here

1. Incentive amounts from SAIDI quantities	B - PLANNED	A - UNPLANNED	A* - UNPLANNED (without cyclone)
target - assessed_capped	39.03	89.28	89.28
Cap	117.08	104.83	104.83
assessed	43.87	118.74	100.47
assessed_capped	43.87	104.83	100.47
target - assessed_capped	-4.84	-15.55	-11.19
Multiplier	0.5	1	1
Incentive amount B - PLANNED	-$ 204,536		
Incentive amount A - UNPLANNED		-$ 1,314,270	-$ 945,768
Total Incentive A+B		-$ 1,518,806	-$ 1,150,304

2. QIA calculation with and without cyclone	Actual with cyclone	Without cyclone
min(REV RISK, A+B)	-$ 1,518,806	-$ 1,150,304
WACC uplift amount	-$ 131,209	-$ 99,374
Total	-$ 1,650,015	-$ 1,249,678
Difference		**$ 400,337**

[29] These high and low case estimates are based on standard deviations from Vector's SAIDI limit. See Vector's unplanned interruptions reporting for the 2023 assessment period, 24 August 2023, p.2.

[30] Vector's actual RY23 QIA reproduced from Vector, 2023 Annual Compliance Statement For the assessment period 1 April 2022 - 31 March 2023, 30 August 2023, p. 32.

Attachment E Reopening Vector's price path

E1 This attachment sets out our draft decision to reopen Vector's DPP3 price path and determine a catastrophic event (CE) allowance, and how we have calculated the value of this allowance.

Our draft decision is to reopen Vector's DPP3 price path

E2 Our draft decision is to reopen Vector's DPP3 price path. We have assessed the impact of Cyclone Gabrielle on the Vector's network between 11-17 February 2023 as having met the CE criteria to qualify as a CE. In addition, we are satisfied that the majority of event remediation costs presented by Vector meet the requirements to be prudent, efficient and related to Cyclone Gabrielle.

E3 We are satisfied that reopening Vector's DPP3 price path in these circumstances promotes the Part 4 purpose, in particular the s 52A(1)(a) and (b) limbs. It does so by enabling Vector to recover revenue for remediation costs prudently incurred in responding to the cyclone and not fully provided for in DPP3. This in turn maintains Vector's incentives to invest, including in replacement assets and to provide and to restore services in a timely manner at a quality that reflects consumer demands.

E4 Furthermore, our scrutiny of Vector's application against the criteria in the DPP3 IMs provides a check on the costs sought, with the Commission assessing the expenditure to be in the long-term benefit of consumers. This limits Vector's ability to extract excessive profits in these circumstances, promoting the outcome in
s 52A(1)(d).

How and by how much to amend Vector's price path

E5 As set out in Attachment A, the DPP3 IMs provide two mechanisms for reopening the DPP3 price path in response to a CE:

E5.1 a catastrophic event (CE) allowance in relation to costs incurred between the date of the event and the effective date of our decision, applied as a recoverable cost to the DPP3 price path; and

E5.2 a forward-looking price path amendment, in which we may update for relevant years in the DPP3 regulatory period the forecast aggregate value of commissioned asset (FAVCA) and the forecast net allowable revenue (FNAR).[31]

E6 Our draft decision is to determine a CE allowance for RY25 in respect of the accepted event remediation costs incurred in RY23 (and associated assets commissioned in RY24).

We have assessed additional net costs as the incentive penalties on accepted event costs

E7 As set out in clause 1.1.4(2) of the DPP3 IMs, a CE allowance may include three types of cost: (a) additional net costs prudently incurred in relation to the event; (b) recoverable and pass through costs not recovered due to the event; and (c) the impact of the event of any quality incentive adjustment (QIA).

E8 Additional net costs is not defined in the DPP3 IMs. Our interpretation is that additional net costs here are the costs not recovered through the opex IRIS and capex retention mechanism. This view is consistent with the definition of additional net costs included in recent IM Amendments applicable for DPP4, which includes IRIS costs among other costs.[32]

We disagree with Vector's interpretation of additional net costs as the BBAR impact

E9 Vector's application presented a value for additional net costs calculated as 23.5% of event costs applied for. It also submitted that:[33]

> the better interpretation is that "additional net costs" comprises at least the difference between building blocks allowable revenue with and without the costs incurred responding to the catastrophic event. In other words, the additional net costs are calculated on the same basis as the BBAR adjustment approach used to assess the materiality threshold

[31] The updated FNAR then flows into updated actual net allowable revenue (ANAR) and updated actual allowable revenue (ARR) which is the amount recoverable from consumer pricing.

