

ISBN 978-1-869456-02-3

Decision Series

Project no. 16104

**Public** version

**[DRAFT] Electricity Distribution Services Input Methodologies Amendments Determination 2017**

**The Commission:** Dr Mark Berry

Sue Begg

Dr Stephen Gale

Dr Jill Walker

|  |  |
| --- | --- |
| Date of decision: | [XX] December 2017 |

Commerce Commission

Wellington, New Zealand

[Drafting notes:

* This amendments determination amends the Electricity Distribution Services Input Methodologies Determination 2012 (‘principal determination’).
* The included amendments are made under the terms of the Input Methodologies Review in respect of the related party transactions provisions in accordance with s 52Y of the Commerce Act 1986.
* Amendments to the body of the principal determination are marked as track changes in red.]

|  |  |  |
| --- | --- | --- |
| Determination history | | |
| Determination date | Decision number | Determination name |
| 28 September 2012 | [2012] NZCC 26 | Electricity Distribution Services Input Methodologies Determination 2012 (‘principal determination’)\* |
| 15 November 2012 | [2012] NZCC 34 | Electricity and Gas Input Methodologies Determination Amendments (No. 2) 2012 |
| 26 September 2014 | [2014] NZCC 24 | Electricity Lines Services Input Methodologies Determination Amendment 2014 |
| 29 October 2014 | [2014] NZCC 27 | Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for price-quality regulation) 2014 |
| 14 November 2014 | n/a | Determination of Input Methodologies by the High Court in *Wellington International Airports Ltd and others v Commerce Commission* [2013] NZHC 3289 (11 December 2013) |
| 27 November 2014 | [2014] NZCC 31 | Electricity Distribution Input Methodology Amendments Determination 2014 |
| 27 November 2014 | [2014] NZCC 32 | Incremental Rolling Incentive Scheme Input Methodology Amendments Determination 2014 |
| 11 December 2014 | [2014] NZCC 38 | Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for information disclosure regulation) 2014 |
| 12 November 2015 | [2015] NZCC 28 | Electricity and Gas (Customised Paths) Input Methodology Amendments Determination 2015 |
| 25 November 2015 | [2015] NZCC 32 | Electricity Distribution Services (Incremental Rolling Incentive Scheme) Input Methodologies Amendments Determination 2015 |
| 20 December 2016 | [2016] NZCC 24 | Electricity Distribution Services Input Methodologies Amendments Determination 2016 |
| [XX] December 2017 | [XX] | Electricity Distribution Services Input Methodologies Amendments Determination 2017 |

\* The principal determination re-determined the input methodologies contained in *Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010* (Commerce Commission Decision No. 710, 22 December 2010), as amended by the *Electricity and Gas Input Methodologies Determination Amendments (No. 1) 2012* [2012] NZCC 18 (29 June 2012). A complete history of determinations relevant to the input methodologies applicable to electricity distribution services is available on the Commission’s website.

ELECTRICITY DISTRIBUTION SERVICES INPUT METHODOLOGIES AMENDMENTS DETERMINATION 2017

[PART 1 GENERAL PROVISIONS 6](#_Toc491443806)

[PART 2 INPUT METHODOLOGIES FOR INFORMATION DISCLOSURE 51](#_Toc491443807)

[SUBPART 1 Cost allocation 51](#_Toc491443808)

[SUBPART 2 Asset valuation 55](#_Toc491443809)

[SUBPART 3 Treatment of taxation 68](#_Toc491443810)

[SUBPART 4 Cost of capital 75](#_Toc491443811)

[PART 3 INPUT METHODOLOGIES FOR BOTH DEFAULT AND CUSTOMISED PRICE-QUALITY PATHS 83](#_Toc491443812)

[SUBPART 1 Specification of price 83](#_Toc491443813)

[SUBPART 2 Amalgamations 92](#_Toc491443814)

[SUBPART 3 Incremental rolling incentive scheme 93](#_Toc491443815)

[SECTION 1 Annual IRIS incentive adjustments 93](#_Toc491443816)

[SECTION 2 Operating expenditure incentives 93](#_Toc491443817)

[SECTION 3 Capital expenditure incentives 103](#_Toc491443818)

[SECTION 4 Price-quality path amendments and other events 106](#_Toc491443819)

[SECTION 5 Transitional provisions 107](#_Toc491443820)

[PART 4 INPUT METHODOLOGIES FOR DEFAULT PRICE-QUALITY PATHS 110](#_Toc491443821)

[SUBPART 1 Cost allocation 110](#_Toc491443822)

[SUBPART 2 Asset Valuation 110](#_Toc491443823)

[SUBPART 3 Treatment of taxation 114](#_Toc491443824)

[SUBPART 4 Cost of capital 116](#_Toc491443825)

[SUBPART 5 Reconsideration of the default price-quality path 120](#_Toc491443826)

[SUBPART 6 Treatment of periods that are not 12 month periods 124](#_Toc491443827)

[SUBPART 7 Availability of Information 125](#_Toc491443828)

[PART 5 INPUT METHODOLOGIES FOR CUSTOMISED PRICE-QUALITY PATHS 126](#_Toc491443829)

[SUBPART 1 Contents of a CPP application 126](#_Toc491443830)

[SUBPART 2 Commission assessment of a customised price-quality path proposal 130](#_Toc491443831)

[SUBPART 3 Determination of customised price-quality paths 130](#_Toc491443832)

[SECTION 1 Determination of annual allowable revenues 130](#_Toc491443833)

[SECTION 2 Cost allocation and asset valuation 134](#_Toc491443834)

[SECTION 3 Treatment of taxation 143](#_Toc491443835)

[SECTION 4 Cost of capital 151](#_Toc491443836)

[SECTION 5 Alternative methodologies with equivalent effect 153](#_Toc491443837)

[SUBPART 4 Information required in a CPP proposal 153](#_Toc491443838)

[SECTION 1 General matters 153](#_Toc491443839)

[SECTION 2 Information regarding quality 154](#_Toc491443840)

[SECTION 3 Price path information 155](#_Toc491443841)

[SECTION 4 Cost allocation information 157](#_Toc491443842)

[SECTION 5 Asset valuation information 160](#_Toc491443843)

[SECTION 6 Tax information 163](#_Toc491443844)

[SECTION 7 Cost of capital information 165](#_Toc491443845)

[SECTION 8 Expenditure information 165](#_Toc491443846)

[SECTION 9 Information relevant to prices 167](#_Toc491443847)

[SECTION 10 Information relevant to alternative methodologies 167](#_Toc491443848)

[SUBPART 5 Consumer consultation, verification, audit and certification 168](#_Toc491443849)

[SUBPART 6 Catastrophic events and reconsideration of a customised price-quality path 172](#_Toc491443850)

[SCHEDULE A STANDARD PHYSICAL ASSET LIVES 179](#_Toc491443851)

[Table A.2: Asset lives for CPP commissioned assets 182](#_Toc491443852)

[SCHEDULE B COST ALLOCATION INFORMATION 183](#_Toc491443853)

[SCHEDULE C COST ALLOCATION INFORMATION 188](#_Toc491443854)

[SCHEDULE D CAPITAL AND OPERATING EXPENDITURE INFORMATION 193](#_Toc491443855)

[SCHEDULE E CAPITAL AND OPERATING EXPENDITURE - REGULATORY TEMPLATES 213](#_Toc491443856)

[SCHEDULE F ENGAGEMENT OF A VERIFIER 224](#_Toc491443857)

[SCHEDULE G TERMS OF REFERENCE FOR VERIFIERS 229](#_Toc491443858)

Pursuant to Part 4 of the Commerce Act 1986 the Commerce Commission makes the following determination:

1. GENERAL PROVISIONS
   * + 1. Title

This amendments determination amends the Electricity Distribution Services Input Methodologies Determination 2012.

* + - 1. Application
         1. The input methodologies in this determination apply to electricity distribution services.
         2. The input methodologies relating to cost allocation in Part 2 Subpart 1, Part 5 Subpart 3 Section 2 and Part 5 Subpart 4 Section 4 also apply to any other regulated service supplied by an EDB, as provided by the provision in question.
         3. The input methodologies in-

Part 2 of this determination apply in relation to information disclosure regulation under Part 4 Subpart 4 of the **Act**;

Part 3 of this determination apply to default/customised price-quality regulation under Part 4 Subpart 6 of the **Act**;

Part 4 of this determination apply in relation to default price-quality paths under sections 53O and 53P of Part 4 Subpart 6 of the **Act**; and

Part 5 of this determination apply in relation to customised price-quality paths under sections 53Q to 53ZA of Part 4 Subpart 4 of the **Act**.

* + - * 1. Amendments to the **input methodologies** in this determination in-

Part 2, including any amended definitions in clause 1.1.4(2), apply from the commencement of **disclosure year** 2019;

Part 4, including any amended definitions in clause 1.1.4(2), apply for a **DPP** in force from 1 April 2020; and

Part 5, including any amended definitions in clause 1.1.4(2), apply for a **CPP application** made after the commencement date described in clause 1.1.3.

* + - * 1. For the avoidance of doubt, if the **Commission** determines that any forecast values are required to be calculated consistent with Part 4 for the determination of a **DPP** that is to come into effect after the commencement date of this amendments determination, the amendments to the **input methodologies** relating to the forecast values in Part 4, and any amended definitions in clause 1.1.4(2), will apply at the time when the **Commission** requires the forecast information.
      1. Commencement

This determination comes into force on the day after the date on which notice of it is given in the New Zealand Gazette under s 52W of the Act.

* + - 1. Interpretation
         1. In this determination-

unless otherwise stated, references to-

'Sections' are to sections within the same subpart; and

'Subparts' are to Subparts within the same part,

in which the reference is made;

unless stated otherwise, references to Parts, Subparts and Sections are to named and numbered parts, subparts and sections of the determination;

unless the context otherwise requires, a word which denotes the singular also denotes the plural and vice versa;

unless stated otherwise, any reference to an allowance, amount, cost, sum or value is a reference to an allowance, amount, cost, value or sum calculated in relation to an EDB in respect of a disclosure year;

guidance notes in this determination are for guidance purposes only and any material referred to in the guidance notes does not form part of the determination;

where any material referred to in guidance notes is inconsistent with this determination, this determination prevails; and

materials incorporated by reference into this determination, including standards promulgated by other bodies, are incorporated in accordance with Schedule 5 of the **Act**.

*Guidance note: (refer to clause 1.1.4(1)(e)-(f))*

*Commerce Commission “Input methodologies review draft decision – Related party transactions – Draft decision and determinations guidance” (30 August 2017), Attachment C notes the process by which materials are incorporated by reference in this determination.*

* + - * 1. In this determination, including in the schedules, the words or phrases in bold type bear the following meanings:

**67th percentile estimate of WACC** means, for the purpose of-

Part 2, the 67th percentile estimate of post-tax **WACC**, determined in accordance with clause 2.4.5(4);

Part 3, the 67th percentile estimate of post-tax **WACC**, determined in accordance with clause 4.4.5(2); and

Part 4 and Part 5, the 67th percentile estimate of vanilla **WACC**, determined in accordance with clause 4.4.5(1);

2009 disclosed asset means an asset included by the EDB in question in the 'Total Regulatory Asset Base Value (Excluding FDC)' category for the disclosure year in the 2009 disclosure reports;

2009 disclosure reports means the reports disclosed by the EDB in question in accordance with the Electricity Distribution (Information Disclosure) Requirements 2008 for the disclosure year 2009;

**2013-15 NPV wash-up allowance** means the amount specified in the **DPP determination** for the **regulatory period** commencing 1 April 2015 for Alpine Energy Limited, Centralines Limited, and Top Energy Limited reflecting the impact of the capped alternative rate of change for those suppliers in the *Electricity Distribution Services Default Price-Quality Path Determination 2012* [2012] NZCC 35;

A

ABAA means accounting-based allocation approach, as described in, in the case of -

operating costs, clause 2.1.3(1); and

regulated service asset values, clause 2.1.3(2);

ACAM means avoidable cost allocation methodology, as described in clause 2.1.5;

Act means the Commerce Act 1986;

**actual allowable revenue** has the meaning specified in clause 3.1.3(13)(e);

**actual net allowable revenue** has themeaning specified in clause 3.1.3(13)(h) or 3.1.3(13)(i), as applicable;

actual revenue has the meaning specified in clause 3.1.3(13)(f);

adjusted tax value has the same meaning as in the tax depreciation rules;

actual controllable opex means the amount of operating expenditure made by the EDB in the categories to which allowed controllable opex relates;

**actual opex** has the meaning specified in clause 3.3.3(9);

additional assets means assets of an EDB which are not existing assets and are forecast to be commissioned;

additional CPP assets means assets of an EDB which, for the purpose of a CPP proposal, are forecast to be commissioned within the assessment period or the CPP regulatory period;

adjusted depreciation means total depreciation for all assets calculated as if no amount of revaluation had been included in the calculation of any opening RAB value following the determination of the initial RAB;

**adjustment to the opex incentive** means the amount calculated in accordance with clause 3.3.4;

aggregate closing RAB value for means the amount determined in **additional assets** accordance with clause 4.2.1(5);

aggregate closing RAB value for means the amount determined in **existing assets** accordance with clause 4.2.1(3);

aggregate opening RAB value for means the amount determined in **additional assets** accordance with clause 4.2.1(4);

aggregate opening RAB value for means the amount determined in **existing assets** accordance with clause 4.2.1(2);

allocation methodology type means one of ACAM, ABAA or OVABAA;

allocator metric means the value in units (e.g., number of employees or kilometres of cable) for each cost allocator or asset allocator used to calculate the proportion of operating costs or regulated service asset values to be allocated to each of-

electricity distribution services,

where applicable, each other regulated service; and

where applicable, each unregulated service;

allocator type means the basis for the attribution or allocation of an operating cost or regulated service asset value to electricity distribution services and other regulated services, viz. 'directly attributable', 'causal' or 'proxy';

allowable revenue before tax means allowable revenue before tax as determined by the Commission;

allowed controllable opex means the allowance (which is reasonable in light of the expenditure objective) specified in a CPP determination for operating expenditure in categories specified as controllable;

alternative depreciation method means a depreciation method which is not the standard depreciation method;

amalgamate means amalgamate in accordance with Part 13 of the Companies Act 1993 and amalgamation is to be construed accordingly;

amortisation of initial differences in means the amount determined in **asset values** accordance with, for the purpose of-

Part 2, clause 2.3.5;

Part 4, clause 4.3.3(3); and

Part 5, clause 5.3.17;

amortisation of revaluations means the amount determined in accordance with, for the purpose of-

Part 2, clause 2.3.6;

Part 4, clause 4.3.3(5); and

Part 5, clause 5.3.18;

**amount carried forward** means, for any given **disclosure year**, the amount determined in accordance with clause 3.3.3;

arm's-length deduction means in respect of-

operating costs not directly attributable, an amount of operating costs incurred by an EDB in the **supply** of unregulated services that have been recouped in an arm's-length transaction; and

regulated service asset values not directly attributable, the amount of regulated service asset values in respect of assets used by an EDB in the **supply** of unregulated services for which a recoupment of capital costs has been made by the **EDB** in an arm's-length transaction,

in respect of which the EDB wishes account to be taken for cost allocation purposes;

arm's-length transaction means a transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests;

*Guidance note: (refer to clause 1.1.4(1)(e)-(f))*

*This definition is identical to the definition in* ***ISA (NZ) 550****.*

assessment period means the period between the end of the most recent disclosure year prior to submission of the CPP application in question and the EDB's anticipated commencement date of the CPP, assuming that-

the CPP application is neither discontinued in accordance with s 53S of the Act nor deferred in accordance with s 53Z of the Act; and

reasonable time is allotted for the Commission to undertake its assessment of the CPP application in accordance with ss 53S, 53T and 53U of the Act;

asset adjustment process has the meaning specified in clause 2.2.1;

asset allocator means a proportion of a quantifiable measure used to allocate regulated service asset values that are not directly attributable and whose quantum is-

based on a causal relationship; or

equal to a proxy asset allocator;

asset category means any asset type described in *Table A.2: Asset lives for CPP commissioned assets* of Schedule A;

asset life means a finite period in respect of an asset, being-

its physical asset life; or

where an alternative asset life to the physical asset life is sought for the purpose of a CPP pursuant to clause 5.4.12(3)(d), the alternative asset life determined pursuant to clause 5.3.8;

asset life for CPP commissioned assets means the lives specified in *Table A.2: Asset lives for CPP commissioned assets* of Schedule A;

auditor means-

where the EDB is a public entity (as defined in s 4 of the Public Audit Act 2001), the Auditor-General; or

a person who-

is qualified for appointment as auditor of a company under the Companies Act 1993;

is independent; and

where the EDB is a CPP applicant-

is not a verifier of the EDB's CPP proposal;

has not assisted with the compilation of the information in that proposal;

has not provided opinions or advice (other than in relation to audit reports) on the methodologies or processes used or to be used in compiling the information in the proposal; and

is neither professionally associated with nor directed by any person who has provided such assistance, opinions or advice;

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

Part 2, clause 2.4.4(2); and

(b) Part 4, clause 4.4.4(2);

B

base year means the disclosure year selected by the Commission;

building blocks allowable revenue after tax means the amount determined in accordance with clause 5.3.3;

building blocks allowable revenue before means the amount determined in **tax** accordance with clause 5.3.2;

business has the same meaning as defined in s 2 of the Act;

business day means any day on which statistics relating to trading in New Zealand government bonds are published by a financial information service such as Bloomberg or Reuters;

C

capex means capital expenditure;

capex forecast means the part of the CPP proposal, provided pursuant to clause 5.4.29, that forecasts capex for the next period;

**capex incentive amount** means the amount determined in accordance with clause 3.3.10(2);

**capex wash-up adjustment** means the amount that is the difference between the revenues for a **DPP regulatory period** or **CPP regulatory period** using the actual values of **commissioned** assets for a prior **regulatory period** and the revenues using forecast **commissioned** assets applied by the **Commission** when setting **prices**, and is calculated in accordance with clause 3.1.3(8);

capital contributions means, for the purpose of-

Part 2, money or the monetary value of other consideration charged to or received from consumers or other parties for the purposes of asset construction, acquisition or enhancement;

Part 4, money or the monetary value of other consideration to be charged to or received from consumers or other parties for the purposes of asset construction, acquisition or enhancement; and

Part 5, money or the monetary value of other consideration forecast to be charged to or received from consumers or other parties for the purposes of asset construction, acquisition or enhancement;

capital costs means either or both the return on or return of regulated service asset values;

capital expenditure means costs, for the purposes of-

Part 2-

incurred in the acquisition or development of an asset that is, or is intended to be, commissioned; and

that are or are intended to be included in the value of commissioned asset; and

Part 4-

forecast to be incurred in the acquisition or development of an additional asset; and

that are included in the forecast aggregate value of commissioned asset, but only to the extent that the costs are forecast to be included in an aggregate closing RAB value for additional assets; and

Part 5-

incurred or forecast to be incurred in the acquisition or development of an asset that is, or is intended to be, commissioned; and

that are included or are intended to be included in the value of commissioned asset or forecast value of commissioned asset, as the case may be, but only to the extent that the costs are included or are intended to be included in a closing RAB value;

catastrophic event has the meaning specified in, for the purposes of –

Part 4, clause 4.5.1; and

Part 5, clause 5.6.1;

**catastrophic event allowance** means the amount determined by the **Commission** for–

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;

**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

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);

causal relationship means, in relation to-

operating costs, a circumstance in which a cost driver leads to an operating cost being incurred during the 18 month period terminating on the last day of the disclosure year in respect of which the cost allocation is carried out; and

regulated service asset values, a circumstance in which a factor influences the utilisation of an asset during the 18 month period terminating on the last day of the disclosure year in respect of which the asset allocation is carried out;

change event has the meaning specified in, for the purposes of–

Part 4, clause 4.5.2; and

Part 5, clause 5.6.2;

closing RAB value means the value determined in accordance with, for the purpose of-

Part 2, clause 2.2.4(4); and

Part 5, clause 5.3.6(3);

closing tax losses means the amount determined in accordance with, for the purpose of-

Part 2, clause 2.3.2(4);

Part 4, clause 4.3.2(3); and

Part 5, clause 5.3.14(5);

closing works under construction means the amount determined in accordance with clause 5.3.12(3);

Commission has the same meaning as defined in s 2 of the Act;

commissioned means used by an EDB to provide electricity distribution services and commission shall be construed accordingly;

commissioning date means the date that an asset is or is forecast to be first commissioned, as the case may be;

committed in respect of a project or programme, means all approvals internal and external to the EDB that are required in order for work on the project to commence have been received;

consumer has the same meaning as defined in s 2(1) of the Electricity Act 1992;

consumer-owned has the same meaning as defined in s 54D of the Act;

contingent project has the meaning specified in clause 5.6.5(1);

corporate tax rate means the rate of income taxation applying to companies as specified in the tax rules;

cost allocator means a proportion of a quantifiable measure used to allocate operating costs that are not directly attributable, and whose quantum is-

based on a causal relationship; or

equal to a proxy cost allocator;

cost of debt means the amount specified for rd in, for the purpose of-

Part 2, clause 2.4.1(3); and

Part 4 and Part 5, clause 4.4.1(3);

CPI means-

subject to paragraph (b), the consumer price index stipulated for each quarter in the 'All Groups Index SE9A' as published by Statistics New Zealand; and

in respect of quarters prior to any quarter in which the rate of GST is amended after this determination comes into force, the same index as described in paragraph (a), multiplied by the Reserve Bank of New Zealand's forecast change in that index (expressed as a decimal) arising from the amendment;

CPP means customised price-quality path;

CPP applicant means an EDB who-

is preparing a CPP proposal; or

has made a CPP proposal that has not been determined;

CPP application has the meaning specified in clause 5.1.1(2);

CPP determination means a determination of a CPP in relation to electricity distribution services made by the **Commission** under s 52P of the Act;

CPP inflation rate has the meaning specified in clause 5.3.4(9);

CPP proposal means a proposal made by an EDB to the **Commission** for a CPP comprising the information specified in Part 5 Subpart 4;

CPP regulatory period means-

in relation to a CPP proposal, the 5 disclosure years following the assessment period; and

in relation to a particular CPP, the period to which the relevant CPP determination relates;

current period means the 5 disclosure years preceding the disclosure year in which the CPP application is submitted;

D

debt issuance costs means costs associated with the issuance of debt by a supplier (including, but not limited to, arrangement fees, legal fees, brokerage, advertising, credit rating fees, registry costs, listing fees, syndicate fees, trustee fees, facility fees, line fees, roadshow and marketing costs, paying agency fees and any fee or premium incurred in entering into an interest rate or cross-currency derivative);

debt premium for the purpose of Part 2 or Part 4, has the meaning specified in, and is the amount determined in accordance with, clause 2.4.4(5);

debt premium reference year means a 12 month period ending on 31 August;

Example: ‘*debt premium reference year* 2016’means the twelve month period ending 31 August 2016;

demand group means a pricing category (irrespective of the pricing methodology used) that has a discrete rate of growth in the demand for electricity distribution services over the CPP regulatory period;

Examples: industrial consumers, commercial consumers, residential consumers, non-standard consumer groups, irrigation connections, large capacity connections, or a combination or sub-group of each of these;

depreciation means an allowance to account for the diminution in an asset's remaining service life potential in the disclosure year in question with respect to its opening RAB value, or, for the purpose of Part 4, its aggregate opening RAB value for existing assets and aggregate opening RAB value for additional assets, and the amount of such allowance is determined in accordance with, for the purpose of-

Part 2, clause 2.2.5(2);

Part 4, clause 4.2.2(2); and

Part 5, clause 5.3.7(2);

depreciation temporary differences has the meaning specified, for the purpose of-

Part 2, clause 2.3.8(2);

Part 4, clause 4.3.5; and

Part 5, clause 5.3.20(2);

designated individual means an individual who is-

independent; and

engaged or instructed by a person falling within paragraph (a) of the definition of verifier to verify (in accordance with Schedule G) part or all of the CPP proposal which that person is engaged to verify;

directly attributable means, in relation to-

operating costs, wholly and solely incurred by the EDB in or in relation to its **supply** of one regulated service; and

regulated service asset values, wholly and solely related to an asset used by the EDB in or in relation to its **supply** of one regulated service;

director means, in the case of an EDB that is -

a company (as 'company' is defined in s 2 of the Companies Act 1993), an individual occupying the position of director of the EDB, by whatever name that position is called;

a partnership (other than a special partnership), a partner;

a special partnership, a general partner; and

any other body corporate or unincorporated body, an individual occupying a position in the body that is comparable with that of director of a company;

disclosure year shall be construed as a 12 month period ending on the date specified in an ID determination as the last date in the period to which annual disclosure relates;

Example: ‘Disclosure year 2017' means 12 month period ending on 31 March 2017.

discretionary discounts and customer has the meaning specified in clause **rebates** 2.3.3(6);

disposed asset means, for the purpose of-

Part 2, an asset that, in the disclosure year in question, has been sold or transferred, or has been irrecoverably removed from the EDB's possession without consent but is not a lost asset; and

Part 5, an asset that, in relation to a disclosure year, is-

sold or transferred but is not a lost asset; or

forecast to be sold or transferred;

**distributed generation allowance** means any positive allowance for costs incurred and amounts payable, or negative allowance for amounts receivable, in relation to avoided transmission charges arising from distributed generation, including embedded or notionally embedded generation, made in accordance with–

Schedule 6.4 of Part 6 of the Electricity Industry Participation Code; or

the Electricity Industry Act 2010;

document has the same meaning as defined in s 2 of the Act;

DPP means default price-quality path;

DPP determination means a DPP determination in relation to electricity distribution services made by the **Commission** under s 52P of the Act;

DPP regulatory period means the period to which the relevant DPP determination relates;

E

easement means a right to use but not possess land belonging to another person or a right to prevent certain uses of another person's land;

easement land means land acquired with the intention of-

creating an easement in respect of it; and

disposing of the land thereafter;

EDB means a supplier of electricity distribution services;

electricity distribution services means all electricity lines services, other than those supplied by Transpower or any subsidiary of, or successor to Transpower;

Electricity Information Disclosure means the Electricity Information **Requirements 2004** Disclosure Requirements 2004 as were originally published by the **Commission** on 31 March 2004 and consolidating all amendments to 7 May 2004;

electricity lines services has the same meaning as defined in s 54C of the Act;

engineer means an individual who is-

a chartered professional engineer as defined in s 6 of the Chartered Professional Engineers of New Zealand Act 2002;

acting in that professional capacity; and

independent;

error event has the meaning specified in, for the purpose of-

Part 4, clause 4.5.3(1); and

Part 5, clause 5.6.3(1);

excluded asset means an asset that is-

not used to **supply** electricity distribution services as on the last day of the disclosure year 2009;

designated as 'excluded' type as a result of the asset adjustment process; or

easement land;

**existing assets** means assets of an EDB for which an aggregate closing RAB value for existing assets is calculated for the base year;

**existing CPP assets** means assets of an **EDB** included in the **closing RAB value** of the last year of the **current period**;

expenditure objective means objective that capital expenditure and operating expenditure reflect the efficient costs that a prudent non-exempt EDB would require to-

meet or manage the expected demand for electricity distribution services, at appropriate service standards, during the CPP regulatory period and over the longer term; and

comply with applicable regulatory obligations associated with those services;

**extended reserves allowance** means an amount determined by the **Commission** as a positive allowance for costs incurred and amounts payable, or a negative allowance for amounts receivable, in accordance with requirements in the Electricity Industry Participation Code 2010 relating to extended reserves made under the Electricity Industry Act 2010;

F

false or misleading information has the meaning specified in clause 4.5.6(3);

finance lease has the same meaning as under GAAP;

fixed life easement means an easement that-

is of fixed duration; or

whilst of indefinite duration, is to be held for a fixed period;

**forecast** aggregate value of means the amount determined in **commissioned asset** accordance with clause 4.2.5;

forecast aggregate **value** of disposed assets means the amount determined in accordance with clause 4.2.6;

forecast allowable revenue means the amount determined in accordance with clause 3.1.1(4);

forecast allowable revenue as a function means a value specified in clause of demand 3.1.1(5);

forecast CPI means the amount specified in, for the purpose of Part 3 and Part 5, clause 3.1.1(8);

**forecast CPI for CPP revaluation** means the amount specified in accordance with clause 5.3.10(5);

**forecast CPI for DPP revaluation** means the amount specified in accordance with clause 4.2.3(4);

**forecast CPI for IRIS transitional provision** means the amount specified in accordance with clause 3.3.15(6);

**forecast net allowable revenue** means a value specified in clause 3.1.1(6) or 3.1.1(7), as applicable;

forecast operating expenditure has the meaning specified in clause 5.3.2(6);

**forecast opex** has the meaning specified in clause 3.3.3(8);

forecast regulatory tax allowance has the meaning specified in clause 5.3.13;

forecast revenue from prices means an amount specified in clause 3.1.1(3);

forecast value of commissioned asset means the value determined in accordance with clause 5.3.11;

found asset has the meaning specified in clause 2.2.12(1);

G

GAAP means generally accepted accounting practice in New Zealand, save that, where the cost of an asset is being determined in accordance with this determination, only the cost model of recognition is applied insofar as an election may be made between the cost model of recognition and the fair value model of recognition;

GPB means GDB (as 'GDB' is defined in the Gas Distribution Input Methodologies Determination 2012) or GTB (as 'GTB' is defined in the Gas Transmission Input Methodologies Determination 2012);

GST has the same meaning as defined in s YA 1 of the Income Tax Act 2007 as amended from time to time, and any equivalent legislation that supplements or replaces that definition;

H

highly probable means one in respect of which the following conditions have been met at the time the CPP application is made:

the **director**s have approved a plan to sell either or both the other regulated service or unregulated service, as the case may be;

the EDB is taking active steps to-

locate a buyer for the assets; and

complete the plan,

referred to in paragraph (a);

the EDB is actively marketing the assets for sale at a price that is reasonable;

the directors expect the sale to complete within 12 months of the CPP application being made; and

actions to date do not contemplate that significant amendment to the plan may be made or that it will be withdrawn.

I

ID determination means an information disclosure determination in relation to an EDB made by the **Commission** under s 52P of the Act;

identifiable non-monetary asset has the same meaning as under GAAP save that goodwill is excluded;

identified programme means a project or programme that an EDB intends to undertake during the next period and which is selected by the verifier for detailed assessment in accordance with clause G4(1);

**incentive rate** means the incremental rate of change used to calculate the **quality incentive adjustment**, as specified in a **DPP determination** or **CPP determination**;

included asset means an asset which, as a result of the asset adjustment process, is designated as 'included';

included value means value assigned to an included asset;

incremental adjustment term means the amount determined in accordance with clause 3.3.15(4);

independent means neither in a relationship with, nor having an interest in, the EDB in question that is likely to involve him her or it in a conflict of interest between his, her or its duties to the EDB and his, her or its duties to the **Commission**;

inflation rate has the meaning specified in clause 3.3.15(5);

initial differences in asset values has the meaning specified in, for the purpose of-

Part 2, clause 2.3.5(3); and

Part 5, clause 5.3.17(3);

initial RAB has the meaning specified in clause 2.2.2;

initial RAB value means value of an asset in the initial RAB determined in accordance with clause 2.2.3(4);

input methodology has the same meaning as defined in s 52C of the Act;

investment grade credit rated means endorsed with a credit rating by an established credit rating agency (such as Standard and Poor's) of "investment grade" on that agency's credit rating scale applicable to long-term investments;

**IRIS incentive adjustment** means the recoverable cost amount determined under clause 3.3.1(2);

ISA (NZ) 550 means *International Standard on Auditing (New Zealand) 550, Related Parties*, issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board in July 2011 and amended effective 15 December 2016, under s 24(1)(b) of the Financial Reporting Act 1993;

L

land excludes easements;

leverage means the ratio of debt capital to total capital and is the amount specified in, for the purpose of-

Part 2, clause 2.4.2(1); and

Part 4, clause 4.4.2(1);

levy means a tax, charge or fee directly imposed by or under legislation-

on-

EDBs alone; or

a class of persons (other than the general public or businesses in general) that includes EDBs; or

in relation to electricity distribution services;

line item means, in respect of-

assets, a group of assets within an asset category for which the same asset allocator is used to allocate their regulated service asset values; and

costs, a group of operating costs within an opex category for which the same cost allocator is used to allocate them,

to electricity distribution services and other regulated services;

lines has the same meaning as defined in s 2 of the Electricity Act 1992;

local authority has the same meaning as defined in s 5(1) of the Local Government Act 2002;

lost asset means an asset-

not included in the initial RAB; and

having, in relation to the disclosure year in question, an unallocated opening RAB value,

but determined by the EDB in that disclosure year never to have been used to provide electricity distribution services;

M

**major transaction** has the meaning specified in, for the purpose of-

Part 3 and Part 4, clause 4.5.4; and

Part 5, clause 5.6.4;

maximum allowable revenue after tax means the amount determined in accordance with clause 5.3.4;

maximum allowable revenue before tax means the amount determined in accordance with clause 5.3.4;

mid-point estimate of WACC means, for the purpose of-

Part 2, the mid-point estimate of-

vanilla WACC as estimated in accordance with clause 2.4.1(1); or

post-tax WACC as estimated in accordance with clause 2.4.1(2),

as the case may be;

Part 3, the mid-point estimate of post-tax **WACC**, as estimated in accordance with clause 4.4.1(2); and

Part 4, the mid-point estimate of-

vanilla **WACC** as estimated in accordance with clause 4.4.1(1);

post-tax WACC as estimated in accordance with clause 4.4.1(2),

as the case may be;

modified value means the value of a value modified asset assigned in accordance with clause 2.2.1;

multi-rate PIE has the same meaning as defined in s YA 1 of the Income Tax Act 2007;

N

Nelson-Siegel-Svensson approach has the meaning specified in clause 2.4.4(9);

network means the fixed assets used by an EDB to provide electricity distribution services;

network spare means an asset that is held by an EDB to replace any other asset it holds should that other asset be withdrawn from use owing to failure or damage;

next period means the period commencing on the first day of the disclosure year during which the CPP application is submitted and terminating on the last day of the 5 disclosure years following the assessment period;

non-exempt EDB means an EDB other than a consumer-owned EDB exempt under s 54G(2) of the Act;

NZ IAS 24 means *New Zealand Equivalent to International Accounting Standard 24, Related Party Disclosures (NZ IAS 24)*, issued by the New Zealand Accounting Standards Board of the External Reporting Board in November 2009, incorporating amendments to 31 December 2015, under s 24(1)(a) of the Financial Reporting Act 1993;

O

ODV handbook means Handbook for Optimised Deprival Valuation of System Fixed Assets of Electricity Lines Businesses published by the Commerce **Commission** on 30 August 2004 and effective 31 August 2004;

ODV valuation means valuation of an asset as of 31 March 2004 in accordance with the Electricity Information Disclosure Requirements 2004 and the ODV handbook;

opening deferred tax has the meaning specified in, for the purpose of-

Part 2, clause 2.3.7;

Part 4, clause 4.3.4(1); and

Part 5, clause 5.3.19;

opening RAB value means the value determined in accordance with, for the purpose of-

Part 2, clause 2.2.4(3); and

Part 5, clause 5.3.6(1);

opening tax losses means the amount determined in accordance with, for the purpose of –

Part 2, clause 2.3.2(3);

Part 4, clause 4.3.2(3)(a); and

Part 5, clause 5.3.14(3);

opening works under construction has the meaning specified in clause 5.3.12(1);

operating cost means a cost incurred by the EDB in question relating to the **supply** of-

regulated services alone; or

regulated services and one or more unregulated service,

and excludes-

a cost that is treated as a cost of an asset by GAAP;

amounts that are depreciation, tax, subvention payments, revaluations or an interest expense, in accordance with their meanings under GAAP;

debt issuance costs;

pass-through costs;

recoverable costs; and

distribution of profits to consumers;

operating expenditure for the purpose of –

Part 4, means the value of operating costs attributable to electricity distribution services supplied by an EDB which are forecast to be incurred in the disclosure year in question as determined by the Commission; and

Part 5, means operating costs after application of clause 5.3.5;

opex means operating expenditure;

opex category has the meaning specified in Schedule D;

opex forecast means the part of a CPP proposal, provided pursuant to clause 5.4.29, that forecasts operating expenditure for the next period;

**opex incentive amount** means the amount determined in accordance with clause 3.3.2(2);

other regulated income for the purpose of–

Part 3, means income associated with the supply of electricity distribution services other than-

through prices;

investment-related income;

capital contributions; or

vested assets; and

Part 4, means forecast income associated with the supply of electricity distribution services other than-

through prices;

investment-related income;

capital contributions; or

vested assets,

as determined by the Commission;

other regulated service means a regulated service, other than electricity distribution services, supplied by the EDB in question;

OVABAA means the optional variation to accounting-based allocation approach, as described in clause 2.1.4;

OVABAA allocation increase means, in respect of either or both-

operating costs; and

regulated service asset values,

not directly attributable, as the case may be, allocated to electricity distribution services, the dollar difference between the amount determined pursuant to the last application of clause 2.1.4(7)(c) and the application of clause 2.1.4(2)(a) or 2.1.4(3)(a), as the case may be;

P

pass-through cost has the meaning specified in clause 3.1.2(1);

permanent differences means the amount determined in accordance with, for the purpose of-

Part 2, clause 2.3.3; and

Part 5, clause 5.3.15;

person has the same meaning as defined in s 2 of the Act;

physical asset life has the meaning specified in clause 2.2.8;

positive permanent differences has the meaning specified in clause 5.3.15(2);

prescribed investor rate has the same meaning as defined in the Income Tax Act 2007 or any subsequent legislation that supplements or replaces the provisions relating to prescribed investor rate in the Income Tax Act 2007;

prices has the meaning specified in clause 3.1.1(9);

programme means a group of related projects with a common purpose;

project means a temporary endeavour requiring concerted effort, undertaken to create a defined outcome;

proxy asset allocator means a proportion of a quantifiable measure-

used to allocate regulated service asset values for which a causal relationship cannot be established; and

whose quantum is based on factors in existence during the 18 month period terminating on the last day of the most recent disclosure year in respect of which the proxy allocation is carried out;

proxy cost allocator means a proportion of a quantifiable measure-

used to allocate operating costs for which a causal relationship cannot be established; and

whose quantum is based on factors in existence during the 18 month period terminating on the last day of the most recent disclosure year in respect of which the cost allocation is carried out;

