[DRAFT] Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018

[2018] NZCC [XX]

The Commission: Part 4 Division
Sue Begg
Dr Stephen Gale
Dr Mark Berry
Dr Jill Walker

Date of determination: [XX] March 2018
Determination version history

This determination amends the *Electricity Distribution Services Default Price-Quality Path Determination 2015* [2014] NZCC 33, 28 November 2014, as it applies to Powerco Limited.

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

1. **Title**

1.1 This determination is the Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018.

2. **Commencement**

2.1 This determination takes effect on 1 April 2018.

3. **Application**

3.1 This determination amends the *Electricity Distribution Services Default Price-Quality Path Determination 2015* [2014] NZCC 33, 28 November 2014, as it applies to Powerco to set the customised price-quality path for Powerco, and is made under sections 53Q and 53V of the Act.

3.2 This determination applies to Powerco, and replaces all terms of the *Electricity Distribution Services Default Price-Quality Path Determination 2015* [2014] NZCC 33, 28 November 2014 as they apply to Powerco.

4. **Interpretation**

4.1 Unless the context otherwise requires:

(a) terms in bold type in this determination, including its schedules, have the meaning given to those terms in clause 4.2;

(b) terms used in this determination that are defined in the Act but not in this determination have the same meanings as in the Act;

(c) terms used in this determination that are defined in the IM determination but not in this determination have the same meanings as in the IM determination;

(d) any reference to a period of time is interpreted in accordance with section 35 of the Interpretation Act 1999; and

(e) a word which denotes the singular also denotes the plural and vice versa.

4.2 In this determination, unless the context otherwise requires, –

\[
\text{67th percentile estimate of post-tax WACC} \quad \text{is the amount applicable for each assessment period as specified in Schedule 1.7;}
\]
Act means the Commerce Act 1986;

Actual allowable revenue means-

(a) for the first assessment period, the amount specified in paragraph (2)(a) of Schedule 1.5; and

(b) for the second to fifth assessment periods, the amount specified in paragraph (2)(b) of Schedule 1.5;

Actual net allowable revenue means-

(a) for the first assessment period, the amount specified as forecast net allowable revenue for the first assessment period; and

(b) for the second to fifth assessment periods, the amount calculated in paragraph (3) of Schedule 1.5;

Actual pass-through costs and recoverable costs means-

(a) for the first assessment period, the sum of all pass-through costs and recoverable costs that were incurred in the assessment period plus the pass-through balance multiplied by (1 + 67th percentile estimate of post-tax WACC); and

(b) for the second to fifth assessment periods, the sum of all pass-through costs and recoverable costs that were incurred in the assessment period, excluding any recoverable cost that is a revenue wash-up draw down amount;

Actual revenue means the sum of actual revenue from prices plus other regulated income;

Actual revenue from prices means the sum of each price multiplied by each corresponding actual quantity;
Amalgamate and Amalgamation has the meaning given in the IM determination;

Annual compliance statement means a written statement required to be made by Powerco in respect of the wash-up amount calculation, quality standards and transactions under clause 11.4-11.6;

Assessment period means-

(a) a 12 month period commencing 1 April and ending on 31 March which covers the CPP regulatory period;

(b) for the purpose of clause 9.2 and 9.6, the periods identified in paragraph (a), and in addition,-

(i) the 12 month period commencing 1 April 2016 and ending on 31 March 2017; and

(ii) the 12 month period commencing 1 April 2017 and ending on 31 March 2018;

(c) for the purpose of clause 9.3 and 9.7, the periods identified in paragraph (a), and in addition, the 12 month period commencing 1 April 2017 and ending on 31 March 2018;

Capex incentive amount has the meaning given in the IM determination;

Class B interruptions means planned interruptions by Powerco;

Class C interruptions means unplanned interruptions originating within the system fixed assets of Powerco;

Commission means the Commerce Commission as defined in section 2 of the Act;

Consumer has the meaning given in the IM
CPI has the meaning given in the IM determination;

CPP regulatory period means the regulatory period 1 April 2018 to 31 March 2023 during which Powerco is subject to a customised price-quality path;

Director has the meaning given in the IM determination;

DPP regulatory period means the regulatory period 1 April 2015 to 31 March 2020;

EDB means a supplier of electricity lines services other than Transpower;

Electricity lines services has the meaning given in the IM determination;

Extended reserves allowance has the meaning given in the IM determination;

Forecast aggregate value of commissioned asset has the meaning given in the IM determination;

Forecast allowable revenue means the amount calculated for each assessment period as specified in Schedule 1.4;

Forecast net allowable revenue means the amount calculated for each assessment period as specified in Schedule 1.3;

Forecast opex has the meaning given in the IM determination;
**forecast pass-through and recoverable costs** means the sum of all the forecast pass-through costs and forecast recoverable costs, excluding any recoverable cost that is a revenue wash-up draw down amount;

**Forecast revenue from prices** means the amount calculated for each assessment period as specified in Schedule 1.2;

**IM determination** means the Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26, including, for the avoidance of doubt, any amendment in effect at the time of determination of a default price-quality path or customised price-quality path;

**Independent auditor** means a person who—

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

(b) has no relationship with, or interest in, Powerco that is likely to involve the person in a conflict of interest; and

(c) has not assisted with the preparation of the annual compliance statement or provided advice or opinions (other than in relation to audit reports) on the methodologies or processes used in preparing the annual compliance statement; and

(d) has the necessary expertise to properly prepare an assurance report required by clause 11.5(d); but

(e) need not be the same person as the person who audits Powerco’s accounts for any other purpose;

**Input methodology** has the same meaning as in s 52C of the Act;
**Interruption** means, in relation to the conveyance of electricity to a **consumer** by means of a **prescribed voltage electric line**, the cessation of conveyance of electricity to that **consumer** for a period of 1 minute or longer, or disconnection of that **consumer**, other than—