[32] Commerce Commission, Amendments to input methodologies for electricity distribution businesses and Transpower (reopeners and other matters), (27 March 2025), p. 25

[33] Vector Limited, Catastrophic event allowance application for Cyclone Gabrielle, 15 November 2024, p. 6.

E10 A BBAR approach is not appropriate here. Under the DPP3 IMs the CE materiality threshold is indeed specified in terms of the price path impact of incurred costs (since changed in the 2023 IM Review).[34] This is consistent with amending the forward-looking price path where forecast additional expenditure can be provided for by an uplift in expenditure allowances (including the mitigation of the IRIS impact of additional forecast expenditure).

E11 A CE allowance on the other hand applies primarily to *ex-post* expenditure from the date of the event, including expenditure up to the effective date of the decision. A CE allowance is therefore expressed in terms of additional net costs, which reflect the value of impacts including IRIS impacts of expenditure already incurred, and for which compensation is provided by a single recoverable cost amount.

E12 We have not assessed Vector's application using this method because it would lead to double recovery. In particular, we exclude 'capital costs' (ie, the regulated return and depreciation on the accepted event costs). This exclusion avoids the double recovery of these capital costs, an issue under the DPP3 IMs which is identified and remediated in the recent IM Amendments (which do not apply to this decision).[35] Capital costs related to Vector's actual VCA will be recovered in the capex wash-up in the second year of DPP4

Calculation of Vector's additional net costs

E13 We have calculated Vector's additional net costs related to approved event opex and capex costs using the same approach as in the Firstlight CE final decision and have published a workbook as part of our draft decision setting this out. [36] The total is $3.249 million (PV 1 April 2025).

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[34] Commerce Commission, Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023, (13 December 2023), p. 142.

[35] Under recent IM amendments, a "reopener event allowance (REA) including capital costs up to the application date accepted by the Commission could lead to double recovery of those costs for that period. This is because the EDB would recover those costs (including IRIS penalties on additional capex) through the REA, and in the next regulatory period would recover the capital costs through the calculation of the capex wash-up. The solution proposed is "to amend the capex wash-up provisions in the EDB IMs and the Transpower IPP determination to require the deduction of any capital costs already included in an REA". Commerce Commission, Amendments to input methodologies for electricity distribution businesses and Transpower (reopeners and other matters), (27 March 2025), p. 25.

[36] Commerce Commission, Reconsideration of DPP3 default price-quality path for Firstlight Network Limited – Cyclone Gabrielle catastrophic event Final decision, 26 June 2025.

E14 Our intention is to compensate Vector in a present-value-neutral way for the IRIS incentive impacts of responding to the cyclone, in a way that is consistent with the DPP3 IMs. We lack perfect *ex-post* information on what those IRIS impacts will be when they are calculated in the next regulatory period but have sought to determine an appropriate value of this allowance with information available now.

E15 The capex incentive calculation applies the capital retention factor specified as 23.5% in the DPP3 determination to Vector's approved event VCA. This amount is $1.193 million (PV 1 April 2025).

E16 The opex IRIS incentive calculation adapts the previously published DPP4 IRIS Template file.[37] It sets out Vector's approved event opex, the IRIS amounts carried forward, and the resulting IRIS incentive amount. It uses the DPP3 WACC 4.57% as the discount factor in DPP3 years and the DPP4 WACC 6.68% in DPP4 years (and the first year of DPP5 RY31).[38] This reflects more accurately what the actual IRIS values will be, when calculated, now that the DPP4 WACC has been determined. This amount is $2.056 million (PV 1 April 2025).

Our draft decision is a CE allowance of $3.649 million

E17 Following this approach, our draft decision is to reopen Vector's DPP3 price path and determine a catastrophic event (CE) allowance of $3.649 million (PV 1 April 2025) for RY25 comprising:

E17.1 $3.249 million for additional net costs on the approved event costs; and

E17.2 $400,337 for the impact on Vectors' QIA set out in Attachment D.[39]

E18 This approach takes into account penalties from opex IRIS and capex retention but, for the reasons above, not capital costs. Any underspend due to deferring planned work has not been taken into account in calculating additional net costs and the CE allowance.

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[37] *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.

[38] For DPP3 the relevant value is the 67th percentile vanilla WACC. Following an IM amendment the relevant value for DPP4 is the midpoint vanilla WACC.

[39] NB: we have approved the QIA impact claimed to this precision. But the CE Allowance is determined to the nearest thousand.

E19 As an unforecasted recoverable cost for RY25, this allowance will result in a wash-up accrual amount available to be drawn down by Vector for recovery in consumer prices from RY27.[40] It equates to about $6 per ICP.

[40] 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 Vector have already set pricing for RY26.