**Q**

qualifying debt has, for the purpose of-

(a) Part 2, the meaning specified in clause 2.4.7(1); and

(b) Part 5, the meaning specified in clause 5.3.25(1);

qualifying issuer means a New Zealand resident limited liability company -

that-

undertakes the majority of its business activities in Australia and New Zealand; or

is part of a corporate group that undertakes the majority of its business activities in Australia and New Zealand;

that-

does not operate predominantly in the banking or finance industries; or

is part of a corporate group that does not operate predominantly in the banking or finance industries; and

that issues vanilla NZ$ denominated bonds that are publicly traded;

qualifying rating means-

a Standard and Poor's long term credit rating of the specified grade; or

an equivalent long term credit rating of another internationally recognised rating agency;

qualifying supplier has the meaning specified in, for the purpose of-

(a) Part 2, clause 2.4.7(2); and

(b) Part 5, clause 5.3.25(2);

**quality incentive adjustment** means an amount to provide incentives for a **non-exempt EDB** to maintain or improve its quality of supply in accordance with s 53M(2) of the **Act**, and is a function of–

a **non-exempt EDB’s** performance above or below the quality targets, up to the caps or collars specified in relation to the quality targets;

**revenue at risk**; and

**incentive rate**,

calculated in accordance with the method specified in a **DPP determination** or **CPP determination**;

quality standard variation means variation to any standard-

specified in a DPP determination; and

which prescribes the use by an EDB of an historic time series of data relating to service quality measured in accordance with a specified metric,

where the variation is limited to changed values of the metric by which such quality standards is specified but not the metric itself;

quantity has the meaning, for the purpose of Part 3, specified in clause 3.1.1(10);

R

**reconsideration event allowance** means the positive or negative amount determined by the **Commission**–

for additional net costs (over and above those provided for in a **DPP** or **CPP**) prudently incurred by an **EDB** as a result of a **change event** in the period between the **change event** and the effective date of an amendment to the **DPP** or **CPP** under clause 4.5.6(1)(a)(ii) or clause 5.6.7(2)(b);

to mitigate the effect of an **error event** or provision of **false or misleading information** on the relevant **DPP** or **CPP** under clauses 4.5.6(1)(a)(iii), 4.5.6(1)(a)(v), 5.6.7(2)(c), or 5.6.7(5); or

for the impact of a **change event**, **error event**, or provision of **false or misleading information** under clauses 4.5.6(1)(a)(ii), 4.5.6(1)(a)(iii), 4.5.6(1)(a)(v), 5.6.7(2)(b), 5.6.7(2)(c) or 5.6.7(5), on any **quality incentive adjustment**;

recoverable cost has the meaning specified in clause 3.1.3;

regulated goods or services has the same meaning as defined in s 52C of the Act;

regulated service means a type of service supplied by an EDB pursuant to the supply of a regulated good or service, which, for the avoidance of doubt, includes the following types of services-

electricity distribution services;

gas distribution services as defined in the Gas Distribution Services Input Methodologies Determination 2012; and

gas transmission services as defined in the Gas Transmission Services Input Methodologies Determination 2012);

regulated service asset value means, in respect of an asset-

used by an EDB in the supply of-

one or more regulated service; or

one or more regulated service and one or more unregulated service;

where at least one of those regulated services is an electricity distribution service-

in the disclosure year 2009, its unallocated initial RAB value; and

in all other disclosure years, its unallocated closing RAB value; and

used by an EDB only in the supply of-

one or more other regulated service; or

one or more other regulated service and one or more unregulated service;

in-

the disclosure year 2009, its unallocated initial RAB value; and

all other disclosure years, its unallocated closing RAB value,

determined in accordance with the input methodologies applicable to the other regulated service.

regulated supplier means a supplier of regulated goods or services;

regulatory investment value has the meaning specified in clause 5.3.2(2);

regulatory net taxable income has the meaning specified in, for the purpose of-

Part 2, clause 2.3.1(2);

Part 4, clause 4.3.1(2); and

Part 5, clause 5.3.13(2);

regulatory period means the regulatory period for default/customised price-quality regulation applicable to an EDB as specified in a determination made under s 52P of the Act;

regulatory profit / (loss) before tax has the meaning specified in, for the purpose of –

Part 2, clause 2.3.1(4);

Part 4, clause 4.3.1(4); and

Part 5, clause 5.3.13(4);

regulatory taxable income means the amount determined in accordance with, for the purpose of-

Part 2, clause 2.3.1(3); and

Part 4, clause 4.3.1(3); and

Part 5, clause 5.3.13(3);

regulatory tax adjustments means the amount determined in accordance with, for the purpose of-

Part 2, clause 2.3.4;

Part 4, clause 4.3.3; and

Part 5, clause 5.3.16;

regulatory tax allowance has the meaning specified, for the purpose of –

Part 2, clause 2.3.1; and

Part 4, clause 4.3.1;

regulatory tax asset value has the meaning specified in, for the purpose of-

Part 2, clause 2.3.9; and

Part 5, clause 5.3.21;

regulatory templates has the meaning specified in clause 5.4.29(2);

related party means-

a person that is related to the **EDB**, where the **EDB** is considered as the ‘reporting entity’, as specified in the definition of ‘related party’ in **NZ IAS 24**; or

any part, branch or division of the EDB that does not supply electricity distribution services;

*Guidance note: (refer to clause 1.1.4(1)(e)-(f))*

*Commerce Commission “Input methodologies review draft decision – Related party transactions – Draft decision and determinations guidance” (30 August 2017), Attachment A notes a list of examples of related parties.*

related party transaction means the transfer of an asset or the provision of a good or service between a related party and the part, branch or division of the EDB that supplies the electricity distribution service;

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);

remaining asset life for existing assets has the meaning specified in clause 4.2.2(3)(a);

**remaining asset life for existing CPP assets** has the meaning specified in clause 5.3.7(4)(a);

**retention factor** means the percentage amount determined by the **Commission** in a **CPP determination** or **DPP determination** for the purpose of calculating the **capex incentive amount**;

revaluation means the amount determined in accordance with, for the purpose of-

Part 2, clause 2.2.9(2);

Part 4, clause 4.2.3(2); and

Part 5, clause 5.3.10(2);

which, for the avoidance of doubt, may be a negative number;

revaluation rate has the meaning specified in, for the purpose of-

Part 2, clause 2.2.9(4);

Part 4, clause 4.2.3(3); and

Part 5, clause 5.3.10(4);

**revenue at risk** means the maximum financial reward or penalty arising under a **quality incentive adjustment**, as specified in a **DPP determination** or **CPP Determination**;

**revenue foregone** has the meaning specified in clause 3.1.3(13)(g);

**revenue reduction percentage** has the meaning specified in clause 3.1.3(13)(j);

**revenue wash-up draw down amount** has the meaning specified in clause 3.1.3(13)(k);

reversal and reverse have the same meanings as under GAAP;

S

selection rationale means a description of either or both of the-

criteria applied; and

fundamental reasons used,

for, either or both-

determining; and

selecting,

each-

asset allocator and associated allocator metric; and

cost allocator and associated allocator metric;

services has the same meaning as defined in s 2 of the Act;

standard depreciation method means, in respect of an asset whose remaining asset life is the term remaining of its physical asset life at the commencement of the disclosure year in question, method specified in clause 5.3.7 excluding any method referred to in the whole clauses to which clause 5.3.7 is subject;

standard error means estimated standard deviation;

standard physical asset life means life for an asset as specified in *Table A.1:* *Standard Physical Asset Lives for EDBs* of Schedule A;

starting price year means, in relation to an EDB,–

the first **disclosure year** of a **regulatory period**; or

the **disclosure year** immediately following the expiration of a **CPP** ;

supply has the same meaning as defined in s 2 of the Act, and supplied must be construed accordingly;

T

tax asset value means the value determined in accordance with, for the purpose of-

Part 2, clause 2.3.9(2); and

Part 5, clause 5.3.21(2);

tax depreciation rules means, for the purpose of-

1. Part 2, for **existing CPP assets**, the tax rules that relate to the determination of depreciation allowances for tax purposes;
2. Part 5, for **existing CPP assets**, the tax rules that relate to the determination of depreciation allowances for tax purposes;
3. Part 5, for **additional CPP assets**, the **tax rules** that relate to the determination of depreciation allowances for tax purposes, to be applied by adopting the tax depreciation rate for the assets representing the largest proportion within each **asset category**, as forecast over the **CPP regulatory period**;

tax effect means the product of multiplication by the corporate tax rate;

tax rules means the rules applicable to an EDB for determining income tax payable in the Income Tax Act 2007 (as amended from time to time, and any equivalent preceding legislation, or any subsequent legislation that supplements or replaces that Act);

temporary differences means the amount determined in accordance with, for the purpose of-

Part 2, clause 2.3.8; and

Part 5, clause 5.3.20;

term credit spread difference means the amount determined in accordance with, for the purpose of-

1. Part 2, clause 2.4.8(1); and
2. Part 5, clause 5.3.24(1);

term credit spread differential is determined in accordance with, for the purpose of-

(a) Part 2, clause 2.4.9(3); and

(b) Part 5, clause 5.3.23(1);

term credit spread differential allowance for the purpose of-

Part 2 and Part 5, means the sum of term credit spread differentials; and

Part 4, means the amount determined in accordance with clause 4.4.7(2);

total depreciation means, for the purpose of-

Part 2 and Part 5, the sum of depreciation for all assets; and

Part 4, the value determined in accordance with clause 4.2.2;

total opening RAB value means, for the purpose of-

Part 4, the amount determined in accordance with clause 4.2.1(1); and

has the meaning specified in clause 5.3.6(7);

total revaluation means, for the purpose of-

Part 2 and Part 5, the sum of revaluation for all assets; and

Part 4, the value determined in accordance with clause 4.2.3;

**transmission asset wash-up adjustment** means a negative amount corresponding to the present value of revenues allowed in a **DPP** or **CPP** for additional **capital expenditure** and additional **operating expenditure** associated with a transmission asset forecast to be purchased in **disclosure years** preceding the **regulatory period** but were not completed, as specified in a **DPP determination** or **CPP determination**;

Transpower has the same meaning as defined in s 54B of the Act;

trigger event has the meaning specified in clause 5.6.5(3);

U

unallocated closing RAB value means value determined in accordance with, for the purpose of-

Part 2, clause 2.2.4(2); and

Part 5, clause 5.3.6(6);

unallocated depreciation means an allowance to account for the diminution in an asset's remaining service life potential in the disclosure year in question with respect to its unallocated opening RAB value and the amount of such allowance is determined in accordance with, for the purpose of Part 2, clause 2.2.5(1);

unallocated initial RAB value means value of an asset in the initial RAB determined in accordance with clause 2.2.3(1);

unallocated opening RAB value means value determined in accordance with, for the purpose of-

Part 2, clause 2.2.4(1); and

Part 5, clause 5.3.6(5);

unallocated revaluation means amount determined in accordance with, for the purpose of-

Part 2, clause 2.2.9(1); and

Part 5, clause 5.3.10(1);

unduly deterred means, solely as a result of an allocation to the unregulated service in question of either or both of-

operating costs not directly attributable; and

regulated service asset values not directly attributable;

the operating costs not directly attributable or capital costs associated with the regulated service asset values not directly attributable (as the case may be) to be borne by that unregulated service would cause that unregulated service to be-

discontinued; or

not provided,

and 'unduly deter' must be construed accordingly;

unforeseen project has the meaning specified in clause 5.6.6;

unregulated service means any good or service supplied by the EDB that is not a regulated service;

utilised tax losses means the amount determined in accordance with, for the purpose of-

Part 2, clause 2.3.2;

Part 4, clause 4.3.2(1); and

Part 5, clause 5.3.14;

V

value modified asset means an asset which, as a result of the asset adjustment process, is designated as 'value modified' type;

value of commissioned asset means the value determined in accordance with clause 2.2.11;

value of found asset means the value of a found asset determined in accordance with clause 2.2.12(2);

valuer means an individual who-

is registered as a valuer under the Valuers Act 1948;

holds a current practising certificate issued by-

the Property Institute of New Zealand; or

the New Zealand Institute of Valuers;

has been engaged to act in his or her professional capacity as a valuer; and

is independent;

vanilla NZ$ denominated bonds means senior unsecured nominal debt obligations denominated in New Zealand dollars without callable, puttable, conversion, profit participation, credit enhancement or collateral features;

verification report means a report prepared by a verifier in accordance with Schedule G;

verifier means-

a person who-

is independent; and

has been engaged to verify the CPP applicant's CPP proposal in accordance with Schedule G; or

a designated individual of a person described in paragraph (a);

vested asset means an asset associated with the supply of electricity distribution services received by an EDB-

without provision of consideration; or

with provision of nominal consideration;

**voluntary undercharging** amount has the meaning specified in clause foregone 3.1.3(13)(a);

W

WACC means weighted average cost of capital;

WACC change means an event described in clause 5.6.7(4);

**wash-up account** means a memorandum account maintained by an **EDB** to record each item specified in clauses 3.1.3(12)(b)-(e);

**wash-up amount** has the meaning specified in clause 3.1.3(13)(b);

working day has the same meaning as defined in s 2 of the Act; and

works under construction means an asset, or a collection of assets that-

has been or is being or is forecast to be constructed by, or on behalf of, an EDB;

has not been commissioned; and

the EDB intends to commission.

1. INPUT METHODOLOGIES FOR INFORMATION DISCLOSURE
   1. Cost allocation
      * 1. Cost allocation process
           1. Any-

operating costs; and

regulated service asset values,

that are directly attributable to electricity distribution services supplied by the EDB must be allocated to electricity distribution services.

* + - * 1. Any-

operating costs; and

regulated service asset values,

that are directly attributable to any other regulated service supplied by the EDB must be allocated to the other regulated service to which they are directly attributable.

*Guidance note: (refer to clause 1.1.4(1)(e)-(f))*

*Commerce Commission “Input methodologies review draft decision – Related party transactions – Draft decision and determinations guidance” (30 August 2017), Attachment B provides illustrative guidance on the relationship between the related party rules and cost allocation rules.*

* + - * 1. Any operating costs and regulated service asset values that are not allocated in accordance with subclauses (1) and (2) must be allocated to electricity distribution services and other regulated services using, at the supplier's election-

ABAA; or

**OVABAA**.

* + - * 1. Notwithstanding anything else in this Subpart, the maximum value of-

operating costs that may be allocated to electricity distribution services and other regulated services, in aggregate, must not exceed the total value of operating costs; and

regulated service asset values that may be allocated to electricity distribution services and other regulated services, in aggregate, must not exceed the total regulated service asset values,

that would be allocated to electricity distribution services and other regulated services, in aggregate, using ACAM in accordance with clause 2.1.5.

* + - 1. Allocation constraints
         1. For the avoidance of doubt, all allocations of-

operating costs; and

regulated service asset values,

not directly attributable to other regulated services supplied by the EDB must be consistent with allocations made in accordance with input methodologies relating to cost allocation applying to those other regulated services.

* + - * 1. Where the OVABAA is applied to both operating costs not directly attributable and regulated service asset values not directly attributable, the combined amount of such costs and values that is re-allocated in accordance with clause 2.1.4(5) must not exceed the amount required to ensure that the unregulated service is not unduly deterred.
        2. For the avoidance of doubt, after application of this Subpart, notwithstanding anything else that may suggest otherwise, each unregulated service must bear at least the total-

operating costs; and

value of assets,

directly attributable to that unregulated service.

* + - 1. Accounting-based allocation approach (ABAA)
         1. Cost allocators must be used to allocate operating costs not directly attributable, less any arm's-length deduction, to-

electricity distribution services; and

other regulated services.

* + - * 1. Asset allocators must be used to allocate regulated service asset values not directly attributable, less any arm's-length deduction, to-

electricity distribution services; and

other regulated services.

* + - * 1. Where an **EDB** uses a **proxy cost allocator** for the purposes of subclause (1) or a **proxy asset allocator** for the purposes of subclause (2), the **EDB** must, in accordance with the requirements in the relevant **ID determination**, explain why a **causal relationship** cannot be established.
        2. Where an **EDB** uses a **proxy cost allocator** for the purposes of subclause (1), the **EDB** must, in accordance with the requirements in the relevant **ID determination**, explain the rationale for the quantifiable measure used for that **proxy cost allocator**.
        3. Where an **EDB** uses a **proxy asset allocator** for the purposes of subclause (2), the **EDB** must, in accordance with the requirements in the relevant **ID determination**, explain the rationale for the quantifiable measure used for that **proxy asset allocator**.
      1. Optional variation to accounting-based allocation approach (OVABAA)
         1. This clause applies to the allocation of-

only operating costs not directly attributable;

only regulated service asset values not directly attributable; or

operating costs not directly attributable and regulated service asset values not directly attributable.

* + - * 1. Operating costs not directly attributable less any arm's-length deduction must be initially allocated to-

electricity distribution services;

other regulated services; and

each unregulated service,

using cost allocators.

* + - * 1. Regulated service asset values not directly attributable less any arm's-length deduction must be initially allocated to-

electricity distribution services;

other regulated services; and

each unregulated service,

using asset allocators.

* + - * 1. Where, after application of subclause (2)(c), (3)(c) or both, an **unregulated service** would-

be unduly deterred, subclause (5) applies; and

not be unduly deterred, the allocation of either or both of-

operating costs not directly attributable; and

regulated service asset values not directly attributable

must remain as carried out in accordance with either or both of subclauses (2)(c) and (3)(c).

* + - * 1. Where this subclause applies, any-

operating costs; and

regulated service asset values,

not directly attributable that were allocated to an unregulated service in accordance with either or both of subclauses (2)(c) and (3)(c) may be reduced to the amount at which the unregulated service would no longer be unduly deterred.

* + - * 1. For the avoidance of doubt, the adjusted amounts determined in accordance with subclause (5) must be treated as the share of either or both of-

operating costs; and

regulated service asset values,

not directly attributable to be borne by the unregulated service in question.

* + - * 1. The adjusted amounts determined in accordance with subclause (5) must be deducted from either or both the-

operating costs not directly attributable; and

regulated service asset values not directly attributable,

to which subclause (2) or (3) applied after any arm's-length deduction was made, and the remaining costs or values reallocated between-

electricity distribution services;

other regulated services; and

each remaining unregulated service,

in accordance with subclauses (2) and (3).

* + - * 1. Where, after application of subclause (7), the-

operating costs; and

regulated service asset values,

not directly attributable allocated to another unregulated service unduly deter that unregulated service, the process in subclauses (5) and (7) may be repeated subject to the modifications specified in subclause (9).

* + - * 1. When re-applying-

subclause (5) to another unregulated service, the starting values of-

operating costs; and

regulated service asset values,

not directly attributable allocated to that unregulated service must be the values obtained in relation to that unregulated service as a result of the previous application of subclause (7); and

subclause (7), for "to which subclause (2) or (3) applied after any arm's-length deduction was made", substitute "to which this subclause previously applied".

* + - * 1. Subclauses (5) and (7) may be re-applied sequentially in respect of each unregulated service which is unduly deterred until any remaining regulated service asset values or operating costs or both are of such quantum that their allocation to the remaining unregulated services does not result in any of those services being unduly deterred.
        2. For the avoidance of doubt, the reallocation undertaken in accordance with subclause (7) is carried out by grossing up allocation percentages used to make allocations to electricity distribution services, other regulated services and each remaining unregulated service based on the same cost allocators or asset allocators, as the case may be, used under subclauses (2) and (3), to take into account the omission of the allocation percentages for the unregulated service to which allocation has already been made under subclause (5).
      1. Avoidable cost allocation methodology (ACAM)
         1. In respect of-

operating costs; and

regulated service asset values,

not directly attributable, less any arm's-length deduction, an assessment must be made as to the proportion of each that would be non-avoidable were the EDB not to supply unregulated services.

* + - * 1. The amounts of non-avoidable-

operating costs; or

regulated service asset values,

not directly attributable, assessed in accordance with subclause (1), must be allocated to regulated services in aggregate.

* + - * 1. Where the EDB supplies other regulated services, the amounts allocated in accordance with subclause (2) must be allocated to each regulated service supplied by the EDB using the ABAA.
  1. Asset valuation
     + 1. Asset adjustment process for setting initial RAB
          1. Asset adjustment process means the process of assets-

being designated as one of the following asset types:

'excluded';

'included'; or

'value modified';

of 'included' type being assigned an included value; and

of 'value modified' type being assigned a modified value.

* + - * 1. Subject to subclauses (3) to (5), under the asset adjustment process, an EDB may elect to undertake none, some or all of the following things:

designate a load control relay asset owned by an EDB, except a 2009 disclosed asset, as of 'included' type;

correct the following types of error found in an EDB's asset register where the error relates to 2009 disclosed assets:

assets omitted in error, which assets are treated as of 'included' type;

assets included in error, which assets are designated as of 'excluded' type; and

assets allocated to the incorrect asset category, or given an estimation of quantity, age, category or location now known to be incorrect, which assets are designated as of 'value modified' type;

re-apply a multiplier in an ODV valuation which affects a 2009 disclosed asset, where more accurate information relating to application of the multiplier has subsequently become available, which asset is designated as of 'value modified' type;

re-apply, in an ODV valuation which affects a 2009 disclosed asset, one of the following types of multiplier in the manner described, which asset is designated as of 'value modified' type:

the rugged terrain multiplier in paragraph A.9 of the ODV handbook may be amended to a range of 1.2 - 1.8 times, and, in addition to the circumstances cited in the ODV handbook for its application, that multiplier may also be applied to non-standard designs of overhead line networks that accommodate difficult physical or climatic conditions involving swampy ground, high winds or snow;

the business district multiplier in paragraph A.14 of the ODV handbook may be amended to a range of 1.15 - 2.5 times; and

the rocky ground multiplier in paragraph A.15 of the ODV handbook may be amended to a range of 1.0 - 2.0 times, and, in addition to the circumstances cited in the ODV handbook for its application, that multiplier may also be applied to cables laid in loose rock or sand; and

in respect of a 2009 disclosed asset whose value in an ODV valuation was affected by the application of an optimisation or economic value test, do one of the following things:

designate it as of 'included' type and give it an included value;

designate it as of 'excluded' type; or

modify its value,

consistent with re-applying the optimisation or economic value test previously applied in the ODV valuation.

* + - * 1. The included value of an asset to which subclause (2)(a) is applied is-

its depreciated historic cost determined by applying GAAP as of the last day of the disclosure year 2009; or

where sufficient records do not exist to establish this cost, its depreciated carrying value in the general purpose financial statements of the EDB.

* + - * 1. The included value or modified value, as the case may be, of an asset to which subclause (2)(b), (2)(c) or (2)(d) is applied, is determined by-

taking its-

ODV valuation; or

where an ODV valuation is not applicable in respect of that asset under the Electricity Information Disclosure Requirements 2004, its value that resulted, or, for an omitted asset, would have resulted, from application of those requirements as of the day on which the asset was first commissioned after the disclosure year 2004;

implementing the corrections or modifications required to account for the matters specified in subclauses (2)(b) – (2)(d) as the case may be; and

adjusting that value to the value as of 31 March 2009 by taking account of-

unallocated depreciation in accordance with the standard depreciation method, where the total asset life used for the purpose of that method is the total asset life used for the purpose of the 2009 disclosure reports; and

revaluation to account for consumer price index changes using a method consistent with that used to account for such revaluation in the 2009 disclosure reports.

* + - * 1. The included value or modified value, as the case may be, of an asset to which subclause (2)(e) is applied is determined by-

taking its ODV valuation had the assets not been-

optimised in accordance with paragraphs 2.18 - 2.47 and Appendix B of the ODV handbook; or

subject to the economic value test in accordance with paragraph 2.59 - 2.65 of the ODV handbook;

re-applying the sub-paragraphs of paragraph (a) in light of more up-to-date information relating to optimisation or economic value that has subsequently become available; and

adjusting that value to the value as of 31 March 2009 by taking account of-

unallocated depreciation in accordance with the standard depreciation method, where the asset life used for the purpose of that method is the asset life used for the purpose of the 2009 disclosure reports; and

revaluation to account for consumer price index changes using a method consistent with that used to account for such revaluation in the 2009 disclosure reports.

* + - 1. Composition of initial RAB

Initial RAB means-

2009 disclosed assets; and

included assets,

less-

excluded assets;

intangible assets, unless they are-

finance leases; or

identifiable non-monetary assets; and

works under construction.

* + - 1. Initial RAB values for assets
         1. Subject to subclause (3), the unallocated initial RAB value of-

an included asset or value modified asset, is its included value or modified value, as the case may be; and

any other asset is-

where the asset is included in the value of 'Regulatory Value of System Fixed Assets', its value as on the last day of the disclosure year 2009 included in 'Total Regulatory Asset Base Value (Excluding FDC)' in the 2009 disclosure reports multiplied by 1.0245; and

where the asset is included in the value of 'Regulatory Value of Non-System Fixed Assets', its value as on the last day of the disclosure year 2009 included in 'Total Regulatory Asset Base Value (Excluding FDC)' in the 2009 disclosure reports.

* + - * 1. For the purpose of subclause (1)(a), in the case of a system fixed asset valued in accordance with one of paragraphs (b) to (e) of clause 2.2.1(2), unallocated initial RAB value is its included value or modified value (as the case may be) multiplied by 1.0245.
        2. For the purpose of subclause (1), where an asset is used by an EDB in the supply of-

one or more regulated service; or

one or more regulated service and one or more unregulated service,

where at least one of those regulated services is an electricity distribution service, the unallocated initial RAB value is the value of the asset had no allocation of asset value relevant to regulatory disclosures been undertaken.

* + - * 1. The initial RAB value of an asset is determined as the value allocated to electricity distribution services as a result of-

adopting its unallocated initial RAB value; and

applying clause 2.1.1 to it.

* + - * 1. In this clause, 'system fixed asset' has the same meaning as defined in the Electricity (Information Disclosure) Requirements 2004.
      1. RAB roll forward
         1. Unallocated opening RAB value in respect of an asset in relation to-

the disclosure year 2010, is its unallocated initial RAB value; and

a disclosure year thereafter, is its unallocated closing RAB value in the preceding disclosure year.

* + - * 1. Unallocated closing RAB value means, in the case of-

a found asset, its value of found asset;

a disposed asset, nil;

a lost asset, nil;

any other asset with an unallocated opening RAB value, the value determined in accordance with the formula-

unallocated opening RAB value - unallocated depreciation + unallocated revaluation; and

any other asset having a commissioning date in the disclosure year in question, its value of commissioned asset.

* + - * 1. Opening RAB value, in respect of an asset, is, for-

the disclosure year 2010, its initial RAB value; and

a disclosure year thereafter, its closing RAB value in the preceding disclosure year.

* + - * 1. Closing RAB value, in respect of an asset, is determined as the value allocated to electricity distribution services as a result of-

adopting its unallocated closing RAB value; and

applying clause 2.1.1 to it.

* + - 1. Depreciation
         1. Unallocated depreciation, in the case of an asset with an unallocated opening RAB value, is determined, subject to subclause (3) and clauses 2.2.6 and 2.2.7, in accordance with the formula-

[1 ÷ remaining asset life] × unallocated opening RAB value.

* + - * 1. Depreciation, in the case of an asset with an opening RAB value, is determined, subject to subclause (3) and clause 2.2.6, in accordance with the formula-

[1 ÷ remaining asset life] × opening RAB value.

* + - * 1. For the purposes of subclauses (1) and (2)-

unallocated depreciation and depreciation are nil in the case of-

land;

an easement other than a fixed life easement; and

a network spare in respect of the period before which depreciation for the network spare in question commences under GAAP; and

in all other cases, where the asset's physical asset life at the end of the disclosure year is nil-

unallocated depreciation is the asset's unallocated opening RAB value; and

depreciation is the asset's opening RAB value.

* + - 1. Depreciation - alternative depreciation method

Where, under a CPP, in accordance with clause 5.3.8, an **alternative depreciation method** is applied to an asset, unallocated depreciation and depreciation for that asset, in respect of each disclosure year of the CPP regulatory period, are determined in accordance with that **alternative depreciation method**, subject to, in the case of unallocated depreciation, clause 2.2.7.

* + - 1. Unallocated depreciation constraint

For the purpose of clause 2.2.5, the sum of unallocated depreciation of an asset calculated over its asset life may not exceed the sum of-

all unallocated revaluations applying to that asset in all disclosure years; and

in the case of an asset-

in the initial RAB, its unallocated initial RAB value; or

not in the initial RAB, its value of commissioned asset or value of found asset.

* + - 1. Physical asset life
         1. Physical asset life means, subject to subclause (2), in the case of-

a fixed life easement, the fixed duration or fixed period (as the case may be) referred to in the definition of fixed life easement;

an extended life asset or a refurbished asset, its physical service life potential as determined by the EDB;

an asset determined by the **EDB** to have a service life potential shorter than its **standard physical asset life**, its physical service life potential determined by an **engineer**, subject to subclause (3);

an asset where the **Commission** has applied an adjustment factor in accordance with clause 4.2.2(3), the asset life determined in accordance with subclause (4);

found asset for which a similar asset exists as described in subclause 2.2.12(2)(b)(i), the asset life applying to the similar asset;

a non-**network** asset, its asset life determined under **GAAP**;

an asset acquired or transferred from a regulated supplier, the asset life that the vendor would have assigned to the asset at the end of its disclosure year had the asset not been transferred;

an asset acquired or transferred from an entity other than a **regulated supplier**:

where a similar asset to that acquired or transferred already exists in the **EDB**, the asset life assigned to the similar asset; or

where a similar asset to that acquired or transferred does not already exist in the **EDB**, the physical service life potential determined by an engineer, subject to subclause (3).

an asset not referred to in paragraphs (a) – (h)-

in the initial RAB and an included asset; or

not in the initial RAB,

and-

having a standard physical asset life, its standard physical asset life;

not having a standard physical asset life, the asset life applying to an asset with an unallocated opening RAB value that is similar in terms of asset type; or

in all other cases, its physical service life potential determined by an engineer, subject to subclause (3);

an asset (other than a composite asset) not referred to in paragraphs (a)-(g), its remaining physical service life potential as on the last day of the disclosure year 2009 as determined in accordance with the method used to determine depreciation for the purpose of the 2009 disclosure reports;

a composite asset, the average asset life of the assets comprising it determined in accordance with paragraphs (a)–(i), with the modification that each such asset life must be weighted with respect to the proportion of its respective opening RAB value to the sum of the opening RAB values of the components in the earliest disclosure year in which all component assets were held by the EDB.

* + - * 1. For the purpose of subclause (1), physical asset life means, in the case of a dedicated asset which is not expected to be used by the EDB to provide electricity distribution services beyond the term of the fixed term agreement relating to the asset between the EDB and the consumer, at the EDB's election, the term of that agreement instead of the physical asset life that would otherwise apply under that subclause.
        2. For the purpose of subclauses (1)(c), (1)(h)(ii) and (1)(i)(v), a determination made in accordance with this clause by an engineer of physical service life potential-

in relation to an asset with an unallocated opening RAB value is deemed applicable to all assets of similar asset type for which there is a requirement in this clause for an engineer's determination of physical service life potential; and

must be evidenced by a report written by the engineer in question that includes an acknowledgement by the engineer that the report may be publicly disclosed by an EDB pursuant to an ID determination.

* + - * 1. For the purpose of subclause (1)(d), an **EDB** must –

in the first **disclosure year** of the **DPP regulatory period** in which an adjustment factor is applied by the **Commission**,reduce the asset life of assets that have an **unallocated opening RAB value**, such that the remaining average asset life of existing assets in that **disclosure year** in accordance with subclause (6) is the same value as the remaining asset life for existing assets calculated under the **DPP** for that **disclosure year** when applying the formula:

**aggregate opening RAB value for existing assets** ÷ **total depreciation**;

and

for an asset **commissioned** in subsequent **disclosure years**, apply a reduced asset life to the asset equal to the asset life of an existing asset of a similar asset type.

* + - * 1. In this clause-

'dedicated asset' means an asset operated for the benefit of a particular consumer pursuant to a fixed term agreement for the supply of electricity distribution services between the EDB in question and that consumer;

'extended life asset' means an asset whose physical service life potential is greater than its standard physical asset life;

'refurbished asset' means an asset on which work (other than maintenance) has been carried out resulting in an extension to its physical service life potential;

'composite asset' means a configuration of two or more assets that is not capable of operation in the absence of any of those assets.

* + - * 1. For the purposes of subclause (4)(a), the 'remaining average asset lifefor existing assets' means the value determined in accordance with the formula-

**opening RAB value** for all assets ÷ total depreciation.

* + - 1. Revaluation
         1. Unallocated revaluation is the amount determined, subject to subclause (3), in accordance with the formula-

unallocated opening RAB value × revaluation rate.

* + - * 1. Revaluation is the amount determined, subject to subclause (3), in accordance with the formula-

opening RAB value × revaluation rate.

* + - * 1. For the purposes of subclauses (1) and (2), where-

the asset's physical asset life at the end of the disclosure year is nil; or

the asset is a-

disposed asset; or

lost asset,

unallocated revaluation and revaluation are nil.

* + - * 1. Revaluation rate means, in respect of a disclosure year, the amount determined in accordance with the formula-

(CPI4 ÷ CPI4-4) -1,

where-

CPI4 means CPI for the quarter that coincides with the end of the disclosure year; and

CPI4-4 means CPI for the quarter that coincides with the end of the preceding disclosure year.

* + - 1. Revaluation treated as income

Revaluation, for the purpose of determining profitability, must be treated as income.

* + - 1. Value of commissionedassets
         1. Value of **commissioned** asset, in relation to an asset (including an asset in respect of which capital contributions were received or a vested asset), means the cost of the asset to an EDB determined by applying GAAP to the asset as on its commissioning date, except that, subject to subclause (2), the cost of-

an intangible asset, unless it is-

a finance lease; or

an identifiable non-monetary asset,

is nil;

an easement, is limited to its market value as on its commissioning date as determined by a valuer;

easement land is nil;

a network spare-

which is not required, in light of the historical reliability and number of the assets it is held to replace; or

whose cost is not treated wholly as or part of the cost of an asset under GAAP,

is nil;

an asset-

acquired from another regulated supplier; and

used by that regulated supplier in the supply of regulated goods or services,

is limited to the unallocated closing RAB value of the asset that would have applied for the other regulated supplier, had the asset not been acquired by the **EDB** in the **disclosure year** of the **regulated supplier** when the asset was transferred (as 'unallocated closing RAB value' is defined in the input methodologies applying to the **supply** of regulated goods or services by the regulated supplier);

an asset that was previously used by an EDB in its supply of other regulated services is limited to the unallocated opening RAB value of the asset in relation to those other regulated services as on the day before the commissioning date (as 'unallocated opening RAB value' is defined in the input methodologies applying to the regulated goods or services supplied by the EDB);

an asset acquired in a related party transaction, other than an asset to which paragraphs (e) or (f) apply, is valued in accordance with subclause (5);

an asset in respect of which capital contributions were received where such contributions do not reduce the cost of the asset when applying GAAP, is the cost of the asset by applying GAAP reduced by the amount of the capital contributions;

a vested asset in respect of which its fair value is treated as its cost under GAAP, must exclude any amount of the fair value of the asset determined under GAAP that exceeds the amount of consideration provided by the EDB; and

for the purpose of subclause (a)(i), a **finance lease** excludes the value of any asset for which annual charges are a **recoverable cost** under clause 3.1.3(1)(c).

* + - * 1. When applying GAAP for the purpose of subclause (1), the cost of financing is-

applicable only in respect of the period commencing on the date the asset becomes a works under construction and terminating on its commissioning date; and

calculated using a rate not greater than the **EDB’s** weighted average of borrowing costs for each applicable **disclosure year**.

* + - * 1. For the purposes of subclause (2)(b), the ‘weighted average of borrowing costs’ is calculated for a **disclosure year** using principles set out in **GAAP**, where:

the cost of financing rate is the weighted average of the costs applicable to borrowings in respect of **capex** that are outstanding during the **disclosure year**;

the total costs applicable to borrowings outstanding, as used in calculating the weighted average, must include costs of borrowings made specifically for the purpose of any particular –

**capex projects**; or

**capex programmes**; and

the amount of borrowing costs capitalised during the **disclosure year** must not exceed the amount of borrowing costs incurred during the **disclosure year**;

if a **capital contribution** is received by an **EDB**, the relevant asset becomes **works under construction** for the purposes of calculating the cost of financing;

subject to subclause (i), a **capital contribution** will reduce the cost of **works** **under construction** for the purpose of the calculation of the finance cost, even if the resulting value of **works under construction** is negative;

subject to subclause (g), if the value of **works under construction** is negative in accordance with subclause (e), the cost of financing for the period ending on the **commissioning date** will be negative;

if the cost of financing an asset which is **works under construction** is negative under subclause (f), it will reduce the value of the relevant asset or assets by that negative amount where such a reduction is not otherwise made under GAAP;

for the purpose of subclause (d), **works under construction** includes assets that are forecast to be enhanced or acquired; and

if the cost of financing is derived as income in relation to **works under** **construction** and is both-

negative; and

included in regulatory income under an **ID determination**,

it will not reduce the value of the relevant asset or assets where such reduction is not otherwise made under **GAAP**.

* + - * 1. For the avoidance of doubt-

revenue derived in relation to works under construction that is not included in regulatory income under an ID determination or preceding regulatory information disclosure requirements reduces the cost of an asset by the amount of the revenue where such reduction is not otherwise made under GAAP; and

where expenditure on an asset which forms part of the cost of that asset under GAAP is incurred by an EDB after that asset was commissioned, such expenditure is treated as relating to a separate asset.

* + - * 1. For the purpose of paragraph 2.2.11(1)(g), the cost of a **commissioned** asset, or component of a **commissioned** asset, acquired from a **related party** must be set on the basis that–

each **related party transaction** must be valued as if it had the terms of an **arm’s-length transaction**;

the value of a **related party transaction** must be based on an objective and independent measure; and

notwithstanding paragraphs (a) and (b), the asset value in the **related party transaction** must not exceed the actual transaction price of the asset.

