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Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018

[2018] NZCC 6

The Commission:	**Part 4 Division**
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	Dr Mark Berry
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Date of determination:	28 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 Wellington Electricity Lines Limited.		
Publication date	**Decision No.**	**Determination name**
28 November 2014	[2014] NZCC 33	Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33
26 March 2015	[2015] NZCC 9	Electricity Distribution Services (Top Energy Limited) Default Price-Quality Path Amendment Determination 2015
9 July 2015	[2015] NZCC 18	Electricity Distribution Services (Powerco Limited) Default Price-Quality Path Amendment Determination 2015
11 May 2017	[2017] NZCC 9	Electricity Distribution Services Default Price-Quality Path (CPP Window) Amendment Determination 2017
30 November 2017	[2017] NZCC 27	Electricity Distribution Services Default Price-Quality Path (CPP Window) Amendment Determination November 2017
28 March 2018	[2018] NZCC 6	Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018

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 Wellington Electricity Lines 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 **Wellington Electricity** to set the customised price-quality path for **Wellington Electricity**, and is made under sections 53Q and 53V of the **Act**.

3.2 This determination applies to **Wellington Electricity**, 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 **Wellington Electricity**.

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) for the avoidance of doubt, references to terms from legislation in this determination have the meaning given in the applicable legislation at the time they are applied;

(d) 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**;

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

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

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

67th percentile estimate of post-tax WACC	has the meaning given in the **IM determination**;

A

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 third **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 third **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**); and (b) for the second to third **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**;
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 **Wellington Electricity** 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 of the following year during the **CPP regulatory period**, for which compliance with a price-quality path must be demonstrated; (b) for the purpose of clause 9.1 and 9.3, a 12 month period commencing 1 April and ending on 31 March of the following year, for which compliance with a price-quality path must be demonstrated;

C

Capex incentive amount	has the meaning given in the **IM determination**;
Class B interruptions	means **planned interruptions** by **Wellington Electricity**;
Class C interruptions	means **unplanned interruptions** originating within the **system fixed assets** of **Wellington Electricity**;
Commission	means the Commerce Commission as defined in section 2 of the **Act**;
Consumer	has the meaning given in the **IM determination**;
CPI	has the meaning given in the **IM determination**;

CPP proposal	has the meaning given in the **IM determination**;
CPP regulatory period	means the **regulatory period** 1 April 2018 to 31 March 2021 during which **Wellington Electricity** is subject to a customised price-quality path;

D

Director	has the meaning given in the **IM determination**;
Disclosure year	has the meaning given in the **IM determination**;
DPP regulatory period	means the **regulatory period** 1 April 2015 to 31 March 2020;

E

Earthquake readiness expenditure	has the meaning given in the **IM determination**, as varied in accordance with the agreed IM variations as specified in Schedule 11;
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**;

F

Forecast allowable revenue	means the amount calculated for each **assessment period** as specified in Schedule 1.4;
Forecast net allowable revenue	means the amount 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;
Forecast value of commissioned asset	has the meaning given in the **IM determination**, as varied in accordance with the agreed IM variations as specified in Schedule 11;

I

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, **Wellington Electricity** 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(e); but

(e) need not be the same person as the person who audits **Wellington Electricity** accounts for any other purpose;

Input methodology has the same meaning as in section 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;

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 **Wellington Electricity** 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;

N

New building standards rating	means, in relation to a building, the degree, as expressed as a percentage, to which the building meets the requirements of the building code (made under section 400 of the Building Act 2004): (a) that relate to how a building is likely to perform in an earthquake; and (b) that would be used to design a new building on the same site; and (c) as they applied on the day on which section 133AC of the Building Act 2004 came into force;

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 **Wellington Electricity** 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 **Wellington Electricity'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 **Wellington Electricity** 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 **Wellington Electricity** 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 **Wellington Electricity** 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 means the amount calculated as specified in

balance	paragraph (1) of Schedule 1.6;
Opex incentive amount	has the meaning given in the **IM determination**;

P

Pass-through balance	has the meaning given in the **IM determination**, as varied in accordance with the agreed IM variations as specified in Schedule 11;
Pass-through balance annual recovery	means the amount calculated as specified in paragraph (1) of Schedule 1.7;
Pass-through costs	has the meaning given in the **IM determination**;
Planned interruption	means any **interruption** other than an **unplanned interruption**;
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**;

Q

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**;

R

Recoverable costs	has the meaning given in the **IM determination**;
Regulatory period	has the meaning given in the **IM**

determination;

Resilience index	means an index spanning from 0 to 100 used to measure **Wellington Electricity's** performance in delivering improvements to its networks' ability to respond to a major earthquake;
Resilience index assessed value	means the **resilience index value** for an **assessment period** calculated in accordance with paragraph (8) of Schedule 3;
Resilience index cap	means the maximum **resilience index value** used for purposes of calculating the **quality incentive adjustment**, and is specified in Schedule 4;
Resilience index collar	means the minimum **resilience index value** used for purposes of calculating the **quality incentive adjustment**, and is specified in Schedule 4;
Resilience index minimum	means the **resilience index value** against which **Wellington Electricity's** compliance with the quality standards is assessed, and is specified in Schedule 3;
Resilience index target	means the **resilience index value** used for purposes of calculating the **quality incentive adjustment**, and is specified in Schedule 4;
Resilience index value	means a value on the **resilience index**;
Resilience performance value	means a value specified in column C of Schedule 9;
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:

actual net allowable revenue X (**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** ÷ **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 the sum of **SAIDI values** for an **assessment period** calculated in accordance with Schedule 3;
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 the **SAIDI value** against which **Wellington Electricity's** compliance with the quality standards is assessed, and is specified in Schedule 3;
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;
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 the sum of **SAIFI values** for an **assessment period** calculated in accordance with Schedule 3;
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 the **SAIFI value** against which **Wellington Electricity's** compliance with the quality standards is assessed, and is specified in Schedule 3;
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;
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 **Wellington Electricity** that are used or intended to be used for the supply of **electricity lines services**;

T

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

U

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**;
	V
Voluntary undercharging amount foregone	means the amount as specified in paragraph (5) of Schedule 1.5;
	W
Wash-up amount	means the amount calculated for each **assessment period** as specified in Schedule 1.5;
Wellington Electricity	means Wellington Electricity Lines Limited's **EDB**;
Working day	has the meaning given in section 2(1) of the **Act**.

5. Customised price-quality path

During the **CPP regulatory period**, **Wellington Electricity** 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 **Wellington Electricity**, which is attached as Schedule 11.

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 **Wellington Electricity** 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%.

Compliance with the price path

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

Wash-up amount calculation

8.4 **Wellington Electricity** must calculate the **wash-up amount** for each **assessment period** using the methodology specified in Schedule 1.5.

9. Quality standards

Compliance with quality standards

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

(a) comply with the annual reliability assessment specified in clause 9.3 for that **assessment period**; or

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

9.2 **Wellington Electricity** must, in respect of each **assessment period**, comply with the annual resilience assessment specified in clause 9.4 for that **assessment period**.

Annual reliability assessment

9.3 For the purpose of clause 9.1(a), to comply with the annual reliability assessment:

(a) **Wellington Electricity's SAIDI assessed value** for the **assessment period** must not exceed the **SAIDI limit** specified in Schedule 3; and

(b) **Wellington Electricity's SAIFI assessed value** for the **assessment period** must not exceed the **SAIFI limit** specified in Schedule 3.