(a) in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves; or

(b) as a result of an automatic under voltage, under frequency, or rolling outage scheme or similar arrangement required as part of the system operator services or other instruction from an authorised regulator; or

(c) for breach of the contract under which the electricity is conveyed; or

(d) as a result of a request from the **consumer**; or

(e) as a result of a request by the **consumer's** electricity retailer; or

(f) for the purpose of isolating an unsafe installation;

**IRIS incentive adjustment** has the meaning given in the **IM determination**;

**M**

**Major event day** means any day where the daily **SAIDI value** for **Class C interruptions** or daily **SAIFI value** for **Class C interruptions** exceeds the applicable **SAIDI unplanned boundary value** or **SAIFI unplanned boundary value**;

**Major transaction** has the meaning given in the **IM determination**;
Merger means a transaction whereby Powerco takes over, or otherwise merges with, any other non-exempt EDB other than by an amalgamation under Part 13 of the Companies Act 1993, which without limitation includes:

(a) the purchase of all the assets of another non-exempt EDB;

(b) the acquisition of sufficient shares in another non-exempt EDB to have an interest in the other non-exempt EDB sufficient to enable it, whether directly or indirectly, to exert a substantial degree of influence over the activities of the other non-exempt EDB; or

(c) a scheme of arrangement under Part 15 of the Companies Act 1993 having like effect;

Non-exempt EDB has the meaning given in the IM determination;

Non-reopener transaction means a transaction, whether contingent or not, where consumers are acquired or no longer supplied by Powerco and that transaction-

(a) has resulted in, or will result in, the acquisition of, or an agreement to acquire, assets with a value which is equivalent to less than 10% of Powerco’s opening RAB value in the assessment period of acquisition;

(b) has resulted in, or will result in, the disposal of, or an agreement to dispose of, assets of Powerco with a value of less than 10% of the opening RAB value in the assessment period of disposal;

(c) has, or is likely to have, the effect of Powerco acquiring rights or interests
with a value which is equivalent to less than 10% of the opening RAB value in the assessment period of acquisition; or

(d) has, or is likely to have, the effect of Powerco incurring obligations or liabilities or contingent liabilities, excluding loans or borrowing costs in respect of assets, with a value, which is equivalent to less than 10% of the opening RAB value in the assessment period of incurring the obligation;

O

Opening RAB value has the meaning given in the IM determination;

Opening wash-up account balance means the amount calculated as specified in paragraph (1) of Schedule 1.6;

Opex incentive amount has the meaning given in the IM determination;

Other regulated income has the meaning given in the IM determination;

P

Pass-through balance is the cumulative difference as at 31 March 2018 between the revenue from pass-through prices and the sum of pass-through costs and recoverable costs in the DPP regulatory period up to that date;

Pass-through costs has the meaning given in the IM determination;

Pass-through prices means, as at 31 March 2018, the portion of prices attributable to pass-through costs and recoverable costs in the DPP regulatory period up to that date;
Planned interruption means any interruption other than an unplanned interruption;

Powerco means Powerco Limited’s EDB;

Prescribed voltage electric line means an electric line that is capable of conveying electricity at a voltage equal to or greater than 3.3 kilovolts;

Prices has the meaning given in the IM determination;

Quality incentive adjustment has the meaning given in the IM determination, and is calculated in accordance with Schedule 4;

Quantity has the meaning given in the IM determination;

Recoverable costs has the meaning given in the IM determination;

Regulatory period has the meaning given in the IM determination;

Retention factor has the meaning given in the IM determination;

Revenue foregone means-

(a) where the revenue reduction percentage is greater than 20%, the ‘revenue foregone’ must be calculated in accordance with the formula –

\[ \text{actual net allowable revenue} \times (\text{revenue reduction percentage} - 20\%) \]

(b) where the revenue reduction percentage is not greater than 20%, the
‘revenue foregone’ is nil;

Revenue reduction percentage is 1 minus (actual revenue from prices \( \div \) forecast revenue from prices);

Revenue wash-up draw down amount means the amount calculated as specified in paragraph (4) of Schedule 1.5;

\( S \)

SAIDI assessed value means-

(a) for planned outages, the sum of SAIDI values for an assessment period calculated in accordance with Schedule 3.1; and

(b) for unplanned outages, the sum of SAIDI values for an assessment period calculated in accordance with Schedule 3.2;

SAIDI cap means the maximum SAIDI value used for purposes of calculating the quality incentive adjustment, and is specified in Schedule 4;

SAIDI collar means the minimum SAIDI value used for purposes of calculating the quality incentive adjustment, and is specified in Schedule 4;

SAIDI limit means-

(a) for planned outages, the SAIDI value against which Powerco’s compliance with the quality standards is assessed, and is specified in Schedule 3.1; and

(b) for unplanned outages, the SAIDI value against which Powerco’s compliance with the quality standards is assessed, and is specified in Schedule 3.2;

SAIDI target means the SAIDI value used for purposes of calculating the quality incentive adjustment, and is specified in Schedule 4;
SAIDI unplanned boundary value means the value specified in Schedule 3.2;

SAIDI value means the system average interruption duration index values, where any interruption that spans multiple calendar days accrues to the day on which the interruption began;

SAIFI assessed value means-
(a) for planned outages, the sum of SAIFI values for an assessment period calculated in accordance with Schedule 3.1; and
(b) for unplanned outages, the sum of SAIFI values for an assessment period calculated in accordance with Schedule 3.2;

SAIFI cap means the maximum SAIFI value used for purposes of calculating the quality incentive adjustment, and is specified in Schedule 4;