*Guidance note 1: (refer to clause 1.1.4(1)(e)-(f))*

*Commerce Commission “Input methodologies review draft decision – Related party transactions – Draft decision and determinations guidance” (30 August 2017), Table A1 of Attachment A provides an illustrative list of examples of arm’s length transactions and Table A2 of Attachment A provides an illustrative list of examples of non-arm’s length transactions.*

*Guidance note 2: (refer to clause 1.1.4(1)(e)-(f))*

*Commerce Commission “Input methodologies review draft decision – Related party transactions – Draft decision and determinations guidance” (30 August 2017), Attachment B provides illustrative guidance on the relationship between the related party rules and cost allocation rules.*

* + - 1. Value of found asset
         1. Found asset means, in relation to a disclosure year, an asset-

other than easement land;

other than an intangible asset, unless it is-

a finance lease; or

an identifiable non-monetary asset;

not having a commissioning date in the disclosure year in question;

the value of which-

is not included as an unallocated opening RAB value in the disclosure year in question nor was so included in any prior disclosure year pursuant to clause 2.2.4(1); and

was not included in an unallocated closing RAB value in any prior disclosure year in accordance with clause 2.2.4(2); and

first determined by the EDB in the disclosure year in question to have a commissioning date after the disclosure year 2009.

* + - * 1. The value of found asset is-

the found asset's cost calculated consistently with GAAP; or

where sufficient records do not exist to establish the found asset's cost for the purposes of GAAP-

where an asset with an unallocated opening RAB value for that disclosure year is similar (in terms of asset type and age) to the found asset, the unallocated opening RAB value of the similar asset; and

in all other cases, its market value as determined by a valuer as at the date that the asset was first determined to have been commissioned in a prior disclosure year after the disclosure year 2009.

* 1. Treatment of taxation
     + 1. Regulatory tax allowance
          1. Regulatory tax allowance is, where regulatory net taxable income is-

nil or a positive number, the tax effect of regulatory net taxable income; and

a negative number, nil.

* + - * 1. Regulatory net taxable income is regulatory taxable income less utilised tax losses.
        2. Regulatory taxable income is the amount determined in accordance with the formula-

regulatory profit / (loss) before tax + permanent differences + regulatory tax adjustments.

* + - * 1. Regulatory profit / (loss) before tax means the amount of 'regulatory profit / (loss) before tax' as determined in accordance with an ID determination.
      1. Tax losses
         1. Utilised tax losses means opening tax losses, subject to subclause (2).
         2. For the purpose of subclause (1), utilised tax losses may not exceed regulatory taxable income.
         3. In this clause, 'opening tax losses' in relation to a disclosure year that commenced-

in 2009, are nil; and

after 2009, are closing tax losses for the preceding disclosure year.

* + - * 1. For the purpose of subclause (3)(b), 'closing tax losses' means the amount determined in accordance with the following formula, in which each term is an absolute value:

opening tax losses + current period tax losses - utilised tax losses.

* + - * 1. For the purpose of subclause (4), current period tax losses is, where regulatory taxable income is-

nil or a positive number, nil; and

a negative number, regulatory taxable income.

* + - 1. Permanent differences
         1. Permanent differences is the amount determined in accordance with the formula-

positive permanent differences - discretionary discounts and customer rebates - negative permanent differences.

* + - * 1. For the purpose of subclause (1), 'positive permanent differences' means, subject to subclause (3), the sum of-

all amounts of income-

treated as taxable were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and

not included as amounts of income in determining regulatory profit / (loss) before tax; and

all amounts of expenditure or loss-

included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax; and

not treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services,

if the difference in treatment of amounts of-

income under paragraphs (a)(i) and paragraph (a)(ii); or

expenditure or loss under paragraph (b)(i) and paragraph (b)(ii),

is a difference that-

is not a reversal or partial reversal of a difference for a prior disclosure year; and

will not reverse in a subsequent disclosure year.

* + - * 1. For the purpose of subclause (2), positive permanent differences excludes any amounts that are-

amortisation of initial differences in asset values; or

amortisation of revaluations.

* + - * 1. For the purpose of subclause (1), 'negative permanent differences' means, subject to subclause (5), the sum of-

all amounts of income-

included as amounts of income in determining regulatory profit / (loss) before tax; and

not treated as taxable were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and

all amounts of expenditure or loss-

treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and

not included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax,

if there are differences between the values in-

paragraphs (a)(i) and paragraph (a)(ii); and

paragraphs (b)(i) and paragraph (b)(ii),

and such differences-

are not the reversal of a difference in a prior disclosure year; and

will not reverse in a subsequent disclosure year.

* + - * 1. For the purpose of subclause (4), negative permanent differences excludes amounts that are-

discretionary discounts and customer rebates;

expenditure or loss determined in accordance with the tax rules that is-

interest; or

incurred in borrowing money; and

any-

tax losses; or

subvention payment made or received by an EDB.

* + - * 1. Discretionary discounts and customer rebates means the expenditure or loss allowed as a deduction under the tax rules in respect of the-

sum of all payments made; and

value of all credit amounts given,

to persons by an EDB in respect of the supply of electricity distribution services owing to those persons' direct or indirect ownership interest in the EDB.

* + - 1. Regulatory tax adjustments
         1. Regulatory tax adjustments are determined in accordance with the formula-

amortisation of initial differences in asset values + amortisation of revaluations - notional deductible interest.

* + - * 1. For the purpose of subclause (1), 'notional deductible interest' means the amount determined in accordance with the formula–

((*regulatory investment value* x **leverage** x **cost of debt**) + **term credit spread differential allowance**)

÷

√(1 + **cost of debt**).

* + - * 1. For the purpose of subclause (2), ‘regulatory investment value’ means the value for ‘regulatory investment value’ determined in accordance with the ID determination applicable to the disclosure year and the regulated good or service in question.
      1. Amortisation of initial differences in asset values
         1. Amortisation of initial differences in asset values is, subject to subclause (4), determined in accordance with the formula-

opening unamortised initial differences in asset values ÷ opening weighted average remaining useful life of relevant assets.

* + - * 1. For the purpose of this clause, 'opening unamortised initial differences in asset values' means, in respect of-

the disclosure year 2010, initial differences in asset values; and

each disclosure year thereafter, subject to subclause (4), closing unamortised initial difference in asset values for the preceding disclosure year.

* + - * 1. For the purpose of subclause (2)(a), 'initial differences in asset values' means, subject to subclause (4), the sum of initial RAB values less the sum of regulatory tax asset values on the first day of the disclosure year 2010.
        2. For the purpose of subclause (1), ‘opening weighted average remaining useful life of relevant assets’ means-



where:

the 2010 weighted average **remaining asset life** of assets included in the initial RAB calculated by using **initial RAB values** as weightings

**disclosure year** less 2010.

* + - * 1. For the purpose of subclauses (1) and (2)-

no account may be taken of unamortised initial differences in asset values of sold assets from the date of sale; and

account must be taken of unamortised initial differences in asset values of acquired assets from the date of acquisition.

* + - * 1. For the purpose of subclause (2)(b), 'closing unamortised initial difference in asset values' is determined in accordance with the formula-

Opening unamortised initial differences in asset values - amortisation of initial difference in asset values.

* + - 1. Amortisation of revaluations

Amortisation of revaluations is calculated in accordance with the formula-

total depreciation - adjusted depreciation.

* + - 1. Deferred tax
         1. Opening deferred tax means, in respect of-

the disclosure year 2010, nil; and

each disclosure year thereafter, closing deferred tax for the preceding disclosure year.

* + - * 1. For the purpose of subclause (1)(b), 'closing deferred tax' is determined in accordance with the formula-

opening deferred tax + tax effect of temporary differences - tax effect of amortisation of initial difference in asset values + deferred tax balance relating to assets acquired in the disclosure year in question *– deferred tax balance relating to assets disposed of in the* ***disclosure year*** *in question* + cost allocation adjustment.

* + - * 1. For the purpose of subclause (2), 'deferred tax balance relating to assets acquired in the disclosure year in question' means the amount of deferred tax associated with the assets acquired by the EDB from another regulated supplier excluding the reversal of temporary adjustments arising as a consequence of the sale, as determined in accordance with input methodologies applicable to the regulated services that the assets in question were used to supply.
        2. For the avoidance of doubt, the amount referred to in subclause (3) must include proportionate adjustments for-

the tax effect of temporary differences; and

the amortisation of initial differences in asset values,

up to the date the assets in question were acquired.

* + - * 1. For the purpose of subclause (2), 'cost allocation adjustment' means the tax effect of the dollar value difference between the change in the sum of regulatory tax asset values on the last day of the disclosure year and the change in the sum of closing RAB values as a result only of applying-

the result of the asset allocation ratios to the tax asset value in accordance with clause 2.3.9(1); and

clause 2.1.1 to the unallocated closing RAB value.

* + - * 1. For the purpose of subclause (2), ‘deferred tax balance relating to assets disposed of in the **disclosure year** in question’ means the amount of deferred tax associated with the assets disposed of by the **EDB** and, where that deferred tax balance is a deferred tax liability, it must have a negative value.
      1. Temporary differences
         1. Temporary differences is the amount determined in accordance with the formula-

depreciation temporary differences + positive temporary differences - negative temporary differences.

* + - * 1. For the purpose of this clause, 'depreciation temporary differences' means adjusted depreciation less tax depreciation.
        2. For the purpose of subclause (2) 'tax depreciation' means the sum of the amounts determined for all assets of an EDB by application of the tax depreciation rules to the regulatory tax asset value of each asset.
        3. For the purpose of subclause (1), 'positive temporary differences' means the sum of-

all amounts of income-

treated as taxable if the tax rules were applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and

not included as amounts of income in determining regulatory profit / (loss) before tax; and

all amounts of expenditure or loss-

included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax; and

not treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services,

less any amount that are depreciation temporary differences, if there are differences between the values in-

paragraphs (a)(i) and (a)(ii); and

paragraphs (b)(i) and (b)(ii),

and such differences-

are the reversal of a difference in a prior disclosure year; or

will reverse in a subsequent disclosure year.

* + - * 1. For the purpose of subclause (1), 'negative temporary differences' means the sum of-

all amounts of income-

included as amounts of income in determining regulatory profit / (loss) before tax; and

not treated as taxable were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and

all amounts of expenditure or loss-

treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and

not included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax,

less any amount that are depreciation temporary differences, if there are differences between the values in-

paragraphs (a)(i) and (a)(ii); and

paragraphs (b)(i) and (b)(ii),

and such differences-

are the reversal of a difference in a prior disclosure year; or

will reverse in a subsequent disclosure year.

* + - 1. Regulatory tax asset value
         1. Regulatory tax asset value, in relation to an asset, means the value determined in accordance with the formula-

tax asset value × result of asset allocation ratio.

* + - * 1. Tax asset value means, in respect of-

an asset-

in the initial RAB where, in the disclosure year 2010, the sum of unallocated initial RAB values is less than the sum of the adjusted tax values of all assets in the initial RAB;

acquired from a regulated supplier who used it to supply regulated goods or services; or

acquired or transferred from a related party,

the value of the asset determined by applying the tax depreciation rules to its notional tax asset value; and

any other asset, its adjusted tax value.

* + - * 1. 'Notional tax asset value' means, for the purpose of-

Subclause (2)(a)(i), adjusted tax value of the asset in the disclosure year 2010 adjusted to account proportionately for the difference between the-

sum of the unallocated initial RAB values; and

sum of the adjusted tax values,

of all assets in the initial RAB;

subclause (2)(a)(ii), value after applying the tax depreciation rules to the tax asset value (as 'tax asset value' is defined in the input methodologies applying to the regulated goods or services in question) in respect of the disclosure year in which the asset was acquired; and

subclause (2)(a)(iii), value in respect of the disclosure year in which the asset was acquired or transferred that is-

consistent with the tax rules; and

limited to its value of commissioned asset or, if relevant capital contributions are treated for tax purposes in accordance with section CG 8 of the Income Tax Act 2007 (or subsequent equivalent provisions), limited to the value of commissioned asset plus any taxed capital contributions applicable to the asset.

* + - * 1. For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the tax rules-

has a matching asset or group of assets maintained for the purpose of Subpart 2, the value obtained in accordance with the formula-

opening RAB value or sum of opening RAB values, as the case may be

÷

unallocated opening RAB value or sum of unallocated opening RAB values, as the case may be,

applying the formula in respect of the asset or smallest group of assets maintained for the purpose of Subpart 2 that has a matching asset or group of assets maintained under the tax rules; and

does not have a matching asset or group of assets maintained for the purpose of Subpart 2, the value of the asset allocated to the supply of electricity distribution services were clause 2.1.1 to apply to the asset or group of assets.

* 1. Cost of capital
     + 1. Methodology for estimating the weighted average cost of capital
          1. The Commission will determine a mid-point estimate of vanilla WACC for each disclosure year-

in respect of the 5 years commencing on the first day of the disclosure year in question;

within 1 month of the start of the disclosure year in question; and

in accordance with the formula-

rd L + re(1 - L).

* + - * 1. The Commission will determine a mid-point estimate of post-tax WACC for each disclosure year-

in respect of the 5 years commencing on the first day of the disclosure year in question;

within 1 month of the start of the disclosure year in question; and

in accordance with the formula-

rd (1 - Tc)L + re (1 - L).

* + - * 1. In this clause-

L is leverage;

rd is the cost of debt and is estimated in accordance with the formula:

rf + p + d;

re is the cost of equity and is estimated in accordance with the formula:

rf(1 - Ti) + βeTAMRP;

Tc is the average corporate tax rate;

rf is the risk-free rate;

p is the **average** debt premium;

d is the debt issuance costs;

Ti is the average investor tax rate;

βe is the equity beta; and

TAMRP is the tax-adjusted market risk premium.

* + - * 1. For the purpose of this clause-

the average investor tax rate, the equity beta, the debt issuance costs, the average corporate tax rate and the tax-adjusted market risk premium are the amounts specified in or determined in accordance with clause 2.4.2; and

the risk-free rate must be estimated in accordance with clause 2.4.3.

* + - 1. Fixed WACC parameters
         1. Leverage is 42%.
         2. ’Average investor tax rate’ is the average of the investor tax rates that, as at the date that the estimation is made, will apply to each of the disclosure years in the 5 year period commencing on the first day of the disclosure year in question.
         3. For the purpose of subclause (2), 'investor tax rate' is, for each **disclosure year**, the maximum **prescribed investor rate** applicable at the start of that **disclosure year** to an individual who is-

resident in New Zealand; and

an investor in a multi-rate PIE.

* + - * 1. The ‘average corporate tax rate’ is the average of the corporate tax rates that, as at the date that the estimation is made, will apply during the 5 year period commencing on the first day of the disclosure year in question.
        2. The ’Equity beta’ is 0.60.
        3. ’Debt issuance costs’ are 0.2%.
        4. ‘Tax-adjusted market risk premium’ is, for a 5 year period commencing on the first day of each **disclosure year**, 7.0%.
      1. Methodology for estimating risk-free rate

The Commission will estimate a risk-free rate-

for each disclosure year; and

within 1 month of the start of the disclosure year in question,

by-

obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds, the wholesale market linearly-interpolated bid yield to maturity for a residual period to maturity equal to 5 years on each business day in the 3 months preceding the start of the disclosure year;

calculating the annualised interpolated bid yield to maturity for each business day; and

calculating the unweighted arithmetic average of the daily annualised interpolated bid yields to maturity.

* + - 1. Methodology for estimating average debt premium
         1. The **Commission** will determine an estimate of an amount for the **average debt premium**-

for each **disclosure year**; and

within 1 month of each **disclosure year**.

* + - * 1. For the purpose of subclause (1), ‘average debt premium’ means the simple arithmetic average of the five **debt premium** values estimated in accordance with subclauses (4), (5) and (6) for:

the current **debt premium reference year**; and

the four previous **debt premium reference years**.

* + - * 1. For the purpose of subclause (2)(a), ‘current debt premium reference year’ refers to the **debt premium reference year** that contains the start of the **disclosure year**.
        2. For the **debt premium reference year** 2017 or earlier, the following **debt premium** values apply-

2013 = 2.24%;

2014 = 2.04%;

2015 = 1.76%;

2016 = 1.59%; and

2017 = 1.59%.

* + - * 1. Debt premium means the spread between-

the bid yield to maturity on vanilla NZ$ denominated bonds that-

are issued by an EDB or a GPB;

are publicly traded;

have a qualifying rating of grade BBB+; and

have a remaining term to maturity of 5 years; and

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.

* + - * 1. For the purpose of subclause (2), the amount of the debt premium will be estimated by-

identifying publicly traded vanilla NZ$ denominated bonds issued by a qualifying issuer that are-

investment grade credit rated; and

of a type described in the paragraphs of subclause (7);

in respect of each bond identified in accordance with paragraph (a)-

obtaining its wholesale market annualised bid yield to maturity;

calculating by linear interpolation with respect to maturity, the contemporaneous wholesale market annualised bid yield to maturity for a notional benchmark New Zealand government New Zealand dollar denominated nominal bond with the same remaining term to maturity; and

calculating its contemporaneous interpolated bid to bid spread over notional benchmark New Zealand government New Zealand dollar denominated nominal bonds with the same remaining term to maturity, by deducting the yield calculated in accordance with sub-paragraph (ii) from the yield obtained in accordance with sub-paragraph (i),

for each business day in the 12 months preceding the start of the **debt premium reference year**;

calculating, for each bond identified in accordance with paragraph (a), the un-weighted arithmetic average of the daily spreads identified in accordance with paragraph (b)(iii); and

subject to subclause (7), estimating, by taking account of the average spreads identified in accordance with paragraph (c) and having regard to the debt premium estimated from applying the **Nelson-Siegel-Svensson approach**, the average spread that would reasonably be expected to apply to a vanilla NZ$ denominated bond that-

is issued by an EDB or a GPB that is neither 100% owned by the Crown nor a local authority;

is publicly traded;

has a qualifying rating of grade BBB+; and

has a remaining term to maturity of 5 years.

* + - * 1. For the purpose of subclauses (6)(a) and (6)(d), the Commission will have regard, subject to subclause (8), to the spreads observed on the following types of vanilla NZ$ denominated bonds issued by a qualifying issuer:

those that-

have a qualifying rating of grade BBB+; and

are issued by an EDB or a GPB that is neither 100% owned by the Crown nor a local authority;

those that-

have a qualifying rating of grade BBB+; and

are issued by an entity other than an EDB or a GPB that is neither 100% owned by the Crown nor a local authority;

those that-

have a qualifying rating of a grade different to BBB+; and

are issued by an EDB or a GPB that is neither 100% owned by the Crown nor a local authority;

those that-

have a qualifying rating of a grade different to BBB+; and

are issued by an entity other than an EDB or a GPB that is neither 100% owned by the Crown nor a local authority; and

those that are-

investment grade credit rated; and

issued by an entity that is 100% owned by the Crown or a local authority.

* + - * 1. For the purpose of subclause (7)-

progressively lesser regard will ordinarily be given to the spreads observed on the bond types described in accordance with the order in which the bond types are described in subclause (7);

the spread on any bond of the type described in subclause (7) that has a remaining term to maturity of less than 5 years will ordinarily be considered to be the minimum spread that would reasonably be expected to apply on an equivalently credit-rated bond issued by the same entity with a remaining term to maturity of 5 years; and

the Commission will adjust spreads observed on bonds described under subclauses (7)(b) to (7)(e) to approximate the spread that is likely to have been observed had the bonds in question been of the type described in subclause (7)(a).

* + - * 1. For the purpose of subclause (6)(d), ‘Nelson-Siegel-Svensson approach’ means a method for modelling yield curves and term structures of interest rates which establishes a relationship between terms to maturity and the **debt premium**, where a curve is generated by changing the parameters of a yield curve’s functional form to minimise the squared deviation between estimated and observed values.
      1. Methodology for estimating the WACC range and the 67th percentile of WACC
         1. The Commission will determine a WACC range for each mid-point estimate of WACC-

for each disclosure year; and

within 1 month of the start of the disclosure year in question.

* + - * 1. For the purpose of subclause (1), 'WACC range' means the values falling between the 25th percentile and 75th percentile, inclusive, of the mid-point estimate of WACC.
        2. For the purpose of subclause (2)-

the mid-point estimate of WACC must be treated as the 50th percentile; and

the-

75th percentile must be determined in accordance with the formula-

mid-point estimate of WACC + 0.674 × standard error; and

25th percentile must be determined in accordance with the formula-

mid-point estimate of WACC - 0.674 × standard error,

where the standard error of the relevant mid-point estimate of WACC is 0.0101.

* + - * 1. The **Commission** will determine a 67th percentile estimate of vanilla **WACC** and a 67th percentile estimate of post-tax **WACC**-

for each **disclosure year**; and

within 1 month of the start of the **disclosure year** in question.

* + - * 1. For the purpose of subclause (4)-

the **mid-point estimate of WACC** must be treated as the 50th percentile; and

the 67th percentile must be determined in accordance with the formula-

**mid-point estimate of WACC** + 0.440 x standard error,

where the **standard error** of the relevant **mid-point estimate of WACC** is0.0101.

* + - 1. Publication of estimates

The Commission will publish all determinations and estimates that it is required to make by this subpart-

on its website; and

no later than 1 month after having made them.

* + - 1. Interpretation of terms relating to term credit spread differential
         1. ‘Qualifying debt’ means a line of debt-

with an original tenor greater than 5 years; and

issued by a qualifying supplier.

* + - * 1. Qualifying supplier means a regulated supplier whose debt portfolio, as at the date of that supplier's most recently published audited financial statements, has a weighted average original tenor greater than 5 years.
      1. Term credit spread difference
         1. Term credit spread difference is determined in accordance with the formula-

T × U,

where-

'T' is the amount determined in accordance with the formula-

0.00075 × (original tenor of the **qualifying debt** – 5);

'U' is the book value in New Zealand dollars of the qualifying debt at its date of issue.

* + - * 1. For the purpose of this clause, where the qualifying debt is issued to a related party, 'original tenor of the qualifying debt' means the-

tenor of the qualifying debt; or

period from the qualifying debt's date of issue to the earliest date on which its repayment is or may be required,

whichever is the shorter.

* + - 1. Methodology for estimating term credit spread differential
         1. This clause applies to the determination of the amount of any term credit spread differential in respect of a qualifying debt for the purpose of disclosure pursuant to an ID determination of a-

term credit spread differential allowance; o**r**

term credit spread differential.

* + - * 1. Disclosure to which this clause applies may only be made by a qualifying supplier.
        2. Term credit spread differential is the amount determined in accordance with the formula-

(A ÷ B) × C ×D,

where-

'A' is the sum of the term credit spread difference and debt issuance cost re-adjustment;

'B' is the book value of the qualifying supplier's total interest-bearing debt as at the balance date of the supplier's financial statements audited and published in the disclosure year in question relate;

'C' is leverage; and

'D' is, in relation to the qualifying supplier, the average of-

the sum of opening RAB values; and

the sum of closing RAB values.

* + - * 1. For the purpose of subclause (3)(a), 'debt issuance cost re-adjustment' is the amount determined in accordance with the formula-

(0.01 ÷ original tenor of the qualifying debt - 0.002) × book value in New Zealand dollars of the qualifying debt at its date of issue,

which amount, for the avoidance of doubt, will be a negative number.

1. INPUT METHODOLOGIES FOR BOTH DEFAULT AND CUSTOMISED PRICE-QUALITY PATHS
   1. Specification of price

3.1.1 Specification and definition of prices

* + - * 1. For the purpose of s 53M(1)(a) of the Act, the maximum revenues that may be recovered by an **EDB** will be specified in a **DPP determination** or **CPP determination** as a revenue cap,whereby **forecast revenue from** **prices** must not exceed **forecast** **allowable revenue** for each **disclosure year** of the **regulatory period**.
        2. For the purpose of setting the maximum revenues under subclause (1), the **Commission** may specify in a **DPP determination** or **CPP determination** an annual maximum percentage increase in **forecast allowable revenue as a function of demand** for a **disclosure year**.
        3. For the purpose of this subpart, ‘forecast revenue fromprices’ for a **disclosure year** means the forecast revenue used by an **EDB** to set **prices**, where forecast revenue is the total of each **price** multiplied by each forecast **quantity**.
        4. For the purpose of this subpart, ‘forecast allowable revenue’ as specified in a **DPP determination** or **CPP determination** includes-

**forecast net allowable revenue**;

forecast **pass-through costs**;

forecast **recoverable costs**, excluding any **revenue wash-up draw down amount** under clause 3.1.3(1)(v) for the **disclosure year** referred to in subclause (1); and

the balance of the **wash-up account** available for draw down.

* + - * 1. For the purpose of this subpart, ‘forecast allowable revenue as a function of demand’ is the **forecast allowable revenue** for the **disclosure year** expressed as a function of one or more units of demand as specified by the **Commission** in a **DPP determination** or **CPP determination**.
        2. For the purpose of this subpart,‘forecast net allowable revenue’ for the first **disclosure year** of a **DPP** or **CPP** **regulatory period** will be specified by the **Commission** at the start of the **regulatory period** in a **DPP determination** or **CPP determination**.
        3. For each **disclosure year** of the **DPP** or **CPP** **regulatory period** after thefirst **disclosure year**, ‘forecast net allowable revenue’ is calculated by applying-

the **forecast net allowable revenue** for the preceding **disclosure year**;

the **forecast CPI**, as specified in subclause (8); and

any X factor applicable to the **EDB**.

* + - * 1. ‘ForecastCPI’ means-

for a quarter prior to the quarter for which the vanilla **WACC** applicable to the relevant **DPP regulatory period** or **CPP regulatory period** was determined, **CPI** as per paragraph (a) of the ‘CPI’ definition and excluding any adjustments made under paragraph (b) of the **CPI** definition arising as a result of an event that occurs after the issue of the Monetary Policy Statement referred to in paragraph (b) below;

for each later quarter for which a forecast of the change in headline **CPI** has been included in the Monetary Policy Statement last issued by the Reserve Bank of New Zealand prior to the date for which the vanilla **WACC** applicable to the relevant **DPP regulatory period** or **CPP regulatory period** was determined, the **CPI** last applying under paragraph (a) extended by the forecast change; and

in respect of later quarters, the forecast last applying under paragraph (b) adjusted such that an equal increment or decrement made to that forecast for each of the following three years results in the forecast for the last of those years being equal to the target midpoint for the change in headline **CPI** set out in the Monetary Policy Statement referred to in paragraph (b).

* + - * 1. ‘Prices’ means-

individual tariffs, fees or charges; or

individual components thereof,

in nominal terms exclusive of GST for the supply of an electricity distribution service, and must include a discount taken up by consumers.

* + - * 1. 'Quantity' means the amounts supplied of electricity distribution services corresponding to the extent practicable to prices, expressed in units of kWh, kVA, kW, day or other unit applicable to such supply.
        2. 'discount' means a discount to charges payable for the supply of electricity distribution services-

that is offered by an EDB;

the take-up of which is determined by consumers; and

that applied when the **forecast net allowable revenue** was determined.

* + - 1. Pass-through costs
         1. Subject to subclause (4), a pass-through cost is-

a cost listed in subclause (2); or

subject to subclause (3), a cost, other than one listed in subclause (2), specified by way of a **DPP determination** or **CPP determination**.

* + - * 1. For the purpose of subclause (1)(a), the costs are-

rates on system fixed assets paid or payable by an EDB to a local authority under the Local Government (Rating) Act 2002; and

levies payable-

under regulations made under s 53ZE of the Act;

under regulations made under the Electricity Industry Act 2010; or

by all members of the Electricity and Gas Complaints Commissioner Scheme by virtue of their membership.

* + - * 1. For the purpose of subclause (1)(b), the cost in question must-

be-

associated with the supply of electricity distribution services;

outside the control of the EDB;

not a recoverable cost;

appropriate to be passed through to consumers; and

one in respect of which provision for its recovery is not otherwise made explicitly or implicitly in the DPP or, where applicable, CPP; and

come into effect during a DPP regulatory period or, where applicable, CPP regulatory period.

* + - * 1. For the purpose of subclause (1), where a cost relates to both electricity distribution services and other services supplied by the EDB, only the proportion of the cost attributable to the supply of electricity distribution services (as determined in accordance with clause 2.1.1), may be a pass-through cost.
      1. Recoverable costs
         1. A recoverable cost is a cost that is-

any amount that is–

an **IRIS incentive adjustment** calculated in respect of a **non-exempt EDB**; or

a positive net balance determined in accordance with clause 3.3.16(2), provided that any requirements pursuant to an **ID determination** regarding **auditor** certification of any value determined in accordance with Section 3 of Subpart 3 have been met;

a charge payable to **Transpower** for **electricity lines services** provided to an **EDB** in respect of the transmission system in accordance with the transmission pricing methodology **Transpower** uses to determine the prices it charges for its services, as specified in the Electricity Industry Participation Code, including any such charges on-charged at cost by a third party to an **EDB** that does not have a transmission agreement with **Transpower** for the relevant point of supply;

a charge payable by an EDB to Transpower in respect of a new investment contract (as 'new investment contract' is defined in the Electricity Industry Participation Code) between those parties, or an equivalent type of contract;

a charge payable by an EDB for the supply of system operator services, where 'system operator' has the same meaning as defined in s 5 of the Electricity Industry Act 2010, to the extent that the charge is not a pass-through cost;

an amount of a charge described in paragraphs (b) or (c) that the Commission is satisfied an EDB has avoided liability to pay as a result of the EDB having purchased transmission assets from Transpower, subject to-

the requirement specified in subclause (2); and

subclause (4);

a **distributed generation allowance**;

claw-back applied by the **Commission** under sections 54K(3) or 53ZB(3) of the Act;

a standard application fee for a CPP proposal under 53Q(2)(c), subject to the proviso specified in subclause (5);

a fee notified by the **Commission** as payable by the EDB in respect of the **Commission** assessing a CPP proposal and determining a CPP in accordance with s 53Y of the Act, subject to the proviso specified in subclause (5);

a fee payable to a verifier, subject to the requirement specified in subclause (3);

any auditor's cost incurred for the purpose of meeting clauses 5.1.4 or 5.5.3, subject to the requirement specified in subclause (3);

a fee payable to an engineer for the purpose of meeting a requirement of clause 5.4.12(4)(b), subject to the requirement specified in subclause (3);

a **catastrophic event allowance**, as specified in a **DPP determination** or **CPP determination**;

an **extended reserves allowance**, subject to the requirements specified in subclauses (2) and (7);

a **quality incentive adjustment**;

the amount calculated for a **non-exempt EDB** in accordance with the following formula for each **disclosure year** other than the first in a **DPP regulatory period** or **CPP regulatory period** for which the starting prices were determined by the Commission in a **DPP determination** or **CPP determination**–



where–

*l* is the number of **disclosure years** in the **DPP regulatory period** or **CPP regulatory period**;

*r* is the **cost of debt** applying to the **DPP regulatory period** or **CPP regulatory period**; and

y is the number of **disclosure years** preceding the **disclosure year** in question in the **DPP regulatory period** or **CPP regulatory period**;

an amount calculated for a **non-exempt EDB** if the acquisition of the transmission asset is not completed prior to the commencement of a **regulatory period** in accordance with the terms of any contract setting out the terms and condition of sale, in accordance with the following formula for a **disclosure year** in a **regulatory period** other than the first **disclosure year**–



where–

*l* is the number of **disclosure years** in the **regulatory period**;

*r* is the **cost of debt** applying to the **regulatory period**; and

y is the number of **disclosure years** preceding the **disclosure year** in question in the **regulatory period**;

the **2013-15 NPV wash-up allowance**;

a **reconsideration event allowance**, as specified in a **DPP determination** or **CPP determination**;

a fee payable to an **engineer** for the purpose of meeting a requirement of clause 4.5.5, subject to the requirement specified in subclause (10);

an urgent project allowance, as determined by the **Commission** under subclause (11); or

a **revenue wash-up draw** **down** **amount**, as specified in subclause (13)(k).

* + - * 1. The requirement of this subclause is that in respect of a particular EDB, the Commission's approval for the amount of cost must be obtained in accordance with any process relating to the type of cost in question specified in a DPP determination.
        2. The requirement of this subclause is that the amount that may be recovered in respect of a particular EDB must be specified by the **Commission** in a CPP determination.
        3. For the purpose of subclause (1)(e)(ii), the amount is a recoverable cost only in the 5 disclosure years from and including the disclosure year in respect of which the **Commission** first approved the amount of the cost.
        4. For the purpose of subclauses (1)(h) and (1)(i), the proviso is that the CPP proposal is not discontinued by the **Commission** under s 53S of the Act.
        5. In this clause, ‘Electricity Industry Participation Code’ has the same meaning as ‘code’ is defined in the Electricity Industry Act 2010**.**
        6. For the purpose of giving approval under subclause (2) in respect of an **extended reserves allowance**, the **Commission** will have regard to any policy intent stated by the Electricity Authority as to whether–

some or all compensation payments to be made by an **EDB** under the extended reserves regime would be expected to constitute negative **recoverable costs** and be passed-through to **consumers** via corresponding reductions in **prices**; and

revenues that an **EDB** may receive under the extended reserves regime would be expected to be treated as unregulated income.

* + - * 1. For the purpose of subclause (1)(p), the ‘capex wash-up adjustment’ is an amount equal to the present value of the difference in the series of **forecast net allowable revenue** for the **disclosure years** of the **DPP regulatory period** or **CPP regulatory period** in question, subject to subclause (9), from adopting–

the sum of **value of commissioned assets** in the building blocks allowable revenue before tax for each **disclosure year** that follows the **base year** in the preceding **DPP regulatory period** or **CPP regulatory period**,

instead of–

the **forecast aggregate value of commissioned assets** determined by the **Commission** in respect of each of those **disclosure years** when determining prices in accordance with a **DPP determination** or **CPP determination**, or an amendment thereof.

* + - * 1. For the purpose of subclause (8)–

the present value must be determined by discounting the series of building blocks allowable revenue before tax, using a discount rate equal to the **WACC** applied by the **Commission** in setting prices for the **DPP regulatory period** or **CPP regulatory period** in question, to-

where the **capex wash-up adjustment** is applied for a **DPP regulatory period**, the end of the preceding **DPP regulatory period**;

where the **capex wash-up adjustment** is applied for a **CPP regulatory period**, the point in the preceding **DPP regulatory period** where the **CPP regulatory period** began;

the series of building blocks allowable revenue before tax for the **DPP regulatory period** are those used to reset starting prices based on the current and projected profitability of each **EDB** and must-

be calculated using the same methodology that was applied by the **Commission** in setting starting prices for the **EDB** for the **DPP**,subject to subparagraphs (ii) and (iii);

for the purpose of subparagraph (i), adopt the sum of **depreciation** calculated under Part 2 in respect of each **disclosure year** that follows the **base year** in the preceding **DPP regulatory period** for assets having a **commissioning date** in any of those **disclosure years**; and

for the purpose of subparagraph (i), adopt the same values for all other inputs to the calculation of building blocks allowable revenue before tax;

the series of **building blocks allowable revenue before tax** for the **CPP regulatory period** are those used in setting the series of **maximum allowable revenue after tax** in accordance with clause 5.3.4(1) and must-

be calculated using the same building blocks methodology that was applied by the **Commission** when setting the **EDB forecast net allowable revenue** for the **CPP**,subject to subparagraphs (ii) and (iii);

for the purpose of subparagraph (i), adopt the sum of **depreciation** calculated under Part 2 in respect of each **disclosure year** that follows the **base year** in the preceding **DPP regulatory period** for assets having a **commissioning date** in any of those **disclosure years**; and

for the purpose of subparagraph (i), adopt the same values for all other inputs to the calculation of **building blocks allowable revenue before tax**;

where the series of building blocks allowable revenue before tax from adopting the sum of **value of commissioned assets** exceed the series of building blocks allowable revenue before tax from using the **forecast aggregate value of commissioned assets**, then the difference is a positive amount of capex wash-up adjustment;

where the series of building blocks allowable revenue before tax from adopting the sum of **value of commissioned assets** is less than the series of building blocks allowable revenue before tax from using the **forecast aggregate value of commissioned assets**, then the difference is a negative amount of capex wash-up adjustment; and

where a **CPP** applies in respect of a **disclosure year** during the **DPP regulatory period**, then the amount of capex wash-up adjustment for that **disclosure year** and each subsequent **disclosure year** of the **DPP regulatory period** will be specified by the **Commission** in the relevant **CPP determination**, taking account the partial recovery of the capex wash-up adjustment in prior **disclosure years** of that **DPP regulatory period**.

* + - * 1. For the purpose of subclause (1)(t), the amount that may be recovered by an EDB will be specified by the Commission in an amendment to the DPP determination.
        2. ‘Urgent project allowance’ means the allowance determined by the Commission in a CPP determination in respect of additional net costs where these costs-

exceed those already provided for in a DPP determination or CPP determination;

will not otherwise be recovered by the EDB; and

will be prudently incurred by the EDB before commencement of the resulting CPP regulatory period in responding to an urgent project that occurred in the time between the submission of a CPP proposal and determination of the resulting CPP determination by the Commission.

* + - * 1. For the purpose of subclause (1)(v), an **EDB** must for each **disclosure year**–

perform a revenue wash-up calculation as specified in a **DPP determination** or **CPP determination**;

calculate and record any **voluntary undercharging amount foregone** in accordance with subclause (13)(a);

record in the **wash-up account** any **wash-up amount** calculated in accordance with subclause (13)(b);

record in the **wash-up account** any **revenue wash-up draw down amount**; and

record a time value of money adjustment in the **wash-up account**-

using a rate equal to the **67th percentile estimate of** **WACC**; and

calculated by applying the method as specified in **a DPP determination** or **CPP determination**.