Annual resilience assessment

9.4 For the purpose of clause 9.2, to comply with the annual resilience assessment, **Wellington Electricity's resilience index assessed value** for the **assessment period** must be at or above the **resilience index minimum** specified in Schedule 3.

10. Transactions

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

10.1 **Wellington Electricity** 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 **Wellington Electricity** 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 **Wellington Electricity**.

11. Annual compliance statements

Annual price-setting compliance statement

11.1 **Wellington Electricity** 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 two months after the start of the first **assessment period**; and

(ii) for the second to third **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 compatible with Microsoft Excel, with the 'annual price-setting compliance statement'.

11.2 The 'annual price-setting compliance statement' must:

(a) state whether or not **Wellington Electricity** 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 **Wellington Electricity**.

11.3 The 'annual price-setting compliance statement' must include the following information:

(a) **Wellington Electricity's** calculation of its **forecast revenue from prices** together with supporting information for all components of the calculation;

(b) **Wellington Electricity's** calculation of its **forecast allowable revenue** together with supporting information for all components of the calculation;

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

(d) if **Wellington Electricity** 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 **Wellington Electricity** 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 **Wellington Electricity** has:

(i) complied with the requirements to calculate the **wash-up amount** in clause 8.4 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) state whether or not **Wellington Electricity** has entered into any agreement with another **EDB** or **Transpowe**r for an **amalgamation, merger**, **major transaction or non-reopener transaction** in the **assessment period**;

(d) include a certificate in the form set out in Schedule 7, signed by at least one **director** of **Wellington Electricity**; and

(e) be accompanied by an assurance report meeting the requirements in Schedule 8, in respect of all information contained in the 'annual compliance statement'.

11.6 The 'annual compliance statement' must include any information reasonably necessary to demonstrate whether **Wellington Electricity** has complied with clause 8.4, clause 9, and clause 10.1, including, but not limited to:

<u>Wash-up amount calculation</u>

(a) details of the **wash-up amount** calculation as specified in clause 8.4, together with supporting information for all components of the calculation;

<u>Quality standards compliance</u>

(b) if **Wellington Electricity** has not complied with the annual reliability assessment in clause 9.3 for the **assessment period**, the reasons for not complying;

(c) if **Wellington Electricity** has not complied with the annual resilience assessment in clause 9.4 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 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) and the annual reliability assessments for the two previous **assessment periods**;

(f) a description of the policies and procedures which **Wellington Electricity** 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**;

(g) the cause of each **major event day** within the **assessment period**;

(h) for the annual resilience assessment, the **resilience index assessed value**, **resilience index minimum**, **resilience index cap**, **resilience index collar** and

resilience index target for the **assessment period**, and any supporting calculations (including those in Schedule 3);

(i) for each **resilience performance value** used in calculating the **resilience indexed assessed value**, an explanation of how **Wellington Electricity** has demonstrated that the measure specified in column B of Schedule 9 is met for that **assessment period**; and

(j) for each ‘attained resilience performance value’ determined in accordance with paragraph (5) of Schedule 3, ‘RPV attained’, ‘NBS target’, ‘NBS assess’, ‘NBS start’ and ‘RPV max’ and any supporting calculations (including those in paragraph (5) of Schedule 3)) for that **assessment period**.

Sue Begg, *Deputy Chair*

Dated at Wellington this 28th 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 $105,206,000.

Schedule 1.2: Calculation of forecast revenue from prices

Clause 8.3

(1) When setting **prices** for an **assessment period**, **Wellington Electricity** must calculate the 'forecast revenue from prices' for the **assessment period**.

(2) When calculating the 'forecast revenue from prices', **Wellington Electricity** 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 **quantit**y.

(4) All forecast **quantities** used to calculate the 'forecast revenue from prices' must be demonstrably reasonable.

Schedule 1.3: Forecast net allowable revenue

Clause 8.3

Assessment period ending	Forecast net allowable revenue ($000)
31 March 2019	105,206
31 March 2020	107,383
31 March 2021	109,531

Schedule 1.4: Calculation of forecast allowable revenue

Clause 8.3

(1) When setting **prices** for an **assessment period**, **Wellington Electricity** must calculate the 'forecast allowable revenue'.

(2) When calculating the 'forecast allowable revenue', **Wellington Electricity** must prepare a forecast of **pass-through costs** and a forecast of **recoverable costs**, excluding any **recoverable cost** that is a **revenue wash-up draw down amount**.

(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:

forecast net allowable revenue + **forecast pass-through and recoverable costs** + **opening wash-up account balance** + **pass-through balance annual recovery**

Schedule 1.5: Calculation of wash-up amount for an assessment period

Clause 8.4

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** *plus* **pass-through balance annual recovery**

(b) for the second to third **assessment periods**:

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

(3) For the purposes of paragraph (2)(b), 'actual net allowable revenue' for the second to third **assessment periods** means the amount calculated using the following formula:

'actual net allowable revenue' of the previous **assessment period** × (1+ ΔCPI_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:

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

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 **assessment period**, 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 third **assessment periods** is nil.

Schedule 1.6: Calculation of opening wash-up account balance

Clause 8.4

(1) The 'opening wash-up account balance' means:

(a) for the first **assessment period**, nil; and

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

(2) For the purpose of paragraph (1)(b), the 'closing wash-up account balance' means:

(a) for the first **assessment period**, nil; and

(b) for the second to third **assessment periods,** the amount calculated in accordance with the formula:

wash-up amount for the previous **assessment period** × (1 + **67th percentile estimate of post-tax WACC**)^2

Schedule 1.7: Calculation of pass-through balance annual recovery

Clause 8.4

(1) The 'pass-through balance annual recovery' means:

(a) for the first **assessment period**:

(i) for the purposes of calculating the 'forecast allowable revenue' in accordance with Schedule 1.4:

$$\frac{-\$9{,}634{,}000}{3} \times (1 + \mathbf{WACC})$$

(ii) for the purposes of calculating the 'actual allowable revenue' in accordance with Schedule 1.5:

$$\frac{-\mathbf{1} \times \textbf{pass through balance}}{3} \times (1 + \mathbf{WACC})$$

(b) for the second **assessment period**, for the purposes of calculating the 'forecast allowable revenue' and 'actual allowable revenue':

$$\frac{-\mathbf{1} \times \textbf{pass through balance}}{3} \times (1 + \mathbf{WACC})^2$$

(c) for the third **assessment period**, for the purposes of calculating the 'forecast allowable revenue' and 'actual allowable revenue':

$$\frac{-\mathbf{1} \times \textbf{pass through balance}}{3} \times (1 + \mathbf{WACC})^3$$

Where 'WACC' means **67th percentile estimate of post-tax WACC**.

Schedule 2.1: Recoverable costs

(1) The **forecast opex** used for calculating the **opex incentive amount** is specified in paragraph (1) of Schedule 2.2.

(2) The **forecast value of commissioned assets** and **retention factor** used for calculating the **capex incentive amount** are specified in paragraphs (2)-(3) of Schedule 2.2.

(3) The CPP proposal application fee, specified in clause 3.1.3(1)(h) of the **IM determination**, for **Wellington Electricity** is $23,000.

(4) The fee, specified in clause 3.1.3(1)(i) of the **IM determination**, for **Wellington Electricity** is the amount which the **Commission** notifies to **Wellington Electricity** in the **CPP regulatory period** as being payable in respect of the **Commission's** assessment of the **CPP proposal** and the determination of the customised price-quality path.