SAIFI collar means the minimum SAIFI value used for purposes of calculating the quality incentive adjustment, and is specified in Schedule 4;

SAIFI limit means-
(a) for planned outages, the SAIFI value against which Powerco’s compliance with the quality standards is assessed, and is specified in Schedule 3.1; and
(b) for unplanned outages, the SAIFI value against which Powerco’s compliance with the quality standards is assessed, and is specified in Schedule 3.2;

SAIFI target means the SAIFI value used for purposes of calculating the quality incentive adjustment, and is specified in Schedule 4;

SAIFI unplanned boundary value means the value specified in Schedule 3.2;

SAIFI value means the system average interruption frequency index values;
Supply has the meaning given in the IM determination;

System fixed assets means all fixed assets owned, provided, maintained, or operated by Powerco that are used or intended to be used for the supply of electricity lines services;

Transpower has the meaning set out in section 54B of the Act;

Unplanned interruption means any interruption in respect of which less than 24 hours’ notice, or no notice, was given either to the public or to all consumers affected by the interruption;

Unregulated services has the meaning given in the IM determination;

Voluntary undercharging amount foregone means the amount as specified in paragraph (5) of Schedule 1.5;

WACC has the meaning given in the IM determination;

Wash-up amount means the amount calculated for each assessment period as specified in Schedule 1.5;

Working day has the meaning given in section 2(1) of the Act.
5. **Customised price-quality path**

   During the **CPP regulatory period**, Powerco must comply with the customised price-quality path, which consists of:

   (a) the price path specified in clause 8; and

   (b) the quality standards specified in clause 9.

6. **Applicable input methodologies**

   6.1 The **input methodologies** that apply are the following parts of the **IM determination**:

   (a) Subpart 1 of Part 3 – Specification of price;

   (b) Subpart 2 of Part 3 – Amalgamations;

   (c) Subpart 3 of Part 3 – Incremental rolling incentive scheme;

   (d) Section 1 of Subpart 3 of Part 5 – Determination of annual allowable revenues;

   (e) Section 2 of Subpart 3 of Part 5 – Cost allocation and asset valuation;

   (f) Section 3 of Subpart 3 of Part 5 – Treatment of taxation;

   (g) Section 4 of Subpart 3 of Part 5 – Cost of capital;

   (h) Section 5 of Subpart 3 of Part 5 – Alternative methodologies with equivalent effect; and

   (i) Subpart 6 of Part 5 – Catastrophic events and reconsideration of a customised price-quality path.

   6.2 The **input methodologies** that are applied are subject to the variation agreed with Powerco, which is attached as Schedule 9.

7. **When the customised price-quality path may be reconsidered**

   7.1 The customised price-quality path in this determination may be reconsidered in accordance with clause 5.6.7 of the **IM determination**.
8. **Price path**

*Starting price*

8.1 The starting price that applies to **Powerco** for the **CPP regulatory period** is set out in Schedule 1.1.

*Rate of change*

8.2 The annual rate of change in revenue, relative to the **CPI**, that is allowed during the **CPP regulatory period** is 0%.

*Weighted average cost of capital*

8.3 The **WACC** that applies to **Powerco** for each **assessment period** of the **CPP regulatory period**, resulting from the variation agreed with **Powerco**, is set out in Schedule 1.7.

*Compliance with the price path*

8.4 The **forecast revenue from prices** for each **assessment period** must not exceed the **forecast allowable revenue** for the **assessment period**.

*Wash-up amount calculation*

8.5 **Powerco** must calculate the **wash-up amount** for each **assessment period** using the methodology specified in Schedule 1.5.

9. **Quality standards**

*Compliance with planned outages quality standards*

9.1 **Powerco** must, in respect of each **assessment period**, either:

(a) comply with the annual planned outages reliability assessment specified in clause 9.4 for that **assessment period**; or

(b) have complied with the annual planned outages reliability assessment in each of the two preceding **assessment periods**.

9.2 **Powerco** will be deemed to meet the requirements of clause 9.1(b) for the **assessment period** ending 31 March 2019 if it complied with the quality standards applicable to it under the *Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33* for each of the **assessment periods** ending 31 March 2017 and 31 March 2018.

9.3 **Powerco** will be deemed to meet the requirements of clause 9.1(b) for the **assessment period** ending 31 March 2020 if it complied with the quality standards applicable to it under the *Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33* for the **assessment period** ending 31 March

Annual planned outages reliability assessment

9.4 For the purpose of clause 9.1(a), to comply with the annual planned outages reliability assessment—

(a) **Powerco’s SAIDI assessed value** for planned outages for the assessment period must not exceed the **SAIDI limit** specified in Schedule 3.1; and

(b) **Powerco’s SAIFI assessed value** for planned outages for the assessment period must not exceed the **SAIFI limit** specified in Schedule 3.1.

Compliance with unplanned outages quality standards

9.5 **Powerco** must, in respect of each assessment period, either:

(a) comply with the annual unplanned outages reliability assessment specified in clause 9.8 for that assessment period; or

(b) have complied with the annual unplanned outages reliability assessment in each of the two preceding assessment periods.

9.6 **Powerco** will be deemed to meet the requirements of clause 9.5(b) for the assessment period ending 31 March 2019 if it complied with the quality standards applicable to it under the *Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33* for each of the assessment periods ending 31 March 2017 and 31 March 2018.

9.7 **Powerco** will be deemed to meet the requirements of clause 9.5(b) for the assessment period ending 31 March 2020 if it complied with the quality standards applicable to it under the *Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33* for the assessment period ending 31 March 2018 and its annual unplanned outages reliability assessment for the assessment period ending 31 March 2019.