* + - * 1. For the purpose of subclause (12)-

‘voluntary undercharging amount foregone’ means an amount of revenue permanently foregone, in accordance with the manner specified in the **DPP determination** or **CPP determination**,where the **EDB** has intentionally and voluntarily undercharged revenues relative to the amount allowed in the **DPP** or **CPP**;

‘wash-up amount’ means, subject to subclauses (c) and (d), **actual allowable revenue** less **actual revenue** less **revenue foregone** for a **disclosure year**;

if the revenue reduction percentage exceeds 20%, an amount of **revenue foregone** shall be calculated;

if the revenue reduction percentageis less than or equal to 20%, the amount of **revenue foregone** shall be nil;

‘actual allowable revenue’ means, for a **disclosure year**, an amount calculated in accordance with a **DPP determination** or **CPP determination** that includes-

**actual net allowable revenue***;*

**pass-through costs**; and

**recoverable costs**, including any **revenue wash-up draw down amount**;

‘actual revenue’ means, for a **disclosure year**, the revenue amount calculated in accordance with a **DPP determination** or **CPP determination** that includes-

actual revenue from **prices**; and

**other regulated income**;

‘revenue foregone’ means an amount calculated in a manner specified in a **DPP determination** or **CPP determination** by applying–

the revenue reduction percentage to a net allowable revenue amount; less

20% of a net allowable revenue amount;

where-

net allowable revenue is specified for each of (i) and (ii) in the **DPP determination** or **CPP determination**;

‘actual net allowable revenue’ means, for the first **disclosure year** of the **regulatory period**, the **forecast net allowable revenue** for that **disclosure year** as specified inclause 3.1.1(6);

‘actual net allowable revenue’ means, for each **disclosure year** of the **regulatory period** after the first **disclosure year**, an amount calculated in accordance with a **DPP determination** or **CPP determination** by applying-

the **actual net allowable revenue** for the preceding **disclosure year**;

the **CPI** in place of the **forecast CPI** to the extent that **forecast CPI** was applied in setting **prices** for the **disclosure year** in accordance with clause 3.1.1(7); and

the X factor that was used when the **forecast net allowable revenue** was originally determined for the **disclosure year** in accordance with clause 3.1.1(7); and

‘revenue reduction percentage’ means, for a **disclosure year**, the percentage reduction in revenue calculated in accordance with a **DPP determination** or **CPP determination** by comparing the actual revenue from **prices** with **forecast revenue from** **prices** for the **disclosure year**;

‘revenue wash-up draw down amount’ means an amount, calculated by the **EDB** in accordance with a **DPP determination** or **CPP determination**, such that if the balance referred to in clause 3.1.1(4)(d) is a balance that is to be returned to **consumers**, the amount shall equal that balance; and

where a **pass-through cost** or **recoverable cost** is incurred by the **EDB** prior to a **regulatory period** and an amount of the cost is not otherwise able to be recovered by the **EDB**, the amount plus any related time value of money adjustment made in accordance with a **DPP determination** or **CPP determination** shall be included in the **wash-up account**.

* 1. Amalgamations
     + 1. Treatment of amalgamations
          1. The DPPs of non-exempt EDBs subject to DPPs that have amalgamated must be aggregated from the start of the disclosure year following the amalgamation.
          2. A DPP for an amalgamated EDB formed from an EDB subject to a DPP and an EDB subject to a CPP applies at the end of the existing CPP.
          3. A DPP for an amalgamated EDB formed from 2 EDBs each subject to a CPP applies at the end of the existing CPPs.
          4. Nothing in subclauses (2) and (3)-

precludes a CPP applying to the amalgamated EDB at the end of the existing CPP or CPPs, as the case may be; nor

derogates from the application of a DPP to electricity distribution services that are-

supplied by the amalgamated EDB; and

not specified services,

pending expiry of any DPP or CPP applying to the specified services.

* + - * 1. A CPP for an amalgamated EDB may not apply before 3 disclosure years of any CPP applying to the EDBs from which it was formed have been completed.
        2. Upon the determination of a CPP for an amalgamated EDB, the termination date of any CPP to which the amalgamated EDB is subject, pursuant to subclauses (2) and (3), is treated as amended to the day before the day on which the CPP for the amalgamated EDB will apply.
        3. Following an amalgamation, the **Commission** may not reset starting prices for specified services to take effect during the remainder of the regulatory period applicable to the specified services except-

for the purpose of s 54K; or

when making, upon application and in accordance with this clause, a CPP determination for the amalgamated EDB.

* + - * 1. For the purpose of this clause, 'specified services' means regulated goods or services supplied by the amalgamated EDB that, at the time of amalgamation, were subject to a DPP or a CPP.
  1. Incremental rolling incentive scheme
     1. Annual IRIS incentive adjustments
     2. Calculation of annual IRIS incentive adjustment as recoverable cost
        + 1. A **non-exempt EDB** must calculate an **IRIS incentive adjustment** for each **disclosure year** of each **regulatory period**.
          2. The ‘IRIS incentive adjustment’ is the amount determined in accordance with the formula–

**opex incentive amount** + **capex incentive amount**.

* + 1. Operating expenditure incentives

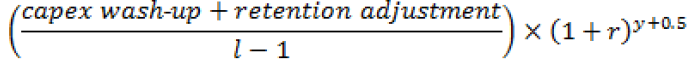
3.3.2 How to calculate opex incentive amounts

* + - * 1. An **opex incentive amount** must be calculated for each **disclosure year** of a **regulatory period**, subject to subclause (4).
        2. The ‘opex incentive amount’ for a **disclosure year** is an amount equal to the sum of–

all **amounts carried forward** into that **disclosure year** from a **disclosure year** in a preceding **regulatory period**; and

where an **adjustment to the opex incentive** is applicable under clause 3.3.4(1)-

the amount calculated in accordance with the following formula for a **disclosure year** in the **DPP regulatory period**-



*Adjustment to the opex incentive*

where–

*l* is the number of **disclosure years** in the **DPP** **regulatory period**;

*r* is the **cost of debt** applying to the **DPP** or **CPP** in question; and

*y* is the number of **disclosure years** preceding the **disclosure year** in question in the **DPP** **regulatory period**; or

where subclause (3) applies, nil.

* + - * 1. For the purpose of subclause 3.3.2(2)(b)(ii), ‘nil’ applies for-

the first **disclosure year** of the **DPP regulatory period**; or

a **disclosure year** in a **DPP regulatory period** commencing prior to 1 April 2020.

* + - * 1. An **opex incentive amount** shall not be calculated:

by Orion New Zealand Limited, for any **disclosure year** in a **regulatory period** commencing on, or prior to, 1 April 2020; and

by any other **EDB**, for any **disclosure year** commencing prior to 1 April 2020, unless the **EDB** becomes subject to a **CPP**.

3.3.3 How to calculate the amount carried forward to subsequent disclosure years

* + - * 1. An ‘amount carried forward’ must be calculated for each **disclosure year** of a **regulatory period**, subject to subclause (6).
        2. The ‘amount carried forward’ for the first **disclosure year** of a **regulatory period**, including the first **disclosure year** following expiration of a **CPP** applicable to the **EDB**, subject to subclause (5), is calculated in accordance with the formula–

**forecast opex***t* – **actual opex***t*

where–

*t* means **the** **disclosure year** in question.

* + - * 1. The ‘amount carried forward’ for a **disclosure year** that is not the first or last **disclosure year** of a **regulatory period** is calculated in accordance with the formula–

(**forecast opex***t* – **actual opex***t*) – (**forecast opex***t-1* – **actual opex***t-1*)

where–

*t* means the **disclosure year** in question; and

*t-1* means the **disclosure year** preceding the **disclosure year** in question.

* + - * 1. The ‘amount carried forward’ for the last **disclosure year** of a **regulatory period** is nil.
        2. Where an **EDB** is subject to a **DPP determination** for no more than one consecutive **disclosure year** of the **DPP regulatory period**, the ‘amount carried forward’ for that **disclosure year** is nil.
        3. An **amount carried forward** shall not be calculated:

by Orion New Zealand Limited, for any **disclosure year** commencing prior to 1 April 2019; and

by any other **EDB**, for any **disclosure year** commencing prior to 27 November 2014.

* + - * 1. Each **amount carried forward** is notionally carried forward from the **disclosure year** in respect of which it is calculated into each of the subsequent 5 **disclosure years**.
        2. ‘Forecast opex’, subject to clauses 3.3.13 and 3.3.14, is, for a **disclosure year** –

in a **DPP regulatory period** applying to an **EDB** for which starting prices applicable to the **EDB** were determined by the **Commission** under s 53P(3)(b) or s 53X(2), the amount of forecast **operating expenditure** specified by the **Commission** for the relevant **disclosure year** in the **DPP determination** for the purpose of calculating an **opex incentive amount**;

in a **DPP regulatory period** applying to an **EDB** for which the prices applicable to the **EDB** were the prices that applied at the end of the preceding **DPP** **regulatory period** or **CPP regulatory period**, the amount of forecast **operating expenditure** specified by the **Commission** in the **DPP determination** or otherwise notified to the **EDB** by the **Commission**; or

in a **CPP regulatory period** applying to an **EDB**, the amount of **forecast operating expenditure** specified by the **Commission** for the relevant **disclosure year** in accordance with clause 5.3.2(6)(b).

* + - * 1. ‘Actual opex’ is the amount of **operating costs** allocated to **electricity distribution services** for the relevant **disclosure year** calculated in accordance with Part 2.
    1. How to calculate the adjustment to the opex incentive for the second year of a regulatory period
       - 1. An **adjustment to the opex incentive** must be calculated in the **disclosure year** immediately following a **starting price year**, unless the **disclosure year** in question is also a **starting price year**.

*Standard case DPP*

* + - * 1. For an **EDB** subject to the **DPP**, unless subclause (4) applies, the ‘adjustment to the opex incentive’, where the starting prices for the current **DPP regulatory period** are–

determined by the **Commission** in accordance with s 53P(3)(b) of the **Act**, is an amount equal to the ‘base year adjustment term’ calculated in accordance with clause 3.3.5; and

the prices that applied at the end of the preceding **DPP** **regulatory period** or **CPP** **regulatory period**, is an amount calculated in accordance with the formula–

*base year adjustment term* + *roll-over adjustment term*

where–

*base year adjustment term* means the amount calculated in accordance with clause 3.3.5; and

*roll-over adjustment term* means the amount calculated in accordance with clause 3.3.6.

*Standard case CPP*

* + - * 1. The ‘adjustment to the opex incentive’ for an **EDB** subject to a **CPP**, unless subclauses (5) or (6) applies, is calculated in accordance with the formula–

*base year adjustment term* + *baseline adjustment term*

where–

*base year adjustment term* means the amount calculated in accordance with clause 3.3.5;

*baseline adjustment term* means the amount calculated in accordance with clause 3.3.7(1).

*Special case of a DPP following a single starting price year*

* + - * 1. The ‘adjustment to the opex incentive’ for an **EDB** subject to the **DPP**, when the **disclosure year** immediately preceding the current **regulatory period** was a **starting price year**,is calculated in accordance with the formula–

*base year adjustment term* + *roll-over adjustment term* + *one-year adjustment term 1* + *one-year adjustment term 2* + *one-year adjustment term 3*

where–

*base year adjustment term* means the amount calculated in accordance with clause 3.3.5;

*roll-over adjustment term* means the amount calculated in accordance with clause 3.3.6;

*one-year adjustment term 1* means the amount calculated in accordance with clause 3.3.8(1);

*one-year adjustment term 2* means the amount calculated in accordance with clause 3.3.8(2); and

*one-year adjustment term 3* means the amount calculated in accordance with clause 3.3.8(3).

*Special case of a CPP following a single starting price year*

* + - * 1. Unless subclause (6) applies, the ‘adjustment to the opex incentive’ for an **EDB** subject to a **CPP**, when the **disclosure year** immediately preceding the current **regulatory period** was a **starting price year**, is calculated in accordance with the formula–

*base year adjustment term* + *baseline adjustment term* + *one-year adjustment term 1* + *one-year adjustment term 2* + *one-year adjustment term 3*

where–

*base year adjustment term* means the amount calculated in accordance with clause 3.3.5;

*baseline adjustment term* means the amount calculated in accordance with clause 3.3.7(1);

*one-year adjustment term 1* means the amount calculated in accordance with clause 3.3.8(1);

*one-year adjustment term 2* means the amount calculated in accordance with clause 3.3.8(2); and

*one-year adjustment term 3* means the amount calculated in accordance with clause 3.3.8(3).

*Special case of a CPP following two consecutive starting price years*

* + - * 1. The ‘adjustment to the opex incentive’ for an **EDB** subject to a **CPP**, when the two **disclosure years** immediately preceding the current **regulatory period** were each a **starting price year**, is calculated in accordance with the formula–

*baseline adjustment term* + *one-year adjustment term 4* + *one-year adjustment term 5* + *one-year adjustment term 6* + *one-year adjustment term 7* + *one-year adjustment term 8* + *one-year adjustment term 9*

where–

*baseline adjustment term* means the amount calculated in accordance with clause 3.3.7(2);

*one-year adjustment term 4* means the amount calculated in accordance with clause 3.3.9(1);

*one-year adjustment term 5* means the amount calculated in accordance with clause 3.3.9(2);

*one-year adjustment term 6* means the amount calculated in accordance with clause 3.3.9(3);

*one-year adjustment term 7* means the amount calculated in accordance with clause 3.3.9(4);

*one-year adjustment term 8* means the amount calculated in accordance with clause 3.3.9(5); and

*one-year adjustment term 9* means the amount calculated in accordance with clause 3.3.9(6).

3.3.5 How to calculate the base year adjustment term

A ‘base year adjustment term’ is calculated in accordance with the formula–



where–

*WACC* means-

in the case of a **DPP**, the **WACC** as determined by the **Commission** and applicable to the **DPP**;or

in the case of a **CPP**, the **DPP WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP** **regulatory period** in accordance with clause 5.3.22;

*t-1* means the **disclosure year** immediately prior to the current **regulatory period**; and

*t-2* means the **disclosure year** commencing two years prior to the current **regulatory period**.

3.3.6 How to calculate the roll-over adjustment term

A ‘roll-over adjustment term’ is calculated in accordance with the formula–

(**actual opex***t-2* – **forecast opex***t*)

×

((1-(1+*WACC*)-6)/*WACC)*

×

(1+*WACC*)2

where–

*WACC* means the **WACC** as determined by the **Commission** and applicable to the **EDB**’s current **DPP**;

*t* means the first **disclosure year** of the current **regulatory period**; and

*t-2* means the **disclosure year** commencing two years prior to the current **regulatory period**.

* + 1. How to calculate the baseline adjustment term applicable to CPP regulatory periods
       - 1. For the purposes of subclause 3.3.4(3) and 3.3.4(5), ‘baseline adjustment term’ is calculated in accordance with the formula–

– (**forecast opex***t-2* – **actual opex***t-2*)

×

((1-(1+*WACC*)-6)/*WACC)*

×

(1+*WACC*)2

where–

*t-2* means the **disclosure year** commencing two years prior to the current **regulatory period**;

*WACC* means the **DPP** **WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP regulatory** **period** in accordance with clause 5.3.22.

* + - * 1. For the purposes of subclause 3.3.4(6), a ‘baseline adjustment term’ is calculated in accordance with the formula–

– (**forecast opex***t-4* – **actual opex***t-2*)

×

((1-(1+*WACC*)-6)/*WACC)*

×

(1+*WACC*)2

where–

*t-2* means the **disclosure year** commencing two years prior to the current **regulatory period**;

*t-4* means the **disclosure year** commencing four years prior to the current **regulatory period**; and

*WACC* means the **DPP** **WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP regulatory** **period** in accordance with clause 5.3.22.

* + 1. How to calculate adjustment terms applicable to regulatory periods preceded by a single starting price year
       - 1. A ‘one-year adjustment term 1’ is calculated in accordance with the formula–

(**actual opex***t-4* – **forecast opex***t-2*)

×

(1+*WACC*)2

where–

*WACC* means-

in the case of a **DPP**, the **WACC** as determined by the **Commission** and applicable to the **DPP**; or

in the case of a **CPP**, the **DPP WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP** **regulatory period** in accordance with clause 5.3.22;

*t-2* means the **disclosure year** commencing two years prior to the current **disclosure year**; and

*t-4* means the **disclosure year** commencing four years prior to the current **disclosure year**.

* + - * 1. A ‘one-year adjustment term 2’ is calculated in accordance with the formula–

(**forecast opex***t-3* – **actual opex***t-3*) – (**forecast opex***t-4* – **actual opex***t-4*)

×

((1-(1+*WACC*)-4)/*WACC)*

×

(1+*WACC*)2

where–

*WACC* means-

in the case of a **DPP**, the **WACC** as determined by the **Commission** and applicable to the **DPP**; or

in the case of a **CPP**, the **DPP WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP** **regulatory period** in accordance with clause 5.3.22;

*t-3* means the **disclosure year** commencing three years prior to the current **disclosure year**; and

*t-4* means the **disclosure year** commencing four years prior to the current **disclosure year**.

* + - * 1. A ‘one-year adjustment term 3’ is calculated in accordance with the formula–

(**forecast opex***t-2* – **forecast opex***t-4*) / (1+*WACC*)4

where–

*WACC* means-

in the case of a **DPP**, the **WACC** as determined by the **Commission** and applicable to the **DPP**; or

in the case of a **CPP**, the **DPP WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP** **regulatory period** in accordance with clause 5.3.22;

*t-2* means the **disclosure year** commencing two years prior to the current **disclosure year**; and

*t-4* means the **disclosure year** commencing four years prior to the current **disclosure year**.

* + 1. How to calculate adjustment terms applicable to CPP regulatory periods preceded by two successive starting price years
       - 1. A ‘one-year adjustment term 4’ is calculated in accordance with the formula–

(**actual opex***t-5* – **forecast opex***t-3*)

×

(1+*WACC*)3

where–

*WACC* means the **DPP** **WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP regulatory** **period** in accordance with clause 5.3.22;

*t-3* means the **disclosure year** commencing three years prior to the current **disclosure year**; and

*t-5* means the **disclosure year** commencing five years prior to the current **disclosure year**.

* + - * 1. A ‘one-year adjustment term 5’ is calculated in accordance with the formula–

(**actual opex***t-4* – **forecast opex***t-2*)

×

(1+*WACC*)2

where–

*WACC* means the **DPP** **WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP regulatory** **period** in accordance with clause 5.3.22;

*t-2* means the **disclosure year** commencing two years prior to the current **disclosure year**; and

*t-4* means the **disclosure year** commencing four years prior to the current **disclosure year**.

* + - * 1. A ‘one-year adjustment term 6’ is calculated in accordance with the formula–

(**actual opex***t-5* – **actual opex***t-4*)

×

((1-(1+*WACC*)-4)/*WACC)*

×

(1+*WACC*)3

where–

*WACC* means the **DPP** **WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP regulatory** **period** in accordance with clause 5.3.22;

*t-4* means the **disclosure year** commencing four years prior to the current **disclosure year**; and

*t-5* means the **disclosure year** commencing five years prior to the current **disclosure year**.

* + - * 1. A ‘one-year adjustment term 7’ is calculated in accordance with the formula–

(**actual opex***t-4* – **actual opex***t-3*)

×

((1-(1+*WACC*)-4)/*WACC)*

×

(1+*WACC*)2

where–

*WACC* means the **DPP** **WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP regulatory** **period** in accordance with clause 5.3.22;

*t-3* means the **disclosure year** commencing three years prior to the current **disclosure year**; and

*t-4* means the **disclosure year** commencing four years prior to the current **disclosure year**.

* + - * 1. A ‘one-year adjustment term 8’ is calculated in accordance with the formula–

(**actual opex***t-2* – **actual opex***t-3*) / (1+*WACC*)4

where–

*WACC* means the **DPP** **WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP regulatory** **period** in accordance with clause 5.3.22;

*t-2* means the **disclosure year** commencing two years prior to the current **disclosure year**; and

*t-3* means the **disclosure year** commencing three years prior to the current **disclosure year**.

* + - * 1. A ‘one-year adjustment term 9’ is calculated in accordance with the formula–

(**forecast opex***t-5* – **forecast opex***t-4*)

×

((1/(1+*WACC*))4 + 1/(1+*WACC*)2 – (1+*WACC*)2)

where–

*WACC* means the **DPP** **WACC** as determined by the **Commission** and as applicable to the **CPP** at the start of the **EDB’s** current **CPP regulatory** **period** in accordance with clause 5.3.22;

*t-4* means the **disclosure year** commencing four years prior to the current **disclosure year**; and

*t-5* means the **disclosure year** commencing five years prior to the current **disclosure year**.

* + 1. Capital expenditure incentives
    2. How to calculate capex incentive amounts
       - 1. A **capex incentive amount** must be calculated for each **disclosure year** of a **DPP regulatory period** irrespective of whether the **EDB** in question is subject to a **CPP** or a **DPP** during that **DPP regulatory period**, subject to subclause (3).
         2. The ‘capex incentive amount’ for a **disclosure year** is–

the amount calculated in accordance with the following formula for a **disclosure year** in the **DPP regulatory period** other than the first **disclosure year**–



where–

*l* is the number of **disclosure years** in the **DPP regulatory period**;

*r* is the **cost of debt** applying to the **DPP** or **CPP** in question; and

*y* is the number of **disclosure years** preceding the **disclosure year** in question in the **DPP regulatory period**; and

nil-

for the first **disclosure year** of the **DPP regulatory period**; and

for a **disclosure year** in a **DPP regulatory period** which commences prior to 1 April 2020.

* + - * 1. A **capex incentive amount** shall not be calculated:

by Orion New Zealand Limited, for any **disclosure year** in a **regulatory period** commencing on, or prior to, 1 April 2020; and

by any other **EDB**, for any **disclosure year** in a **DPP regulatory period** commencing prior to 1 April 2020.

3.3.11 How to calculate the capex wash-up

* + - * 1. The ‘capex wash-up’ is an amount equal to the present value of the differences in the series of building blocks allowable revenue before tax for the preceding **DPP regulatory period**, subject to subclause (2) and clauses 3.3.13 and 3.3.14 from adopting–

the sum of the **value of commissioned assets** for each **disclosure year** of that preceding **DPP regulatory period**,

instead of–

for each **disclosure year** of the preceding **DPP regulatory period** in which the **EDB** was subject to a **DPP**, the **forecast aggregate value of commissioned assets** determined by the **Commission** in respect of those **disclosure years**; and

for each **disclosure year** of the preceding **DPP regulatory period** in which the **EDB** was subject to a **CPP**, the sum of the **forecast value of commissioned assets** determined by the **Commission** in respect of those **disclosure years**.

* + - * 1. For the purpose of subclause (1)–

the present value must be determined by discounting the series of building blocks allowable revenue before tax to the end of the preceding **DPP regulatory period** using a discount rate equal to the **WACC** applied by the **Commission** in setting prices for each **disclosure year** for the relevant **DPP** or **CPP** in the preceding **DPP regulatory period**;

the series of building blocks allowable revenue before tax for each **disclosure year** of the preceding **DPP** **regulatory period** must–

be calculated using the same methodology that was applied by the **Commission** in setting starting prices for the **EDB** for the relevant **DPP** or **CPP**, subject to subparagraphs (ii) and (iii);

for the purpose of subparagraph (i), adopt the sum of **depreciation** calculated under Part 2 in respect of each **disclosure year** for assets having a **commissioning date** in the preceding **DPP** **regulatory period**; and

for the purpose of subparagraph (i), adopt the same values for all other inputs to the calculation of building blocks allowable revenue before tax; and

where the series of building blocks allowable revenue before tax from adopting the sum of **value of commissioned assets** exceed the series of building blocks allowable revenue before tax from using the forecast values of commissioned assets (as determined using the **forecast aggregate value of commissioned assets** for each **disclosure year** in which the **EDB** was subject to a **DPP** and sum of the **forecast value of commissioned assets** for each **disclosure year** in which the **EDB** was subject to a **CPP**) then the difference is a positive amount of capex wash-up; and

where the series of building blocks allowable revenue before tax from adopting the sum of **value of commissioned assets** is less than the series of building blocks allowable revenue before tax from using the forecast value of commissioned assets (as determined using the **forecast aggregate value of commissioned assets** for each **disclosure year** in which the **EDB** was subject to a **DPP** and sum of the **forecast value of commissioned assets** for each **disclosure year** in which the **EDB** was subject to a **CPP**) then the difference is a negative amount of capex wash-up.

3.3.12 How to calculate the retention adjustment

* + - * 1. The ‘retention adjustment’ is calculated in accordance with the formula–

*(PV of forecast commissioned asset values – PV of actual commissioned asset values)* x **retention factor**.

* + - * 1. ‘PV of forecast commissioned asset values’ is an amount equal to the sum of–

the present value, as at the end of the preceding **DPP regulatory period**, of the **forecast aggregate value of commissioned assets** for each **disclosure year** of the preceding **DPP regulatory period** for which the **EDB** was subject to a **DPP**; and

the present value, as at the end of the preceding **DPP regulatory period**, of the sum of the **forecast value of commissioned assets** for each **disclosure year** of the preceding **DPP regulatory period** for which the **EDB** was subject to a **CPP**.

* + - * 1. ‘PV of actual commissioned asset values’is the present value, as at the end of the preceding **DPP regulatory period**, of the **value of commissioned asset** calculated in accordance with Part 2 for every asset that was **commissioned** during the preceding **DPP regulatory period**.
    1. Price-quality path amendments and other events

3.3.13 Calculating alternative incentive adjustments following price-quality path transitions

* + - * 1. Where a price-quality path is amended following–

a **catastrophic event**;

a **change event**;

an **error event**; or

provision of **false or misleading information** under clause 4.5.6(1)(a)(v) or 5.6.7(5),

the **forecast opex** and **forecast aggregate value of commissioned assets** required to be used by the **EDB** to calculate the **amount carried forward** for the **disclosure year** in which the event occurred and each subsequent **disclosure year** prior to the effective date of the amendment to the price-quality path, is the amount specified by the **Commission** in the amended **DPP determination** or amended **CPP determination**.

* + - * 1. An **EDB** subject to a **CPP** must calculate the **amount carried forward** for each **disclosure year** of the preceding **DPP regulatory period** applicable to the **EDB** using any alternative **forecast opex** and **forecast aggregate value of commissioned assets** specified by the **Commission** in the **CPP determination**.
        2. Following expiration of a **CPP** applicable to the **EDB**, the **EDB** must calculate the **amount carried forward** for each remaining **disclosure year** of the current **DPP regulatory period** using any **forecast opex** and **forecast aggregate value of commissioned assets** notified by the **Commission**, unless the **EDB** becomes subject to a new **CPP**.

3.3.14 Calculating incentive adjustments for other events

Where an event that is–

an **amalgamation**;

a merger (as defined in a **DPP determination**);

a **major transaction**; or

an alteration to Part 2 or **ID determination** requirements affecting the quantification of **operating costs** allocated to electricity distribution services or a **value of commissioned asset**,

occurs in a **disclosure year** and–

the **Commission** considers; or

the **EDB** in question satisfies the **Commission** upon application,

that the event has, or is likely to have, a material effect on the calculation of the **opex incentive amount** or **capex incentive amount** that would otherwise have been required to be calculated by the **EDB** then–

the **forecast opex**; and

either–

**forecast aggregate value of commissioned assets**; or

sum of the **forecast value of commissioned assets**,

required to be used by the **EDB** to calculate the **amount carried forward** for that **disclosure year** and each subsequent **disclosure year** in the **regulatory period** may be determined by the **Commission**, and notified to the **EDB**, in order to preserve, to the extent appropriate–

the correct outcomes for expenditure efficiencies achieved before the event; and

the relevant incentive properties after the event.

* + 1. Transitional provisions

3.3.15 Calculation of annual incremental changes and adjustment term

* + - * 1. The incremental change for the first disclosure year of a CPP regulatory period commencing prior to 27 November 2014 is determined as the difference between allowed controllable opex and actual controllable opex**.**
        2. The incremental change for a disclosure year of a CPP regulatory period commencing prior to 27 November 2014 other than the first or final disclosure year must be determined in accordance with the formula-

(allowed controllable opext - actual controllable opext) - (allowed controllable opext-1 - actual controllable opext-1),

where-

t means the disclosure year in question; and

t-1 means the disclosure year preceding the disclosure year in question.

* + - * 1. The incremental change for the final disclosure year of the CPP regulatory period commencing prior to 27 November 2014 is treated as nil.
        2. The incremental adjustment term is determined-

in the next disclosure year following a CPP regulatory period commencing prior to 27 November 2014; and

by applying the inflation rate to the result of the formula-

(allowed controllable opext-1 - actual controllable opext-1) - (allowed controllable opex t-2 - actual controllable opex t-2)

where-

t-1 means the final disclosure year of the preceding CPP regulatory period commencing prior to 27 November 2014; and

t-2 means the penultimate disclosure year of the preceding CPP regulatory period commencing prior to 27 November 2014.

* + - * 1. Inflation rate means the amount determined in accordance with the formula-

[(CPI1 + CPI2 + CPI3 + CPI4) ÷ (CPI1-4 + CPI2-4 + CPI3-4 + CPI4-4)] -1,

where-

CPIn means forecast CPI **for IRIS transitional provision** for the nth quarter of the disclosure year in question; and

CPIn-4 means forecast CPI **for IRIS transitional provision** for the equivalent quarter in the preceding disclosure year.

* + - * 1. For the purpose of clause 3.3.15, ‘forecast CPI for IRIS transitional provision’ means **CPI**, unless **CPI** does not apply to the quarter in question, in which case it means the most recent **CPI** extended by-

in the case of a quarter for which a forecast of the annual percent change in the headline **CPI** contained in the current Monetary Policy Statement issued by the Reserve Bank of New Zealand has been made, that forecast; and

in respect of later quarters, a constant annual percent change equal to the arithmetic mean of the values forecast in the most recent four quarters in respect of which a forecast has been made in the current Monetary Policy Statement issued by the Reserve Bank of New Zealand.

3.3.16 Determination of amount to be taken into account as a recoverable cost

* + - * 1. Each incremental change determined in accordance with clause 3.3.15 and incremental adjustment term is notionally carried forward, subject to clause 3.3.17, from the disclosure year in respect of which it is determined into each of the subsequent 5 disclosure years by applying the inflation rate.
        2. In each of the disclosure years after a CPP regulatory period into which an amount has been carried pursuant to subclause (1), a net balance must be determined by addition of-

any incremental changes carried into that disclosure year from a preceding CPP regulatory period; and

any incremental adjustment term carried into that disclosure year.

3.3.17 Calculating gains and losses after a catastrophic event

Where-

a price-quality path is amended pursuant to clause 5.6.8 by reason of a catastrophic event; and

incremental changes calculated in the remaining disclosure years of the regulatory period in accordance with clauses 3.3.15(1) and 3.3.15(2) are negative,

clause 3.3.16(1) does not apply to those incremental changes.

1. INPUT METHODOLOGIES FOR DEFAULT PRICE-QUALITY PATHS
   1. Cost allocation
      * 1. Allocation of operating costs and asset costs
           1. Operating expenditure forecast for an EDB must be determined by the Commission consistent with the allocation by the EDB of operating costs to electricity distribution services for the base year in accordance with clause 2.1.1.
           2. Capital expenditure forecast to be the forecast aggregate value of commissioned assets will be included in the aggregate closing RAB for additional assets, but only to the extent that the forecast value of commissioned assets is consistent with the value found after the application of clause 2.1.1.
   2. Asset Valuation
      * 1. RAB values and roll forward
           1. Total opening RAB value for a disclosure year means the sum of-

aggregate opening RAB value for existing assets calculated under subclause (2); and

aggregate opening RAB value for additional assets calculated under subclause (4) for those additional assets which have a forecast aggregate value of commissioned assets determined for a prior disclosure year occurring after the base year.

* + - * 1. Aggregate opening RAB value for existing assets means, for-

the base year, the sum of each 'opening RAB value' for all assets calculated in accordance with Part 2 for that disclosure year; and

each disclosure year thereafter, the aggregate closing RAB value for existing assets for the preceding disclosure year.

* + - * 1. Aggregate closing RAB value for existing assets means, for-

the base year, the sum of each 'closing RAB value' for all assets calculated in accordance with Part 2 for that disclosure year; and

each disclosure year thereafter, the value determined in accordance with the formula-

aggregate opening RAB value for existing assets − depreciation for existing assets + revaluation for existing assets − forecast aggregate value of disposed assets.

* + - * 1. Aggregate opening RAB value for additional assets means the aggregate closing RAB value for additional assets for the preceding disclosure year.
        2. Aggregate closing RAB value for additional assets means, for-

additional assets in respect of the disclosure year for which their forecast aggregate value of commissioned assets is determined, the forecast aggregate value of commissioned assets; and

additional assets for a disclosure year following that for which their forecast aggregate value of commissioned assets is determined, the value determined for those additional assets in accordance with the formula-

aggregate opening RAB value for additional assets − depreciation for additional assets + revaluation for additional assets.

* + - 1. Total depreciation
         1. Total depreciation means the sum of depreciation for existing assets and additional assets calculated under subclause (2).
         2. For the purpose of subclause (1), 'depreciation' means, subject to subclause (3), in the case of-

existing assets of the EDB, for-

the base year, the sum of all amounts of 'depreciation' determined in accordance with Part 2 for that disclosure year; and

each disclosure year thereafter, the value determined in accordance with the formula-

[1 ÷ remaining asset life for existing assets] × aggregate opening RAB value for existing assets; and

additional assets of the EDB, the value determined in accordance with the formula-

[1 ÷ remaining asset life for additional assets] × aggregate opening RAB value for additional assets.

* + - * 1. For the purpose of subclause (2)-

'remaining asset life for existing assets' for a disclosure year means-

the value determined in accordance with the formula-

aggregate opening RAB value for existing assets for the base year ÷ total depreciation for the base year

less the number of disclosure years from the base year to the disclosure year in question; or

subject to subclauses (c) to (e), the value determined in accordance with the formula–

*adjustment factor* \* (aggregate opening RAB value for existing assets *for the* base year ÷ total depreciation *for the* base year)

*less* the number of disclosure years from the base year to the disclosure year in question;

for the purposes of subclause (2)(a), ‘remaining asset life for additional assets’ for a disclosure year means 45 years less the number of disclosure years from the disclosure year for which the forecast aggregate value of commissioned assets for the relevant additional assets is determined to the disclosure year in question;

the **Commission** may, subject to subclause (d), apply an average adjustment factor across all assets of not lower than 0.85, nor higher than 1;

the **EDB** has, by notice in writing to the **Commission** prior to the commencement of the **base year**–

proposed an adjustment factor to be applied by the **Commission** of not lower than 0.85, nor higher than 1;

explained why applying an adjustment factor of the level proposed in subclause (i) would be consistent with s 52A of the **Act**;

described any consultation it has undertaken with interested persons on the proposed adjustment factor and, if relevant, explained how it has taken into account any issues raised; and

the **Commission** has not previously applied an adjustment factor under this subclause.

* + - 1. Total revaluation
         1. Total revaluation means the sum of revaluation for existing assets and additional assets calculated under subclause (2).
         2. For the purpose of subclause (1), 'revaluation' means, subject to subclause (3), in the case of-

existing assets, the value determined in accordance with the formula-

(aggregate opening RAB value for existing assets × 0.999 − forecast aggregate value of disposed assets) × revaluation rate; and

additional assets, the value determined in accordance with the formula-

aggregate opening RAB value for additional assets × revaluation rate.

* + - * 1. For the purpose of subclause (2), 'revaluation rate' means, in respect of a disclosure year, the amount determined in accordance with the formula-

(CPI4 ÷ CPI4-4) −1,

where-

CPI4 means forecast CPI **for DPP revaluation** for the quarter that coincides with the end of the disclosure year; and

CPI4-4 means forecast CPI **for DPP revaluation** for the quarter that coincides with the end of the preceding disclosure year.

* + - * 1. For the purpose of subclause (3), ‘forecast CPI for DPP revaluation’ means-

for a quarter prior to the quarter for which the vanilla **WACC** applicable to the relevant **DPP regulatory period** was determined, **CPI** asper paragraph (a) of the ‘CPI’ definition and excluding any adjustments made under paragraph (b) of the **CPI** definition arising as a result of an event that occurs after the issue of the Monetary Policy Statement referred to in paragraph (b) below;

for each later quarter for which a forecast of the change in headline **CPI** has been included in the Monetary Policy Statement last issued by the Reserve Bank of New Zealand prior to the date for which the vanilla **WACC** applicable to the relevant **DPP regulatory** **period** was determined, the **CPI** last applying under paragraph (a) extended by the forecast change; and

in respect of later quarters, the forecast last applying under paragraph (b) adjusted such that an equal increment or decrement made to that forecast for each of the following three years results in the forecast for the last of those years being equal to the target midpoint for the change in headline **CPI** set out in the Monetary Policy Statement referred to in paragraph (b).

* + - 1. Revaluation treated as income

Total revaluation, for the purpose of determining profitability, must be treated as income.

* + - 1. Forecast aggregate value of commissioned assets

Forecast aggregate value of commissioned assets means the forecast cost of additional assets if GAAP were to be applied to determine the cost of the assets to the EDB in the disclosure year in question, and is equal to forecast capital expenditure for the relevant disclosure year as determined by the Commission.

* + - 1. Forecast aggregate value of disposed assets

Forecast aggregate value of disposed assets means the value of assets forecast to be disposed of by an EDB in the disclosure year in question, and is equal to the portion of the forecast aggregate opening RAB value for existing assets relating to assets forecast to be disposed of for the disclosure year in question as determined by the Commission.

* 1. Treatment of taxation
     + 1. Regulatory tax allowance
          1. Regulatory tax allowance is, where regulatory net taxable income is-

nil or a positive number, the tax effect of regulatory net taxable income; and

a negative number, nil.

* + - * 1. For the purpose of subclause (1), 'regulatory net taxable income' means, subject to subclause (3), regulatory taxable income less utilised tax losses.
        2. For the purpose of subclause (2), 'regulatory taxable income' means, subject to subclause (4), the amount determined in accordance with the formula-

regulatory profit / (loss) before tax + regulatory tax adjustments.

* + - * 1. For the purpose of subclause (3), 'regulatory profit / (loss) before tax' is the amount determined in accordance with the following formula-

allowable revenue before tax + other regulated income − operating expenditure − total depreciation.