(5) The CPP verifier fee, specified in clause 3.1.3(1)(j) of the **IM determination**, for **Wellington Electricity** is nil.

(6) The CPP auditor fee, specified in clause 3.1.3(1)(k) of the **IM determination**, for **Wellington Electricity** is $71,386.05.

(7) The **extended reserves allowance** for **Wellington Electricity** must be approved in accordance with Schedule 5.

(8) The **quality incentive adjustment** for **Wellington Electricity** must be calculated in accordance with Schedule 4.

(9) The 'capex wash-up adjustment', specified in clause 3.1.3(1)(p) of the **IM determination**, as varied in accordance with the agreed IM variations as specified in Schedule 11, is $489,000 for **disclosure year** 2019, $518,000 for **disclosure year** 2020 and $350,000 for **disclosure year** 2021.

Schedule 2.2: Specified amounts for the incremental rolling incentive scheme

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

Table 2.2.1: Forecast opex for assessment periods of the CPP regulatory period 1 April 2018 – 31 March 2021

Assessment period ending	Forecast opex ($000)
31 March 2019	34,131
31 March 2020	35,184
31 March 2021	34,039

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

Table 2.2.2: Forecast value of commissioned assets for assessment periods of the CPP regulatory period 1 April 2018 – 31 March 2021

Assessment period ending	Forecast value of commissioned assets (readiness and non-readiness expenditure) ($000)
31 March 2019	39,516
31 March 2020	42,355
31 March 2021	44,485

(3) Under the agreed IM variations as specified in Schedule 11, **forecast value of commissioned assets** for the purposes of Part 3, Subpart 3, Section 3 of the I**M determination**, is comprised of:

(a) the ‘forecast aggregate value of commissioned assets’ determined by the **Commission**, for the relevant **disclosure year**, where the value of **earthquake readiness expenditure** is nil; and

(b) the 'forecast value of commissioned assets' specified by the **Commission** for the relevant **disclosure year**, where the value only reflects **earthquake readiness expenditure** to be incurred in the **CPP regulatory period**,

where values for the components specified in paragraph (3)(a) and (3)(b) and the **assessment period** to which they apply are set out in Table 2.2.3.

Table 2.2.3: Forecast aggregate value of commissioned assets (non-readiness) and forecast value of commissioned assets (readiness) for assessment periods of the CPP regulatory period 1 April 2018 – 31 March 2021

Assessment period ending	Forecast aggregate value of commissioned assets (non-readiness) ($000)	Forecast value of commissioned assets (readiness) ($000)
31 March 2019	31,197	8,319
31 March 2020	31,209	11,146
31 March 2021	32,603	11,882

(4) For the purposes of calculating the **capex incentive amount** for **Wellington Electricity** for the **CPP regulatory period**, the **retention factor** is 15%.

Schedule 3: Quality standards

Clause 9

(1) The **SAIDI limit**, **SAIFI limit**, **SAIDI unplanned boundary value**, **SAIFI unplanned boundary value** and **resilience index minimum** for **Wellington Electricity** for the **CPP regulatory period** are as set out in Table 3.1.

Table 3.1: SAIDI limit, SAIFI limit, SAIDI unplanned boundary value, SAIFI unplanned boundary value, and resilience index minimum
for the CPP regulatory period 1 April 2018 – 31 March 2021

Wellington Electricity	18/19	19/20	20/21
SAIDI limit	40.630	40.630	40.630
SAIDI unplanned boundary value	2.103	2.103	2.103
SAIFI limit	0.625	0.625	0.625
SAIFI unplanned boundary value	0.031	0.031	0.031
Resilience index minimum	20.0	40.0	60.0

Calculation of the SAIDI assessed value

(2) **Wellington Electricity's SAIDI assessed value** ($SAIDI_{assess}$) for an **assessment period** is calculated in accordance with the formula:

$$SAIDI_{assess} = (0.5 \times SAIDI_B) + SAIDI_C$$

where:

$SAIDI_B$ is the sum of the daily **SAIDI values** for **Class B interruptions** commencing within the **assessment period**; and

$SAIDI_C$ 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 SAIFI assessed value

(3) **Wellington Electricity's SAIFI assessed value** ($SAIFI_{assess}$) for an **assessment period** is calculated in accordance with the formula:

$$SAIFI_{assess} = (0.5 \times SAIFI_B) + SAIFI_C$$

where:

$SAIFI_B$ is the sum of the daily **SAIFI values** for **Class B interruptions** commencing within the **assessment period**; and

$SAIFI_C$ 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**.

Calculation of the resilience index assessed value

(4) Where **Wellington Electricity** can reasonably demonstrate that a measure in column B of Schedule 9 has been met as at the last day of the relevant **assessment period**, the corresponding **resilience performance value** is an 'attained resilience performance value' for the purposes of assessing a **resilience index assessed value** for that **assessment period.**

(5) The 'attained resilience performance value' ("$RPV_{attained}$") for each of the buildings specified in Schedule 10 is determined as follows:

(a) where either NBS_{assess} or NBS_{start} has not been determined in the manner set out below, $RPV_{attained}$ will be zero.

(b) where both NBS_{assess} and NBS_{start} have been determined in the manner set out below, $RPV_{attained}$ is determined in accordance with the formula:

$$RPV_{attained} = (NBS_{assess} - NBS_{start}) \times \left(\frac{RPV_{max}}{NBS_{target} - NBS_{start}}\right)$$

$RPV_{attained}$ is the attained resilience performance value for a specific building used for the purposes of calculating **Wellington Electricity's resilience index assessed value** in accordance with paragraph (8)

NBS_{target} is 67% (i.e. 0.67)

NBS_{assess} is **new building standards rating** for a building in column D of Schedule 10, where for the purposes of this clause any **new building standards rating** above 67% is deemed to be 67%

NBS_{start} for a building in column D of Schedule 10 is either:

(a) the corresponding 'NBS start value' in column G of Schedule 10; or

(b) where no such value is available, the **new building standards rating** that **Wellington Electricity** can reasonably demonstrate was determined prior to commencement of any seismic strengthening work during the **CPP regulatory period**

RPV_{max} = is the maximum resilience performance value that can be attained for the building, which is specified in column F of Schedule 10.

(6) The **new building standards rating** of a building must be determined by either:

(a) a detailed seismic assessment of the building in accordance with the 'EPB methodology', as specified under section 133AK of the Building Act 2004; or

(b) an alternative methodology approved by the **Commission**.

(7) The **new building standards rating** of a building for an **assessment period** must be determined on or before the final day of that **assessment period**.

(8) **Wellington Electricity's resilience index assessed value** ($RESIL_{assess}$) for an **assessment period** is the sum of 'attained resilience performance values' for that **assessment period**.

