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[Draft] Electricity Distribution Services Default Price-Quality Path Amendment Determination 2016

Proposed amendments under section 52Q of the Commerce Act 1986 to the default price-quality path contained in Decision [2014] NZCC 33 to include the calculation of allowable notional revenue applicable to Orion New Zealand Limited from 1 April 2019

THIS DRAFT DETERMINATION IS FOR CONSULTATION PURPOSES ONLY

Regulation Branch, Commerce Commission

Wellington, NEW ZEALAND

1 July 2016

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

1. Short Title

This determination is the Electricity Distribution Services Default Price-Quality Path Amendment Determination 2016.

2. Application

This determination amends the *Electricity Distribution Services Default Price-Quality Path Determination 2015* [2014] NZCC 33 (the principal determination).

3. Commencement

This determination comes into force on 1 April 2019.

4. Interpretation

Unless the context otherwise requires terms used in this determination that are defined in the principal determination have the same meanings as in the principal determination.

5. Amendments

Schedule 3B of the principal determination is amended as follows:

Schedule 3B: Calculation of allowable notional revenue for the remaining Assessment Periods

1. The allowable notional revenue for the remaining Assessment Periods must be calculated as follows:

    1.1 Subject to 1.2 below, the allowable notional revenue for all Assessment Periods other than the first Assessment Period of a Regulatory Period or CPP Regulatory Period must be calculated in accordance with the formula -

    $$ANR_t = (\sum_i DP_{i,t-1}Q_{i,t-2} + (ANR_{t-1} - NR_{t-1}))(1 + \Delta CPI_t)(1 - X)$$

    1.2 The allowable notional revenue for Orion for the Assessment Period ending 31 March 2020 must be calculated in accordance with the formula –

    $$ANR_{2020} = E \times \left(\sum_i P_{i,2019} Q_{i,2018} - (K_{2019} + V_{2019}) + (ANR_{2019} - NR_{2019}) \right) \\ \times (1 + \Delta CPI_{2020}) \times (1 - X)$$

where-

t	is the year in which the Assessment Period ends;
i	denotes each Distribution Price;
$DP_{i,t-1}$	is the ith Distribution Price during any part of the Assessment Period ending the year prior to year t;
$Q_{i,t-2}$	is the Quantity for the Assessment Period ending 2 years prior to year t corresponding to the ith Distribution Price;
$ANR_{t-1} - NR_{t-1}$	is the difference between allowable notional revenue and notional revenue for the Assessment Period ending the year prior to year t;
CPI_t	is the derived change in the CPI to be applied for the Assessment Period ending in year t, being equal to:

$$\frac{CPI_{Dec,t-3} + CPI_{Mar,t-2} + CPI_{Jun,t-2} + CPI_{Sep,t-2}}{CPI_{Dec,t-4} + CPI_{Mar,t-3} + CPI_{Jun,t-3} + CPI_{Sep,t-3}} - 1$$

where-

$CPI_{q,\,t-n}$ is the CPI for the quarter year ending q in the 12 month period n years prior to year t.

E	is the 2014–2019 clawback exclusion ratio, being equal to:

$$\frac{638.3 - 34.8}{638.3}$$

$P_{i,2019}$	is the ith Price during any part of the Assessment Period ending in the year 2019;
$Q_{i,2018}$	is the Quantity for the Assessment Period ending in the year 2018 corresponding to the ith Price;
K_{2019}	is the sum of all Pass-Through Costs that Orion published in its customised price-quality path compliance statement for 2019;
V_{2019}	is the sum of all Recoverable Costs that Orion published in its customised price-quality path compliance statement for 2019;

ANR_{2019}	is the allowable notional revenue that Orion published in its customised price-quality path compliance statement for 2019;
NR_{2019}	is the notional revenue that Orion published in its customised price-quality path compliance statement for 2019;
X	is the annual rate of change applicable to the Non-exempt EDB, as specified in Schedule 2; and
CPI_{2020}	is the derived change in the CPI to be applied for the Assessment Period ending in the year 2020, being equal to:

$$\frac{CPI_{Dec,2017} + CPI_{Mar,2018} + CPI_{Jun,2018} + CPI_{Sep,2018}}{CPI_{Dec,2016} + CPI_{Mar,2017} + CPI_{Jun,2017} + CPI_{Sep,2017}} - 1$$

where-

$CPI_{q,t}$ is the CPI for the quarter ending q in the in the year t.

Sue Begg, Convenor

Dated at Wellington this 1 July 2016.

COMMERCE COMMISSION