* + - 1. Tax losses
         1. Utilised tax losses means opening tax losses, subject to subclause (2).
         2. For the purpose of subclause (1), utilised tax losses may not exceed regulatory taxable income.
         3. In this clause-

'opening tax losses' for a disclosure year means closing tax losses for the preceding disclosure year; and

'closing tax losses' means, for-

the base year, the 'closing tax losses' determined in accordance with Part 2 for that disclosure year; and

each disclosure year thereafter, the amount determined in accordance with the formula, in which each term is an absolute value:

opening tax losses + current period tax losses − utilised tax losses.

* + - * 1. For the purpose of subclause (3)(b)(ii), 'current period tax losses' is, where regulatory taxable income is-

nil or a positive number, nil; and

a negative number, regulatory taxable income.

* + - 1. Regulatory tax adjustments
         1. Regulatory tax adjustments are determined, subject to subclauses (2) and (3), in accordance with the formula-

amortisation of initial differences in asset values + amortisation of revaluations − notional deductible interest.

* + - * 1. For the purpose of subclause (1), 'notional deductible interest' means the amount determined in accordance with the formula–

((*opening investment value* x **leverage** x **cost of debt**) + **term credit spread differential allowance**)

÷

√(1 + **cost of debt**).

* + - * 1. For the purpose of subclause (1), 'amortisation of initial differences in asset values' is determined in accordance with Part 2 as of the **base year**.
        2. For the purpose of subclause (2), 'opening investment value' means the amount obtained in accordance with the formula-

total opening RAB value + opening deferred tax.

* + - * 1. For the purpose of subclause (1), 'amortisation of revaluations' in relation to an EDB for a disclosure year is calculated in accordance with the formula-

total depreciation − adjusted depreciation.

* + - 1. Deferred tax
         1. Opening deferred tax means, for-

the base year, the 'opening deferred tax' determined in accordance with Part 2 for that disclosure year; and

each disclosure year thereafter, closing deferred tax for the preceding disclosure year.

* + - * 1. For the purpose of subclause (1)(b), 'closing deferred tax' is determined in accordance with the formula-

opening deferred tax + tax effect of depreciation temporary differences − tax effect of amortisation of initial differences in asset values.

* + - 1. Depreciation temporary differences
         1. Depreciation temporary differences means, subject to subclause (2), the amount determined in accordance with the formula-

adjusted depreciation − tax depreciation.

* + - * 1. For the purpose of subclause (1), 'tax depreciation' for a disclosure year means, for-

the base year, the 'tax depreciation' determined in accordance with Part 2 for that disclosure year; and

each disclosure year thereafter, subject to subclause (3), determined in accordance with the formula-

total opening regulatory tax asset value × average DV rate.

* + - * 1. For the purpose of subclause (2)-

'total opening regulatory tax asset value' for a disclosure year means, for-

the base year, the sum of each 'regulatory tax asset value' determined in accordance with Part 2 for that disclosure year; and

each disclosure year thereafter, the total closing regulatory tax asset value for the preceding disclosure year;

'average DV rate' is the amount determined in accordance with the formula-

tax depreciation for the base year ÷ total opening regulatory tax asset value for the base year; and

'total closing regulatory tax asset value' means the amount determined in accordance with the formula-

total opening regulatory tax asset value − tax depreciation + forecast aggregate value of commissioned assets.

* 1. Cost of capital
     + 1. Methodology for estimating the weighted average cost of capital
          1. The Commission will determine a mid-point estimate of vanilla WACC-

as of the first business day of the month 7 months prior to the start of each DPP regulatory period;

in respect of a 5 year period;

no later than 6 months prior to the start of each DPP regulatory period; and

in accordance with the formula-

rd L + re(1 - L).

* + - * 1. The Commission will determine a mid-point estimate of post-tax WACC –

as of the first business day of the month 7 months prior to the start of each DPP regulatory period;

in respect of a 5 year period;

no later than 6 months prior to the start of each DPP regulatory period; and

in accordance with the formula-

rd (1 - Tc)L + re (1 - L).

* + - * 1. In this clause-

L is leverage;

rd is the cost of debt and is estimated in accordance with the formula:

rf + p + d;

re is the cost of equity and is estimated in accordance with the formula:

rf(1 - Ti) + βeTAMRP;

Tc is the average corporate tax rate;

rf is the risk-free rate;

p is the **average** debt premium;

d is the debt issuance costs;

Ti is the average investor tax rate;

βe is the equity beta; and

TAMRP is the tax-adjusted market risk premium.

* + - * 1. For the purpose of this clause-

the average investor tax rate, the average corporate tax rate, the equity beta, the debt issuance costs and the tax-adjusted market risk premium are the amounts specified in or determined in accordance with clause 4.4.2; and

the risk-free rate must be estimated in accordance with clause 4.4.3.

* + - 1. Fixed WACC parameters
         1. Leverage is 42%.
         2. ‘Average investor tax rate’ is the average of the investor tax rates that, as at the date that the estimation is made, will apply to each of the disclosure years in the 5 year period commencing on the first day of the DPP regulatory period in question.
         3. For the purpose of subclause (2), 'investor tax rate' is, for each **disclosure year**, the maximum **prescribed investor** **rate** applicable at the start of the **regulatory period** to an individual who is-

resident in New Zealand; and

an investor in a multi-rate PIE.

* + - * 1. The ‘average corporate tax rate’ is the average of the corporate tax rates that, as at the date that the estimation is made, will apply during the 5 year period commencing on the first day of the DPP regulatory period in question.
        2. ‘Equity beta’ is 0.60.
        3. ‘Debt issuance costs’ are 0.2%.
        4. ‘Tax-adjusted market risk premium’ is, for a 5 year period commencing on the first day of the **DPP regulatory period**, 7.0%.
      1. Methodology for estimating risk-free rate

The Commission will estimate a risk-free rate-

as of the first business day of the month 7 months prior to the start of each DPP regulatory period;

in respect of a 5 year period; and

no later than 6 months prior to the start of each DPP regulatory period,

by-

obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds, the wholesale market linearly interpolated bid yield to maturity for a residual period to maturity equal to 5 years on each business day in the 3 month period of 8 to 10 months prior to the start of the DPP regulatory period;

calculating the annualised interpolated bid yield to maturity for each business day; and

calculating the unweighted arithmetic average of the daily annualised interpolated bid yields to maturity.

* + - 1. Methodology for estimating average debt premium
         1. The Commission will determine an estimate of an amount for the **average debt premium**-

for each DPP regulatory period; and

no later than 6 months prior to the start of each DPP regulatory period.

* + - * 1. For the purpose of subclause (1), ‘average debt premium’ means the simple arithmetic average of the five **debt premium** values estimated in accordance with clause 2.4.4(6) for-

the current **debt premium reference year**; and

the four previous **debt premium reference years**.

* + - * 1. For the **debt premium reference year** 2017 or earlier, the following **debt premium** values apply-

2013 = 2.24%;

2014 = 2.04%;

2015 = 1.76%;

2016 = 1.59%; and

2017 = 1.59%.

* + - 1. Methodology for estimating the 67th percentile estimate of WACC
         1. The Commission will determine a 67th percentile estimate of vanilla WACC-

for each DPP regulatory period; and

no later than 6 months prior to the start of each DPP regulatory period.

* + - * 1. The Commission will determine a 67th percentile estimate of post-tax **WACC**-

for each DPP regulatory period; and

no later than 6 months prior to the start of each DPP regulatory period.

* + - * 1. For the purposes of subclause (1) or (2)-

the 67th percentile must be determined in accordance with the formula-

mid-point estimate of WACC + 0.440× standard error,

where the standard error of the mid-point estimate of WACC is 0.0101; and

the relevant mid-point estimate of WACC in accordance with clause 4.4.1(1) and (2) must be treated as the 50th percentile.

* + - 1. Publication of estimates

The Commission will publish all determinations and estimates that it is required to make by this subpart-

on its website; and

no later than 1 month after having made them.

* + - 1. Application of cost of capital methodology
         1. Where the Commission takes into account the cost of capital in making a DPP determination, the **Commission** will use the **67th percentile** estimate of WACC determined in accordance with clause 4.4.5(1) and most recently published in accordance with clause 4.4.6.
         2. Term credit spread differential allowance for a disclosure year and an EDB is the maximum of nil and the amount determined in accordance with the formula-

a × b ÷ c,

where-

a means the 'term credit spread differential allowance' calculated in accordance with Part 2 for the base year;

b means the total opening RAB value for the disclosure year in question; and

c means the aggregate opening RAB value for existing assets for the base year.

* + - * 1. Where a qualifying supplier discloses a term credit spread differential allowance pursuant to an ID determination, the Commission, for the purpose of assessing the qualifying supplier's profitability pursuant to its powers relating to default price-quality regulation in s 53P of the Act, will treat such an allowance as an expense in the disclosure year in respect of which that allowance was disclosed.
  1. Reconsideration of the default price-quality path
     + 1. Catastrophic Event

Catastrophic event means an event-

beyond the reasonable control of the **EDB**;

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

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

in respect of which-

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

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

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

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.

* + - 1. Change event

Change event means–

change in a; or

a new,

legislative or regulatory requirement applying to an **EDB** subject to a **DPP** the effect of which–

must take place during the current **regulatory period**;

is not explicitly or implicitly provided for in the **DPP**; and

either-

necessitates incurring additional reasonable costs in responding to the change or new requirement that has had or will have an impact on the price path of the **disclosure years** of the **DPP regulatory period** in which the change or new requirement applies of at least 1% of the aggregate amount of the **forecast net allowable revenue** for the **disclosure years** in which the net costs are or will be incurred; or

causes an **input methodology** to become incapable of being applied.

* + - 1. Error event
         1. ‘Error event’ means, subject to subclause (2), a clearly unintended circumstance identified by the **Commission** where the **DPP** was determined or amended based on an error, including where:

incorrect data was used in setting the price path, the quality standards or quality incentive measures; or

data was incorrectly applied in setting the price path, quality standards or quality incentive measures.

* + - * 1. For the purposes of subclause (1), an error relating to-

the price path will not constitute an **error event** unless the error has an impact on the price path of an amount equivalent to at least 1% of the aggregate **forecast net allowable revenue** for the affected **disclosure years** of the **DPP**; and

the metrics by which quality standards or quality incentive measures are specified in the **DPP** will not constitute an **error event** unless it is an error in the value of the metric.

* + - 1. Major transaction

‘Major transaction’ means a transaction, whether contingent or not, where **consumers** are acquired or no longer **supplied** by the **EDB** and that transaction-

has resulted in, or will result in, the acquisition of, or an agreement to acquire, assets with a value which is equivalent to more than 10% of the **EDB’s opening RAB value** in the **disclosure year** of acquisition;

has resulted in, or will result in, the disposal of, or an agreement to dispose of, assets of the **EDB** with a value of more than 10% of the **opening RAB value** in the **disclosure year** of disposal;

has, or is likely to have, the effect of the **EDB** acquiring rights or interests with a value which is equivalent to more than 10% of the **opening RAB value** in the **disclosure year** of acquisition; or

has, or is likely to have, the effect of the **EDB** incurring obligations or liabilities or contingent liabilities, excluding loans or borrowing costs in respect of assets, with a value which is equivalent to more than 10% of the **opening RAB value** in the **disclosure year** of incurring the obligation.

* + - 1. Proposal of a quality standard variation
         1. An **EDB** may propose a **quality standard variation** by submitting a **quality standard variation** proposalto the **Commission** in writing.
         2. The **quality standard variation** proposal must contain the following information-

different values of either or both of-

the mean of SAIDI and SAIFI: μSAIDI and μSAIFI;

the standard deviation of SAIDI and SAIFI: σ SAIDI and σ SAIFI;

the SAIDI and SAIFI limits;

the SAIDI and SAIFI targets;

the SAIDI and SAIFI unplanned boundary values;

the SAIDI and SAIFI caps; and

the SAIDI and SAIFI collars,

to those which would be determined in accordance with the methodology for calculating reliability limits as specified in the **DPP determination**;

an explanation of the reasons for the proposed **quality standard variation**;

an **engineer’s** report on the extent to which the **quality standard variation** better reflects the realistically achievable performance of the **EDB** over the **DPP regulatory period,** based on either or both of-

statistical analysis of past SAIDI and SAIFI performance; and

the level of investment provided for in the **forecast allowable revenue** in the **DPP determination**;

demonstration of the estimated effect of the proposed **quality s**t**andard variation** by use of historic data and by contrast with the quality standards specified in the applicable **DPP determination**; and

demonstration of any consumer consultation undertaken by the **EDB** in respect of the proposed **quality standard variation**, and the results of that consultation.

* + - * 1. Where the **Commission** considers that, for the purpose of making a decision on the **quality standard variation** proposal described in subclause (1), it requires further information from the **EDB** in addition to the proposal, the **Commission** may request this from the **EDB** by a date specified by the **Commission** such that it is reasonable for the **EDB** to comply.
        2. In assessing **a quality standard variation** proposal, the **Commission** will consider the extent to which-

the proposed **quality standard variation** better reflects the realistically achievable performance of the **EDB** over the remainder of the **regulatory period**;

the **EDB** has consulted with **consumers** on its proposed **quality standard variation**; and

the proposed **quality standard variation** is supported by **consumers**.

* + - 1. When price-quality paths may be reconsidered
         1. A DPP may be reconsidered by the Commission if-

the Commission considers, or the **EDB** applies to the **Commission** and satisfies the **Commission**, that-

subject to subclause (2), a **catastrophic event** has occurred;

a **change event** has occurred;

there has been an error event;

a **major transaction** has occurred; or

**false or misleading information** has been provided; or

the **Commission** receives a **quality standard variation** proposal from an **EDB** and is satisfied that it complies with clause 4.5.5(2).

* + - * 1. For the purpose of subclause (1)(a)(i), where the costs to rectify the adverse consequences of the **catastrophic event** are fully covered by –

the **DPP** (*e.g.* through an **operational expenditure** allowance for self-insurance); or

commercial insurance held by the **EDB**,

the **Commission** will only reconsider the quality standards of the **DPP**.

* + - * 1. For the purpose of subclause (1)(a)(v), ‘false or misleading information’ means -

false or misleading information relating to the making or amending of a DPP determination has been knowingly-

provided by an EDB or its agents to the Commission; or

disclosed pursuant to the Electricity Distribution (Information Disclosure) Requirements 2008 or an ID determination; and

the Commission relied on that information in making or amending a DPP determination.

* + - 1. Amending price-quality path after reconsideration
         1. Where, after reconsidering a DPP, the Commission determines that the DPP should be amended, the Commission may amend either or both of the price path or the quality standards and quality incentive measures specified in the DPP determination, subject to the subclause (2).
         2. The Commission will not amend the-

price path more than is reasonably necessary to mitigate the effect of-

the catastrophic event;

thechange event;

the error event;

the major transaction; or

the provision of **false or misleading information**,

on price; or

quality standards or quality incentive measures more than are reasonably necessary to reflect the **Commission’s** decision on a **quality standard variation**, or mitigate the effect of-

the catastrophic event;

thechange event;

the error event;

the major transaction; or

the provision of **false or misleading information**,

on quality.

* 1. Treatment of periods that are not 12 month periods
     + 1. Treatment of periods that are not 12 month periods

Where the start or end date of any disclosure year is not aligned with the start or end date of a DPP regulatory period, the Commission may apply the input methodologies modified to the extent necessary to allow any allowance, amount, cost, sum or value for that disclosure year to be calculated or determined in a way commensurate with the change in the length of the disclosure year to a period other than 12 months.

* 1. Availability of Information
     + 1. Availability of information
          1. Where an EDB has not disclosed the information necessary to calculate any allowance, amount, cost, sum or value referred to in this Part in accordance with Part 2 for a base year or a later disclosure year, then the information may instead be determined by the Commission using information disclosed by the EDB in accordance with an ID determination, prior information disclosure requirements or a request for information by the Commission under s 53ZD of the Act.
          2. Any information determined in accordance with subclause (1) must be determined in accordance with Part 2 using such assumptions or modifications to the information that are reasonably necessary in light of the nature of the calculation or determination to be made and the information available.

1. INPUT METHODOLOGIES FOR CUSTOMISED PRICE-QUALITY PATHS
   1. Contents of a CPP application
      * 1. Applying for a CPP
           1. An EDB seeking a CPP in accordance with s 53Q of the Act must provide the Commission with a CPP application.
           2. **CPP application** means an application containing, in all material respects, the information specified in-

this subpart; and

Subpart 4.

* + - 1. Evidence of consumer consultation

For the purpose of clause 5.1.1(2)(a), in respect of consumer consultation, the specified information is-

a description as to how the requirements of clause 5.5.1 were met;

a list of respondents to the consultation required by that clause;

a description of all issues raised by consumers in response to the CPP applicant's intended CPP proposal;

a summary of the arguments raised in respect of each issue described in accordance with paragraph (c); and

in respect of the issues described in accordance with paragraph (c), an explanation as to whether its CPP proposal accommodates the arguments referred to in (d); and

if so, how; and

if not, why not.

* + - 1. Verification-related material
         1. For the purpose of clause 5.1.1(2)(a), in respect of verification, the specified information is-

a verification report;

any information relating to the CPP proposal, other than information required to be included in a CPP proposal by Subpart 4, provided to the verifier by or on behalf of the CPP applicant, pursuant to clauses 5.5.2(3)(a)-(c) and 5.5.2(3)(e);

Examples: instructions as to how to interpret information provided to the verifier; details as to the source of the information;

any other information relied upon by the **verifier** relating to the **CPP proposal** pursuant to clause 5.5.2(3)(d); and

subject to subclause (2), a certificate signed by the verifier stating that the relevant parts of the CPP proposal were verified and verification report was prepared in accordance with Schedule G.

* + - * 1. For the purpose of subclause (1)(c), the CPP applicant must ensure that the certificate described in subclause (1)(c) relates to verification of the relevant parts of the CPP proposal as submitted to the Commission.
      1. Audit and assurance reports
         1. For the purpose of clause 5.1.1(2)(a), in respect of audit or assurance, the specified information is a report written by an auditor and signed by that auditor (either in an individual's name or that of a firm) in respect of an audit or assurance engagement undertaken of the matters specified in clause 5.5.3, stating-

the work done by the auditor;

the scope and limitations of the audit or assurance engagement;

the existence of any relationships (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the CPP applicant or any of its subsidiaries;

whether the auditor obtained all information and explanations that he or she required to undertake the audit or assurance engagement, and, if not-

details of the information and explanations not obtained; and

any reasons provided by the CPP applicant for its or their non-provision;

the auditor's opinion of the matters in respect of which the audit or assurance engagement was undertaken.

* + - * 1. A report in respect of an audit or assurance engagement undertaken other than expressly to meet the requirements of clause 5.5.3 may be considered to comply with subclause (1) to the extent that the report in respect of that other audit or assurance engagement fully or partially meets the requirements of clause 5.5.3.
        2. The CPP applicant must ensure that reports required by this clause relate to the CPP proposal as submitted to the Commission.
        3. For the avoidance of doubt, the reports required by this clause need not be-

prepared in advance of the verifier undertaking verification of the CPP proposal; nor

provided to the verifier.

* + - * 1. If, notwithstanding subclause (4), a report prepared in accordance with this clause is provided to the verifier, subclause (3) continues to apply.
      1. Certification
         1. For the purpose of clause 5.1.1(2)(a), in respect of certification, the specified information is the certificates recording the certifications specified in clause 5.5.4.
         2. For the avoidance of doubt, one physical document may contain more than one of the certifications specified in clause 5.5.4.
      2. Modification or exemption of CPP application requirements
         1. The **Commission** may approve a modification to, or exemption from, any requirement set out in—

this subpart;

Subpart 4;

Subpart 5; or

schedules relating to subparts identified in paragraphs (a) to (c) above.

* + - * 1. A modification or exemption may be approved where, in the **Commission**’s opinion, the modification or exemption will not detract, to an extent that is more than minor, from—

the **Commission**’s evaluation of the **CPP proposal**;

the **Commission**’s determination of a **CPP**; and

the ability of interested persons to consider and provide their views on the **CPP proposal**.

* + - * 1. When considering whether a modification or exemption is likely to detract, to an extent that is more than minor, from the processes listed in subclauses (2)(a)-(c), the **Commission** may have regard to the size of the supplier’s business.
        2. A modification or exemption will only apply for the purposes of assessing compliance of a **CPP application** under s 53S(1) of the **Act**—

if the **Commission** has previously approved a request by a **CPP applicant** for the modification or exemption in accordance with clause 5.1.7;

in respect of the **CPP applicant** and the **CPP application** identified in the **Commission**’s approval; and

if the **CPP applicant** elects to apply the modification or exemption by:

meeting all conditions and requirements specified in the approval that relates to the modification or exemption; and

providing the relevant information specified in clause 5.1.8 as part of its **CPP application**.

* + - 1. Process for obtaining a modification or exemption
         1. At any time prior to providing the **Commission** with a **CPP application**, a **CPP applicant** may request modifications or exemptions to the requirements listed in clause 5.1.6(1) as alternatives to those requirements.
         2. A request by a **CPP applicant** must—

be in writing;

include the following information:

the **CPP applicant’s** name and contact details;

a brief description of the key features of its intended **CPP proposal**;

the date that the **CPP applicant** intends to submit the **CPP application** for which a modification or exemption is sought;

a list of the specific modifications or exemptions sought;

an explanation of why the **CPP applicant** considers the requirements in clause 5.1.6(2) are met;

evidence in support of the explanation provided under subparagraph (v); and

identification of any information that is commercially sensitive.

* + - * 1. Subparagraph (2)(b)(vi) may be satisfied by submitting a certificate, signed by a senior manager of the **CPP applicant**, setting out the factual basis on which he or she believes the requirements in subclause 5.1.6(2) are met.
        2. In considering whether to approve a request for modification or exemptions, the **Commission** may seek, and have regard to—

views of interested persons within any time frames and processes set by the **Commission**; and

views of any person the **Commission** considers has expertise on a relevant matter.

* + - * 1. As soon as reasonably practicable after receipt of a request for modifications or exemptions the **Commission** will, by notice in writing, advise the **CPP applicant** as to whether:

any of the modifications or exemptions are approved; and

the approval of any modification or exemption is subject to conditions or requirements that must be met by the **CPP applicant**.

* + - 1. Information on modification or exemption of information requirements

Where a **CPP applicant** elects to apply a modification or exemption approved by the **Commission** in accordance with clause 5.1.7, it must include as part of its **CPP application**—

a copy of the **Commission**’s approval;

a list of the approved modifications or exemptions which the **CPP applicant** has elected to apply in its **CPP application**;

evidence that any conditions or requirements of the approval have been met; and

an indication, at the relevant locations within the document or documents comprising the **CPP application**, as to where the modifications or exemptions have been applied.

* 1. Commission assessment of a customised price-quality path proposal
     + 1. Evaluation criteria

The **Commission** will use the following evaluation criteria to assess each CPP proposal:

whether the CPP proposal is consistent with the input methodologies specified in Part 5;

the extent to which a CPP in accordance with the CPP proposal would promote the purpose of Part 4 of the Act;

whether data, analysis, and assumptions underpinning the CPP proposal are fit for the purpose of the **Commission** determining a CPP under s 53V, including consideration as to the accuracy and reliability of data and the reasonableness of assumptions and other matters of judgement;

whether proposed capital expenditure and operating expenditure meet the expenditure objective;

the extent to which any proposed quality standard variation provided in a **CPP proposal** better reflects the realistically achievable performance of the EDB over the CPP regulatory period, taking into account either or both-

statistical analysis of past SAIDI and SAIFI performance; and

the level of investment provided for in proposed maximum allowable revenue before tax,

as the case may be; and

the extent to which-

the CPP applicant has consulted with consumers on its CPP proposal; and

the CPP proposal is supported by consumers, where relevant.

* 1. Determination of customised price-quality paths
     1. Determination of annual allowable revenues
        1. Annual allowable revenues

Amounts for-

building blocks allowable revenue before tax for the next period;

building blocks allowable revenue after tax for the next period;

maximum allowable revenue before tax for the CPP regulatory period; and

maximum allowable revenue after tax for the CPP regulatory period,

will be determined.

* + - 1. Building blocks allowable revenue before tax
         1. ‘Building blocks allowable revenue before tax’ for each disclosure year of the next period is determined in accordance with the formula-

(**regulatory investment value**× *cost of capital* + *total value of commissioned assets* × (*TFVCA* - 1) + **term credit spread differential allowance** × *TF*- **total revaluation**)÷ (*TFrev* - **corporate tax rate** × *TF*)

+ (**total depreciation** × (1 – **corporate tax rate** ×*TF*)

+ **forecast operating expenditure** ×*TF*× (1 – **corporate tax rate**)

+ (**closing deferred tax** – **opening deferred tax**) × (*TF* – 1)

+ (**permanent differences** + **regulatory tax adjustments** - **utilised tax losses**) × **corporate tax rate** × *TF*)÷ (*TFrev* - **corporate tax rate** × *TF*).

* + - * 1. ‘Regulatory investment value’ means the amount obtained in accordance with the formula-

total opening RAB value + opening deferred tax.

* + - * 1. For the purpose of subclause (1) ‘total value of commissioned assets’ means, in relation to a **disclosure year**, the sum of **closing RAB values** for all **commissioned** assets calculated in accordance with clause 5.3.6(3)(b).
        2. For the purpose of subclause (1) –

‘TF’is determined in accordance with the formula-

(1 + *cost of capital*)182/365;

‘TFrev’is determined in accordance with the formula-

(1 + *cost of capital*)148/365;

‘TFVCA’is determined in accordance with the formula-

*PVVCA*× (1 + *cost of capital*) ÷ *total value of commissioned assets*; and

‘PVVCA’ means the sum of the present value of **closing RAB values** for **commissioned** assets calculated in accordance with clause 5.3.6(3)(b), where each present value is determined by discounting each **closing RAB value** by the *cost of capital* from the relevant **commissioning date** to the commencement of the relevant **disclosure year.**

* + - * 1. For the purpose of this clause, 'cost of capital' has the meaning specified in clause 5.3.22.
        2. ‘Forecast operating expenditure’ means, in relation to a CPP proposal -

that has not been assessed by the Commission, the amount of operating expenditure for the relevant disclosure year included by the CPP applicant in its opex forecast; or

undergoing assessment by the Commission, the amount of operating expenditure determined for the relevant disclosure year by the Commission after assessment of the amount in paragraph (a) against the expenditure objective.

* + - * 1. For the purpose of this clause, all values and amounts are expressed in nominal terms unless otherwise specified.
      1. Building blocks allowable revenue after tax
         1. ‘Building blocks allowable revenue after tax’ is building blocks allowable revenue before tax less forecast regulatory tax allowance.
         2. For the purpose of this clause, all values and amounts are expressed in nominal terms.
      2. Price path
         1. The present value of the series of values of **maximum allowable revenue after tax** must equal the present value of the series of building blocks allowable revenue after tax, adjusted for the present value of any claw-back for the CPP regulatory period, where present values are determined in accordance with subclause (3).
         2. In subclause (1)-

the reference to claw-back is a reference to claw-back, determined by the Commission pursuant to s 53V(2)(b), in the case of a CPP determination made-

after deferral of the relevant CPP proposal in accordance with s 53Z(2) of the Act;

in response to a CPP proposal made in accordance with provisions in a DPP determination relating to the submission of CPP proposals in response to a catastrophic event; or

as a result of a reconsideration of the price-quality path in accordance with clause 5.6.7(1) and an amendment made to the price-quality path after reconsideration under clause 5.6.8(1); and

each reference to a series of values is a reference to the value determined in respect of each disclosure year of the CPP regulatory period.

* + - * 1. For the purpose of subclause (1), the present value of each series must be determined using the cost of capital as specified in clause 5.3.22.
        2. For the avoidance of doubt, where claw-back is determined where-

subclause (2)(a)(i) applies, it will only be determined in respect of the period between the date when the CPP would have taken effect had deferral not occurred and the date the CPP determination will come into effect; and

subclause (2)(a)(ii) applies, it will only be determined in respect of the period between the date of the catastrophic event and the date the CPP determination will come into effect.

* + - * 1. For the purpose of this subpart, the ‘maximum allowable revenue before tax’ for the first disclosure year of the CPP regulatory period is the amount of **maximum allowable revenue before tax** in the first disclosure year of the CPP regulatory period required for subclause (1) to be satisfied.
        2. For the purpose of this subpart, the ‘maximum allowable revenue before tax’ for each disclosure year of the CPP regulatory period except the first must equal-

MARy-1 × (1 + ΔCPI) × (1 - X),

where-

MARy-1 is the maximum allowable revenue before tax in the preceding disclosure year;

ΔCPI is the **CPP** inflation rate; and

X is any X factor applying to the EDB.

* + - * 1. ‘Maximum allowable revenue after tax’ is maximum allowable revenue before tax less forecast regulatory tax allowance.
        2. For the purpose of subclause (7), 'forecast regulatory tax allowance' means-

where opening tax losses are nil in every disclosure year of the next period, forecast regulatory tax allowance; and

in all other cases, the amount calculated in accordance with clause 5.3.13 with the modification that the reference in clause 5.3.13(4) to 'building blocks allowable revenue before tax' is substituted with 'maximum allowable revenue before tax'.

* + - * 1. ‘CPP Inflation rate’ means the amount determined in accordance with the formula-

[(CPI1 + CPI2 + CPI3 + CPI4) ÷ (CPI1-4 + CPI2-4 + CPI3-4 + CPI4-4)] -1,

where-

CPIn means forecast CPI for the nth quarter of the disclosure year in question; and

CPIn-4 means forecast CPI for the equivalent quarter in the preceding disclosure year.

* + 1. Cost allocation and asset valuation
       1. Allocating forecast values of operating costs not directly attributable
          1. Operating costs forecast in each disclosure year of the next period must, in the case of an operating cost for which disclosure pursuant to an ID determination has-

been made for the last disclosure year of the current period, be consistent with the operating costs allocated to electricity distribution services in that disclosure; and

not been so made, be consistent with an allocation of operating costs to electricity distribution services carried out in respect of the most recent disclosure made for the current period in accordance with clause 2.1.1.

* + - * 1. Where a sale of the assets used to **supply** electricity distribution services and either or both-

an other regulated service; and

an unregulated service,

is

completed between the start of the assessment period and the time the CPP application is made; or

highly probable,

operating costs attributable to electricity distribution services, in respect of each operating cost not directly attributable affected by the sale, is determined as the value allocated to electricity distribution services as a result of applying clause 2.1.1 in respect of the last disclosure year of the assessment period.

*Guidance note: (refer to clause 1.1.4(1)(e)-(f))*

*Commerce Commission “Input methodologies review draft decision – Related party transactions – Draft decision and determinations guidance” (30 August 2017), Attachment B provides illustrative guidance on the relationship between the related party rules and cost allocation rules.*

* + - 1. RAB roll forward
         1. The opening RAB value of an asset in relation to-

the disclosure year 2010, is the initial RAB value; and

a disclosure year thereafter, is, where the disclosure year-

follows a disclosure year in respect of which disclosure pursuant to an ID determination relating to that asset has been made, that asset's disclosed closing RAB value;

is the first disclosure year of the next period for which disclosure pursuant to an ID determination relating to that asset for the preceding disclosure year has not been made, determined in accordance with subclause (2); or

is any other disclosure year, the closing RAB value for the preceding disclosure year.

* + - * 1. For the purpose of subclause (1)(b)(ii), the opening RAB value of an asset to which this subclause applies is determined as the value allocated to electricity distribution services as a result of applying clause 2.1.1 to its unallocated closing RAB value for the preceding disclosure year.
        2. Closing RAB value means, subject to subclause (4), for an asset-

with an opening RAB value, the value determined in accordance with the formula-

opening RAB value - depreciation + revaluation;

having or forecast to have a commissioning date in that disclosure year, where the asset-

has been commissioned by the date the CPP application is made, its value of commissioned asset; or

has not been commissioned by the date the CPP application is made, its forecast value of commissioned asset,

but only to the extent that the value would be included in the closing RAB value consistent with application of clause 2.1.1; or

that is or is forecast to be a disposed asset, nil.

* + - * 1. For the purpose of subclause (3), where a sale of the assets used to supply electricity distribution services and either or both-

an other regulated service; and

an unregulated service,

is

completed between the start of the assessment period and the time the CPP application is made; or

highly probable,

closing RAB value in respect of each asset not directly attributable affected by the sale is determined as the value allocated to electricity distribution services as a result of applying clause 2.1.1 in respect of its unallocated closing RAB value of the last disclosure year of the assessment period.

* + - * 1. The unallocated opening RAB value of any asset in relation to-

the disclosure year 2010, is the unallocated initial RAB value;

a disclosure year thereafter, is, where the disclosure year-

follows a disclosure year in respect of which disclosure pursuant to an ID determination relating to that asset has been made, that asset's disclosed unallocated closing RAB value; and

is any other disclosure year, its unallocated closing RAB value in the preceding disclosure year.

* + - * 1. Unallocated closing RAB value means, in relation to-

an asset that is or is forecast to be a disposed asset, nil;

any other asset with an unallocated opening RAB value, the value determined in accordance with the formula-

unallocated opening RAB value - unallocated depreciation + unallocated revaluation; and

any other asset-

that has a commissioning date between the commencement of the disclosure year in which the CPP application is made and the application's submission, its value of commissioned asset; or

forecast to have a commissioning date thereafter, its forecast value of commissioned asset.

* + - * 1. The total opening RAB value in relation to-

the disclosure year 2010, is the sum of all initial RAB values; and

any disclosure year thereafter, is the total closing RAB value in the preceding disclosure year.

* + - * 1. For the purpose of subclause (7), 'total closing RAB value' means, in relation to a disclosure year, the sum of closing RAB values for all assets.
      1. Depreciation
         1. Total depreciation means the sum of depreciation calculated for **existing CPP assets** under subclause (2)(a) and for **additional CPP assets** under subclause (2)(b).
         2. For the purpose of subclause (1)-

‘depreciation’, in the case of **existing CPP assets** with an opening RAB value, is determined, subject to subclause (3) and clauses 5.3.6 and 5.3.8, in accordance with the formula-

[1 ÷ remaining asset life for existing CPP assets] × opening RAB value.

‘depreciation’, in the case of **additional CPP assets** with an opening RAB value, is determined, subject to subclause (3) and clauses 5.3.6 and 5.3.8, in accordance with the formula-

[1 ÷ *remaining asset life for additional assets*] × opening RAB value for additional CPP assets.

* + - * 1. For the purposes of subclauses (1) and (2)-

depreciation is nil in the case of-

land; and

an easement other than a fixed life easement; and

network spare in respect of the period before which depreciation for the network spare in question commences under GAAP; and

in all other cases, where the asset's physical asset life at the end of the disclosure year is nil-

unallocated depreciation is the asset's unallocated opening RAB value; and

depreciation is the asset's opening RAB value.

* + - * 1. For the purpose of subclause (2)-

‘remaining asset life for existing CPP assets’ means, for each asset, the value determined in accordance with the formula-

**opening RAB value** ÷ depreciation for the last year of the **current period**,

less the number of **disclosure years** from the last year of the **current period** to the **disclosure year** in question; and

‘remaining asset life for additional assets’ means the **asset life for CPP commissioned assets** for an **asset category** less the number of **disclosure years** from the **disclosure year** in which the additional assets are forecast to be commissioned.

* + - 1. Depreciation - alternative depreciation method
         1. Depreciation and, subject to clause 5.3.9, unallocated depreciation may be determined in respect of a CPP regulatory period using an **alternative depreciation method**, provided the **Commission** is satisfied that the result of applying the **alternative depreciation method** would better promote the purpose of Part 4 than the result of applying the standard depreciation method.
         2. For the avoidance of doubt, subclause (1) does not apply to the determination of depreciation or unallocated depreciation in the assessment period.
      2. Unallocated depreciation constraint

For the purposes of clauses 5.3.7 and 5.3.8, the sum of unallocated depreciation of an asset calculated over its asset life may not exceed the sum of-

all unallocated revaluations applying to that asset in all disclosure years; and

in the case of an asset-

in the initial RAB, its unallocated initial RAB value; and

not in the initial RAB, its value of commissioned asset or forecast value of commissioned asset, as the case may be.

* + - 1. Revaluation
         1. Unallocated revaluation, subject to subclause (3), is determined in accordance with the formula-

unallocated opening RAB value × revaluation rate.

* + - * 1. Revaluation, subject to subclause (3), is determined in accordance with the formula-

opening RAB value × revaluation rate.

* + - * 1. For the purposes of subclauses (1) and (2), where-

the asset's physical asset life at the end of the disclosure year is nil; or

the asset is a-

disposed asset; or

lost asset,

unallocated revaluation and revaluation are nil.

* + - * 1. Revaluation rate means, in respect of a disclosure year, the amount determined in accordance with the formula-

(CPI4 ÷ CPI4-4) -1,

where-

CPI4 means forecast CPI **for CPP revaluation** for the quarter that coincides with the end of the disclosure year; and

CPI4-4 means forecast CPI **for CPP revaluation** for the quarter that coincides with the end of the preceding disclosure year.

* + - * 1. Forecast CPIfor CPP revaluation means, for the purpose of subclause (4), when calculating the **revaluation rate**-

in the **CPP regulatory period** and up to the end of the **DPP regulatory period**, as for **forecast CPI for DPP revaluation** in accordance with clause 4.2.3(4)(a); and

for each later quarter for which a forecast of the change in headline **CPI** has been included in the Monetary Policy Statement last issued by the Reserve Bank of New Zealand prior to the date for which the vanilla **WACC** applicable to the relevant **DPP regulatory period** was determined, the **CPI** last applying under paragraph (a) extended by the forecast change; and

in respect of later quarters, the forecast last applying under paragraph (b), adjusted such that an equal increment or decrement made to that forecast for each of the following three years results in the forecast for the last of those years being equal to the target midpoint for the change in headline **CPI** set out in the Monetary Policy Statement referred to in paragraph (b).