Schedule 4: How to calculate the quality incentive adjustment

(1) The **quality incentive adjustment** must be calculated by **Wellington Electricity** within 50 **working days** following the expiration of the **assessment period** in accordance with paragraph (5), 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 **Wellington Electricity** during the **CPP regulatory period** 1 April 2018 to 31 March 2021 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 2021

Wellington Electricity	18/19	19/20	20/21
SAIDI target	35.4358	35.4358	35.4358
SAIDI collar	30.2414	30.2414	30.2414
SAIDI cap	40.6302	40.6302	40.6302

(3) The **SAIFI target**, **SAIFI collar**, and **SAIFI cap** for **Wellington Electricity** during the **CPP regulatory period** 1 April 2018 to 31 March 2021 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 2021

Wellington Electricity	18/19	19/20	20/21
SAIFI target	0.5465	0.5465	0.5465
SAIFI collar	0.4682	0.4682	0.4682
SAIFI cap	0.6248	0.6248	0.6248

(4) The **resilience index target**, **resilience index collar**, and **resilience index cap** for **Wellington Electricity** during the third **assessment period** are as set out in Table 4.3.

Table 4.3: resilience quality incentive measures for the third assessment period

Wellington Electricity	20/21

Resilience index target	100
Resilience index collar	0
Resilience index cap	100

(5) The 'quality incentive adjustment' is calculated in accordance with the following formula:

$$S_{TOTAL} = S_{SAIDI} + S_{SAIFI} + S_{RESILIENCE}$$

where:

S_{TOTAL} is the 'quality incentive adjustment' applicable as a **recoverable cost**;

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

S_{SAIFI} is the amount calculated in accordance with paragraph (8); and

$S_{RESILIENCE}$ is the amount calculated in accordance with paragraph (10).

(6) For the purposes of paragraph (5):

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

$$S_{SAIDI} = SAIDI_{IR} \times (SAIDI_{target} - SAIDI_{assess})$$

where:

$SAIDI_{IR}$ is the amount calculated in accordance with paragraph (7);

$SAIDI_{target}$ is the **SAIDI target** specified for **Wellington Electricity** for the **assessment period**; and

$SAIDI_{assess}$ is the **SAIDI assessed value** for the **assessment period**, calculated in accordance with Schedule 3, 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 $SAIDI_{collar}$.

(7) For the purposes of paragraph (6), '$SAIDI_{IR}$' is the amount calculated in accordance with the following formula:

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

where:

$SAIDI_{cap}$	is the **SAIDI cap** specified for **Wellington Electricity** for the **assessment period**;
$SAIDI_{target}$	is the **SAIDI target** specified for **Wellington Electricity** for the **assessment period**; and
REV_{RISK}	is 1% of the **actual net allowable revenue** for **Wellington Electricity** for the first **assessment period** specified in Schedule 1.1.

(8) For the purposes of paragraph (5):

(a) S_{SAIFI} is the amount, subject to subparagraph (b), calculated in accordance with the following formula:

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

where:

$SAIFI_{IR}$	is the amount calculated in accordance with paragraph (8);
$SAIFI_{target}$	is the **SAIFI target** specified for **Wellington Electricity** for the **assessment period**; and
$SAIFI_{assess}$	is the **SAIFI assessed value** for the **assessment period**, calculated in accordance with Schedule 3, subject to subparagraph (b).

(b) Where $SAIFI_{assess}$ is:

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

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

(9) For the purposes of paragraph (8), '$SAIFI_{IR}$' is the amount calculated in accordance with the following formula:

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

where:

$SAIFI_{cap}$	is the **SAIFI cap** specified for **Wellington Electricity** for the **assessment period**;

$SAIFI_{target}$ is the **SAIFI target** specified for **Wellington Electricity** for the **assessment period**; and

REV_{RISK} is 1% of the **actual net allowable revenue** for **Wellington Electricity** for the first **assessment period** specified in Schedule 1.1.

(10) For the purposes of paragraph (5):

(a) $S_{RESILIENCE}$ is:

(i) for the first **assessment period** and the second **assessment period**, nil; and

(ii) for the third **assessment period**, the amount, subject to subparagraph (b), calculated in accordance with the following formula:

$$S_{RESILIENCE} = RESIL_{IR} \times \left(RESIL_{target} - RESIL_{assess}\right)$$

where:

$RESIL_{IR}$ is the amount calculated in accordance with paragraph (11);

$RESIL_{target}$ is the **resilience index target** specified for **Wellington Electricity** for the **assessment period**; and

$RESIL_{assess}$ is the **resilience index assessed value**, calculated in accordance with Schedule 3, subject to subparagraph (b).

(b) Where $RESIL_{assess}$ is:

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

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

(11) For the purposes of paragraph (10), '$RESIL_{IR}$' is the amount calculated in accordance with the following formula:

$$RESIL_{IR} = \frac{-1 \times REV_{RISK}}{RESIL_{cap} - RESIL_{collar}}$$

where:

$RESIL_{cap}$ is the **resilience index cap** specified for **Wellington Electricity** for the **assessment period**;

$RESIL_{collar}$ is the **resilience index collar** specified for **Wellington Electricity** for the **assessment period**; and

REV_{RISK} is $34,567,000 × 15%.

Schedule 5: Approval of extended reserves allowances

(1) **Wellington Electricity** must, no later than 70 **working days** following the end of an **assessment period**, submit an application for approval of an **extended reserves allowanc**e 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 **Wellington Electricity** 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 **Wellington Electricity** 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 **Wellington Electricity** 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 **Wellington Electricity**, 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 Wellington Electricity certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached annual price-setting compliance statement of Wellington Electricity, and related information, prepared for the purposes of the *Wellington Electricity Lines 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(d)

I/We, [*insert full name/s*], being director/s of Wellington Electricity certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached annual compliance statement of Wellington Electricity, and related information, prepared for the purposes of the *Wellington Electricity Lines 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(e)

For the purpose of clause 11.5(e), **Wellington Electricity** 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 **Wellington Electricity** 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, **Wellington Electricity** 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 **Wellington Electricity'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, **Wellington Electricity** has complied, in all material respects, with the *Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018* in preparing the **annual compliance statement**.

Schedule 9: How to assess performance on resilience index

A	B	C
Mobile substations		
Resilience performance	**Measured by demonstrating**	**Resilience performance value**
Ability to get a key Hutt area substations downed in and earthquake up and running	Wellington Electricity has one mobile 10MVA substation +11KV portable switch board deployed in the Hutt region	9.17
Ability to get key CBD substations downed in and earthquake up and running	Wellington Electricity has one mobile 10MVA substation deployed in the Wellington Central Business District Area	6.55
Emergency hardware		
Resilience performance	**Measured by demonstrating**	**Resilience performance value**
Capability to replace 33kV fluid filled cables, damaged in and earthquake, with overhead lines.	Spare hardware required to construct at least **4km** emergency overhead power lines to replace 33kV fluid filled cable damage.	3.26
	Spare hardware required to construct at least **8km** emergency overhead power lines to replace 33kV fluid filled cable damage.	3.26
	Spare hardware required to construct at least **12km** emergency overhead power lines to replace 33kV fluid filled cable damage.	3.26
	Spare hardware required to construct at least **16km** emergency overhead power lines to replace 33kV fluid filled cable damage.	3.26
	Spare hardware required to construct at least **19km** emergency overhead power lines to replace 33kV fluid filled cable damage.	2.45
Capability to repair damaged 33KV XLPE cable damaged in an earthquake	Wellington Electricity holds stock of 12 cable joining kits and 500m 33KV cable lengths.	0.27
Ability to respond to 11KV cable and equipment faults		
Resilience performance	**Measured by demonstrating**	**Resilience performance value**
Capability to respond to 11KV cable and equipment faults	WELL holds 12 11kV transformers and 30 units of 11kV switchgear available for deployment in the case of an earthquake.	3.22
	WELL holds three sets of cable fault location equipment available for deployment in the case of an earthquake.	2.01
	WELL holds 200 11kV cable joint repair kits available for deployment in the case of an earthquake.	1.95
	WELL holds 400 11kV cable joint repair kits available for deployment in the case of an earthquake.	1.95
	WELL holds 600 11kV cable joint repair kits available for deployment in the case of an earthquake.	1.95
	WELL holds 800 11kV cable joint repair kits available for deployment in the case of an earthquake.	1.95