Annual unplanned outages reliability assessment

9.8 For the purpose of clause 9.5(a), to comply with the annual unplanned outages reliability assessment—

(a) **Powerco’s SAIDI assessed value** for unplanned outages for the assessment period must not exceed the **SAIDI limit** specified in Schedule 3.2; and

(b) **Powerco’s SAIFI assessed value** for unplanned outages for the assessment period must not exceed the **SAIFI limit** specified in Schedule 3.2.
10. Transactions

Requirement to notify the Commission of an amalgamation, merger or transaction

10.1 Powerco must notify the Commission in writing within 30 working days after entering into an agreement with another EDB or Transpower for an amalgamation, merger, major transaction or non-reopener transaction.

Impact on the customised price-quality path following an amalgamation, merger or transaction

10.2 If Powerco enters into an agreement with another EDB or Transpower for an amalgamation, merger, major transaction or non-reopener transaction, the Commission may amend the customised price-quality path for Powerco.

11. Annual compliance statements

Annual price-setting compliance statement

11.1 Powerco must:

(a) provide to the Commission a written ‘annual price-setting compliance statement’ in respect of price setting-

(i) for the first assessment period, within five working days after the start of the first assessment period; and

(ii) for the second to fifth assessment period, before the start of each assessment period;

(b) make the ‘annual price-setting compliance statement’ and the director’s certificate provided under clause 11.2(c) publicly available on its website within five working days after providing it to the Commission; and

(c) provide to the Commission schedules reflecting the prices and forecast quantities used in the calculation of forecast revenue from prices, disclosed in an electronic format that is consistent with Microsoft Excel with the ‘annual price-setting compliance statement’.

11.2 The ‘annual price-setting compliance statement’ must:

(a) state whether or not Powerco has complied with the price path in clause 8 for the assessment period;

(b) state the date on which the statement was prepared; and

(c) include a certificate in the form set out in Schedule 6, signed by at least one director of Powerco.

11.3 The ‘annual price-setting compliance statement’ must include the following information:
(a) Powerco’s calculation of its forecast revenue from prices together with supporting information for all components of the calculation;

(b) Powerco’s calculation of its forecast allowable revenue together with supporting information for all components of the calculation;

(c) if Powerco has not complied with the price path, the reasons for the non-compliance; and

(d) if Powerco has not complied with the price path, any actions taken to mitigate any non-compliance and to prevent similar non-compliance in future assessment periods.

Annual compliance statement in respect of the wash-up amount calculation, quality standards and transactions

11.4 Powerco must:

(a) provide to the Commission a written ‘annual compliance statement’ in respect of the wash-up amount calculation, quality standards and transactions within 50 working days following the end of each assessment period;

(b) make the ‘annual compliance statement’ publicly available on its website within 5 working days after providing it to the Commission; and

(c) provide to the Commission schedules reflecting the prices and actual quantities used to calculate the wash-up amount, disclosed in an electronic format that is consistent with Microsoft Excel with the ‘annual compliance statement’.

11.5 The ‘annual compliance statement’ must:

(a) state whether or not Powerco has:

   (i) complied with the requirements to calculate the wash-up amount in clause 8.5 for the assessment period; and

   (ii) complied with the quality standards in clause 9 for the assessment period;

(b) state the day on which the statement was prepared;

(c) include a certificate in the form set out in Schedule 7, signed by at least one director of Powerco; and

(d) be accompanied by an assurance report meeting the requirements in Schedule 8, in respect of all information obtained in the ‘annual compliance statement’.
11.6 The ‘annual compliance statement’ must include any information reasonably necessary to demonstrate whether Powerco has complied with clause 8.5, clause 9, and clause 10.1, including, but not limited to:

Wash-up amount calculation

(a) details of the wash-up amount calculation as specified in clause 8.5, together with supporting information for all components of the calculation;

Quality standards compliance

(b) if Powerco has not complied with the annual planned outages reliability assessment in clause 9.4 for the assessment period, the reasons for not complying;

(c) if Powerco has not complied with the annual unplanned outages reliability assessment in clause 9.8 for the assessment period, the reasons for not complying;

(d) actions taken to mitigate any non-compliance and to prevent similar non-compliance in future assessment periods;

(e) for the annual planned outages reliability assessment, the SAIDI assessed value, SAIFI assessed value, SAIDI limit and SAIFI limit for the assessment period, and any supporting calculations (including those in Schedule 3.1) and where applicable, the annual planned outages reliability assessments for the two previous assessment periods;

(f) for the annual unplanned outages reliability assessment, the SAIDI assessed value, SAIFI assessed value, SAIDI limit, SAIFI limit, SAIDI unplanned boundary value, SAIFI unplanned boundary value, SAIDI cap, SAIFI cap, SAIDI collar, SAIFI collar, SAIDI target and SAIFI target for the assessment period, and any supporting calculations (including those in Schedule 3.2) and where applicable, the annual unplanned outages reliability assessments for the two previous assessment periods;

(g) a description of the policies and procedures which Powerco has used for capturing and recording Class B interruptions and Class C interruptions, and for calculating SAIDI assessed values and SAIFI assessed values for the assessment period;

(h) the cause of each major event day within the assessment period; and

Transactions

(i) state whether or not Powerco has entered into any agreement with another EDB or Transpower for an amalgamation, merger, major transaction or non-reopener transaction in the assessment period.
[XX], Commissioner

Dated at Wellington this [XX] day of March 2018.

COMMERCE COMMISSION
Schedule 1.1: Starting price

Clause 8.1

The starting price for the CPP regulatory period, specified as actual net allowable revenue for the first assessment period, is $278,559,000.
Schedule 1.2: Calculation of forecast revenue from prices

Clause 8.4

(1) When setting prices for an assessment period, Powerco must calculate the ‘forecast revenue from prices’ for the assessment period.

(2) When calculating the ‘forecast revenue from prices’, Powerco must prepare a forecast of quantities for the assessment period to which the prices for the assessment period will apply.

