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**From:** Karen Murray  
**Sent:** Tuesday, 8 March 2011 2:00 p.m.  
**To:** 'Michael Clark'  
**Subject:** Commission response to Vector query re: definition of controllable opex for EDBs and GPBs

Michael,

Thank you for your email. Please accept my apologies for the delay in responding to you on this query.

#### Summary of Commission's view

The removal of the definition of **controllable opex** is correct. It should no longer be a defined term. References to **controllable opex** should be amended to **allowed controllable opex**.

#### Background

The deletion of the definition of **controllable opex** was made in conjunction with a change to **allowed controllable opex** and the addition of **actual controllable opex**.

In the Revised Draft Determination, the definition of **allowed controllable opex** was essentially the same as the definition for **controllable opex**. The definition of **allowed controllable opex** was amended to explicitly include the reference to the expenditure objective that was in the **controllable opex** definition. It now reads:

**"allowed controllable opex means 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"**

**Controllable opex** was also used to define 'actual **controllable opex**' in the calculation of the incremental change (clause 3.3.3 of the EDBs Revised Draft Determination). Actual controllable expenditure should mean the amount of expenditure actually made by a supplier during the CPP period for the categories that have been determined as controllable. However, as defined in the Revised Draft Determination, 'actual **controllable opex**' meant the actual quantum of opex determined to be controllable by the Commission in a CPP determination", which was the same as the definition for **allowed controllable opex**. A definition for **actual controllable opex** was therefore added to address this problem.

References to **controllable opex** in clause D16 should have also been amended to **allowed controllable opex** as the supplier is required to forecast (and justify) what it considers should be determined as **allowed controllable opex** by the Commission.

#### Amendments to be made

The Commission will:

1. Amend Clause D16 of Decisions 710, 711 and 712 to read as follows:

#### **D16 Controllable opex**

For each **disclosure year** of the **next period** provide-

- (a) a description of the types of **opex** comprised in the forecast for **allowed controllable opex**; and
- (b) justification for why the **opex** referred to in paragraph (a) should be determined as **allowed controllable opex**, including a description of how the [EDB / GDB / GTB as relevant] is able to control the amount of **opex** over the **CPP regulatory period**.

2. Amend Clause 5.3.1(1)(a) of Decisions 710, 711 and 712 to read as follows:

(1) Amounts for-

(a) **allowed controllable opex for the CPP regulatory period;**

The Commission expects to make these amendments as part of its first scheduled amendment of input methodologies, which will be on or around 1 July 2011. Please let me know if you have any concerns with that timing.

I will publish your request for clarification along with my response on the Commission's website for the information of other interested parties.

Kind regards

Karen

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**From:** Michael Clark [mailto:Michael.Clark@vector.co.nz]  
**Sent:** Tuesday, 18 January 2011 3:00 p.m.  
**To:** regulation.branch  
**Cc:** Allan Carvell  
**Subject:** Re Input Methodology Determinations  
**Importance:** High

Attention Karen Murray, Team,

I note that each service determination with respect to CPPs uses and refers to the defined term "controllable opex".

This term was defined in each Determination in the draft stages as part of the Part 1 General Provisions and was in each case defined as:

"Controllable Opex" means in relation to a disclosure year of the CPP regulatory period the quantum of operating expenditure determined to be –

- (a) controllable by an EDB/GDB/GTB during that year; and
- (b) reasonable in the light of the expenditure objective"

For each CPP – Schedule D of the IMs expects at D.16 for each service the provision of the description of the types of opex comprised in the forecast of "controllable Opex" and a justification.

However, the definition of this term is now missing.

Can you please look into this and advise.

Regards,

Michael Clark

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