A	B	C
Resilience performance	**Measured by demonstrating**	**Resilience performance value**
	WELL holds 1018 11kV cable joint repair kits available for deployment in the case of an earthquake.	2.13
	WELL holds 4,090m of spare 11kV cable available for deployment in the case of an earthquake.	0.94
	WELL holds a generation connection transformer available for deployment in the case of an earthquake.	0.34
Communication systems		
Resilience performance	**Measured by demonstrating**	**Resilience performance value**
Ability to maintain communications and run network systems following a major earthquake	WELL has established a containerised data centre at Haywards with back up generation of 500kVA.	2.93
	WELL has established a containerised data centre in Newtown with back up generation of 500kVA.	5.01
	WELL has established a containerised data centre Porirua with back up generation of 500kVA.	5.01
	WELL has a communications connection between the primary control centre at Petone head office and disaster recovery control centre at Haywards, as well as between the other two data centres; and	2.85
	WELL has a system in place that will allow field service providers access to the Push-Wireless Digital Network in the case of a major earthquake.	1.68

Schedule 10: How to assess strengthening of key substations' performance on resilience index

D	E	F	G
Seismic strengthening of substation buildings			
Substation building	**Target resilience standard**	**Maximum resilience performance value**	**NBS start value**
Customhouse Quay 40	Customhouse Quay 40 Zone substation building strengthened to at least 67% of NBS	0.60	55%
174 Victoria Street (TS847 & TS743)	174 Victoria Street (TS847 & TS743) Zone substation building strengthened to at least 67% of NBS	0.50	50%
Flagstaff hill (Flagstaff Line Street)	Flagstaff hill (Flagstaff Line Street) Zone substation building strengthened to at least 67% of NBS	0.80	45%
Frederick Street	Frederick Street Zone substation building strengthened to at least 67% of NBS	0.73	16%
Wallace Street	Wallace Street Zone substation building strengthened to at least 67% of NBS	0.67	56%
Wha Street (TS703)	Wha Street (TS703) Zone substation building strengthened to at least 67% of NBS	0.27	58%
209 Hutt Road	209 Hutt Road Zone substation building strengthened to at least 67% of NBS	0.20	40%
69 Miramar Avenue	69 Miramar Avenue Zone substation building strengthened to at least 67% of NBS	0.47	49%
Messines Road (TS718) 6	Messines Road (TS718) 6 Zone substation building strengthened to at least 67% of NBS	0.40	41%
Upland Road 59	Upland Road 59 Zone substation building strengthened to at least 67% of NBS	0.33	45%
139 Thorndon Quay	139 Thorndon Quay Zone substation building strengthened to at least 67% of NBS	0.47	48%
Chaytor Street	Chaytor Street Zone substation building strengthened to at least 67% of NBS	0.40	48%
22 Donald Street	22 Donald Street Zone substation building strengthened to at least 67% of NBS	0.23	58%
92 Washington Avenue	92 Washington Avenue Zone substation building strengthened to at least 67% of NBS	0.20	40%
Palm Grove	Palm Grove Zone substation building strengthened to at least 67% of NBS	0.00	67%
Moore Street	Moore Street Zone substation building strengthened to at least 67% of NBS	0.66	40%
36 Dixon Street	36 Dixon Street Zone substation building strengthened to at least 67% of NBS	0.37	38%
Karori	Karori Zone substation building strengthened to at least 67% of NBS	0.53	40%
2 Awa Road	2 Awa Road Zone substation building strengthened to at least 67% of NBS	0.20	40%
Colway Street	Colway Street Zone substation building strengthened to at least 67% of NBS	0.17	40%
215 The Terrace	215 The Terrace Zone substation building strengthened to at least 67% of NBS	0.33	40%

D	E	F	G
Substation building	**Target resilience standard**	**Maximum resilience performance value**	**NBS start value**
Hataitai	Hataitai Zone substation building strengthened to at least 67% of NBS	0.28	60%
37 Mersey Street	37 Mersey Street Zone substation building strengthened to at least 67% of NBS	0.17	40%
Nairn Street	Nairn Street Zone substation building strengthened to at least 67% of NBS	0.53	43%
The Terrace	The Terrace Zone substation building strengthened to at least 67% of NBS	0.00	70%
Bowen Hospital	Bowen Hospital Zone substation building strengthened to at least 67% of NBS	0.28	45%
Wayside West	Wayside West Zone substation building strengthened to at least 67% of NBS	0.20	49%
Ira Street 8	Ira Street 8 Zone substation building strengthened to at least 67% of NBS	0.86	34%
Waikowhai	Waikowhai Zone substation building strengthened to at least 67% of NBS	0.71	40%
University	University Zone substation building strengthened to at least 67% of NBS	0.60	-
MacDonald Crescent	MacDonald Crescent Zone substation building strengthened to at least 67% of NBS	0.53	-
Makara Radio	Makara Radio Zone substation building strengthened to at least 67% of NBS	0.33	-
Wainuiomata	Wainuiomata Zone substation building strengthened to at least 67% of NBS	0.66	39%
Gracefield	Gracefield Zone substation building strengthened to at least 67% of NBS	1.00	47%
Seaview	Seaview Zone substation building strengthened to at least 67% of NBS	0.53	34%
Petone	Petone Zone substation building strengthened to at least 67% of NBS	0.53	37%
Korokoro	Korokoro Zone substation building strengthened to at least 67% of NBS	0.52	45%
Waterloo	Waterloo Zone substation building strengthened to at least 67% of NBS	0.63	45%
Trentham	Trentham Zone substation building strengthened to at least 67% of NBS	0.53	45%
Maidstone	Maidstone Zone substation building strengthened to at least 67% of NBS	0.53	45%
Brown Owl	Brown Owl Zone substation building strengthened to at least 67% of NBS	0.57	40%
Ngauranga	Ngauranga Zone substation building strengthened to at least 67% of NBS	0.66	-
Johnsonville	Johnsonville Zone substation building strengthened to at least 67% of NBS	0.53	55%
Tawa	Tawa Zone substation building strengthened to at least 67% of NBS	0.50	42%
Kenepuru	Kenepuru Zone substation building strengthened to at least 67% of NBS	0.80	20%