(3) The ‘forecast revenue from prices’ must be calculated as the sum of each price multiplied by each corresponding forecast quantity.

(4) All forecast quantities used to calculate the ‘forecast revenue from prices’ must be demonstrably reasonable.
## Schedule 1.3: Forecast net allowable revenue

Clause 8.4

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<thead>
<tr>
<th>Assessment period ending</th>
<th>Forecast net allowable revenue ($000)</th>
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<tr>
<td>31 March 2019</td>
<td>278,559</td>
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<td>31 March 2020</td>
<td>284,556</td>
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<td>31 March 2021</td>
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<td>31 March 2022</td>
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<td>31 March 2023</td>
<td>302,343</td>
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</table>
Schedule 1.4: Calculation of forecast allowable revenue

Clause 8.4

(1) When setting prices for an assessment period, Powerco must calculate the ‘forecast allowable revenue’.

(2) When calculating the ‘forecast allowable revenue’, Powerco must prepare a forecast of pass-through costs and a forecast of recoverable costs.

(3) All forecasts of pass-through costs and recoverable costs used to calculate the ‘forecast allowable revenue’ must be demonstrably reasonable.

(4) For the purposes of paragraph (3), ‘recoverable costs’ include the amounts specified in Schedule 2.1.

(5) The ‘forecast allowable revenue’ for an assessment period must be determined in accordance with the formula -

\[ \text{forecast net allowable revenue} + \text{forecast pass-through and recoverable costs} + \text{opening wash-up account balance} \]
Schedule 1.5: Calculation of wash-up amount for an assessment period

Clause 8.5

Formula for wash-up amount

(1) The ‘wash-up amount’ must be calculated in accordance with the formula –

actual allowable revenue – actual revenue – revenue foregone

Actual allowable revenue

(2) For the purposes of paragraph (1), ‘actual allowable revenue’ means-

(a) for the first assessment period-

actual net allowable revenue plus actual pass-through costs and recoverable costs

(b) for the second to fifth assessment periods-

actual net allowable revenue plus actual pass-through costs and recoverable costs plus revenue wash-up draw down amount

(3) For the purposes of paragraph (2)(b), ‘actual net allowable revenue’ for the second to fifth assessment periods means the amount calculated using the following formula –

‘actual net allowable revenue’ of the previous assessment period × (1 + ∆CPI_t) × (1 – X)

where -

ΔCPI is the derived change in the CPI to be applied for the assessment period, calculated in accordance with the formula -

\[
\Delta CPI = \frac{CPI_{\text{Jun},t-1} + CPI_{\text{Sep},t} + CPI_{\text{Dec},t} + CPI_{\text{Mar},t}}{CPI_{\text{Jun},t-2} + CPI_{\text{Sep},t-1} + CPI_{\text{Dec},t-1} + CPI_{\text{Mar},t-1}} - 1
\]

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;

t is the year in which the assessment period ends;

X is the annual rate of change, as specified in clause 8.2.

(4) For the purpose of paragraph (2)(b), ‘revenue wash-up draw down amount’ is-

(a) for the second assessment period, nil, including voluntary undercharging amount foregone; and
(b) For the third to fifth assessment periods, the ‘opening wash-up account balance’ calculated in accordance with Schedule 1.6, including voluntary undercharging amount foregone.

(5) The ‘voluntary undercharging amount foregone’ for the second to fifth assessment periods is nil.
Schedule 1.6: Calculation of opening wash-up account balance

Clause 8.5

(1) The ‘opening wash-up account balance’ means-

(a) for the first assessment period of the CPP regulatory period, the forecast pass-through balance; and

(b) for second to fifth assessment periods, the closing wash-up account balance of the previous assessment period.

(2) For the purpose of paragraph (1)(a), the ‘forecast pass-through balance’ is the estimated amount of the pass-through balance at 31 March 2018 of $1,995,000.

(3) For the purpose of paragraph (1)(b), the ‘closing wash-up account balance’ means-

(a) for the first assessment period, the amount calculated in accordance with the formula-

\[(\text{pass-through balance} - \text{forecast pass-through balance}) \times (1 + 67^{\text{th}} \text{ percentile estimate of post-tax WACC})\]; and

(b) for the second to fifth assessment periods, the amount calculated in accordance with the formula –

wash-up amount for the previous assessment period \times (1 + 67^{\text{th}} \text{ percentile estimate of post-tax WACC})
Schedule 1.7: WACC applicable to Powerco for each assessment period

Clause 8.3

<table>
<thead>
<tr>
<th>Assessment period ending</th>
<th>WACC applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 March 2019</td>
<td>7.19%</td>
</tr>
<tr>
<td>31 March 2020</td>
<td>7.19%</td>
</tr>
<tr>
<td>31 March 2021</td>
<td>6.78%</td>
</tr>
<tr>
<td>31 March 2022</td>
<td>6.78%</td>
</tr>
<tr>
<td>31 March 2023</td>
<td>6.78%</td>
</tr>
</tbody>
</table>
Schedule 2.1: Recoverable costs

(1) ‘Recoverable costs’ applicable for Powerco are as specified in clause 3.1.3(1) of the IM determination.
(2) For the purposes of the IRIS incentive adjustment, the forecast opex used for calculating the opex incentive amount is specified in paragraph (1) of Schedule 2.2.
(3) For the purpose of the IRIS incentive adjustment, the forecast aggregate value of commissioned assets and retention factor used for calculating the capex incentive amount are specified in paragraphs (2)-(3) of Schedule 2.2.
(4) The ‘CPP proposal application fee’, specified in clause 3.1.3(1)(h) of the IM determination, for Powerco is $20,000.
(5) The ‘CPP assessment fee’, specified in clause 3.1.3(1)(i) of the IM determination, for Powerco is [XX].
(6) The ‘CPP verifier fee’, specified in clause 3.1.3(1)(j) of the IM determination, for Powerco is $369,286.
(7) The ‘CPP auditor fee’, specified in clause 3.1.3(1)(k) of the IM determination, for Powerco is $375,314.
(8) The extended reserves allowance for Powerco must be approved in accordance with Schedule 5.
(9) The quality incentive adjustment for Powerco must be calculated in accordance with Schedule 4.’
Schedule 2.2: Specified amounts for the incremental rolling incentive scheme

(1) For the purposes of calculating the opex incentive amount for Powerco for the CPP regulatory period, the forecast opex, and the assessment period to which it applies, is as set out in Table 2.2.1.

