

From the Electricity Networks Association

Submission on the technical drafting of the Draft DPP Determination and IM amendments

Final

31 October 2014

The Electricity Networks Association makes this submission along with the explicit support of its members subject to Default Price-Quality Path regulation, listed below.

Alpine Energy Ltd
Aurora Energy Ltd
Centralines Ltd
Eastland Network Ltd
EA Networks Ltd
Electricity Invercargill Ltd
Horizon Energy Distribution Ltd
Nelson Electricity Ltd
Network Tasman Ltd
Orion New Zealand Ltd
OtagoNet Joint Venture
Powerco Ltd
The Lines Company Ltd
Top Energy Ltd
Unison Networks Ltd
Vector Ltd
Wellington Electricity Lines Ltd

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1. Introduction

1. This submission addresses the technical drafting of the Draft Determination for the 2015-20 DPP (the Draft DPP Determination),¹ and related proposed amendments to the input methodologies (IMs) (the Draft IM Determination)² and the incremental rolling incentive scheme (IRIS) IMs (the Draft IRIS IM Determination).³
2. We also consider the issues raised in the papers published alongside these draft determinations – the DPP Determination Companion Paper⁴, the IM Determination Companion Paper⁵ and the IRIS IM Determination Companion Paper.⁶
3. The Electricity Networks Association (ENA) appreciates the opportunity to submit to the Commerce Commission (the Commission) on these papers. The ENA represents the 29 electricity network businesses (ENBs) in New Zealand.
4. This submission is consistent with, and builds on, comments we made in a submission of 15 September 2014 on the detailed drafting of July 2014 draft versions of the DPP Determination and IM Determination (the July drafts). We appreciate the consideration that has been given to our previous submission in the drafting of the Draft DPP Determination and the Draft IM Determination.
5. In this submission we firstly consider the issues raised in the Companion Papers, followed by other substantive comments on the Draft Determinations. In the appendices we include detailed comments supporting each of our proposed amendments to the Determinations. Consistent with these comments, marked up versions of the Draft DPP Determination and the Draft IM Determination accompany this submission.
6. We note that there is a considerable volume of material that has had to be assessed in an extremely short period of time. Given this constraint, and the large number of amendments and new provisions which are proposed for the IMs and DPP Determination, we believe that there is high likelihood that unforeseen consequences may emerge once these new Determinations come into effect. While we have endeavoured to identify such risks in our submissions, we envisage that there may

¹ Commerce Commission, Electricity Distribution Services Default Price-Quality Path Draft Determination 2015, 20 October 2014.

² Commerce Commission, Draft Electricity Distribution Input Methodology Amendments 2014, 20 October 2014.

³ Commerce Commission, Draft Incremental Rolling Incentive Scheme Input Methodology Amendments 2014, 20 October 2014

⁴ Commerce Commission, How we propose to implement default price-quality paths for electricity distributors from 1 April 2015, 20 October 2014.

⁵ Commerce Commission, How we propose to implement amendments to the input methodologies for electricity distribution services: First and second type, 20 October 2014.

⁶ Commerce Commission, How we propose to implement amendments to the input methodologies for electricity lines businesses subject to price-quality regulation: Incremental Rolling Incentive Scheme, 20 October 2014.

be circumstances which arise which require further clarification and amendment to the Determinations during the next regulatory period.

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2. Issues raised in the Companion Papers

2.1 Price path reconsideration recoverable cost

8. We support the proposal to introduce a new recoverable cost for price path reconsideration events. This is consistent with our earlier submissions on reopener provisions for the DPP (and CPPs).
9. We note that the drafting for revised DPP re-opener provisions is not yet included in the draft IMs, pending instructions from the High Court. We understand this is expected to occur prior to the finalisation of the Determinations. Accordingly the relevant clause references are omitted from the proposed new definition of the reconsideration event allowance.
10. We are concerned at the delay in finalising this aspect of the IM amendments, and trust this will be fully addressed before 28 November.

2.2 Approach to recovery of pass-through and recoverable costs

11. A revised approach to the recovery of pass-through costs and recoverable costs is now proposed. This is similar to one of the alternatives which the ENA has previously supported, that is all pass-through and recoverable costs are to be removed from the price path, and recovery of those costs is to be assessed independently using a rolling balance approach. We support this revised approach.
12. We acknowledge that the Draft IM Determination has been amended consistent with this revised approach. As noted in the DPP Companion Paper, this approach will require distributors to disaggregate prices between distribution and pass-through/recoverable cost components. This is different to the requirements set out in the Information Disclosure Determination (IDD)⁷ which require distributors to disaggregate prices between distribution and transmission components.
13. We consider this disjoint is unhelpful, and may cause possible confusion as, by definition, the distribution price components required for IDD and DPP compliance will differ.
14. Beyond this inconsistency, we are not aware of any material practical difficulties for ENBs in disaggregating their prices into pass-through/recoverable cost prices and distribution prices.