D	E	F	G
Substation building	**Target resilience standard**	**Maximum resilience performance value**	**NBS start value**
Porirua	Porirua Zone substation building strengthened to at least 67% of NBS	0.40	60%
Waitangirua	Waitangirua Zone substation building strengthened to at least 67% of NBS	0.40	60%
Titahi Bay	Titahi Bay Zone substation building strengthened to at least 67% of NBS	0.53	45%
Mana	Mana Zone substation building strengthened to at least 67% of NBS	0.33	-
Plimmerton	Plimmerton Zone substation building strengthened to at least 67% of NBS	0.00	75%
Whitemans Road	Whitemans Road Zone substation building strengthened to at least 67% of NBS	0.27	55%
Queen Street	Queen Street Zone substation building strengthened to at least 67% of NBS	0.20	55%
41 Barber Grove	41 Barber Grove Zone substation building strengthened to at least 67% of NBS	0.27	45%
Marsden Street	Marsden Street Zone substation building strengthened to at least 67% of NBS	0.17	61%
Downer Street	Downer Street Zone substation building strengthened to at least 67% of NBS	0.17	60%
Park Street B	Park Street B Zone substation building strengthened to at least 67% of NBS	0.13	55%
Johnsonville Town Centre	Johnsonville Town Centre Zone substation building strengthened to at least 67% of NBS	0.20	45%
Main Road 24	Main Road 24 Zone substation building strengthened to at least 67% of NBS	0.23	45%
9 Semple Street	9 Semple Street Zone substation building strengthened to at least 67% of NBS	0.20	37%
415 Adelaide Road	415 Adelaide Road Zone substation building strengthened to at least 67% of NBS	0.30	-
130 Rintoul Street	130 Rintoul Street Zone substation building strengthened to at least 67% of NBS	0.30	-
254 Willis Street	254 Willis Street Zone substation building strengthened to at least 67% of NBS	0.33	-
Kings Crescent	Kings Crescent Zone substation building strengthened to at least 67% of NBS	0.27	-
Haywards Load Control	Haywards Load Control Zone substation building strengthened to at least 67% of NBS	0.50	-
3 Wall Place	3 Wall Place Zone substation building strengthened to at least 67% of NBS	0.27	-
Broken Hill Road A	Broken Hill Road A Zone substation building strengthened to at least 67% of NBS	0.27	-
Housing Corporation	Housing Corporation Zone substation building strengthened to at least 67% of NBS	0.40	-
Hutt Park Road B	Hutt Park Road B Zone substation building strengthened to at least 67% of NBS	0.28	-
Dulux	Dulux Zone substation building strengthened to at least 67% of NBS	0.27	-

D	E	F	G
Substation building	**Target resilience standard**	**Maximum resilience performance value**	**NBS start value**
BP Terminal	BP Terminal Zone substation building strengthened to at least 67% of NBS	0.43	-
Hutt Rec A	Hutt Rec A Zone substation building strengthened to at least 67% of NBS	0.23	-
Knights Road	Knights Road Zone substation building strengthened to at least 67% of NBS	0.30	-
Waterloo Road A	Waterloo Road A Zone substation building strengthened to at least 67% of NBS	0.27	-
VIC	VIC Zone substation building strengthened to at least 67% of NBS	0.30	-
66 Mabey Road	66 Mabey Road Zone substation building strengthened to at least 67% of NBS	0.27	-
Eastern Hutt Road A	Eastern Hutt Road A Zone substation building strengthened to at least 67% of NBS	0.27	-
Fergusson Drive A	Fergusson Drive A Zone substation building strengthened to at least 67% of NBS	0.23	-
Bathurst Street	Bathurst Street Zone substation building strengthened to at least 67% of NBS	0.23	-
26 Gower Street (TS801)	26 Gower Street (TS801) Zone substation building strengthened to at least 67% of NBS	0.30	-
Islington Street	Islington Street Zone substation building strengthened to at least 67% of NBS	0.27	-
Fire Station	Fire Station Zone substation building strengthened to at least 67% of NBS	0.50	-
Keys Street	Keys Street Zone substation building strengthened to at least 67% of NBS	0.30	-
Whakatiki Street A	Whakatiki Street A Zone substation building strengthened to at least 67% of NBS	0.30	-
Whakatiki Street B	Whakatiki Street B Zone substation building strengthened to at least 67% of NBS	0.27	-
Bill Cutting Place	Bill Cutting Place Zone substation building strengthened to at least 67% of NBS	0.30	-
32 Dragon Street	32 Dragon Street Zone substation building strengthened to at least 67% of NBS	0.43	-
Awatea Street A	Awatea Street A Zone substation building strengthened to at least 67% of NBS	0.40	-
Lyttelton Avenue B	Lyttelton Avenue B Zone substation building strengthened to at least 67% of NBS	0.33	-
St Andrews Road	St Andrews Road Zone substation building strengthened to at least 67% of NBS	0.47	-
41 Bloomfield Terrace	41 Bloomfield Terrace Zone substation building strengthened to at least 67% of NBS	0.23	-
25 Mein Street	25 Mein Street Zone substation building strengthened to at least 67% of NBS	0.27	-

Schedule 11: IM variation

Clause 6.2

Deed to vary the Input Methodologies that will apply to Wellington Electricity Lines Limited's CPP determination

This is a deed between **Wellington Electricity Lines Limited** (Wellington Electricity) and the **Commerce Commission** (Commission) with regard to an agreed variation in accordance with s 53V(2)(c) of the Commerce Act 1986 (the Act).

Background

On 5 December 2017, Wellington Electricity submitted an application for a customised price-quality path to the Commission. The Commission is currently in the process of evaluating Wellington Electricity's customised price-quality path proposal for the purpose of making a determination, as required by s 53T and 53V of the Act.

In accordance with s 52S of the Act, the Commission must apply all relevant input methodologies.

The Commission and Wellington Electricity have agreed to the following variations to the input methodologies in accordance with s 53V(2)(c) of the Act that will apply to the Commission's determination under s 52P of the Act.

Deed

1. This deed varies the *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (the IM Determination) as it applies to the Commission's customised price-quality path determination for Wellington Electricity's customised price-quality path proposal of 5 December 2017.

2. Clause 1.1.4(2) of the IM Determination is varied so that:

   2.1 A new definition for '2015 DPP determination' is added to read:

   "means the *Electricity Distribution Service Default Price-Quality Path Determination 2015* [2014], NZCC 33, including all amendments as of 9 July 2015;"

   2.2 A new definition for '2015 DPP financial model' is added to read:

   "means the spreadsheet entitled 'Financial-model-EDB-DPP-2015-2020' published by the **Commission** alongside the **2015 DPP determination**;"

   2.3 The definition of 'building blocks allowable revenue before tax' is varied by replacing the existing text with the following text:

   "means, for-

   (a) **disclosure years** 2019 and 2020, the sum of-

   (i) MAR_{bt} (DPP), determined in accordance with clause 5.3.2(7); and

   (ii) $BBAR_{bt}$ (readiness), determined in accordance with clause 5.3.2(1);

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(b) **disclosure year** 2021, the sum of-

(i) $BBAR_{bt}$ (DPP), determined in accordance with clause 5.3.2(8); and

(ii) $BBAR_{bt}$ (readiness), determined in accordance with clause 5.3.2(1);"

2.4 The definition of 'capex wash-up adjustment' is varied by replacing the existing text with the following text:

'means the amount specified in a **CPP determination**';

2.5 The definition of 'CPP regulatory period' is varied by replacing the existing text with the following text:

"means-

(a) in relation to a **CPP proposal**, the period beginning on the first day of **disclosure year** 2019 and terminating on the last day of **disclosure year** 2021; and

(b) in relation to a particular **CPP**, the period to which the relevant **CPP determination** relates;"

2.6 A new definition for 'DPP Other Regulated Income and Disposed Assets Model' is added to read-

"means the spreadsheet entitled 'other-regulated-income-and-disposed-assets-model-EDB-DPP-2015-2020' published by the **Commission** alongside the **2015 DPP determination**;"