Table 2.2.1: Forecast opex for Powerco for the CPP regulatory period 1 April 2018 – 31 March 2023

<table>
<thead>
<tr>
<th>Assessment period ending</th>
<th>Forecast opex ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 March 2019</td>
<td>92,073</td>
</tr>
<tr>
<td>31 March 2020</td>
<td>97,311</td>
</tr>
<tr>
<td>31 March 2021</td>
<td>99,334</td>
</tr>
<tr>
<td>31 March 2022</td>
<td>98,113</td>
</tr>
<tr>
<td>31 March 2023</td>
<td>97,793</td>
</tr>
</tbody>
</table>

(2) For the purposes of calculating the capex incentive amount for Powerco for the CPP regulatory period, the forecast aggregate value of commissioned assets, and the assessment period to which it applies, is as set out in Table 2.2.2.

Table 2.2.2: Forecast aggregate value of commissioned assets for Powerco for the CPP regulatory period 1 April 2018 – 31 March 2023

<table>
<thead>
<tr>
<th>Assessment period ending</th>
<th>Forecast aggregate value of commissioned assets ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 March 2019</td>
<td>220,284</td>
</tr>
<tr>
<td>31 March 2020</td>
<td>166,854</td>
</tr>
<tr>
<td>31 March 2021</td>
<td>175,577</td>
</tr>
<tr>
<td>31 March 2022</td>
<td>211,735</td>
</tr>
<tr>
<td>31 March 2023</td>
<td>216,265</td>
</tr>
</tbody>
</table>
(3) For the purposes of calculating the capex incentive amount for Powerco for the CPP regulatory period, the retention factor is 15%.
Schedule 3.1: Quality standards – planned outages

Clause 9.1, 9.4

(1) The **SAIDI limit** and **SAIFI limit** for planned outages for **Powerco** for the CPP regulatory period are as set out in Table 3.1.

<table>
<thead>
<tr>
<th>Powerco</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
<th>22/23</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAIDI limit</td>
<td>71.034</td>
<td>75.446</td>
<td>82.017</td>
<td>87.213</td>
<td>88.190</td>
</tr>
<tr>
<td>SAIFI limit</td>
<td>0.314</td>
<td>0.338</td>
<td>0.359</td>
<td>0.378</td>
<td>0.378</td>
</tr>
</tbody>
</table>

**Calculation of the planned outages SAIDI assessed values**

(2) **Powerco’s SAIDI assessed value** \( (\text{SAIDI}_{\text{assess}}) \) for planned outages for an **assessment period** is calculated in accordance with the formula –

\[
\text{SAIDI}_{\text{assess}} = \text{SAIDI}_B
\]

where-

\( \text{SAIDI}_B \) is the sum of the daily **SAIDI values** for **Class B interruptions** commencing within the **assessment period**.

**Calculation of the planned outages SAIFI assessed values**

(3) **Powerco’s SAIFI assessed value** \( (\text{SAIFI}_{\text{assess}}) \) for planned outages for an **assessment period** is calculated in accordance with the formula –

\[
\text{SAIFI}_{\text{assess}} = \text{SAIFI}_B
\]

where-

\( \text{SAIFI}_B \) is the sum of the daily **SAIFI values** for **Class B interruptions** commencing within the **assessment period**.
Schedule 3.2: Quality standards – unplanned outages

Clause 9.5, 9.8

(1) With respect to unplanned outages, the SAIDI limit, SAIFI limit, SAIDI unplanned boundary value and SAIFI unplanned boundary value for Powerco for the CPP regulatory period are as set out in Table 3.2.

Table 3.2: SAIDI limit, SAIFI limit, SAIDI unplanned boundary value, and SAIFI unplanned boundary value for the CPP regulatory period 1 April 2018 – 31 March 2023

<table>
<thead>
<tr>
<th>Powerco</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
<th>22/23</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAIDI limit</td>
<td>191.477</td>
<td>187.484</td>
<td>183.575</td>
<td>179.747</td>
<td>175.999</td>
</tr>
<tr>
<td>SAIDI unplanned boundary value</td>
<td>11.710</td>
<td>11.710</td>
<td>11.710</td>
<td>11.710</td>
<td>11.710</td>
</tr>
<tr>
<td>SAIFI limit</td>
<td>2.285</td>
<td>2.262</td>
<td>2.239</td>
<td>2.216</td>
<td>2.194</td>
</tr>
<tr>
<td>SAIFI unplanned boundary value</td>
<td>0.064</td>
<td>0.064</td>
<td>0.064</td>
<td>0.064</td>
<td>0.064</td>
</tr>
</tbody>
</table>

Calculation of the unplanned outages SAIDI assessed value

(2) Powerco’s SAIDI assessed value ($SAIDI_{assess}$) for unplanned outages for an assessment period is calculated in accordance with the formula –

$$SAIDI_{assess} = SAIDI_C$$

where-

$SAIDI_C$ is the sum of the daily SAIDI values for Class C interruptions commencing within the assessment period, where any daily SAIDI value for Class C interruptions greater than the SAIDI unplanned boundary value equals the SAIDI unplanned boundary value.