* + - 1. Forecast value of commissioned assets
         1. ‘Forecast value of commissioned asset’, in relation to an asset for which capital expenditure is included in forecast capital expenditure (including an asset in respect of which capital contributions are or are forecast to be received, or a vested asset) means the forecast cost of the asset to an EDB determined by applying GAAP to the asset as on its forecast commissioning date, except that, subject to subclauses (2) and (3), the cost of-

an intangible asset, unless it is-

a finance lease; or

an identifiable non-monetary asset,

is nil;

an easement, is limited to its forecast market value as on its forecast commissioning date as determined by a valuer;

easement land is nil;

a network spare-

which is not required, in light of the historical reliability and number of the assets it is held to replace; or

whose cost is not treated as the cost of an asset under GAAP, whether wholly or in part,

is nil;

an asset-

to be acquired from another regulated supplier; and

used by that regulated supplier in the **supply** of regulated goods or services,

is limited to its value determined in accordance with input methodologies applicable to the services supplied by that other regulated supplier as on the forecast commissioning date;

an asset that was previously used by an EDB in its **supply** of other regulated services is limited to its value determined in accordance with input methodologies applicable to those other regulated services as on the day before the forecast commissioning date;

an asset or assets, or components of assets, forecast to be acquired in a related party transaction, and forecast to be **commissioned** during any **disclosure year** of the **CPP regulatory period** other than assets to which paragraphs (e) or (f) apply, are the forecast values as determined by the **EDB**, supported by a written certification by no fewer than 2 **directors** of the **EDB** that they are reasonably satisfied that the forecast asset values are consistent with values determined in accordance with subclause (7);

an asset in respect of which capital contributions are or are forecast to be received where such contributions are not taken into account when applying GAAP, is the cost of the asset by applying GAAP reduced by the amount of the capital contributions;

a vested asset in respect of which its fair value is or would be treated as its cost under GAAP, must exclude any amount of the fair value of the asset determined under GAAP that exceeds the amount of consideration provided or forecast to be provided by the EDB; and

for the purpose of subclause (a)(i), a **finance lease** excludes the value of any asset for which annual charges are a **recoverable cost** under clause 3.1.3(1)(c).

* + - * 1. Where an asset forecast to be commissioned is forecast to be used to supply either or both an other regulated service and an unregulated service, its regulated service asset value borne by regulated services, in aggregate-

may not exceed the total value of the asset that would be allocated to regulated services, in aggregate, using ACAM; and

must be based only on forecast changes in the EDB's business of supplying electricity distribution services.

* + - * 1. When applying GAAP for the purposes of subclause (1), the cost of financing is-

applicable only in respect of the period commencing on the date the asset becomes or is forecast to become a works under construction and terminating on its commissioning date or forecast commissioning date, as the case may be; and

calculated using a rate not greater than the **EDB’s** forecast weighted average of borrowing costs for each applicable **disclosure year**.

* + - * 1. For the purposes of subclause (3)(b), the ‘forecast weighted average of borrowing costs’ is calculated for a **disclosure year** using principles set out in **GAAP**, taking into account:

the cost of financing rate is the forecast weighted average of the costs applicable to borrowings in respect of **capex** that are forecast to be outstanding during the **disclosure year**;

the total costs applicable to borrowings outstanding as used in calculating the weighted average must include costs of borrowings made or forecast to be made specifically for the purpose of any particular –

**capex projects**; or

**capex programmes**; and

the amount of borrowing costs forecast to be capitalised during the **disclosure year** must not exceed the amount of borrowing costs forecast to be incurred during the **disclosure year**;

where a **capital contribution** is received by an **EDB**, the relevant asset will become **works under construction** for the purposes of calculating the cost of financing;

subject to subclause (i), a **capital contribution** will reduce the cost of **works** **under construction** for the purpose of the calculation of the finance cost, even if the resulting value of **works under construction** is negative;

subject to subclause (g), where the value of **works under construction** will be negative in accordance with subclause (e), the cost of financing for the period ending on the forecast **commissioning date** will be negative;

where the cost of financing an asset which is **works under construction** is negative under subclause (f), it will reduce the forecast value of the relevant asset or assets by that negative amount where such a reduction is not otherwise made under **GAAP**;

for the purpose of subclause (d), **works under construction** includes assets that are forecast to be enhanced or acquired; and

where the cost of financing is forecast to be derived as income in relation to **works under** **construction** and is-

negative; and

included in regulatory income under an **ID determination**,

it will not reduce the forecast value of the relevant asset or assets where such reduction would not otherwise be made under **GAAP**.

* + - * 1. For the avoidance of doubt-

revenue derived or forecast to be derived in relation to works under construction that is not included in regulatory income under an ID determination reduces the cost of an asset by the amount of the revenue where such reduction is not otherwise made under GAAP; and

where expenditure on an asset which forms or is forecast to form part of the cost of that asset under GAAP is incurred or forecast to be incurred by an EDB after that asset is commissioned or forecast to be commissioned, such expenditure is treated as relating to a separate asset.

* + - * 1. In this clause, 'forecast capital expenditure' means, in relation to a CPP proposal-

that has not been assessed by the Commission, the amount of capital expenditure for the relevant disclosure year of the next period included by the CPP applicant in its capex forecast; and

undergoing assessment by the Commission, the amount of capital expenditure determined for the relevant disclosure year of the next period by the Commission after assessment of the amount in paragraph (a) against the expenditure objective.

* + - * 1. For the purpose of paragraph 5.3.11(1)(g), the forecast value of any assets, or components of assets, must be set on the basis that–

each forecast **related party transaction** must be valued as if it had the terms of an **arm’s-length transaction**;

the forecast value of a **related party transaction** must be based on an objective and independent measure; and

notwithstanding paragraphs (a) and (b), the forecast value of the asset in the **related party transaction** must not exceed the forecast transaction price.

*Guidance note 1: (refer to clause 1.1.4(1)(e)-(f))*

*Commerce Commission “Input methodologies review draft decision – Related party transactions – Draft decision and determinations guidance” (30 August 2017), Table A1 of Attachment A provides an illustrative list of examples of arm’s length transactions and Table A2 of Attachment A provides an illustrative list of examples of non-arm’s length transactions.*

*Guidance note 2: (refer to clause 1.1.4(1)(e)-(f))*

*Commerce Commission “Input methodologies review draft decision – Related party transactions – Draft decision and determinations guidance” (30 August 2017), Attachment B provides illustrative guidance on the relationship between the related party rules and cost allocation rules.*

* + - 1. Works under construction
         1. Opening works under construction means, in respect of-

the first disclosure year of the next period where that year is consecutive to a disclosure year in respect of which disclosure pursuant to an ID determination-

has not been made, initial works under construction; and

has been made, the value of works under construction last disclosed in accordance with the ID determination to the extent that it is intended to be included in a closing RAB value; and

any year other than the first disclosure year of the next period, closing works under construction of the preceding disclosure year.

* + - * 1. For the purpose of subclause (1)(a)(i), 'initial works under construction' means expenditure incurred on works under construction as of the first day of the disclosure year in question, calculated in accordance with clause 5.3.11, modified in that references in that clause to "forecast commissioning date" are substituted with "forecast date that expenditure is incurred".
        2. Closing works under construction is the amount determined in accordance with the formula-

opening works under construction + sum of capital expenditure - (sum of value of commissioned assets + sum of forecast value of commissioned assets),

where-

the sum of value of commissioned assets only includes values to the extent that they are included in closing RAB values disclosed pursuant to an ID determination; and

the sum of forecast value of commissioned assets only includes values to the extent that they are included in the sum of closing RAB values provided pursuant to clause 5.4.11(b)(ii).

* + 1. Treatment of taxation
       1. Forecast regulatory tax allowance
          1. Forecast regulatory tax allowance is, where forecast regulatory net taxable income is-

nil or a positive number, the tax effect of forecast regulatory net taxable income; and

a negative number, nil.

* + - * 1. Regulatory net taxable income means regulatory taxable income less utilised tax losses.
        2. Regulatory taxable income is determined in accordance with the formula-

regulatory profit / (loss) before tax + permanent differences + regulatory tax adjustments.

* + - * 1. Regulatory profit / (loss) before tax means the value determined in accordance with the formula-

building blocks allowable revenue before tax - operating expenditure - total depreciation.

* + - 1. Tax losses
         1. Utilised tax losses means opening tax losses, subject to subclause (2).
         2. For the purpose of subclause (1), utilised tax losses may not exceed regulatory taxable income.
         3. Opening tax losses in relation to-

the first disclosure year of the next period, is nil, subject to subclause (4); and

subsequent disclosure years of the next period, is closing tax losses for the preceding disclosure year.

* + - * 1. For the purpose of subclause (3)(a), if the Commission is satisfied that an EDB will incur forecast tax losses, opening tax losses is the amount of losses in respect of which the Commission is satisfied.
        2. For the purpose of subclause (3)(b), 'closing tax losses' means the amount determined in accordance with the following formula, in which each term is an absolute value:

opening tax losses + current period tax losses - utilised tax losses.

* + - * 1. In this clause, 'current period tax losses' is, where regulatory taxable income is-

nil or a positive number, nil; and

a negative number, regulatory taxable income.

* + - 1. Permanent differences
         1. Permanent differences is the amount determined in accordance with the formula-

positive permanent differences - discretionary discounts and customer rebates - negative permanent differences.

* + - * 1. For the purpose of subclause (1), 'positive permanent differences' means, subject to subclause (3), the sum of-

all amounts of income-

treated as taxable were the tax rules applied to determine income tax payable in respect of the EDB's **supply** of electricity distribution services; and

not included as amounts of income in determining regulatory profit / (loss) before tax; and

all amounts of expenditure or loss-

included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax; and

not treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's **supply** of electricity distribution services,

if the difference in treatment of amounts of-

income under paragraph (a)(i) and paragraph (a)(ii); or

expenditure or loss under paragraph (b)(i) and paragraph (b)(ii),

is a difference that is not -

a **reversal** or partial **reversal** of a difference for a prior disclosure year; and

forecast to reverse in a subsequent disclosure year.

* + - * 1. For the purpose of subclause (2), positive permanent differences excludes any amounts that are-

amortisation of initial differences in asset values; or

amortisation of revaluations.

* + - * 1. For the purpose of subclause (1), 'negative permanent differences' means, subject to subclause (5), the sum of-

all amounts of income-

included as amounts of income in determining regulatory profit / (loss) before tax; and

not treated as taxable were the tax rules applied to determine income tax payable in respect of the EDB's **supply** of electricity distribution services; and

all amounts of expenditure or loss-

treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's **supply** of electricity distribution services; and

not included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax,

if there are differences between the values in-

paragraph (a)(i) and paragraph (a)(ii); and

paragraph (b)(i) and paragraph (b)(ii),

and such differences are not-

the **reversal** of a difference in a prior disclosure year; and

forecast to reverse in a subsequent disclosure year.

* + - * 1. For the purpose of subclause (4), negative permanent differences excludes any amounts that are-

discretionary discounts and customer rebates;

expenditure or loss determined in accordance with the tax rules that is-

interest; or

forecast to be incurred in borrowing money; and

any-

tax losses; and

subvention payment made or received by an EDB.

* + - 1. Regulatory tax adjustments
         1. Regulatory tax adjustments are determined in accordance with the formula-

amortisation of initial differences in asset values + amortisation of revaluations - notional deductible interest.

* + - * 1. For the purpose of subclause (1), 'notional deductible interest' means the amount determined in accordance with the formula–

(((**regulatory investment value** +*RAB proportionate investment*)x **leverage** x **cost of debt**) + **term credit spread differential allowance**)

÷

√(1 + **cost of debt**).

* + - * 1. For the purpose of subclause (2), ‘RAB proportionate investment’ means the sum of the *proportionate value* of each asset forecast to be **commissioned** less the sum of the *proportionate value* of each **disposed** **asset**.
        2. For the purpose of subclause (3), ‘proportionate value’ means for-

an asset forecast to be **commissioned**, its **forecast value of commissioned asset** multiplied by the proportion of that **disclosure year** in question from the forecast **commissioning date** to the end of that **disclosure year** out of the whole **disclosure year**; and

a **disposed asset**, its **opening RAB value** multiplied by the proportion of that **disclosure year** from the date of sale or transfer to the end of that **disclosure year** out of the whole **disclosure year**.

* + - 1. Amortisation of initial differences in asset values
         1. Amortisation of initial differences in asset values is, subject to subclause (4), determined in accordance with the formula-

opening unamortised initial differences in asset values ÷ opening weighted average remaining useful life of relevant assets.

* + - * 1. For the purpose of this clause, 'opening unamortised initial differences in asset values' means, in respect of-

the disclosure year 2010, initial differences in asset values; and

each disclosure year thereafter, subject to subclause (4), closing unamortised initial difference in asset values for the preceding disclosure year.

* + - * 1. For the purpose of subclause (2)(a), 'initial differences in asset values' means, subject to subclause (4), the sum of initial RAB values less the sum of regulatory tax asset values on the first day of the disclosure year 2010.
        2. For the purpose of subclause (1), ‘opening weighted average remaining useful life of relevant assets’ means-



where:

the 2010 weighted average **remaining asset life** of assets included in the initial RAB calculated by using **initial RAB values** as weightings

**disclosure year** less 2010.

* + - * 1. For the purpose of subclauses (1) and (2)-

no account may be taken of unamortised initial differences in asset values of sold assets from the date of sale; and

account must be taken of unamortised initial differences in asset values of acquired assets from the date of acquisition.

* + - * 1. For the purpose of subclause (2)(b), 'closing unamortised initial difference in asset values' is determined in accordance with the formula-

Opening unamortised initial differences in asset values - amortisation of initial difference in asset values

* + - 1. Amortisation of revaluations

Amortisation of revaluations in relation to an EDB for a disclosure year is calculated in accordance with the formula-

total depreciation - adjusted depreciation.

* + - 1. Deferred tax
         1. Opening deferred tax means, in respect of-

the disclosure year 2010, nil; and

each disclosure year thereafter, closing deferred tax for the preceding disclosure year.

* + - * 1. For the purpose of subclause (1)(b), 'closing deferred tax' is determined in accordance with the formula-

opening deferred tax + tax effect of temporary differences - tax effect of amortisation of initial difference in asset values + deferred tax balance relating to assets acquired in the disclosure year in question *– deferred tax balance relating to assets disposed of in the* ***disclosure year*** *in question* + cost allocation adjustment.

* + - * 1. For the purpose of subclause (2), 'deferred tax balance relating to assets acquired in the disclosure year in question' means the amount of deferred tax associated with the assets acquired by the EDB from another regulated supplier, excluding the **reversal** of temporary adjustments arising as a consequence of the sale, as determined in accordance with input methodologies applicable to the regulated services that the assets in question were used to supply.
        2. For the avoidance of doubt, the amount referred to in subclause (3) must include proportionate adjustments for-

the tax effect of temporary differences; and

the amortisation of initial differences in asset values,

up to the date the assets in question were acquired.

* + - * 1. For the purpose of subclause (2), 'cost allocation adjustment' means the tax effect of the dollar value difference between the change in the sum of regulatory tax asset values on the last day of the disclosure year and the change in the sum of closing RAB values as a result only of applying-

the result of asset allocation ratios to the tax asset value in accordance with clause 5.3.21(1); and

Clause 2.1.1 to the unallocated closing RAB value, where either or both clauses 5.3.6(1)(b)(ii) and 5.3.6(3) apply.

* + - * 1. For the purpose of subclause (2), ‘deferred tax balance relating to assets disposed of in the **disclosure year** in question’ means the amount of deferred tax associated with the assets disposed of by the **EDB** and, where that deferred tax balance is a deferred tax liability, it must have a negative value.
      1. Temporary differences
         1. Temporary differences is the amount determined in accordance with the formula-

depreciation temporary differences + positive temporary differences - negative temporary differences.

* + - * 1. For the purpose of this clause, 'depreciation temporary differences' is adjusted depreciation less tax depreciation.
        2. For the purpose of subclause (2) 'tax depreciation' is the sum of the amounts determined for all assets by application of the tax depreciation rules to the regulatory tax asset value of each asset.
        3. For the purpose of subclause (1), 'positive temporary differences' means the sum of-

all amounts of income-

treated as taxable if the tax rules were applied to determine income tax payable in respect of the EDB's **supply** of electricity distribution services; and

not included as amounts of income in determining regulatory profit / (loss) before tax; and

all amounts of expenditure or loss-

included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax; and

not treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's **supply** of electricity distribution services,

less any amount that is depreciation temporary differences, if there are differences between the values in-

paragraph (a)(i) and paragraph (a)(ii); and

paragraph (b)(i) and paragraph (b)(ii),

and such differences-

are the **reversal** of a difference in a prior disclosure year; or

are forecast to reverse in a subsequent disclosure year.

* + - * 1. For the purpose of subclause (1), 'negative temporary differences' means the sum of-

all amounts of income-

included as amounts of income in determining regulatory profit / (loss) before tax; and

not treated as taxable were the tax rules applied to determine income tax payable in respect of the EDB's **supply** of electricity distribution services; and

all amounts of expenditure or loss-

treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's **supply** of electricity distribution services; and

not included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax,

less any amount that is depreciation temporary differences, if there are differences between the values in-

paragraph (a)(i) and paragraph (a)(ii); and

paragraph (b)(i) and paragraph (b)(ii),

and such differences-

are the **reversal** of a difference in a prior disclosure year; or

are forecast to reverse in a subsequent disclosure year.

* + - 1. Regulatory tax asset value
         1. Regulatory tax asset value, in relation to an asset, means the value determined in accordance with the formula-

tax asset value × result of asset allocation ratio.

* + - * 1. Tax asset value means, in respect of-

an asset-

in the initial RAB where, in the disclosure year 2010, the sum of unallocated initial RAB values is less than the sum of the adjusted tax values of all assets in the initial RAB;

acquired from a regulated supplier who used it to supply regulated goods or services; or

acquired or transferred from a related party,

the value of the asset determined by applying the tax depreciation rules to its notional tax asset value; and

any other asset, its forecast adjusted tax value.

* + - * 1. 'Notional tax asset value' means, for the purpose of-

subclause (2)(a)(i), adjusted tax value of the asset in the disclosure year 2010 adjusted to account proportionately for the difference between the-

sum of the unallocated initial RAB values; and

sum of the adjusted tax values,

of all assets in the initial RAB;

subclause (2)(a)(ii), value after applying the tax depreciation rules to the tax asset value (as 'tax asset value' is defined in the input methodologies applying to the regulated goods or services in question) in respect of the disclosure year in which the asset was acquired; and

subclause (2)(a)(iii), value in respect of the disclosure year in which the asset was acquired or transferred that is-

consistent with the tax rules; and

limited to its value of commissioned asset or, if relevant capital contributions are treated for tax purposes in accordance with section CG 8 of the Income Tax Act 2007 (or subsequent equivalent provisions), limited to the value of commissioned asset plus any taxed capital contributions applicable to the asset.

* + - * 1. For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the tax rules-

has a matching asset or group of assets maintained for the purpose of Part 2 Subpart 2, the value obtained in accordance with the formula-

opening RAB value or sum of opening RAB values, as the case may be

÷

unallocated opening RAB value or sum of unallocated opening RAB values, as the case may be,

applying the formula in respect of the asset or smallest group of assets maintained for the purpose of Part 2 Subpar 2 that has a matching asset or group of assets maintained under the tax rules; and

does not have a matching asset or group of assets maintained for the purpose of Part 2 Subpar 2, the value of the asset allocated to the supply of electricity distribution services were clause 2.1.1 to apply to the asset or group of assets.

* + 1. Cost of capital
       1. Methodology for estimating the weighted average cost of capital
          1. Where the Commission takes into account the cost of capital in making a CPP determination, the **Commission** will use the **67th percentile** estimate of WACC that was used for the **DPP** applying at the start of the **CPP regulatory period** in accordance with clause 4.4.7(1).
          2. Where there has been a **WACC change**,the cost of capital for the **CPP** is the **DPP** **WACC** referenced in clause 5.6.7(4)(a), which has effect in the remaining years of the **CPP regulatory period**.
       2. Methodology for estimating term credit spread differential
          1. ‘Term credit spread differential’ is the amount determined for a **qualifying supplier** in accordance with the formula-

(A ÷ B) × C ×D,

where-

'A' is the sum of the term credit spread difference and debt issuance cost re-adjustment;

'B' is the book value of the qualifying supplier's total interest-bearing debt as at the balance date of the supplier's financial statements audited and published in the disclosure year in question relate;

'C' is leverage; and

'D' is, in relation to the qualifying supplier, the average of-

the sum of opening RAB values; and

the sum of closing RAB values.

* + - * 1. For the purpose of subclause (1)(a), 'debt issuance cost re-adjustment' is the amount determined in accordance with the formula-

(0.01 ÷ original tenor of the qualifying debt - 0.002) × book value in New Zealand dollars of the qualifying debt at its date of issue,

which amount, for the avoidance of doubt, will be a negative number.

* + - 1. Term credit spread difference
         1. ‘Term credit spread difference’ is determined in accordance with the formula-

T × U,

where-

'T' is the amount determined in accordance with the formula-

0.00075 × (original tenor of the **qualifying debt** – 5);

'U' is the book value in New Zealand dollars of the qualifying debt at its date of issue.

* + - * 1. For the purpose of this clause, where the qualifying debt is issued to a related party, 'original tenor of the qualifying debt' means the-

tenor of the qualifying debt; or

period from the qualifying debt's date of issue to the earliest date on which its repayment is or may be required,

whichever is the shorter.

* + - 1. Interpretation of terms relating to term credit spread differential
         1. ‘Qualifying debt’ means a line of debt-

with an original tenor greater than 5 years; and

issued by a qualifying supplier.

* + - * 1. ‘Qualifying supplier’ means a regulated supplier whose debt portfolio, as at the date of that supplier's most recently published audited financial statements, has a weighted average original tenor greater than 5 years.
    1. Alternative methodologies with equivalent effect
       1. Alternative methodologies with equivalent effect
          1. A **CPP applicant**, in making a **CPP application**, may apply an alternative methodology to that specified for—

cost allocation and asset valuation in Section 2;

treatment of taxation in Section 3; or

the estimation of **term credit spread differentials** in Section 4.

* + - * 1. The **Commission**, in evaluating a **CPP proposal** and in determining a **CPP** for an **EDB**, may apply the alternative methodology elected by the **CPP applicant**.
        2. An alternative methodology applied by either an **EDB** or the **Commission** in accordance with this clause must:

produce an equivalent effect within the **CPP regulatory period** to the methodology that would otherwise apply; and

not detract from the promotion of the purpose of Part 4 of the **Act**.

* 1. Information required in a CPP proposal
     1. General matters
        1. Application of this subpart
           1. Subject to subclause (2), a **CPP proposal** must contain, in all material respects, the information specified in this subpart.
           2. For the purpose of subclause (1), where a CPP proposal is made in accordance with provisions in a DPP determination relating to the submission of CPP proposals in response to a catastrophic event, the information specified in clause 5.4.3 is not required.
        2. Reasons for the proposal

A CPP proposal must contain a-

detailed description of the CPP applicant's rationale for seeking a CPP; and

summary of the key evidence in the proposal supporting that rationale.

* + - 1. Information regarding priority of proposal
         1. A CPP proposal must contain an explanation as to why the proposal deserves to be prioritised for assessment before other CPP proposals, were the Commission to exercise its prioritisation powers under s 53Z of the Act.
         2. For the purpose of subclause (1), a CPP applicant must address the prioritisation criteria specified in paragraphs (b) and (c) of s 53Z(3) of the Act, viz.-

urgency of any proposed additional investment (compared to historic rates of investment) required to meet consumer requirements on quality, in accordance with subclause (3); and

materiality of the proposal relative to the size and revenues of the applicant in accordance with subclause (4).

* + - * 1. For the purpose of subclause (2)(a), the CPP applicant must explain-

how any proposed investment-

compares with historic rates of investment; and

relates to meeting consumer requirements on quality; and

the optimal timing of any proposed investment, including any timeframes that would apply to the process of undertaking that proposed investment.

* + - * 1. For the purpose of subclause (2)(b), the CPP applicant must-

explain the current size of its business and how the proposed CPP would affect the size of its business; and

describe its revenue under the DPP and explain how its revenue under the proposed CPP would differ, if at all, from that revenue.

* + - 1. Duration of regulatory period

Where a CPP applicant seeks a CPP of 3 years' or 4 years' duration-

the duration of the CPP sought must be stated in the CPP proposal; and

the CPP proposal must contain an explanation as to why that duration better meets the purpose of Part 4 of the Act than 5 years.

* + 1. Information regarding quality
       1. Information on proposed quality standard variation

Where a CPP applicant seeks a quality standard variation as part of a CPP proposal, the CPP proposal must contain the following information:

different values of either or both of-

the mean of SAIDI and SAIFI: μSAIDI and μSAIFI;

the standard deviation of SAIDI and SAIFI: σ SAIDI and σ SAIFI;

the SAIDI and SAIFI limits;

the SAIDI and SAIFI targets;

the SAIDI and SAIFI unplanned boundary values;

the SAIDI and SAIFI caps; and

the SAIDI and SAIFI collars,

to those which would be determined in accordance with the methodology for calculating reliability limits specified in the DPP determination;

an explanation of the reasons for the proposed quality standard variation;

demonstration of the extent to which the quality standard variation better reflects the realistically achievable performance of the EDB over the CPP regulatory period based on either or both of-

statistical analysis of past SAIDI and SAIFI performance; and

the level of investment provided for in proposed maximum allowable revenue before tax; and

demonstration of the estimated effect of the proposed quality standard variation by use of historic data, by contrast with the quality standards specified in the DPP determination.

* + 1. Price path information
       1. Interpretation
          1. In this section, the meanings of defined terms that are values or amounts to be determined by the Commission when making a CPP determination are modified to mean the values or amounts proposed by the CPP applicant, subject to any other provision to the contrary.
          2. Any values and amounts used by a CPP applicant to determine the quantum of allowances, amounts, sums or values required by this section must be consistent with other information provided in accordance with this part.
       2. Proposed building blocks allowable revenue
          1. A CPP proposal must contain amounts for-

building blocks allowable revenue before tax for each disclosure year of the next period; and

building blocks allowable revenue after tax for each disclosure year of the next period.

* + - * 1. Subject to subclause (4), a CPP proposal must contain all data, information, calculations and assumptions used to determine the amounts required by subclause (1), including but not limited to-

forecasts of-

regulatory investment value;

*total value of commissioned assets* determined in accordance with clause 5.3.2(3);

total depreciation; and

total revaluation;

all data, information, calculations and assumptions used to derive amounts or forecasts of *TFVCA*, *PVVCA*, *TF*, and *TFrev*determined in accordance with clause 5.3.2(4);

forecast operating expenditure; and

any proposed term credit spread differential allowance.

* + - * 1. All calculations, values and amounts required by this clause must be presented in a spreadsheet which -

clearly demonstrates how building blocks allowable revenue before tax and building blocks allowable revenue after tax for each disclosure year of the next period have been derived using the formulae specified in clauses 5.3.2 and 5.3.3; and

where data has been computed or derived from other values on the spreadsheet through the use of formulae, makes the underlying formulae accessible.

* + - * 1. Where the information specified in subclause (2) is included in a **CPP proposal** in a spreadsheet format-

the information must be cross-referenced in the text of the **CPP proposal** document; and

the spreadsheet(s) must-

provide cross-references to any **CPP** information requirement **input methodology** that the spreadsheet satisfies;

use terms and labels, consistent with the terminology in the **input methodologies**;

identify and explain the source inputs, and outputs, of each spreadsheet;

produce all of the intermediate outputs, as set out in Part 5, Subpart 3 and Part 5, Subpart 4; and

demonstrate links and interdependencies between source inputs, intermediate calculations and outputs.

* + - 1. Maximum Allowable Revenues
         1. A CPP proposal must contain amounts for-

maximum allowable revenue before tax for each disclosure year of the CPP regulatory period; and

maximum allowable revenue after tax for each disclosure year of the CPP regulatory period.

* + - * 1. For the purpose of subclauses (1)(a) and (1)(b), the CPP applicant must -

apply an X factor; and

state the value of the X factor.

* + - * 1. For the purpose of subclause (2) the X factor is that defined in the CPP applicant's DPP determination, subject to subclause (4).
        2. For the purpose of subclause (3), a different X factor or factors may be used, provided that the CPP proposal contains an explanation and supporting evidence as to why that would better meet the purpose of Part 4 of the Act.
        3. All calculations and values required by this clause must be presented in a spreadsheet format which clearly demonstrates how maximum allowable revenue before tax and maximum allowable revenue after tax for each disclosure year of the CPP regulatory period have been derived from building blocks allowable revenue after tax and the variables in clause 5.4.7.
        4. For the purpose of subclause (5), the spreadsheet must be provided in a format that-

shows clearly how the values required by subclause (1) were derived in accordance with the formulae specified in clauses 5.3.2 to 5.3.4; and

where data has been computed or derived from other values on the spreadsheet through the use of formulae, makes the underlying formulae accessible.

* + 1. Cost allocation information
       1. Cost allocation information
          1. Where a CPP applicant-

makes allocations of operating costs not directly attributable pursuant to clause 5.3.5(1); or

determines opening RAB values pursuant to clause 5.3.6(1)(b)(ii),

the CPP proposal must contain the information specified in subclause (2).

* + - * 1. For the purpose of subclause (1), the information is that specified in the applicable tables in Schedule B, subject to subclause (4), which tables comprise-

*Table 1: Allocation of asset values*;

*Table 2: Report supporting allocations of asset values (non-public)*;

*Table 3: Allocation of operating costs*;

*Table 4: Report supporting allocation of operating costs (non-public)*; and

*Table 5: Rationale for selecting proxy allocator*.

* + - * 1. Subject to subclause (7), in respect of-

operating costs not directly attributable allocated to electricity distribution services in accordance with clause 5.3.5(2); or

closing RAB values determined in accordance with clause 5.3.6(4),

the CPP proposal must contain the information specified in Schedule C, subject to subclause (4), which tables comprise-

*Table 1: Revised allocation of regulated asset values*;

*Table 2: Report supporting revised allocations of asset values (non-public)*;

*Table 3: Revised allocation of operating costs*; and

*Table 4: Report supporting revised allocation of operating costs (non-public)*; and

*Table 5: Rationale for selecting proxy allocator*.

* + - * 1. For the purpose of this clause-

the information specified in the tables of the schedules referred to must be provided on spreadsheets;

where data has been computed or derived from other values on the spreadsheet through the use of formulae, all underlying formulae must be accessible;

the information specified in Table 2 and Table 4 of Schedule B and Table 2 and Table 4 of Schedule C may be provided by way of non-public disclosure to the **Commission**; and

the information in Schedule B must be provided-

for the **disclosure year** prior to submitting the **CPP proposal** if it has not been disclosed in accordance with an **ID determination**; and

for the **next period** where a value in units in an **allocator metric** has been changed by at least 5% from the value used in the **disclosure year** referred to in (i).

* + - * 1. Where the **CPP applicant** has used a **proxy cost allocator** to provide the information specified in subclauses (2) or (3), the **CPP applicant** must explain in the **CPP proposal**, for each **proxy cost allocator** used-

why a **causal relationship** cannot be established; and

the rationale for the quantifiable measure used for that **proxy cost allocator**.

* + - * 1. Where the **CPP applicant** has used a **proxy asset allocator** to provide the information specified in subclauses (2) or (3), the **CPP applicant** must explain in the **CPP proposal**, for each **proxy asset allocator** used-

why a **causal relationship** cannot be established; and

the rationale for the quantifiable measure used for that **proxy asset allocator**.

* + - * 1. The information in Schedule C is not required where the value of the assets to be sold as specified in clause 5.3.6(4) is less than 5% of the **unallocated closing RAB value** for the last **disclosure year** of the **assessment period**.
      1. Certification requirements
         1. Where any arm's-length deduction was applied for the purpose of this Section, the CPP proposal must contain certification by no fewer than 2 of the EDB's **director**s in the following terms, where words in bold bear the meanings specified in this determination:

"I, [insert name], director of [insert name of Supplier of services regulated under Part 4 of the Commerce Act] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information [information required by clause 5.4.9(2)] for the purpose of the supplier's CPP proposal, it was appropriate to make the arm's-length deductions the amount and nature of which are detailed in the tables below, namely:

Table 4 of Schedule B / Table 5 of Schedule B / Table 3 of Schedule C / Table 4 of Schedule C [delete as appropriate]."

* + - * 1. Where, in relation to regulated service asset values, OVABAA was applied for the purpose of this clause in accordance with Subpart 3 Section 2, the CPP proposal must contain certification by no fewer than 2 of the EDB's **director**s in respect of its application in the following terms, where words in bold bear the meanings specified in this determination:

"I, [insert name], **director** of [insert name of Supplier of services regulated under Part 4 of the Commerce Act] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information (being information required by clause 5.4.9(2)) for the purpose of the supplier's CPP proposal-

the attached information is accurate;

the OVABAA was applicable in accordance with clause 2.1.2; and

the following unregulated services would be unduly deterred had adjustments to allocations of regulated service asset values ( in accordance with clause 2.1.4) not been made: [list relevant unregulated services]."

* + - * 1. Where, in relation to operating costs provided in a CPP proposal in accordance with subclause 5.4.8(1) and Schedule C, the OVABAA was applied, the CPP proposal must contain certification by no fewer than 2 of the EDB's directors in respect of application of the OVABAA in the following terms:

"I, [insert name], **director** of [insert name of Supplier of services regulated under Part 4 of the Commerce Act] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information (being information required by clause 5.4.9(2)) for the purpose of the supplier's CPP proposal-

the attached information is accurate;

the OVABAA was applicable in accordance with clause 2.1.2; and

the following unregulated services would be unduly deterred had adjustments to allocations of operating costs ( in accordance with clause 2.1.4) not been made: [list relevant unregulated services]."

* + 1. Asset valuation information
       1. RAB roll forward information

For each disclosure year, after the last disclosure made under an **ID determination**, until the last disclosure year of the next period, provide values, in accordance with Subpart 3 Section 2, for the-

total opening RAB value; and

sum of each of the following things:

forecast value of commissioned assets; and

closing RAB values.

* + - 1. Depreciation information
         1. In respect of each disclosure year of the CPP regulatory period, the **CPP applicant** must provide the information specified in this clause.
         2. The sum of **depreciation**

by either **asset category** or each type of asset for which the proposed method of determining depreciation is the standard depreciation method; and

for each type of asset where the proposed method of determining depreciation is an **alternative** depreciation method.

* + - * 1. For each type of asset to which subclause (2)b) applies-

a description of the type of asset;

a description of the proposed depreciation method;

where the proposed asset life is different to the physical asset life, the proposed **asset life** for the type of asset;

where the proposed asset life for the type of asset is different to the physical asset life, the proposed remaining asset life;

forecast depreciation over the asset life for the type of asset, including details of all assumptions made;

forecast depreciation over the asset life for the type of asset determined in accordance with the standard depreciation method;

evidence to demonstrate that the proposed depreciation method including, where applicable, any proposed asset life different to the physical asset life, better meets the purpose of Part 4 of the Act than the standard depreciation method; and

a description of any consultation undertaken with consumers on the proposed depreciation method, including-

the extent of any consumer disagreement; and

the EDB's view in response.

* + - * 1. For each asset or type of asset for which a different physical asset life to the standard physical asset life is proposed-

a description of the assets or types of asset;

to which clauses 2.2.8(1)(c) and 2.2.8(1)(i)(v) apply, an engineer's report addressing the suitability of the proposed physical asset life; and

any other evidence to demonstrate that the requirements of clause 2.2.8 in respect of the particular type of asset are met.

* + - 1. Revaluation information
         1. For each disclosure year, after the last disclosure made under an **ID determination**, until the last disclosure year of the next period, provide the following:

sum of opening RAB values;

forecast CPI for CPP revaluation for the last quarter of the disclosure year;

forecast CPI **for CPP revaluation** for the last quarter of the preceding disclosure year; and

revaluation rate.

* + - 1. Commissioned assets information
         1. For each disclosure year, after the last disclosure made under an **ID determination**, until the last disclosure year of the next period, provide the-

sum of value of commissioned assets; and

sum of forecast value of commissioned assets,

in respect of each of the following groups of assets:

assets-

acquired or intended to be acquired from a related party; or

transferred from a part of the EDB that supplies unregulated services;

assets-

acquired or intended to be acquired from another regulated supplier and used by that regulated supplier in the **supply** of regulated services; or

transferred or intended to be transferred from a part of the EDB that supplies other regulated services;

network spares; and

all other assets having a commissioning date or forecast to have a commissioning date in that period.

* + - * 1. In respect of each value provided in accordance with subclause (1) provide-

all data, information, calculations and assumptions used to derive it from relevant data provided in the capex forecast; and

where capital contributions are taken into account in any value disclosed pursuant to subclause (1)-

the amount of such capital contributions, with respect to asset types and quantities; and

policies relevant to such capital contributions.

* + - * 1. In respect of each asset to which subclause (1)(c) applies, provide—

the name of the relevant person or other part of the EDB, as the case may be; and

where the acquisition was or is intended to be from a related party, a description of the relationship between the EDB and that person.

* + - * 1. In respect of the likely vendor of each asset to which subclause (1)(d) applies, provide—

the name of the vendor;

a description of each asset likely to be acquired from that vendor; and

the forecast closing RAB value of each asset in the vendor's regulatory asset base for the disclosure year in which the acquisition is intended.

* + - 1. Asset disposals information
         1. For each disclosure year, after the last disclosure made under an **ID determination**, until the last disclosure year of the next period, in respect of each of the following groups of assets:

assets likely to be-

sold to a related party; or

transferred to another part of the EDB; and

all other disposed assets,

provide the-

sum of unallocated opening RAB values; and

sum of opening RAB values.

* + - * 1. In respect of each asset to which the values provided pursuant to subclause (1) relate, provide—

the name of the relevant person or other part of the EDB, as the case may be; and

where the disposal is proposed to be to a related party, a description of the relationship between the EDB and that person.

* + - 1. Works under construction information

For each disclosure year, after the last disclosure made under an **ID determination**, until the last disclosure year of the next period, provide-

opening works under construction;

sum of capital expenditure;

sum of value of commissioned assets but only to the extent that values are included in closing RAB values disclosed pursuant to an ID determination;

sum of forecast value of commissioned assets but only to the extent that values are included in the sum of closing RAB values provided pursuant to clause 5.4.11(b)(ii); and

sum of closing works under construction.