2.7 A new definition for 'earthquake readiness expenditure' is added to read:

"means those **commissioned assets** and **operating expenditure** which reflect additional expenditure to improve Wellington Electricity Lines Limited's readiness to respond in the event of a major earthquake;"

2.8 The definition of 'forecast regulatory tax allowance' is varied by replacing the existing text with the following text:

"means, the sum of-

(a) forecast regulatory tax allowance (DPP), determined in accordance with clause 5.3.13(5); and

(b) forecast regulatory tax allowance (readiness), determined in accordance with clause 5.3.13(1);"

2.9 The definition of 'forecast value of commissioned asset' is varied by replacing the existing text with the following text:

"means, for the purposes of-

(a) Part 3, Subpart 3, Section 3, for-

(i) **disclosure years** 2019 and 2020, the sum of-the **forecast aggregate value of commissioned assets** determined by the **Commission** for the relevant **disclosure year** in the **2015 DPP determination**; and

the 'forecast value of commissioned assets' specified by the **Commission** for the relevant **disclosure year**, where the value reflects **earthquake readiness expenditure** to be incurred during the **CPP regulatory period**;

(ii) **disclosure year 2021**, the sum of-

the **forecast aggregate value of commissioned assets** determined by the **Commission** for **disclosure year 2021**, where for the purposes of determining this value, the value of **earthquake readiness expenditure** is nil; and

the 'forecast value of commissioned assets' specified by the **Commission** for **disclosure year** 2021, where the value only reflects **earthquake readiness expenditure** to be incurred during the **CPP regulatory period**;

(b) all other sections, the value determined in accordance with clause 5.3.11;"

2.10 The definition of 'next period' is varied by replacing the existing text with the following text:

"means the period beginning on the first day of **disclosure year** 2019 and terminating on the last day of **disclosure year** 2021;"

2.11 A new definition of 'pass-through balance' is added to read-

"has the meaning specified in clause 3.1.1(12);"

2.12 A new definition of 'pass-through balance annual recovery' is added to read-

"has the meaning specified in clause 3.1.1(14);"

2.13 A new definition of 'pass-through prices' is added to read-

"means the portion of **prices** attributable to **pass-through costs** and **recoverable costs**;"

3. Clause 3.1.1(4) of the IM Determination is varied by replacing the existing text with the following text:

"(4) For the purpose of this subpart, 'forecast allowable revenue' as specified in a **DPP determination** or **CPP determination** includes-

(a) **forecast net allowable revenue**;

(b) forecast **pass-through costs**;

(c) 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);

(d) the balance of the **wash-up account** available for draw down; and

(e) **pass-through balance annual recovery.**"

4. Clause 3.1.1(12) is added to read:

"(12) 'Pass-through balance' is the cumulative difference between the revenue from **pass-through prices** and the sum of **pass-through costs** and **recoverable costs**, calculated in accordance with clause 8.6 of the **2015 DPP determination**, for the 'assessment period' (as defined in that determination) ending 31 March 2018."

5. Clause 3.1.1(13) is added to read:

"(13) The **pass-through balance** must be returned, or in the case of a negative amount recovered, over the **CPP regulatory period** as the **pass-through balance annual recovery**, as specified in a **CPP determination**."

6. Clause 3.1.1(14) is added to read:

"(14) 'Pass-through balance annual recovery' means an amount which an **EDB** must calculate for each **disclosure year** in accordance with the method specified in a **CPP determination**, where the **CPP determination** methodology allows for the recovery or return of the **pass-through balance** over the **CPP regulatory period** and includes any time value of money adjustment using a rate equal to the **67th percentile estimate of WACC**."

7. Clause 3.1.3(1)(p) of the IM Determination is varied by replacing the existing text with the following text:

"(p) a **capex wash-up adjustment**;"

8. Clause 3.1.3(8) and 3.1.3(9) are deleted.

9. Clause 3.1.3(13)(e) of the IM Determination is varied by replacing the existing text with the following text:

"(e) 'actual allowable revenue' means, for a **disclosure year**, an amount calculated in accordance with a **DPP determination** or **CPP determination** that includes-

(i) **actual net allowable revenue**;

(ii) **pass-through costs**;

(iii) **recoverable costs**, including any **revenue wash-up draw down amount**; and

(iv) **pass-through balance annual recovery**;"

10. Clause 3.1.3(13)(f) of the IM Determination is varied by replacing the existing text with the following text:

"(f) '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**;"

11. Clause 3.1.3(13)(l) is deleted.

12. Clause 3.3.2(1) and 3.3.2(2) of the IM Determination is varied by replacing the existing text with the following text:

"(1) An **opex incentive amount** must be calculated for each **disclosure year** of a **regulatory period**, subject to subclause (3).

(2) The 'opex incentive amount' for a **disclosure year** is an amount equal to the sum of-

(a) all **amounts carried forward** into that **disclosure year** from a **disclosure year** in a preceding **regulatory period**; and

(b) where an **adjustment to the opex incentive** is applicable during the **regulatory period** under clause 3.3.4(1)-

(i) the amount calculated in accordance with the following formula for a **disclosure year** in the **regulatory period**-

$$\left(\frac{\textit{Adjustment to the opex incentive}}{l-1}\right) \times (1+r)^{y+0.5}$$

where–

l is the number of **disclosure years** in the **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 **regulatory period**."

13. Clause 3.3.2(3) is deleted.

14. Clause 3.3.2(4) is renumbered as clause 3.3.2(3).

15. Clause 3.3.11 of the IM Determination is varied by replacing the existing text with the following text:

"(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–

(a) the sum of the **value of commissioned assets** for each **disclosure year** of that preceding **DPP regulatory period**,

instead of–

(b) 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

(c) 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**.

(2) For the purpose of subclause (1)–

(a) 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;**

(b) the series of building blocks allowable revenue before tax for each **disclosure year** of the preceding **DPP regulatory period** must–

(i) 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), (iii), (iv), (v) and (vi);

(ii) 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

(iii) 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

(iv) for the purpose of subparagraph (i), for the **disclosure years** in which **Wellington Electricity Lines Limited** is subject to a **CPP**, building blocks allowable revenue before tax is equal to the sum of-

(1) $BBAR_{bt}$(DPP), determined in accordance with subparagraph (v); and

(2) $BBAR_{bt}$(readiness), determined in accordance with clause 5.3.2(1); and

(v) for the purpose of subparagraph (iv), '$BBAR_{bt}$(DPP)' means-

(1) for **disclosure years** 2019 and 2020, the value determined in accordance with the formula for 'BBAR before tax in revenue date terms', for Wellington Electricity Lines Limited for the applicable **disclosure year**, specified in the **2015 DPP Financial Model**; and

(2) for **disclosure year** 2021, the value determined in accordance with clause 5.3.2(8); and

(vi) for the purpose of subparagraphs (i), (ii), (iv) and (v)-

(1) $BBAR_{bt}$(DPP) is calculated using the sum of the **value of commissioned assets** and the sum of **depreciation** excluding that relating to **earthquake readiness expenditure**; and

(2) $BBAR_{bt}$(readiness) is calculated using the sum of the **value of commissioned assets** and the sum of **depreciation** for **earthquake readiness expenditure**; and

(c) 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

(d) 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."