Calculation of the unplanned outages SAIFI assessed value

(3) Powerco’s SAIFI assessed value ($SAIFI_{assess}$) for unplanned outages for an assessment period is calculated in accordance with the formula –

$$SAIFI_{assess} = SAIFI_C$$

where-

$SAIFI_C$ is the sum of the daily SAIFI values for Class C interruptions commencing within the assessment period, where any daily SAIFI value for Class C
interruptions greater than the SAIFI unplanned boundary value equals the SAIFI unplanned boundary value.
Schedule 4: How to calculate the quality incentive adjustment for unplanned outages

(1) The quality incentive adjustment must be calculated by Powerco within 50 working days following the expiration of the assessment period in accordance with paragraph (4), adjusted for the time-value of money using the 67th percentile estimate of post-tax WACC, and is a recoverable cost in the assessment period following that in which it was calculated.

(2) The SAIDI target, SAIDI collar and SAIDI cap for Powerco during the CPP regulatory period 1 April 2018 to 31 March 2023 are as set out in Table 4.1.

Table 4.1: SAIDI quality incentive measures for the CPP regulatory period 1 April 2018 – 31 March 2023

<table>
<thead>
<tr>
<th>Powerco</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
<th>22/23</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAIDI target</td>
<td>169.592</td>
<td>166.056</td>
<td>162.594</td>
<td>159.203</td>
<td>155.884</td>
</tr>
<tr>
<td>SAIDI collar</td>
<td>147.708</td>
<td>144.628</td>
<td>141.612</td>
<td>138.660</td>
<td>135.768</td>
</tr>
<tr>
<td>SAIDI cap</td>
<td>191.477</td>
<td>187.484</td>
<td>183.575</td>
<td>179.747</td>
<td>175.999</td>
</tr>
</tbody>
</table>

(3) The SAIFI target, SAIFI collar, and SAIFI cap for Powerco during the CPP regulatory period 1 April 2018 to 31 March 2023 are as set out in Table 4.2.

Table 4.2: SAIFI quality incentive measures for the CPP regulatory period 1 April 2018 – 31 March 2023

<table>
<thead>
<tr>
<th>Powerco</th>
<th>18/19</th>
<th>19/20</th>
<th>20/21</th>
<th>21/22</th>
<th>22/23</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAIDI target</td>
<td>2.116</td>
<td>2.094</td>
<td>2.073</td>
<td>2.052</td>
<td>2.031</td>
</tr>
<tr>
<td>SAIDI collar</td>
<td>1.946</td>
<td>1.926</td>
<td>1.907</td>
<td>1.887</td>
<td>1.868</td>
</tr>
<tr>
<td>SAIDI cap</td>
<td>2.285</td>
<td>2.262</td>
<td>2.239</td>
<td>2.216</td>
<td>2.194</td>
</tr>
</tbody>
</table>

(4) The ‘quality incentive adjustment’ is calculated in accordance with the following formula–

\[ S_{TOTAL} = S_{SAIDI} + S_{SAIFI} \]

where-
$S_{\text{TOTAL}}$ is the ‘quality incentive adjustment’ applicable as a recoverable cost;

$S_{\text{SAIDI}}$ is the amount calculated in accordance with paragraph (5); and

$S_{\text{SAIFI}}$ is the amount calculated in accordance with paragraph (7).

(5) For the purposes of paragraph (4)–

(a) $S_{\text{SAIDI}}$ is the amount, subject to subparagraph (b), calculated in accordance with the following formula –

$$S_{\text{SAIDI}} = S_{\text{SAIDI}_R} \times (\text{SAIDI}_{\text{target}} - \text{SAIDI}_{\text{assess}})$$

where-

$S_{\text{SAIDI}_R}$ is the amount calculated in accordance with paragraph (6);

$\text{SAIDI}_{\text{target}}$ is the SAIDI target specified for Powerco for the assessment period; and

$\text{SAIDI}_{\text{assess}}$ is the SAIDI assessed value for the assessment period, calculated in accordance with Schedule 3.2, subject to subparagraph (b).

(b) Where SAIDI_{assess} is –

(i) greater than the SAIDI_{cap}, SAIDI_{assess} equals the SAIDI_{cap};

(ii) less than the SAIDI_{collar}, SAIDI_{assess} equals the SAIDI_{collar}.

(6) For the purposes of paragraph (5), ‘$S_{\text{SAIDI}_R}$’ is the amount calculated in accordance with the following formula –

$$S_{\text{SAIDI}_R} = \frac{0.5 \times \text{REV}_{\text{RISK}}}{\text{SAIDI}_{\text{cap}} - \text{SAIDI}_{\text{target}}}$$

where-

$\text{SAIDI}_{\text{cap}}$ is the SAIDI cap specified for Powerco for the assessment period;

$\text{SAIDI}_{\text{target}}$ is the SAIDI target specified for Powerco for the assessment period; and

$\text{REV}_{\text{RISK}}$ is 1% of the forecast net allowable revenue for Powerco specified in Schedule 1.1.

(7) For the purposes of paragraph (4)–
(a) $S_{SAIFI}$ is the amount, subject to subparagraph (b), calculated in accordance with the following formula –

$$S_{SAIFI} = S_{SAIFI_{IR}} \times (S_{SAIFI_{target}} - S_{SAIFI_{assess}})$$

where-

$S_{SAIFI_{IR}}$ is the amount calculated in accordance with paragraph (8);

$S_{SAIFI_{target}}$ is the $SAIFI$ target specified for Powerco for the assessment period; and

$S_{SAIFI_{assess}}$ is the $SAIFI$ assessed value for the assessment period, calculated in accordance with Schedule 3.2, subject to subparagraph (b).