* + 1. Tax information
       1. Interpretation

In this section, a term that is not emboldened but is defined for the purpose of a specific clause in Subpart 3 Section 3 bears the same meaning as it does in the clause of Subpart 3 Section 3 in which it is defined.

* + - 1. Period in respect of which tax information to be provided

A CPP proposal must contain the information specified in this section for each disclosure year, after the last disclosure made under an **ID determination**, until the last disclosure year of the next period, in accordance with Subpart 3 Section 3.

* + - 1. Regulatory tax allowance information
         1. forecast regulatory tax allowance and particulars of how it was calculated
         2. other regulated income
         3. sum of discretionary discounts and customer rebates;
         4. notional deductible interest and the cost of debt assumptions relied upon in its calculation
      2. Tax losses information
         1. amount of opening tax losses (if any) and particulars of how it was calculated
         2. information describing the nature and amounts of significant items giving rise to any opening tax losses
         3. information demonstrating that any opening tax losses arose from the supply of electricity distribution services
      3. Permanent differences information
         1. sum of positive permanent differences
         2. sum of negative permanent differences
         3. amounts and nature of items used to determine-

positive permanent differences; and

negative permanent differences

* + - 1. Amortisation of initial differences in asset values information
         1. opening unamortised balance of the initial differences in asset values by asset category
         2. amortisation in respect of the disclosure year
         3. average weighted remaining useful life of the assets relevant to calculation of the initial regulatory tax asset value
      2. Amortisation of revaluations information
         1. unamortised balance of revaluations to date
         2. adjusted depreciation
         3. average weighted remaining useful life of the assets used to determine the amortisation of revaluations
         4. particulars of how the average weighted remaining useful life was calculated
      3. Deferred tax information
         1. opening deferred tax
         2. analysis of temporary differences and other adjustments by nature that give rise to opening deferred tax value
         3. closing deferred tax
         4. reconciliation of opening deferred tax to closing deferred tax by nature of temporary differences and other adjustments
      4. Temporary differences information
         1. description of the methodology and depreciation rates by asset category used to determine the forecast tax depreciation
         2. amounts and nature of other forecast temporary differences
         3. particulars of the calculation of the tax effect of temporary differences showing tax rates used
      5. Regulatory tax asset value information
         1. sum of tax asset values at the start of the disclosure year
         2. sum of regulatory tax asset values at the start of the disclosure year
         3. weighted average remaining tax life of assets employed
         4. tax depreciation methodology employed
         5. particulars of the calculation used to derive the regulatory tax asset values at the start of the disclosure year from the tax asset values at the start of the disclosure year
         6. sum of regulatory tax asset values at the end of the disclosure year
         7. reconciliation between the sum of regulatory tax asset values at the start of the disclosure year in accordance with subclause (2) and the sum of regulatory tax asset values at the end of the disclosure year in accordance with subclause (6) showing the values of capital additions, disposals, tax depreciation and other asset adjustments including cost allocation adjustments.
    1. Cost of capital information
       1. Information regarding WACC and TCSD allowance
          1. A CPP proposal must, subject to subclause (2), identify the **67th percentile** estimate of WACC used for the purpose of clause 5.4.7(1).
          2. For the purpose of subclause (1), the identified **67th percentile** estimate of WACC is the applicable cost of capital specified in clause 5.3.22.
          3. Where a term credit spread differential allowance is proposed, a CPP proposal must contain all data, information, calculations, and assumptions used to determine any proposed term credit spread differential.
    2. Expenditure information
       1. Capex, opex, demand and network qualitative information

The information specified in Schedule D must be-

contained in a CPP proposal; and

provided in accordance with the requirements of that schedule.

* + - 1. Capex, opex, demand and network quantitative information
         1. A CPP proposal must contain the information specified in the regulatory templates and that information must be-

in spreadsheet format whereby each item of data is linked between all cells to which it is relevant, irrespective of whether such cells are on the same or different tabs; and

provided in accordance with the instructions specified in clause 5.4.30.

* + - * 1. ‘Regulatory templates’ means the tables included in Schedule E named-

*Table 1: Projects and programmes*;

*Table 2: Capex summary*;

*Table 3:* Opex summary;

*Table 4: Capex projects and programmes*;

*Table 5: Capex by asset categories*;

*Table 6: Opex projects and programmes*;

*Table 7: Non-network opex*;

*Table 8: Aggregate forecast commissioned assets by asset categories*;

*Table 9: Cost escalation factors*; and

*Table 10:* *Network demand forecasts*.

* + - * 1. Where data provided in accordance with subclause (1) has been computed or derived from other amounts or values on the spreadsheet through the use of formulae, the underlying formulae for the cells containing the data must be accessible.
        2. For the purpose of subclause (1), terms used in the regulatory templates must be interpreted in the same way as those terms are defined for the purpose of Schedule D.
      1. Instructions for completion of the regulatory templates
         1. Provide the information specified in *Table 1: Projects and programmes* of the regulatory templates for all projects or programmes that form part of the CPP proposal.
         2. Provide the information specified in *Table 2: Capex summary* of the **regulatory templates** using the information provided in *Table 4: Capex projects and programmes* of the **regulatory templates**, where-

the values in *Table 2: Capex summary* must reconcile with the total values in *Table 4: Capex projects and programmes* and *Table 8: Aggregate forecast commissioned assets by asset categories* of the **regulatory templates**; and

the total forecast value of capex resulting in commissioned assets in Table 2c of Schedule E must reconcile with the total value of commissioned assets in Table 2d of Schedule E.

* + - * 1. Provide the information in *Table 3: Opex summary* of the **regulatory templates** using the information provided in *Table 6: Opex projects and programmes* of the **regulatory templates**.
        2. Provide the information specified in *Table 4: Capex projects and programmes* and *Table 6: Opex projects and programmes* of the regulatory templates for each project and for each programme.
        3. Provide the information specified in *Table 5: Capex by asset categories* of the **regulatory templates**.
        4. Provide the information specified in *Table 7: Non-network opex* of the regulatory templates in respect of **system operation and network support opex** and **business support opex**.
        5. Provide the information specified in *Table 8: Aggregate forecast commissioned assets by asset categories* of the **regulatory templates**.
        6. Provide the information specified in *Table 9: Cost escalation factors* of the regulatory templates for each of the cost escalators used to convert real prices to nominal prices.
        7. Provide the information specified in *Table 10: Network demand forecasts* of the **regulatory templates**.
        8. For the purpose of specifying the relevant capex category or opex category in accordance with subclause (4), where expenditure within each project or programme is relevant to more than one capex category or opex category-

select the capex category or opex category that is most relevant based on the nature of the expenditure; or

redefine the project or programme into two or more new projects or programmes and reallocate the expenditure so as to resolve the overlap.

* + 1. Information relevant to prices
       1. Information on proposed new pass-through costs

A CPP proposal must contain details of any cost not specified in clause 3.1.2(2) that is sought to be specified as a new pass-through cost in accordance with clause 3.1.2(1)(b), including information on-

how the cost is likely to arise;

who the cost would be payable to;

how the cost would be calculated;

any good or service the EDB would receive in exchange; and

how the cost meets the criteria specified in clause 3.1.2(3).

* + - 1. Information on proposed recoverable costs relating to costs of making CPP application

Where a CPP applicant seeks specification in the CPP determination of a recoverable cost to which clause 3.1.3(1)(j), 3.1.3(1)(k), or 3.1.3(1)(l) applies, it must provide, in relation to each auditor, verifier or engineer who was engaged to provide an opinion on some aspect of the CPP proposal in accordance with a requirement of this Part-

any document making a public or limited circulation request for proposals to carry out the work;

the terms of reference for the work;

invoices for services undertaken in respect of the work; and

receipts for payment by the CPP applicant.

* + 1. Information relevant to alternative methodologies
       1. Demonstration that alternative methodologies have equivalent effect
          1. Where a **CPP applicant** applies alternative methodologies in accordance with clause 5.3.26, it must provide:

a list and description of each alternative methodology applied;

an indication, at the relevant locations within the **CPP application**, as to where the alternative methodologies have been applied;

reasons why each of the alternative methodologies have been applied; and

evidence demonstrating that each alternative methodology complies with clause 5.3.26(3).

* + - * 1. Paragraph (1)(d) may be satisfied by submitting a certificate signed by an senior manager of the **CPP applicant** setting out the factual basis on which he or she believes each alternative methodology complies with clause 5.3.26(3).
  1. Consumer consultation, verification, audit and certification
     + 1. Consumer consultation
          1. By no later than 40 working days prior to submission of the CPP proposal, the CPP applicant must have adequately notified its consumers-

that it intends to make a CPP proposal;

of the expected effect on the revenue and quality of its electricity distribution services were the Commission to determine a CPP entirely in accordance with the intended CPP proposal;

of the price versus quality trade-offs made in the expenditure alternatives considered in the intended **CPP proposal**,where these are directly associated with the rationale for seeking the **CPP proposal**, which are required to be disclosed under clause 5.4.2;

if it intends to propose to include a quality standard variation under clause 5.4.5, why the proposed quality standard variation has been chosen over alternative quality standards;

where and how further information in respect of the intended CPP proposal may be obtained;

of the process for making submissions to the EDB in respect of the intended CPP proposal; and

of their opportunity to participate in the consultation process required of the Commission by s 53T of the Act after any CPP proposal is received and considered compliant by the Commission.

* + - * 1. For the purpose of subclause (1)(e), where further information is available in hard copy only, the applicant must have ensured that any further information was readily available for inspection at the stated location.
        2. For the purpose of subclause (1), the CPP applicant must-

provide all relevant information;

provide information in a manner that promotes consumer engagement;

make best endeavours to express information clearly, including by use of plain language and the avoidance of jargon; and

provide consumers with (or notified them where to obtain) the information through a medium or media appropriate to the natures of the consumer base.

Examples:

by placing the information on the EDB's website;

by providing the information to groups or organisations that represent the consumers’ relevant interests;

by including the information in consumers' or electricity retailers’ bills; and/or

by placing advertisements in local newspapers.

* + - 1. Verification
         1. A CPP proposal must be verified by a verifier.
         2. The verifier must be engaged in accordance with Schedule F.
         3. The CPP applicant must provide the verifier with-

the materials-

required by the verifier to verify the CPP proposal in accordance with the terms of his, her or its engagement and Schedule G; and

that it intends to submit to the Commission as a CPP proposal;

subject to paragraph (c), the materials referred to in paragraph (a) prior to the verifier commencing verification in accordance with Schedule G;

upon the **verifier’s** request, the information described in clause D10 pertaining to **identified programmes** after the verifier has notified the CPP applicant of its selection of **identified programmes**;

any information requested by the verifier pursuant to the verifier's right to ask for such information pursuant to his, her or its deed of engagement, as specified in clause F6(2)(d); and

in advance of the **verifier’s** selection of **identified programmes**, summary information on the forecast **projects** and **programmes**, in the format specified in *Table 1: Projects and programmes* of the **regulatory templates**.

* + - 1. Audit and assurance
         1. A CPP application must include a report by an auditor that states whether or not:

as far as appears from an examination of them, proper records to enable the compilation of information required by Subpart 4 have been kept by the CPP applicant;

in the case of actual financial information relating to the current period, that information has been prepared in all material respects in accordance with the input methodologies set out in this determination, and that it has been audited in accordance with applicable auditing standards issued by the External Reporting Board in accordance with its functions under the Financial Reporting Act 2013 or any equivalent standards that replace these standards;

in the case of forecast financial information relating to the next period, that information has been compiled in all material respects in accordance with the input methodologies set out in this determination, and that it has been examined in accordance with applicable assurance engagement standards issued by the External Reporting Board in accordance with its functions under the Financial Reporting Act 2013 or any equivalent standards that replace these standards or other appropriate standards;

in the case of quantitative historical information provided in spreadsheets, the information is properly compiled on the basis of the relevant underlying source information; and

in the case of quantitative forecast information provided in spreadsheets, the information is properly compiled on the basis of relevant and reasonable disclosed assumptions.

* + - * 1. For the avoidance of doubt, the **auditor** must provide an opinion as to whether-

in respect of **operating costs** not **directly attributable**, the **opex forecast** was provided by the **CPP applicant** as specified in clause 5.3.5; and

in respect of **regulated service asset values** not **directly attributable**, the **forecast value of commissioned assets** were provided by the **CPP applicant** in accordance with clause 5.3.6(3)(b) and as specified in clause 5.3.11(2)(b).

* + - 1. Certification
         1. In the case of all information of a quantitative nature, other than forecast information, provided in accordance with this Part, no fewer than 2 directors of the CPP applicant must certify in writing his or her belief that-

the information was derived and is provided in accordance with the relevant requirements; and

it properly represents the results of financial or non-financial operations as the case may be.

* + - * 1. In the case of all information of a qualitative nature, other than forecast information, provided in accordance with this Part, no fewer than 2 directors of the CPP applicant must certify in writing his or her belief that-

the information is provided in accordance with the relevant requirements; and

it properly represents the events that occurred during the current period.

* + - * 1. In the case of all forecast information provided in accordance with this Part, no fewer than 2 directors of the CPP applicant must certify in writing his or her belief that-

the information was derived and is provided in accordance with the relevant requirements; and

the assumptions made are reasonable.

* + - * 1. No fewer than 2 directors of the CPP applicant must certify in writing-

that, to the best of his or her knowledge, the verifier was engaged by the CPP applicant in accordance with Schedule F;

that, to the best of his or her knowledge, the CPP applicant provided the verifier with all the information specified in Part 5, including its schedules, relevant to Schedule F;

that, to the best of his or her knowledge, the information described in clause 5.5.2(3)(e) was provided to the verifier in advance of the verifier's selection of **identified** programmes;

a description of any information not provided to the verifier following the **verifier's** request;

reasons, which, in his or her opinion, justified any non-provision of such information;

that, to the best of his or her knowledge, the-

matters the auditor was engaged to audit included the matters specified in clause 5.5.3; and

auditor was instructed to report on at least the matters described in clause 5.1.4; and

that the-

audit report provided pursuant to clause 5.1.4;

verification report; and

other certifications required by this clause,

all relate to the same CPP proposal.

* + - * 1. Where-

a director has certified a matter of opinion in accordance with this clause; and

his or her opinion has changed before the Commission's determination of the CPP in question,

that director must notify the Commission as soon as reasonably practicable.

* + - * 1. Where-

a director has certified a matter of fact in accordance with this clause; and

before the Commission's determination of the CPP in question he or she-

becomes aware that the fact is untrue; or

has significant cause to doubt the accuracy of that fact,

that director must notify the Commission as soon as reasonably practicable.

* + - * 1. For the avoidance of doubt, the certifications required by the different subclauses of this clause may be made by the same or different directors.
  1. Catastrophic events and reconsideration of a customised price-quality path
     + 1. Catastrophic event

Catastrophic event means an event-

beyond the reasonable control of the EDB;

in relation to which expenditure-

was neither sought in a CPP proposal; nor

is explicitly or implicitly provided for in the DPP or CPP,

as the case may be;

that could not have been reasonably foreseen at the time the CPP or DPP was determined; and

in respect of which-

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

remediation requires either or both of capital expenditure or operating expenditure during the regulatory period;

the full remediation costs are not provided for in the DPP or CPP; and

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 CPP 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 CPP in which the cost was or will be incurred.

* + - 1. Change event

Change event means-

change in a; or

a new,

legislative or regulatory requirement applying to an EDB subject to a CPP the effect of which-

must take place during the current regulatory period;

is not explicitly or implicitly provided for in the CPP; and

either-

necessitates incurring additional reasonable costs in responding to the change or new requirement that has had or will have an impact on the price path of the **disclosure years** of the **CPP regulatory period** in which the change or new requirement applies of at least 1% of the aggregate amount of the **forecast net allowable revenue** for the **disclosure years** in which the net costs are or will be incurred; or

causes an **input methodology** to become incapable of being applied.

* + - 1. Error event
         1. ‘Error event’ means, subject to subclause (2), a clearly unintended circumstance identified by the **Commission** where the **CPP** was determined or amended based on an error, including where:

incorrect data was used in setting the price path or the quality standard; or

data was incorrectly applied in setting the price path or quality standards.

* + - * 1. For the purposes of subclause (1), an error relating to-

the price path will not constitute an **error event** unless the error has an impact on the price path of an amount equivalent to at least 1% of the aggregate **forecast net allowable revenue** for the affected **disclosure years** of the **CPP**; and

the metrics by which quality standards or quality incentive measures are specified in the **CPP** will not constitute an **error event** unless it is an error in the value of the metric.

* + - 1. Major transaction

‘Major transaction’ means a transaction, whether contingent or not, where **consumers** are acquired or no longer **supplied** by the **EDB** and that transaction-

has resulted in, or will result in, the acquisition of, or an agreement to acquire, assets with a value which is equivalent to more than 10% of the **EDB’s opening RAB value** in the **disclosure year** of acquisition;

has resulted in, or will result in, the disposal of, or an agreement to dispose of, assets of the **EDB** with a value of more than 10% of the **opening RAB value** in the **disclosure year** of disposal;

has, or is likely to have, the effect of the **EDB** acquiring rights or interests with a value which is equivalent to more than 10% of the **opening RAB value** in the **disclosure year** of acquisition; or

has, or is likely to have, the effect of the **EDB** incurring obligations or liabilities or contingent liabilities, excluding loans or borrowing costs in respect of assets, with a value which is equivalent to more than 10% of the **opening RAB value** in the **disclosure year** of incurring the obligation.

* + - 1. Contingent projects
         1. A contingent project is a project that has been listed as a 'contingent project' with an associated trigger event in a CPP determination.
         2. For the purpose of subclause (1), a project may only be so listed if it is a project-

that the Commission considers-

is reasonably required of an EDB; and

is one whose associated assets are likely to be commissioned,

during the CPP regulatory period;

for which a commencement date cannot be forecast with an appropriate degree of specificity by comparison with other proposed projects; and

in respect of which the Commission considers that its required capex and opex-

as disclosed in a CPP proposal exceeds 10% of the value of the EDB's annual revenue in the most recently completed disclosure year in respect of an ID determination; and

would be likely, when forecast with reasonable certainty, to meet the expenditure objective.

* + - * 1. ‘Trigger event’ means, subject to subclause (4), a condition or event that would reasonably cause an EDB to incur forecast **opex** or forecast **capex** of the nature and extent required by an associated contingent project.
        2. For the purpose of subclause (3), the condition or event must-

not be within the control of the EDB;

be capable of being-

specifically defined; and

objectively verified as having occurred; and

be something the occurrence of which the Commission considers is probable during the CPP regulatory period.

* + - * 1. For the avoidance of doubt, the Commission has discretion as to-

whether to list a project that satisfies subclause (2) as a contingent project in a CPP determination; and

the selection and description of trigger events.

* + - 1. Unforeseen projects
         1. ‘Unforeseen project’ means a project or programme, subject to subclause (2), that, in respect of the services supplied by the EDB in question at the time that EDB submitted its CPP proposal, would have been unforeseeable to a prudent EDB.
         2. For the purpose of subclause (1), the total capex forecast and opex forecast of the **projects** or **programmes** proposed to the Commission pursuant to clause 5.6.7(8) must exceed 10% of the value of the EDB’s annual revenue in the most recently completed disclosure year in respect of an ID determination.
      2. When price-quality paths may be reconsidered
         1. The price-quality path may be reconsidered if-

the Commission considers; or

the EDB in question satisfies the Commission, upon application,

that subclauses (2), or (5) applies.

* + - * 1. This subclause applies if-

subject to subclause (3), a catastrophic event has occurred;

a change event has occurred;

there has been an error event;

a **major transaction** has occurred; or

there has been a **WACC change**.

* + - * 1. For the purpose of subclause (2)(a), where the costs to rectify the adverse consequences of the catastrophic event are fully covered by-

the CPP (e.g. through an operational expenditure allowance for self-insurance); or

commercial insurance held by the EDB,

the Commission will only reconsider the quality standards of the CPP.

* + - * 1. For the purpose of subclause (2)(e), a ‘WACC change’ occurs when-

a **67th percentile estimate of WACC** has been determined and published in accordance with clause 4.4.6 for a new **DPP regulatory period**; and

the new **DPP regulatory period** commences within the current **CPP regulatory period**.

* + - * 1. This subclause applies if-

false or misleading information relating to the making or amending of a CPP determination has been knowingly-

provided by an EDB, any of its agents or a verifier to the Commission; or

disclosed pursuant to an ID determination; and

the Commission relied on that information in making a CPP determination.

* + - * 1. The price-quality path may be reconsidered by the Commission if an EDB satisfies it, upon application, that-

a trigger event has occurred and the information set out in subclause (7) has been provided to the **Commission**; or

an unforeseen project-

has commenced and the information set out in subclause (8) has been provided to the Commission; or

is committed during the current CPP regulatory period and the information set out in subclause (8) has been provided to the Commission.

* + - * 1. The Commission need not consider an application under subclause (6)(a) unless the EDB has provided it with-

a written statement from no fewer than 2 of the EDB's directors certifying-

that the trigger event has occurred;

full particulars of the occurrence; and

the date or dates on which it occurred;

detailed cost information relating to proposed expenditure on the contingent project for its duration; and

any other information of relevance to the contingent project required by the Commission.

* + - * 1. The Commission need not consider an application under subclause (6)(b) unless the EDB has provided it with-

information demonstrating that the project or programme is an unforeseen project;

detailed cost information relating to proposed expenditure on the unforeseen project for its duration; and

any other information of relevance to the unforeseen project required by the Commission.

* + - 1. Amending price-quality path after reconsideration
         1. Where, after reconsidering a CPP, the Commission determines that the **CPP** should be amended, the Commission may amend either or both of the price path or the quality standards and quality incentive measures specified in the CPP determination, subject to subclause (3).
         2. In determining the extent of any amendment to the price path, the Commission must take into account the expenditure objective.
         3. The Commission must not amend the-

price path more than is reasonably necessary to take account of the change in costs net of any insurance or compensatory entitlements; and

quality standards or quality incentive measures more than are reasonably necessary to reflect the **Commission’s** decision on a **quality standard variation** or mitigate the effect of-

the catastrophic event;

the change event;

the error event;

the major transaction;

the provision of **false or misleading information**;

the contingent project;

the unforeseen project; or

the WACC change,

as the case may be.

* + - * 1. Where the Commission's reconsideration of the price-quality path was-

triggered by a catastrophic event, in determining the extent of the amendment to the price-quality path, the Commission will consider the extent to which an EDB has demonstrated that it has reviewed its capital expenditure and operating expenditure plans for the remainder of the regulatory period and made such substitutions as is possible without adversely affecting its ability to meet its quality standards;

pursuant to the occurrence of an unforeseen project-

the Commission need not amend the CPP unless the amount of required capex and **opex** determined by the Commission exceeds 10% of the value of the EDB’s annual revenue in the relevant disclosure year for the purpose of clause 5.6.6(2);

any such amendment may not take effect until the disclosure year in which assets constructed as part of the relevant unforeseen project are forecast to be commissioned; and

pursuant to the occurrence of a trigger event, any amendment to the CPP may not take effect until the disclosure year in which assets constructed as part of the relevant contingent project are forecast to be commissioned.

* + - * 1. Where the **Commission's** reconsideration of the price-quality path was triggered by a **WACC change**, the **Commission** will for the remaining **disclosure years** of the **CPP regulatory period** after the **WACC change**:

determine the series of **maximum allowable revenue after tax** in accordance with clause 5.3.4(7) and determine any consequential changes to the **forecast net allowable revenue** for the remaining **disclosure years** of the **CPP regulatory period**; and

for the purpose of (a), use-

the **building blocks allowable revenue before tax** calculated in accordance with clause 5.3.2(1);

the revised **WACC** in clause 5.3.22(2), including where the **WACC** is used for present value calculations, and for timing factors in clause 5.3.2(4);

the **forecast CPI** **for DPP revaluation** for the new **DPP regulatory period** referred to in clause 5.6.7(4)(b), to calculate a revised **revaluation rate** in accordance with the method in clause 5.3.10(4);

the **cost of debt** for the new **DPP regulatory period** referred to in clause 5.6.7(4)(b), to calculate a revised notional deductible interest as specified in clause 5.3.16(2);

subject to (ii) to (iv), the same input values as applied by the **Commission** in initially determining the **CPP** for all other input values in the calculation of **building blocks allowable** **revenue before tax**; and

a revised forecast regulatory taxable income to apply the changes in **building blocks allowable revenue before tax** resulting from (i) to (iii) in a revised forecast regulatory tax allowance.

|  |
| --- |
|  |

1. STANDARD PHYSICAL ASSET LIVES

**Table A.1: Standard Physical Asset Lives for EDBs**

| **TYPE OF ASSET** | **STANDARD** PHYSICAL **ASSET LIFE (YEARS)** |
| --- | --- |
| SUBTRANSMISSION | |
| 66kV, 50kV and 33 kV Lines: | |
| Concrete pole | 60 |
| Wood pole | 45 |
|  | |
| 66kV, 50kV and 33 kV Cables: | |
| XLPE installed prior to 1985 | 45 |
| XLPE installed in or after 1985 | 55 |
| PILC | 70 |
| Gas cables | 70 |
| Fluid-filled cables | 60 |
| Pilot / Communications Circuits | 45 |
| Sub-transmission Isolation | 35 |
| Sub-transmission Surge Arresters (3 phase set) | 35 |
| ZONE SUBSTATIONS | |
| Land | - |
| Site Development and Buildings | 70 |
| Transformers | 45 |
| 66/50/33/22/11 kV Indoor Switchgear Cubicle | 45 |
| 66/50/33 kV Bus Section/Coupler Indoor Switchgear | 45 |
| 66/50/33/22/11 kV Outdoor Circuit Breakers | 40 |
| Outdoor Switchgear | 40 |
| Circuit/Transformer/Feeder/Bus Section/Coupler Protection & Controls - Analog/Electromechanical | 40 |
| Circuit/Transformer/Feeder/Bus Section/Coupler Protection & Controls - Digital | 20 |
| Outdoor Structure (if not included in category above): | |
| Concrete pole | 60 |
| Wood pole | 45 |
| Ripple Injection Plant | 20 |
| DC Supplies, Batteries and Inverters | 20 |
| Other Items | 40 |
| DISTRIBUTION LINES | |
| 22/11 kV O/H, single phase or SWER lines: | |
| Concrete pole | 60 |
| Wood pole | 45 |
| DISTRIBUTION CABLES | |
| 22/11 kV Cables: | |
| XLPE installed prior to 1985 | 45 |
| XLPE installed in or after 1985 | 55 |
| PILC | 70 |
| DISTRIBUTION SWITCHGEAR | |
| 22 / 11 kV Disconnector 3ph, 2ph (Excl Pole) | 35 |
| 22 / 11 kV Load Break Switch (Excl Pole) | 35 |
| 22 / 11 kV Dropout Fuse 3ph, 2ph (Excl Pole) | 35 |
| 22 / 11 kV Sectionaliser (Excl Pole) | 40 |
| 22 / 11 kV Recloser (Excl Pole) | 40 |
| Voltage Regulator | 55 |
| Ring Main Unit – 3 Way | 40 |
| Extra Oil Switch | 40 |
| Extra Fuse Switch | 40 |
| DISTRIBUTION TRANSFORMERS | |
| Pole Mounted Single/Two Phase, 22/0.4 and 11/0.4 kV, Bushing Terminations (up to and including 100 kVA) | 45 |
| Pole Mounted, Three Phase, Bushing Terminations 22 / 0.4 kV and 11 / 0.4 kV (up to and including 500 kVA) | 45 |
| Ground Mounted, 22/0.4 and 11/0.4 kV, Cable Entry (100 kVA to 1,500 kVA) | 45 |
| DISTRIBUTION SUBSTATIONS | 45 |
| LV LINES | |
| Concrete pole | 60 |
| Wood pole | 45 |
| LV CABLES | |
| XLPE or PVC installed prior to 1985 | 45 |
| XLPE or PVC installed in or after 1985 | 55 |
| PILC | 70 |
| Link Pillars | 45 |
| LV Overhead / Underground Customer Service Connections | 45 |
| Load Control Relays | 30 |
| OTHER SYSTEM FIXED ASSETS | |
| SCADA and Comms (Central Facilities and / or wider Network Communications Equipment) | 15 |

Table A.2: Asset lives for CPP commissioned assets

|  |  |
| --- | --- |
| **Asset category** | **Asset life for CPP commissioned asset** |
| 1. Subtransmission lines | 55 |
| 1. Subtransmission cables | 55 |
| 1. Zone substations | 45 |
| 1. Distribution and LV lines | 60 |
| 1. Distribution and LV cables | 55 |
| 1. Distribution substations and transformers | 45 |
| 1. Distribution switchgear | 40 |
| 1. Other network assets | 25 |
| 1. Non-network assets | 15 |

1. COST ALLOCATION INFORMATION

Table 1: Allocation of asset values



Table 2: Report supporting allocations of asset values (non-public)



Table 3: Allocation of operating costs



Table 4: Report supporting allocation of operating costs (non-public)



Table 5: Rationale for selecting proxy allocator



1. COST ALLOCATION INFORMATION

Table 1: Revised allocation of regulated asset values



Table 2: Report supporting revised allocations of asset values (non-public)



Table 3: Revised allocation of operating costs

Table 4: Report supporting revised allocation of operating costs (non-public)



Table 5: Rationale for selecting proxy allocator



1. CAPITAL AND OPERATING EXPENDITURE INFORMATION
   * + 1. Interpretation

In this schedule and in Schedules E-G, words in bold type bear the following meanings:

actual capex means the capex incurred during the current period;

actual opex means the opex incurred during the current period;

asset management plan means an asset management plan included in the **CPP proposa**l and prepared in accordance with the requirements of the most recent **ID determination**, where the first year of the planning period to which the asset management planrelates is the final year of the **assessment period**;

asset relocations capex means expenditure on assets where the **primary driver** is the need to relocate assets due to third party requests such as for the purpose of allowing road widening or similar needs. This includes expenditure on assets relating to the undergrounding of previously above ground assets at the request of a third party;

asset replacement and renewal capex or asset replacement and renewal opex means **capex** or **opex** where the **primary driver** is the need to maintain network asset integrity so as to maintain current security and/or quality of supply standards and includes expenditure to replace or renew assets incurred as a result of-

1. the progressive physical deterioration of the condition of **network** assets or their immediate surrounds;
2. the **network** assets becoming obsolete;
3. preventative replacement **programmes**, consistent with asset lifecycle management **policies**; or
4. the need to ensure the ongoing physical security of the **network** assets;

budget means an expenditure forecast that has been prepared for a purpose other than for inclusion in a CPP proposal;

business support opex means opex associated with the following corporate activities-

1. human resources and training (other than operational training);
2. finance and regulation including compliance activities, valuations and auditing;
3. chief executive and director costs;
4. legal services;
5. consulting services (excluding engineering/technical consulting);
6. property management;
7. corporate communications;
8. corporate information technology;
9. industry liaison and participation;
10. commercial activities including pricing, billing, revenue collection and marketing; and
11. liaison with Transpower, **consumers** and electricity retailers;

capex category means one of the categories in the following list which comprises, for the purpose of a CPP proposal, a classification of the types of capex that EDBs make when providing electricity distribution services to consumers and capex categories means all of the following categories:

consumer connection capex;

system growth capex;

reliability, safety and environment capex;

asset replacement and renewal capex;

asset relocations capex; and

non-system fixed assets capex;

consumer connection capex means **capex** where the **primary driver** is the establishment of a new **consumer** connection point, or alterations to an existing **consumer** connection point. This includes expenditure relating to-

1. parts of the network for which theexpenditureis recoverable in total, or in part, by a capital contribution from the consumer requesting the new or altered connection point; and
2. both electricity injection and offtake points of connection;

deliverability means the extent to which the activities to which the capex forecast and opex forecast relate are likely to be undertaken by the EDB during the next period with reference to the EDB’s ability to-

source and secure physical resources (such as appropriately skilled personnel and materials) and planning consents from external authorities; and

prioritise, manage and undertake the work involved, including the ability to implement any planned step change from historical levels of investment and workload;

document means correspondence, notices, circulars, memoranda, minutes, reports, policies, contracts or agreements in the possession or control of the EDB, whether in electronic or paper format;

key assumptions means assumptions made by an EDB in the preparation of its proposal that have a material impact on the **opex forecast** or the **capex forecast**;

non-system fixed assets capex means capex incurred in relation to assets not directly related to the network used in the supply of electricity distribution services, including in relation to-

information and technology systems;

asset management systems;

office buildings, depots and workshops;

office furniture and equipment;

motor vehicles; and

tools, plant, and machinery;

obligation means a legally enforceable duty owed by an EDB, whether arising under legislation, at common law or in contract, but excludes a contractual obligation commencing after this determination takes effect;

opex category means one of the categories in the following list which comprises, for the purpose of a CPP proposal, a classification of the types of opex that EDBs make when providing electricity distribution services to consumers, and opex categories means all of the following categories:

business support opex;

system operations and network support opex;

routine and corrective maintenance and inspection opex;

vegetation management opex;

asset replacement and renewal opex; and

service interruptions and emergencies opex;

other opex means opex that is not captured by the other opex categories;

planning standards means policies adopted by the EDB which relate to the planning of the network and the forecasting of capex and opex for that purpose, including in relation to-

long term network development;

network maintenance; and

system operations;

policies means documented short-term and long-term policies, procedures, strategies, guidelines and plans used to prepare the **CPP proposal**;

primary driver means the primary reason for a decision to incur a cost in the year the cost was incurred or forecast to be incurred;

reliability, safety and environment capex means capex predominantly associated with-

the improvement of reliability or service standards;

maintaining or improving the safety of the network for consumers, employees and the public;

meeting legislative requirements; or

reducing the impact of the network on the environment;

routine and corrective maintenance and inspection opex means opex where the **primary driver** is the activities specified in planned or programmed inspection, testing and maintenance work schedules and includes-

fault rectification work that is undertaken at a time or date subsequent to any initial fault response and restoration activities;

routine inspection;

functional and intrusive testing of assets, plant and equipment including critical spares and equipment;

helicopter, vehicle and foot patrols, including negotiation of landowner access;

asset surveys;

environmental response;

painting of **network** assets;

outdoor and indoor maintenance of substations, including weed and vegetation clearance, lawn mowing and fencing;

maintenance of access tracks, including associated security structures and weed and vegetation clearance;

customer-driven maintenance; and

notices issued;

**service interruptions and emergencies opex** means **opex** where the **primary driver** is an unplanned instantaneous event or incident that impairs the normal operation of **network** assets. This relates to reactive work (either temporary or permanent) undertaken in the immediate or short-term in response to an unplanned event, including-

back-up assistance required to restore supply;

repair leaks or make safe;

operational support such as mobile generation used during the outage or emergency response; and

includes any necessary response to events arising in the transmission system;

service level means the magnitude of a service measure;

service measure means an objectively measurable characteristic or feature of a level of performance being delivered;

system fixed assets means all fixed assets owned, provided, maintained, or operated by an EDB that are directly related to the network and used, or intended to be used, for the **supply** of electricity distribution services;

system growth capex means capex other than **consumer connection capex**, where the **primary driver** is either a requirement for additional capacity at a particular location or a change in the requirement for **electricity distribution services** as a result of the introduction of new or emerging technologies. It includes expenditure associated with network protection, control, automation, and telecommunications assets and also includes expenditure on the acquisition of **networks** from other providers of **electricity lines services**;

system operations and network support opex means opex where the primary driver is the management of the network and includes expenditure relating to control centre and office-base system operations, including-

asset management planning including the preparation of the **asset management plan**, load forecasting and **network** modelling;

**network** and engineering design (excluding design costs capitalised for **capex projects**);

**network** policy development (including the development of environmental, technical and engineering policies;

standards and manuals for **network** management;

**network** record keeping and asset management databases including geographic information systems;

outage recording;

connection and **consumer** records/**consumer** management databases (including distributed generators);

stakeholder queries and call centres (not associated with billing);

operational training for **network** management and field staff;

operational vehicles and transport;

information technology and telecommunications for **network** management (including information technology support for asset management systems);

day to day **consumer** management including responding to queries on new connections, disconnections, reconnections and distributed generators;

engineering and technical consulting;

**network** planning and system studies;

logistics (procurement) and stores; and

network asset site expenses and leases;

vegetation management opex means **opex** where the **primary driver** is the need to physically fell, remove or trim vegetation (including root management) that is in the proximity of overhead lines or cables. It includes **opex** arising from the following activities-

inspection of affected lines or cables where the inspection is substantially or wholly directed to vegetation management (e.g., as part of a vegetation management contract). It includes pre-trim inspections as well as inspections of vegetation cut for the primary purpose of ensuring the work has been undertaken in an appropriate manner;

liaison with landowners including the issue of trim/cut notices, and follow-up calls on notices; and

tree felling or trimming of vegetation to meet externally imposed requirements or internal policy, including operational support such as any mobile generation used during the activity;

The following activities and related costs are excluded from this category-

general inspection of assets subject to vegetation, where this is not substantially directed to vegetation management (included in **routine and corrective maintenance and inspection opex**);

costs of assessing and reviewing the vegetation management policy;

data collection; and

the cost of managing a vegetation management contract;

* + - 1. Instructions relating to provision of information
         1. A CPP proposal must-

include all information required in-

Attachment A of the **ID determination** or any successor to that Attachment A, except where limited by subclause (5); and

this schedule;

unless the **Commission** has approved a modification or exemption from the **CPP application** requirements under clause 5.1.6 and has included the relevant information related to the exemption or modification as set out in clause 5.1.8;

contain a table that, in respect of each clause of this schedule-

provides a reference to the place where, in the CPP proposal, a response is provided; and

gives the title and page reference to any separate document identified in response, including in the case where the document in question is provided in the CPP proposal.

* + - * 1. Where information provided in accordance with these requirements differs from the most recent information provided by the EDB to the Commission in accordance with any obligation under Part 4 of the Act, a CPP proposal must-

identify the differences; and

give reasons for such differences.

* + - * 1. Where information required by this schedule is omitted from a CPP proposal, the CPP proposal must contain an explanation for each such omission.
        2. A CPP applicant may comply with subclause (1) by-

reproducing and providing its asset management plan with the additional material required by this schedule included; or

providing the information required by this schedule separately from its **asset management plan**.