16. Clause 5.3.2(1) of the IM Determination is varied by replacing the existing text with the following text:

"(1) '$BBAR_{bt}$ (readiness)' 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* × (TF_{VCA} - 1) + **term credit spread differential allowance** × *TF* - **total revaluation**) ÷ (TF_{rev} - **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*) ÷ (TF_{rev} - **corporate tax rate** × *TF*)

where the values of each term specified in this formula, and the terms used to calculate those values, only reflect **earthquake readiness expenditure** incurred during the **CPP regulatory period**."

17. Clause 5.3.2(7) is renumbered to 5.3.2(9);

18. A new clause 5.3.2(7) is added to read:

"(7) 'MAR_{bt} (DPP)' means for **disclosure year** 2019 and **disclosure year** 2020, the value for 'maximum allowable revenue before tax in revenue-date terms for applicable X factor', for Wellington Electricity Lines Limited for the applicable **disclosure year**, specified in the **2015 DPP financial model** *less* an adjustment for actual CPI under the **2015 DPP determination**, being $2,893,000 for **disclosure year** 2019 and $3,664,000 for **disclosure year** 2020."

19. Clause 5.3.2(8) is added to read:

"(8) '$BBAR_{bt}$ (DPP)' means the value determined in accordance with the formula for 'BBAR before tax in revenue date terms, calculation not referencing tax', as applied in the **2015 DPP financial model** for **disclosure year** 2020, applied to **disclosure year** 2021-

(a) where the value for **disclosure year** 2021 of each term in the formula specified for 'BBAR before tax in revenue date terms, calculation not referencing tax' is determined in accordance with the respective formulas applied in the **2015 DPP financial model** for **disclosure year** 2020, applied to **disclosure year** 2021; and

(b) for terms with no formula in the **2015 DPP financial model**, the value for **disclosure year** 2021 is determined as follows-

(i) '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

that is undergoing assessment by the **Commission**, the amount of **operating expenditure** determined for the relevant **disclosure year** by the **Commission**;

(ii) 'value of commissioned assets' means, in relation to a **CPP proposal**-

that has not been assessed by the **Commission**, the **forecast aggregate value of commissioned assets** for the relevant **disclosure year** included by the **CPP applicant** in its **CPP proposal**; or

that is undergoing assessment by the **Commission**, the **forecast aggregate value of commissioned assets** determined for the relevant **disclosure year** by the **Commission**;

(iii) 'forecast changes in CPI used for revaluations' is determined in accordance with the following methodology-

Forecast CPI for revaluations is:

for a quarter prior to the quarter for which the vanilla **WACC** applicable to the relevant **DPP 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 the paragraph directly 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 the paragraph directly above extended by the forecast change; and

in respect of later quarters, the forecast last applying under the paragraph directly above 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 the paragraph directly above;

(iv) 'disposed assets' is the value of that term for **disclosure year** 2021 specified in the **DPP Other Regulated Income and Disposed Assets Model**;

(v) 'other regulated income' is the value of that term for **disclosure year** 2021 specified in the **DPP Other Regulated Income and Disposed Assets Model**,

where, for the purposes of determining $BBAR_{bt}$ (DPP), the value of **earthquake readiness expenditure** is nil."

20. Clause 5.3.12 of the IM Determination is varied by replacing the existing text with the following text:

"(1) 'Opening works under construction' means, in respect of-

(a) the first **disclosure year** of the **next period**, nil; and

(b) any year other than the first **disclosure year** of the **next period**, **closing works under construction** of the preceding **disclosure year**.

(2) 'Closing works under construction' is the amount determined in accordance with the formula-

opening works under construction + **capital expenditure** - **forecast value of commissioned assets**,

where the values of each term specified in this formula and the terms used to calculate those values only reflect **earthquake readiness expenditure** incurred during the **CPP regulatory period**."

21. Clause 5.3.13(1) of the IM Determination is varied by replacing the existing text with the following text:

"(1) 'Forecast regulatory tax allowance (readiness)' is, where forecast **regulatory net taxable income** is-

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

(b) a negative number, nil."

22. Clause 5.3.13(1A) is added to read:

"(1A) The value of forecast **regulatory net taxable income** in subclause (1), and the terms used to calculate that value, must only reflect **earthquake readiness expenditure** incurred during the **CPP regulatory period**."

23. Clause 5.3.13(5) is added to read:

"(5) 'Forecast regulatory tax allowance (DPP)' means, for-

(a) **disclosure years** 2019 and 2020, the value for 'regulatory tax allowance', for Wellington Electricity Lines Limited for the applicable **disclosure year**, specified in the **2015 DPP Financial Model**;

(b) **disclosure year** 2021, the value determined in accordance with the formula for 'regulatory tax allowance', as applied in the **2015 DPP Financial Model for disclosure year** 2020, applied to **disclosure year** 2021-

(i) where the value for **disclosure year** 2021 of each term in the formula for 'regulatory tax allowance' is determined in accordance with the respective formulas applied in the **2015 DPP Financial Model** for **disclosure year** 2020, applied to **disclosure year** 2021; and

(ii) for terms with no formulas in the **2015 DPP Financial Model,** the value for **disclosure year** 2021 is determined as follows-

'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;**

'value of commissioned assets' means, in relation to a **CPP proposal**-

that has not been assessed by the **Commission,** the **forecast aggregate value of commissioned assets** for the relevant **disclosure year** included by the **CPP applicant** in its **CPP proposal;** or

undergoing assessment by the **Commission,** the **forecast aggregate value of commissioned assets** determined for the relevant **disclosure year** by the **Commission;**

'forecast changes in CPI used for revaluations' is determined in accordance with the following methodology-

Forecast CPI for revaluations is:

for a quarter prior to the quarter for which the vanilla **WACC** applicable to the relevant **DPP 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 the paragraph directly 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 the paragraph directly above extended by the forecast change; and

in respect of later quarters, the forecast last applying under the paragraph directly above 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 the paragraph directly above;

'disposed assets' is the value of that term for **disclosure year** 2021 specified in the **DPP Other Regulated Income and Disposed Assets Model**;

'other regulated income' is the value of that term for **disclosure year** 2021 specified in the DPP **Other Regulated Income and Disposed Assets Model**,

where, for the purpose of determining 'forecast regulatory tax allowance (DPP)', the value of **earthquake readiness expenditure** is nil."

Executed as a Deed on ____ day of ____________, 2018.

by **Wellington Electricity Lines Limited**

Signature of representative authorised to execute a deed	Signature of ~~representative authorised to execute a deed (~~or witness)
GREG SKELTON	Gerard Timothy Glynn
Name of authorised representative	Name of a~~uthorised representative or~~ witness (and address, if witnessed) 29 Falkirk Ave Seatoun Wellington
26 MARCH 2018	26 March 2018
Date	Date

by the **Commerce Commission**

Signature of authorised representative	Signature of ~~authorised representative~~ witness
SUSAN JANICE BEGG	Dane Gunnell
Name of authorised representative	Name of authorised representative
26 March 2018	26 March 2018
Date	Date

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Explanatory note

(1) The purpose of the Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018 ("the Determination") is to set a customised price-quality paths for Wellington Electricity Lines Limited ("Wellington Electricity") for the three years beginning 1 April 2018 and ending 31 March 2021, pursuant to Part 4 of the Commerce Act 1986 ("the Act").

(2) Pursuant to section 53N of the Act, Wellington Electricity 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. Wellington Electricity 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. Wellington Electricity 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:

http://comcom.govt.nz/regulated-industries/electricity/cpp/cpp-proposals-and-decisions/

(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.