(b) Where $S_{SAIFI_{assess}}$ is –

(i) greater than the $S_{SAIFI_{cap}}$, $S_{SAIFI_{assess}}$ equals the $S_{SAIFI_{cap}}$;

(ii) less than the $S_{SAIFI_{collar}}$, $S_{SAIFI_{assess}}$ equals the $S_{SAIFI_{collar}}$.

(8) For the purposes of paragraph (7), ‘$S_{SAIFI_{IR}}$’ is the amount calculated in accordance with the following formula –

$$S_{SAIFI_{IR}} = \frac{0.5 \times REV_{RISK}}{S_{SAIFI_{cap}} - S_{SAIFI_{target}}}$$

where-

$S_{SAIFI_{cap}}$ is the $SAIFI$ cap specified for Powerco for the assessment period; $S_{SAIFI_{target}}$ is the $SAIFI$ target specified for Powerco for the assessment period; and $REV_{RISK}$ is 1% of the forecast net allowable revenue for Powerco specified in Schedule 1.1.
Schedule 5: Approval of extended reserves allowances

(1) **Powerco** must, no later than 70 **working days** following the end of an **assessment period**, submit an application for approval of an **extended reserves allowance** if any amounts were incurred or received in that **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves.

(2) The application for approval must include:

(a) all compensation payments made by **Powerco** in the **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves;

(b) all compensation payments and revenue received by **Powerco** in the **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves;

(c) an estimate of the compensation payments and revenue received by **Powerco** in the **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves that should be associated with **unregulated services**, along with reasons for such treatment; and

(d) any other explanatory material or supporting information reasonably necessary to demonstrate costs incurred and amounts payable or receivable in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves.

(3) The **Commission** may request additional information, independent evidence, **director** certificates, or audit statements relating to the information provided in the application.

(4) The **Commission** may approve by notice in writing to **Powerco**, subject to clause 3.1.3(7) of the **IM determination**, an allowance for costs incurred and amounts payable, or for amounts receivable, under any extended reserves regulations made under the Electricity Industry Act 2010, as determined by the **Commission**.

(5) The amount approved by the **Commission** is an ‘extended reserves allowance’ **recoverable cost** under clause 3.1.3(1)(n) of the **IM determination** in the **assessment period** to which the application relates.
Schedule 6: Form of director’s certificate for annual price-setting compliance statement

Clause 11.2(c)

I/We, [insert full name/s], being director/s of Powerco certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached annual price-setting compliance statement of Powerco, and related information, prepared for the purposes of the Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018 has been prepared in accordance with all the relevant requirements, and all forecasts used in the calculations for forecast revenue from prices and forecast allowable revenue are reasonable*[except in the following respects].

*[insert description of non-compliance]*

[Signatures of directors]

[Date]

*Delete if inapplicable.

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding $100,000 in the case of an individual or $300,000 in the case of a body corporate.
Schedule 7: Form of director’s certificate for annual compliance statement

Clause 11.5(c)

I/We, [insert full name/s], being director/s of Powerco certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached annual compliance statement of Powerco, and related information, prepared for the purposes of the Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018 has been prepared in accordance with all the relevant requirements* [except in the following respects].

*[insert description of non-compliance]

[Signatures of directors]

[Date]

*Delete if inapplicable.

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding $100,000 in the case of an individual or $300,000 in the case of a body corporate.
Schedule 8: Independent auditor’s report on annual compliance statement

Clause 11.5(d)

For the purpose of clause 11.5(d), Powerco must procure an assurance report by an independent auditor in respect of the annual compliance statement that is prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000), signed by the independent auditor (either in his or her own name or that of his or her firm), and that-

(a) is addressed to the directors of Powerco and to the Commission as the intended users of the assurance report;

(b) states–

(i) that it has been prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000);

(ii) the work done by the independent auditor;

(iii) the scope and limitations of the assurance engagement;

(iv) the existence of any relationship (other than that of auditor) which the independent auditor has with, or any interests which the independent auditor has in, Powerco or any of its subsidiaries;

(v) whether the independent auditor has obtained sufficient recorded evidence and explanations that he or she required and, if not, the information and explanations not obtained; and

(vi) whether, in the independent auditor’s opinion, as far as appears from an examination, the information used in the preparation of the annual compliance statement has been properly extracted from Powerco’s accounting and other records, sourced from its financial and non-financial systems; and

(c) states whether (and, if not, the respects in which it has not), in the independent auditor’s opinion, Powerco has complied, in all material respects, with the Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018 in preparing the annual compliance statement.
Schedule 9: IM variation

Clause 6.2

[XX]
Explanatory note

(1) The purpose of the Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018 (“the Determination”) is to set a customised price-quality paths for Powerco for the five years beginning 1 April 2018 and ending 31 March 2023, pursuant to Part 4 of the Commerce Act 1986 (“the Act”).

(2) Pursuant to section 53N of the Act, Powerco is required to provide to the Commerce Commission (“the Commission”), separate compliance statements relating to price setting, the wash-up account calculation, performance against quality standards and transactions. Powerco must state whether or not it has complied with the customised price-quality path set out in the Determination, provide its wash-up amount calculation, and supporting evidence. The two compliance statements must both be accompanied by a director’s certificate. The compliance statement for the wash-up amount calculation, quality standards and transactions must also be accompanied by an auditor’s report. Powerco must publish its compliance statements on its website within five working days after submitting them to the Commission.

(3) A reasons paper providing detailed background to, and analysis of, the Determination can be found at:

[XX]

(4) Copies of this Determination are available for inspection free of charge at the Commission (during ordinary office hours), on the Commission’s website at the above link, or for purchase at a reasonable price at the Commission.