* + - * 1. For the purpose of subclause 3.4 of Attachment A of the **ID determination**, additional information required to be included in the **CPP proposal** need only apply to the-

**current period**;

**assessment period**; and

**next period**.

* + - * 1. Detailed information described in clause D10 in relation to **identified programmes**-

need only be provided to the verifier upon the verifier's request; and

where provided under (a), must be included in the CPP proposal as provided to the **Commission** in the **CPP application**.

* + - 1. Governance, organisation structure and business processes
         1. In addition to the information required by clause 3.7 of Attachment A of the **ID determination**, provide-

the current organisational structure of the **EDB** and a description of any separate organisation used to manage **capex** and **opex**;

the number of full time equivalent employees, employed by the applicant, broken down by business units;

an explanation of the arrangements for undertaking system operations and network support activities, and the extent that these functions are centralised and outsourced;

where any cost is shared with organisational activities that do not involve providing regulated **electricity distribution services**, the basis on which these costs have been allocated and included in the forecast; and

a description of any anticipated changes during the **next period** to the organisational structure.

* + - * 1. In addition to the information required by clause 3.12 of Attachment A of the **ID determination-**

provide a commentary on the sources of asset management information;and

other relevant data that has been relied upon in preparing the forecasts, including-

a description of the quality of this information and data; and

details of any assumptions that have been made to fill any information or data gaps.

* + - * 1. In addition to the information required by clause 3.13 of Attachment A of the **ID determination**, describe the procedures and processes used by the **EDB** to-

plan and develop;

estimate the cost of;

approve;

implement; and

monitor;

the **capex** and **opex** **projects** and **programmes** described in the **CPP proposal**, and develop unit costs.

* + - * 1. In addition to the information required by clause 3.7 of Attachment A of the **ID determination** provide-

an overview of any internal challenge, review and approval process applied before the forecasts were finalised for inclusion in the **CPP proposal**;

a statement as to whether or not the forecast includes provision for efficiency improvements over time and, if so, a description of how this provision is reflected in the forecasts; and

a statement of how the approval process treats the risks on cost estimates and timing of projects due to deviations of forecast assumptions.

* + - 1. Network asset information

In relation to the information required by clause 4 of Attachment A of the **ID determination**-

where information is based on estimates, this must be explicitly stated; and

quantities of assets must be presented in a way that clearly describes the size and scope of regulated assets, but need not include detailed lists or schedules as would be included in a complete asset register or inventory.

* + - 1. Service levels

Where not included in information provided in respect of clause 5 of Attachment A of the **ID determination**, provide-

a description as to how each performance indicator and performance target described in accordance with clause 5 of Attachment A of the **ID determination**-

relates to the EDB’s relevant policies; and

reflects the **expenditure objective**;

for each performance indicator identified and defined in accordance with subclause (a):

the measured performance for each year of the **current period**; and

the target performance for each year of the **next period**;

a comparison and evaluation of each actual service level achieved for the disclosure years in the current period against each relevant performance target, including explanations for all significant variances.

* + - 1. Network development planning
         1. The description of network development plans required in clause 11 of Attachment A of the **ID determination** must include the additional information specified in this clause.
         2. For **system growth capex**, **consumer connection capex**, asset **relocation capex** and **reliability, safety and environment capex**-

identify all relevant documents, policies and consultants’ reports that were taken into account in preparing these capex forecasts; and

where appropriate, identify their relevance to each category of **capex**.

* + - * 1. In addition to the information required by clauses 11.1-11.6 of Attachment A of the **ID determination**, provide the rationale for the planning criteria and other key drivers and assumptions for network development for **system growth capex**, **consumer connection capex, asset relocation capex** and **reliability, safety and environment capex**.
        2. In addition to the information required by clause 11.7 of Attachment A of the **ID determination**, provide the rationale for the prioritisation process and criteria.
        3. In addition to the information on demand forecasts required by clause 11.8 of Attachment A of the **ID determination**-

describe and explain the methodology used to prepare the relevant forecasts, including-

any sensitivity analysis undertaken;

any weather normalisation methodology used and how weather data has been used; and

the models used (including each model’s key inputs and assumptions); and

provide-

an outline of the treatment of very large loads, uncertain loads and significant loads transferred, or expected to be transferred, between different parts of the network (e.g. between zone substations and/or between feeders);

details of the location, types and aggregate levels of any distributed generation and assumptions relating to the impact they may have on network forecasts; and

details of the effect that any demand management systems or initiatives and any other new or emerging technologies may have on the network forecasts and the extent that they have been included in the forecasts in the **CPP proposal**.

* + - * 1. For the forecasts of **consumer** connections, embedded generation and electricity volumes provided in the relevant templates in Schedule E-

describe and explain the methodology used to prepare the relevant forecasts including-

any sensitivity analysis undertaken;

any weather normalisation methodology used and how weather data has been used; and

the models used (including each model’s key inputs and assumptions);

* + - * 1. In addition to the information required by clause 11.9 of Attachment A of the **ID determination**, provide-

for **system growth capex**,a description of, and the rationale for, the **planning standards**, and **key assumptions** relied on by the **EDB** in determining the need to augment its network;

for **reliability, safety and environment capex**,a description of any models developed by or for the **EDB** to determine the **reliability, safety and environment capex** including the rationale for all key input assumptions; and

for **consumer connection capex** and **asset relocation capex**-

**key assumptions** and a list of **policies** relevant to apportioning costs, where costs are not fully recovered from a **capital contribution**;

the rationale and basis for determining the forecast amount, including a description of any modelling used; and

provide this information separately for **consumer connection capex** and for **asset relocation capex**.

* + - * 1. In addition to the information required in clause 11.10 of Attachment A of the **ID determination**, for each **system growth capex project** and **programme** included in the **capex forecast** provide**-**

a description of the **project** or **programme**, including the assumed number and ratings of significant new assets and, where appropriate, a single-line diagram showing how it is assumed that the assets will be integrated into the existing network;

the estimated cost of the **project** or **programme**, disaggregated by **disclosure year**, including costs already incurred in the **current period**; and

details of the effect any new or emerging technologies may have and the extent that they have been considered.

* + - * 1. In addition to the information required in clause 11.10 of Attachment A of the **ID determination**, for each **reliability, safety and environment capex project** and **programme** included in the **capex forecast** provide**-**

a description of the **project** or **programme** including the assumed number and ratings of significant new assets;

a discussion of **key assumptions** and the rationale for making those assumptions;

a description of models used and key input assumptions and data sources, including a discussion of relevant data systems and any limitations in the data;

an indication of the **project’s** or **programme’s** current status in the planning process; and

the estimated cost of the **project** or **programme**, disaggregated by **disclosure year**, including costs already incurred in the **current period**.

* + - * 1. In addition to the information required in clause 11.10 of Attachment A of the **ID determination**, for any **consumer connection capex** and **asset relocation capex** **project** and **programme**, provide a description and the estimated costs of any specific **project** or **programme** included in the forecast.
        2. In addition to the information required by clause 11.12 of Attachment A of the **ID determination**, and, where not provided in response to subclause (2), identify the **EDB’s** **policies** regarding the application of new or emerging technologies.
      1. Lifecycle asset management planning (maintenance and renewal)
         1. The description of Lifecycle Asset Management Planning required in clause 12 of Attachment A of the **ID determination** must include the additional information specified in this clause.
         2. In addition to information required by clauses 3.13 and 3.14 of Attachment A of the **ID determination**,describe the organisation that the **EDB** uses to manage network maintenance and associated expenditure, including the physical arrangements for undertaking these activities and the extent that these functions are centralised and outsourced.
         3. In addition to the information required by clauses 12.1 and 12.2 of Attachment A of the **ID determination**, for each of **service interruptions and emergencies opex**, **vegetation management opex** and **routine and corrective maintenance and inspection opex** describe the approach used to prepare the expenditure forecast and provide-

details and a rationale for each relevant **key assumption**;

a description of any models used;

a description of any new expenditure or forecast changes to the level of expenditure on existing network **opex** **programmes** over the course of the **next period** that will have a material effect on the network **opex forecast**, including-

the rationale for and timing of these changes;

an assessment of the impact of these changes on the **service levels** provided by the **EDB**; and

the impact of these changes on the **opex forecast**.

* + - * 1. Identify all relevant documents, policies and consultants’ reports that were taken into account in preparing the forecasts of **service interruptions and emergencies opex**, **vegetation management opex** and **routine and corrective maintenance and inspection opex**;
        2. In addition to the information required by clause 12.3 of Attachment A of the **ID determination**,for **asset replacement and renewal capex** and **asset replacement and renewal opex** provide-

a description of the criteria used to determine whether the expenditure is **capex** or **opex**; and

a description of the prioritisation methodology adopted for asset replacement **projects** and **programmes**.

* + - * 1. Identify all relevant documents, policies and consultants’ reports that were taken into account in preparing the forecasts of **asset replacement and renewal capex** or **asset replacement and renewal opex**;
        2. In addition to the information required by subclauses 12.3.3 – 12.3.5 of Attachment A of the **ID determination**, for each **asset replacement and renewal capex** or **asset replacement and renewal opex project** and **programme** provide-

a description of and the rationale for the **projects** and **programmes**;

where relevant, an overview of any network and non-network alternatives considered and the basis for selecting the preferred solution;

an indication of the **project’s** or **programme’s** current status in the planning process;

the actual and forecast expenditure on each **project** or **programme** described in subclause (a) disaggregated by **regulatory year** in both the **current period** and the **next period**; and

a description of the methodology used by the **EDB** to determine the forecast expenditure over the **next period** on the **projects** or **programmes** described in subclause (a) including where applicable-

the **key assumptions** and the rationale for the **key assumptions** and **policies**;

any relevant modelling and the rationale for material model input assumptions; and

a commentary on the source of the unit costs or components of cost, the accuracy of the cost estimates and the treatment of cost uncertainty where there are not explicitly stated elsewhere.

* + - * 1. For an **asset replacement and renewal capex project** provide-

assumed number and ratings of significant new assets; and

a single-line diagram showing how the **project** will be integrated into the existing network for **projects** involving a redesign of asset layout.

* + - * 1. Explain how any anticipated system growth associated with the replacement of assets before the end of their asset life has been taken into account in the **asset replacement and renewal capex** forecast for the **next period**.
      1. Non-system fixed assets capital expenditure information
         1. In addition to the information required by clause 13 of Attachment A of the **ID determination**, for non-network fixed assets **capex** in the **capex forecast** provide the rationale and the basis for determining the forecast amount, including a description of any modelling used for the expenditure in the largest two of the following expenditure categories by dollar value-

asset management systems;

information and technology systems;

motor vehicles;

office buildings, depots and workshops;

office furniture and equipment; and

tools, plant and machinery.

* + - * 1. The information required by subclause (1) need not be provided if the total non-network assets **capex forecast** is less than 5% of the total **capex forecast**.
      1. Business support, system operations and network support operating expenditure
         1. Provide sufficient details of the extent that business supportandsystem operations and network supportcosts have been included in the **capex forecast** for each **disclosure year** of both the **current period** and **next period**.
         2. Identify all relevant documents, **policies** and consultants’ reports that were taken into account in preparing these **opex forecasts**.
         3. Describe any anticipated material changes to the information provided in subclause (1) over the course of the **next period** and discuss-

the rationale for and timing of the changes; and

the impact of the changes on the **opex forecast**.

* + - * 1. Describe the approach used to prepare the relevant **opex forecast** including-

each relevant **key assumption** including the rationale for the assumption;

any models used; and

the rationale for any new expenditure or step change from current levels of expenditure over the **next period**.

* + - * 1. Where appropriate, the information required by this clause should be provided separately for **business support opex** and for **system operations and network support opex**.
      1. Identified programmes
         1. Where not already required to be disclosed by Attachment A of the **ID determination**, for each **identified** **programme** provide-

a description of the **project** or **programme** including-

what the **project** or **programme** will accomplish;

the location of the **project** or, if relevant, the location of the **programme**;

assumed quantities and ratings of major assets, including the rationale for these assumptions;

where relevant, a high-level single-line diagram showing the assumed layout of the project and interfaces with the existing network; and

any other information consistent with the nature of the **project** or **programme** that is necessary to fully describe the scope of the **project** and what is involved in its implementation;

a description of the rationale for the **project** or **programme** including-

the extent that the **project** or **programme** meets the **expenditure objective**; and

the impact of not progressing within the **CPP regulatory period**;

a statement as to the **project’s** or **programme’s** current status in the planning process;

an overview of potential alternatives, including non-network alternatives, and the basis for selecting the preferred option with the information provided to be commensurate with the **project’s** or **programme’s** current status in the planning process;

the rationale for the proposed timing of the **project** or, where relevant, the rational for the proposed timing of the **programme**;

where applicable, an assessment of the impact of the **project** or **programme** on the **service levels** provided by the **EDB**;

if a **programme** is a continuation or extension of an existing **programme**, the rationale for any material changes in the forecast expenditure from the level of expenditure on the **programme** during the **current period**;

a detailed breakdown of the estimate of the **project** or **programme** costs, disaggregated by **disclosure year**, including a similar breakdown of any **project** or **programme** costs incurred during the **current period**;

in addition to the breakdown provided in response to subclause (f)-

a description of the methodology used to prepare the estimate;

where applicable, the quantities provided for in the **project** or **programme** cost; and

identification of scope or cost uncertainties and an explanation of how such uncertainties have been taken into account in the estimate;

details of how the **EDB** proposes to measure and manage the efficiency of the implementation of the **project** or **programme**; and

a description of any cost benefit analyses relevant to the **project** or **programme** undertaken by or for the **EDB**.

* + - 1. Risk management
         1. In addition to the information required by clause 14.3 of Attachment A of the **ID determination**, for any proposed self-insurance allowance-

provide-

a description of the uncertainties covered by the allowance;

the methodology used to calculate the self-insurance risk premium (e.g. probability multiplied by consequence);

a report on the calculation of each self-insurance risk premium from an actuary who is qualified to provide such advice; and

any quotes obtained from external insurers; and

explain why compensation should be provided for the uncertainty.

* + - * 1. In respect of each quote provided in accordance with subclause (1)(a)(iv)-

state-

the amount insured for which the quote related (if not included in the quote itself);

the annual premium payable or paid by the EDB;

the size of any deductible;

the terms and conditions of the insurance; and

why it is not considered suitable.

* + - * 1. Explain whether and, if so, how the costs of remediating the effects of each uncertainty for which the allowance is sought may be recovered through any other mechanism.
      1. Related parties
         1. Identify and describe all **related parties** in respect of whom costs are disclosed for the last **disclosure year** of the **current period**, and relationships with those **related parties**.
         2. Describe, at an aggregate level, the-

nature of the services undertaken by all **related parties** in the last year of the **current period**; and

processes for procuring services undertaken by related parties, or by anticipated related parties, during the last year of the current period and the assessment period.

* + - * 1. For services identified in subclause (2), describe-

whether similar services are expected to be provided by related parties, or by anticipated related parties, during the next period;

whether any additional **services** are expected to be provided by **related parties**, or by anticipated **related parties**, during the **CPP regulatory period**; and

the basis for establishing the **related party** transaction values for the purpose of the **capex forecast** and the **opex forecast**.

* + - * 1. Describe the nature of the contract for any periodic **services**, including the duration of any such contract.
        2. For each **service** identified in accordance with subclause (2), provide an example of-

any tendering process used to procure the **service**;

relevant documents used to tender for the provision of the **service**, including, but not limited to, requests for tender, and tender submissions;

explain-

whether the **service** procured are provided under a discrete contract or provided as part of a broader operational contract (or similar); and

whether the **service** was procured on a genuinely competitive basis and if not, why not; and

methodologies, consultants’ reports, or **key assumptions** used to determine components of the costs included in the contract price.

* + - 1. Deliverability
         1. In addition to clauses 14 and 16 of Attachment A of the **ID determination** provide an overview of, and description of outputs from, any deliverability risk assessment that the **EDB** has completed for part or all of the **capex forecast** and the **opex forecast**.
         2. Where it has not been provided in risk assessment information under subclause (1), provide an overview of the **EDB** plans to ensure the **deliverability** of the activities provided for in the **capex forecast** and the **opex forecast**, with particular reference to-

a description of the prioritisation or other methodologies used to optimise delivery;

how consenting processes are managed to optimise delivery;

the extent that the activities provided for in the **capex forecast** and the **opex forecast** will be undertaken internally or outsourced;

the **EDB’s** ability to implement any planned step change from historical levels of expenditure and workload, including-

the ability of contractors available to the **EDB** to deliver any proposed increase in workload;

the current level of skilled personnel, including engineering and project management personnel, available to the **EDB** compared to the anticipated requirement over the **next period**; and

the measures the **EDB** plans to take to source and secure required additional personnel; and

how the **EDB** aligns resource schedules where shared resources are used for different opex-related and capex-related tasks.

* + - 1. Unit costs and expenditure escalators
         1. Explain the methodologies applied to convert constant price **capex forecast** and **opex forecast** to the nominal price **capex forecast** and **opex forecast**.
         2. Explain why the methodologies applied, each **key assumption**, and the resulting quantum are reasonable.
         3. For each **key assumption**, including unit rates, indexes, weightings, and contingency factors-

identify-

the **key assumption**;

source material from which it was derived; and

the components of expenditure to which it applies; and

explain-

how it has been applied in the **capex forecast** and **opex forecast**;

the quantum of costs in the **capex forecast** and **opex forecast** resulting from the application of the **key assumption**; and

whether, and if so, how the **key assumption** relates to **capex** and **opex** incurred during the **current period**.

* + - 1. Contingent project information
         1. For each proposed **contingent project**-

provide-

an overall description including the aims and objectives of the **project**;

completed **regulatory templates** for **capex** and **opex** **forecasts** using the best available information to hand; and

information as to how the **project** satisfies the criteria specified in clause 5.6.5(2);

propose a **trigger event** and explain how the event meets the requirements of clause 5.6.5(3);

provide-

all relevant documents (including **policies** and consultants’ reports) that were taken into account in preparing the **capex forecast** and **opex** **forecast** for the **contingent project**, including those that relate to its **deliverability**;

each relevant **key assumption**; and

each relevant **obligation**;

explain-

all departures from any conclusions and recommendations contained in each consultant’s report identified in accordance with subclause (c)(i); and

the methodology used to generate the **capex** and **opex** **forecast** for the proposed **contingent project**;

explain for each **policy** identified in response to subclause (c)(i)-

how it was taken into account and complied with; and

how the relevant **planning standards** were incorporated; and

describe for each **key assumption** identified in accordance with subclause (c)(ii)-

the method and information used to develop the assumption; and

how it has been applied and its effect on the **capex** and **opex**.

* + - * 1. Where any proposed **contingent project** is likely to terminate after the end of the **next period**, in addition to the information required by subclause (1), provide any additional information relevant to forecast **capex** and forecast **opex** to the end of the **contingent project**.

1. CAPITAL AND OPERATING EXPENDITURE - REGULATORY TEMPLATES

Table 1: Projects and programmes



Table 2: Capex summary



Table 3: Opex summary



Table 4: Capex projects and programmes



Table 5: Capex by asset categories



Table 6: Opex projects and programmes



Table 7: Non-network opex



Table 8: Aggregate forecast commissioned assets by asset categories



**Table 9: Cost escalation factors**



**Table 10: Network demand forecasts**



1. ENGAGEMENT OF A VERIFIER
   * + 1. Proposing a verifier

Before submitting a CPP proposal, a CPP applicant must, by notice in writing to the Commission-

propose a person (or a selection of persons for the Commission to choose from) to act as a verifier; and

provide the information specified in clauses F2 and F3 in respect of each proposed verifier.

* + - 1. Independence
         1. Reasons why the CPP applicant considers that each proposed verifier is independent.
         2. A written statement signed by the proposed verifier-

confirming that-

his, her or its involvement in the formulation of the CPP proposal has not extended nor will not extend beyond acting in accordance with Schedule G;

he, she or it has not acted nor will not act as an auditor pursuant to clause 5.5.3 in respect of the CPP proposal; and

he, she or it has no direct or indirect pecuniary or other interest in the success or failure of the CPP proposal, including any entitlement to a success fee, contingency fee, or remuneration other than a fee for providing a verification report; and

explaining the extent of any-

ongoing role he, she or it has as auditor of, or advisor to, the CPP applicant, (on matters unrelated to the CPP proposal) including any advisory activities which the verifier may expect to undertake for the CPP applicant during the next period in relation to the CPP applicant’s capex and opex and the existing or expected basis of remuneration for such activities; and

prior or existing relationship (whether professional or otherwise) that he, she or it has had with the CPP applicant during the current period in relation to the CPP applicant’s capex and opex and the basis of remuneration for such activities.

* + - 1. Qualifications and experience
         1. Reasons why the CPP applicant considers that each proposed verifier is sufficiently qualified and experienced to assess and report on the CPP proposal in accordance with the tasks and duties specified in Schedule G.
         2. A written statement signed by each proposed verifier explaining the nature and extent of his, her or its qualifications and experience relevant to assessing and reporting on the CPP proposal in accordance with the tasks and duties specified in Schedule G.
      2. Commission's assessment
         1. The Commission must notify the CPP applicant no later than 10 working days after receiving a notification in accordance with clause F1 as to whether it approves the proposed verifier.
         2. If the Commission does not approve a proposed verifier-

it must provide reasons for this decision; and

the CPP applicant may propose an alternative verifier in accordance with clause F1.

* + - * 1. If the Commission approves a proposed verifier, the CPP applicant may engage that person, as soon as practicable, in accordance with clause F6.
        2. The Commission’s approval of a proposed verifier remains valid until the Commission has completed its assessment of the CPP proposal.
      1. Summary of intended CPP proposal
         1. Before the **verifier** enters into a deed with the **Commission** as described in clauseF6, the **CPP applicant** must provide the **Commission** with a high-level summary of the intended **CPP proposal** (‘Summary of intended CPP proposal’), including-

a high-level description of its rationale for seeking a **CPP** and a brief explanation of the key **projects** or **programmes** that are linked to this rationale;

when it proposes the intended **CPP proposal** to take effect as a **CPP**;

its estimated **capex** forecast and estimated **opex** forecast for the intended **CPP proposal**;

the indicative impact on **prices** of the intended **CPP proposal**;

whether it intends to propose a **quality standard variation** as part of its intended **CPP proposal** and, if so, the indicative impact on quality standards of the intended **quality standard variation**;

how it intends to consult **consumers** on the intended **CPP proposal**; and

any other information it considers would assist the **Commission’s** planning for the **Commission’s** assessment of the intended **CPP proposal**.

* + - * 1. With the agreement of the **Commission**, the requirements in subclause (1) may be satisfied by way of the record of a workshop with the **Commission**.
      1. Engaging the verifier
         1. If the Commission approves a proposed verifier, the approved person may not undertake any service in relation to the CPP applicant's CPP proposal unless it has entered into a deed with the Commission.
         2. For the purpose of subclause (1), terms of the deed must-

require the CPP applicant to-

provide the verifier with the information specified in and in accordance with clause 5.5.2(3); and

pay any fee charged by the verifier for verifying the relevant parts of the CPP proposal in accordance with his, her or its engagement and Schedule G;

impose an overriding duty on the verifier to assist the Commission as an independent expert on relevant matters within the verifier’s area of technical expertise, with particular reference to aspects of capex, opex and service quality of the CPP applicant’s business;

require the verifier to-

verify the relevant parts of the CPP proposal in accordance with the terms of his, her or its engagement and Schedule G;

notify the CPP applicant of the verifier's selection of **identified programmes**;

prepare a draft verification report in accordance with Schedule G and provide it to the CPP applicant;

prepare a verification report in accordance with Schedule G that takes account of any modifications to the information originally provided to the verifier in light of the CPP applicant's consideration of the draft verification report;

provide, upon request by the CPP applicant, a certificate as described in clause 5.1.3(1)(d); and

be available to answer any questions posed by the Commission on the verification report, in person, by telephone or in writing, as reasonably required by the Commission;

enable the verifier to request, for the purpose of carrying out his, her or its duties specified in paragraph (c), provision by the CPP applicant of-

information required by Schedule D to be identified (but not provided) in a CPP proposal; and

the information specified in subclause (4); and

include a communication protocol in accordance with subclause (5).

* + - * 1. The information specified for the purpose of subclause (2)(d)(ii) is any other information relevant-

for the purpose subclause (2)(c)(i);

to electricity distribution services;

to any other regulated service relevant to the CPP proposal; and

to any unregulated service relevant to the CPP proposal,

that the verifier considers is relevant to verification.

* + - * 1. For the avoidance of doubt-

the deed may contain such other terms that-

the parties agree are necessary for business efficacy; and

are not inconsistent with Schedule F or this Schedule; and

a CPP applicant is not required to submit its CPP proposal to the Commission following completion or its receipt of the verification report.

* + - * 1. For the purpose of subclause (2)(e), the communication protocol must, as a minimum, require that-

the **Commission** will not, prior to the submission of a **CPP proposal**, view any material that forms part of or supports an intended **CPP proposal** unless the **CPP applicant**-

makes the material available to **consumers**; or

provides the material to the **Commission** including an updated ‘Summary of intended CPP Proposal’ as required under subclause (5)(c);

the **verifier** must keep records of all communication between it and the **CPP applicant** where the records include substantive information relied on by the **verifier** in its **verification** **report**; and

after entering into the deed, but not later than when the **verifier** provides a draft verification reportto the **CPP applicant**, the **CPP applicant** must provide the **Commission** with an updated ‘Summary of intended CPP Proposal’ as described in clause F5 if it has-

changed its rationale for seeking a **CPP** as described in clause F5(1)(a);

changed its proposed time for taking effect as described in clause F5(1)(b); or

changed its intention on whether to propose a **quality standard variation** as described in clause F5(1)(e).

* + - * 1. When providing an updated ‘Summary of intended CPP Proposal’ as described in subclause (5)(c), the **CPP applicant** must clearly identify any changes from its previously provided ‘Summary of intended CPP Proposal’.

1. TERMS OF REFERENCE FOR VERIFIERS
   * + 1. Interpretation
          1. Words in bold in this schedule that are defined in another schedule bear the same meanings as specified in that other schedule.
          2. Any requirement to provide an opinion, report on or consider a particular matter must be construed as-

requiring consideration only of the material identified by the requirement in question; and

a requirement to provide the opinion or report on the matter in the verification report.

* + - 1. Verifier’s role, purpose and obligations

The **verifier’s** role, purpose and obligations include-

engaging with the **CPP applicant** in an **independent** manner in accordance with this Terms of Reference;

assessing the extent to which the **CPP applicant’s** **policies** allow the **CPP applicant** to meet the **expenditure objective**;

assessing the extent to which the **CPP applicant’s** **policies** have been implemented;

prior to the **Commission’s** assessment of the **CPP proposal**, assessing whether the **CPP applicant** has provided the **verifier** with the information specified in clause 5.5.2(3);

prior to the **Commission’s** assessment of the **CPP proposal**, providing an opinion to the **CPP applicant** on whether the **CPP applicant’s** **capex** **forecasts**, **opex** **forecasts** and **key assumptions** meet the **expenditure objective**;

prior to the **Commission’s** assessment of the **CPP proposal**, assessing the extent to which the **CPP applicant** is able to deliver its **capex forecast** and **opex forecast** during the **CPP regulatory period**;

prior to the **Commission’s** assessment of the **CPP proposal**, providing an opinion on the extent and effectiveness of the **CPP applicant’s** consultation with its **consumers**; and

providing a list of the key issues which it considers the **Commission** should focus on when assessing the **CPP proposal**.

* + - 1. Service measures, levels and quality standards
         1. The verifier must review, assess and report on-

whether the CPP applicant has proposed service measures relevant to a complete range of key service attributes that are meaningful and important to consumers;

whether the CPP applicant has undertaken an appropriate process to determine the service measures and service levels, such as consultation with relevant consumers;

whether any step change in any service level is explained and justified; and

the extent and effectiveness of a **CPP applicant’s** consultation with its **consumers**, as specified in clause 5.5.1.

* + - * 1. Where the **CPP applicant** intends to propose a **quality standard variation** in the **CPP proposal** under clause 5.4.5, the **verifier** must review, assess and report on the extent to which the **quality standard variation** better reflects the realistically achievable performance of the **EDB** over the **CPP regulatory period**.
      1. Selection of identified programmes
         1. For the purposes of the reviews under clauses G5(1)(d) and G6(1)(g), the verifier must select no more than 20 **projects** or **programmes** to be ‘identified programmes’.
         2. In determining which, and how many, **projects** or **programmes** to select as **identified programmes**, the **verifier** must consider–

the long term interests of **consumers**;

the **Commission’s** ability to effectively review whether the **CPP applicant’s** **capex forecast** and **opex forecast** are consistent with the **expenditure objective**;

the **CPP applicant’s** rationale for seeking a **CPP**;

itsabilityto provide an opinion on whether the **capex forecast** information in the intended **CPP proposal** has been prepared in accordance with the **policies** and **planning standards**-

in aggregate; and

for each of the **capex categories**;

its ability to provide an opinion on whether the **opex forecast** information in the intended **CPP proposal** has been prepared in accordance with the **policies** and **planning standards**-

in aggregate; and

for each of the **opex categories**;

its ability to assess any **quality standard variation** proposed; and

the materiality of the **programmes** or **projects** to the **CPP proposal**, the **capex forecast** and the **opex forecast**.

* + - * 1. The **identified programmes** selected in accordance with subclause (1) must address-

a key risk that the CPP applicant is exposed to;

a key driver of the need to submit a CPP proposal; or

an obligation that has a significant impact in the context of the CPP applicant’s overall business.

* + - * 1. The verifier must-

notify the CPP applicant of its selected projects or programmes; and

not change its selection after such notification.

* + - 1. Capex forecast
         1. The verifier must-

provide an opinion as to whether the-

policies;

planning standards; and

key assumptions,

relied upon by the CPP applicant in determining the capex forecast are of the nature and quality required for that capex forecast to meet the expenditure objective;

provide an opinion as to whether the capex forecast has been prepared in accordance with the policies and planning standards at both the aggregate system level and for each of the capex categories;

provide an opinion on the reasonableness of the key assumptions relevant to capex relied upon the CPP applicant including-

the method and information used to develop them;

how they were applied; and

their effect or impact on the capex forecast by comparison to their effect or impact on actual capex;

report conclusions of a detailed review of identified programmes that are **capex projects** or **capex** **programmes** including, but not limited to assessment of-

whether relevant policies and planning standards were applied appropriately;

whether policies regarding the need for, and prioritisation of, the project or programme are reasonable and have been applied appropriately;

the process undertaken by the CPP applicant to determine the reasonableness and cost-effectiveness of the chosen solution, including the use of cost-benefit analyses to target efficient solutions;

the approach used to prioritise capex projects over time including the application of that approach for the next period;

the project capital costing methodology and formulation, including unit rate sources, the method used to test the efficiency of unit rates and the level of contingencies included for projects;

the impact on other cost categories including the relationship with opex;

links with other projects;

cost control and delivery performance for actual capex;

the efficiency of the proposed approach to procurement; and

whether it should be included as a contingent project or part of a contingent project;

provide an opinion as to overall deliverability of work covered by the capex categories in the next period; and

provide an opinion as to the reasonableness and adequacy of any asset replacement models used to prepare the capex forecast including an assessment of-

the inputs used within the model; and

the methods the CPP applicant used to check the reasonableness of the forecasts and related expenditure.

* + - * 1. Based on its analysis under this clause the verifier must provide its opinion on whether the applicant’s forecast of total capex meets the expenditure objective and, if not identify-

whether the provision of further information is required to enable assessment against the expenditure objective to be undertaken and, if so, the type of information required;

which of the CPP applicant’s forecast capex programmes for each capex category might warrant further assessment by the Commission; and

what type of assessment would be the most effective.

* + - 1. Opex forecast
         1. The verifier must-

provide an opinion as to whether the-

policies,

planning standards; and

key assumptions,

relied upon by the CPP applicant in determining the opex forecast are of the nature and quality required for that opex forecast to meet the expenditure objective;

provide an opinion as to whether the opex forecast has been prepared in accordance with the policies and planning standards, at both the aggregate system level and for each of the opex categories;

provide an opinion on the reasonableness of the key assumptions relevant to opex relied upon by the CPP applicant including-

the method and information used to develop them;

how they have been applied; and

their effect or impact on the opex forecast by comparison to their effect or impact on actual opex;

review, assess and report on any other opex drivers not covered by the key assumptions that have led to an increase in the opex forecast including whether the quantum of such an increase is required to meet the expenditure objective;

provide an opinion as to the reasonableness of the methodology used in forecasting opex (such as cost benchmarking or internal historic cost trending), including the relationship between the opex forecast and capex forecast;

provide an opinion as to the reasonableness of any opex reduction initiatives undertaken or planned during the current period or the next period;

report conclusions of a detailed review of identified programmes that are **opex projects** or **opex** **programmes**, but is not limited to, an assessment of-

whether relevant policies and planning standards were applied appropriately;

whether policies regarding the need for, and prioritisation of, the project or programme are reasonable and have been applied appropriately;

the process undertaken by the CPP applicant to determine the reasonableness and cost-effectiveness of the chosen solution, including the use of cost-benefit analyses to target efficient solutions;

the approach used to prioritise opex projects over time including the application of that approach for the next period;

the project operating cost methodology and formulation, including unit rate sources, the method used to test the efficiency of unit rates and the level of contingencies included for projects;

the impact on other cost categories including the relationship with capex;

links with other projects;

cost control and delivery performance for actual opex;

the efficiency of the proposed approach to procurement; and

whether it should be included as a **contingent project** or part of a **contingent project**;

provide an opinion as to overall deliverability of work covered by the opex categories in the next period; and

provide an opinion as to the reasonableness and adequacy of any opex models used to prepare the opex forecast including an assessment of-

the inputs used within the model; and

any methods the CPP applicant used to check the reasonableness of the forecasts and related expenditure.

* + - * 1. Based on analysis in accordance with this clause, the verifier must provide an opinion on whether the CPP applicant’s forecast of total opex meets the expenditure objective and, if not, identify-

whether the provision of further information is required to enable assessment against the expenditure objective to be undertaken and, if so, the type of information required;

which of the CPP applicant’s forecast opex programmes for each opex category might warrant further assessment by the Commission; and

what type of assessment would be the most effective.

* + - 1. Capital contributions

The verifier must provide an opinion as to whether the forecast of capital contributions-

is reasonable; and

consistent with other aspects of the CPP proposal, in particular-

the capex forecast; and

forecast demand data provided in accordance with clause D6.

* + - 1. Demand forecasts
         1. The verifier must provide an opinion as to whether-

the key assumptions, key input data and forecasting methods used in determining demand forecasts were reasonable; and

it was appropriate to use the demand forecasts resulting from these methods and assumptions to determine the-

capex forecast; and

opex forecast.

* + - 1. Assessment techniques
         1. When-

undertaking analysis and reviews of information; and

considering the matters,

required by this Schedule, the verifier must use some or all of the following assessment techniques:

process benchmarking;

process or functional modelling;

unit rate benchmarking;

trending or time-series analysis;

high level governance and process reviews;

internal benchmarking of forecast costs against costs in the current period;

capex category and opex category benchmarking;

project and programme sampling; and

critiques or independent development of-

demand forecasts;

labour unit cost forecasts;

materials forecasts;

plant forecasts; and

equipment unit cost forecasts.

* + - * 1. The verifier must explain why particular techniques listed in subclause (1) were applied and others were not applied.
        2. Where, for the purpose of applying any of the techniques listed in subclause (1), the verifier uses information that is not provided to it by the CPP applicant, the verifier must, in respect of that information-

describe in the draft verification report its nature and source and the reason for wishing to rely on it;

subject to subclause (4), provide it to the CPP applicant;

when finalising the verification report, take into account any comments made about it by the CPP applicant in response to the draft verification report; and

where, notwithstanding paragraph (c), the verifier continues to rely on it, describe in the verification report-

the nature and source of the information relied upon and the reason for relying on it; and

the CPP applicant's concerns in respect thereof.

* + - * 1. Subclause (3)(b) does not apply if the verifier's terms of use of the information prevent such disclosure.
      1. Contingent projects
         1. For each proposed contingent project, the verifier must provide an opinion as to whether that project satisfies the following criteria:

it is-

reasonably required of an EDB in meeting the expenditure objective; and

one that associated assets are likely to be commissioned,

during the CPP regulatory period;

a commencement date cannot be forecast with an appropriate degree of specificity by comparison with other proposed projects;

the total of capex forecast and opex forecast in relation to the project-

as disclosed in the CPP proposal exceeds 10% of the value of the CPP applicant’s annual revenue in the most recently completed disclosure year in respect of an ID determination;

is reasonable in dollar terms; and

would be likely, when forecast with reasonable certainty, to meet the expenditure objective.

* + - * 1. For each proposed **trigger event**, the verifier must provide an opinion as to whether it meets the requirements of clause 5.6.5(3).
      1. Completeness of CPP proposal

A verification report must-

list the information in, and relating to, the CPP proposal provided by the CPP applicant to the verifier, that was relied upon by the verifier in fulfilling its obligations under Schedule G;

state each type of information in respect of which this schedule requires the verifier's consideration or opinion that the verifier considers has been omitted from the CPP proposal, including information that is incomplete or insufficient, and the relevant requirement in Part 5, Subpart 4 to provide the information in question;

where information is identified as insufficient in accordance with paragraph (b), state the nature of additional information the verifier considers that the CPP proposal requires to fulfil the information requirement in question;

state the extent to which the omission, incompleteness or insufficiency of information has impaired the verifier's judgement as to whether the capex forecast and opex forecast for the next period meets the expenditure objective; and

explain why the **verifier** has selected the **identified programmes** in accordance with clause G4(1).

* + - 1. Overview of key issues and additional information requirements

Based on its assessment, the verifier must, in the verification report-

provide a list of the key issues that it considers the Commission should focus on when undertaking its own assessment of the information to which the assessment related;

specify information identified in the CPP proposal that, were it to be provided, would assist the Commission’s assessment of the CPP proposal; and

identify any other information it reasonably believes would-

be held by the CPP applicant; and

assist the Commission’s assessment of the CPP proposal.