⁷ Electricity Distribution Information Disclosure Determination 2012, 1 October 2012, clause 2.4.18

2.3 Price restructuring

15. The proposed amendments to clauses 8.7 and 8.8 of the DPP Determination add more specificity to the requirements for calculating allowable notional revenue and notional revenue following a price restructure.
16. As drafted, the two clauses suggest that allowable notional revenue is not recalculated in the year of the price restructure but notional revenue is. This implies that different values for lagged quantities will apply in that year. We note that this is a significant departure from current price path compliance tests, where the quantities on either side of the equation are the same, and are concerned that this may introduce compliance challenges.
17. Notwithstanding this comment, we support the proposed guidance and approach to determining lagged quantities following a price restructure. The proposed wording of the Draft DPP Determination allows ENBs to use any reasonable methodology, which is to be approved by the Commission. We consider this appropriate.
18. We note that the DPP Determination and Companion Paper provide little information as to how this (and other) approval processes will work in practice. We address this issue further in Section 3 of this submission.

2.4 Major transactions

2.4.1 Price path adjustments

19. We support the proposed approach to adjusting non-exempt ENB price paths following a Major Transaction, by the non-exempt ENBs which are party to the transaction agreeing an allocation of the price path components themselves. We do not consider that there are any price path components which should not be able to be allocated in this manner.
20. We also support the proposed 'default' method for determining the adjustment where a transaction occurs with an exempt ENB. The billable quantities and prices relevant to the ICPs being transferred is an appropriate allocator. We also consider that the proposed 'part-year factor' is appropriate where transactions occur within an Assessment Period.
21. Importantly, we consider that the ability for a non-exempt ENB to use an alternative methodology, with approval from the Commission, is a useful inclusion in the DPP Determination, which assists with addressing unforeseen or unusual circumstances which may be a feature of a Major Transaction. We consider the Commission's approval processes in section 3.
22. We note no price path adjustments are required for transactions with Transpower, such as a transfer of spur assets, as the price path impact is contained within the pass-through/recoverable cost balance.

2.4.2 Quality standard adjustments

23. It is proposed that the DPP quality standards are adjusted following a Major Transaction using an ICP pro-rata method, with no alternative option available.
24. The proposed approach assumes that SAIDI and SAIFI is the same for all parts of a given network. The ENB gaining new ICPs recalculates its SAIDI/SAIFI as a weighted average of its pre-transaction values and the SAIDI/SAIFI for the whole of the network from which it is gaining some ICPs, irrespective of the location of those ICPs.
25. We do not consider that this is a reasonable requirement, because the quality performance within a network will vary considerably, and it is unlikely that the ICPs transferred will experience the average network reliability performance.
26. For example, Table 1 below shows the 2014 reliability disclosures for Aurora Energy as a whole and its two sub-networks.

Table 1	Aurora Energy 2014 reliability values		ICPs
	SAIDI	SAIFI	
Aurora Energy	94.5	1.21	83,945
Dunedin Network	33.2	0.41	53,947
Central Otago Network	205.4	2.66	29,907

Source: Aurora Energy 2014 information disclosures.

27. Under the proposed method, if either sub-network were part of a transaction, the reliability performance applying to Aurora Energy (the first row of data in the table above) would be assumed to apply to the sub-network transferred for the purpose of adjusting the quality standards. Clearly, this would be inappropriate for both sub-networks.
28. As ICPs are a poor allocator for sub-network reliability, we do not support the proposed approach as we cannot envisage any situation where this will not introduce distortions into the quality standards of the ENBs transacting.
29. We consider that the ENBs party to the transaction should agree the re-allocation of reliability performance and quality standard parameters, based on the underlying characteristics of the sub-network (and hence ICPs) being transferred. Our mark-ups provide a method for doing this, and the option for an alternative method. We would expect the ENBs concerned to agree the source information to be applied in either approach.

2.4.3 Quality standard adjustments for Transpower asset purchases

30. The proposed formulae for adjusting the SAIDI and SAIFI targets, limits and boundaries are also proposed to apply to asset purchases from Transpower. However,

as currently drafted, these formulae do not work appropriately. In particular, the definition of “ $ICP_{added,t}$ ” is flawed.

31. When assets are purchased from Transpower, “ $ICP_{added,t}$ ” is defined as equal to “ ICP_t ”. This means that the new SAIDI value is a simple average of $SAIDI_{t-1}$ and $SAIDI_{othert-1}$, with the former the SAIDI for the purchasing ENB and the latter a SAIDI value calculated for the assets being transferred. The same approach is to apply to SAIFI. The use of a simple average is not appropriate – it needs to be weighted.
32. We consider that a better approach is that the actual historical performance of the spur assets transferred is included when restating the quality standards following a spur asset transfer, by using weights based on the number of interruptions experienced by the assets, relative to the ENBs number of interruptions.
33. Lastly, we also suggest that non-exempt ENBs be allowed to use an alternative methodology to adjust the quality standards, with approval from the Commission, similar to that allowed for adjusting the price path.

2.4.4 Amalgamations and mergers

34. Clause 10.3 of the proposed DPP Determination concerns adjustments for ENBs who complete an amalgamation or merger. This clause references IM clause 3.2.1, which states that the “DPPs” and/or “CPPs” are to be “amalgamated”.
35. While we consider that the wording in the IM clause is adequate (ie: unambiguous) for price paths, we do not consider it is sufficient for quality standards because SAIDI and SAIFI values cannot be simply added together. Therefore, we consider that IM clause 3.2.1, and hence DPP Determination clause 10.3, does not adequately address how quality standards are to be adjusted in the event of an amalgamation or merger.
36. We suggest that a similar approach should be taken as for Major Transactions in this instance. In order to implement this, either new clauses, with new formulae, need to be added to Schedule 4B, or the existing clauses and formulae (subject to our suggested mark-ups as noted above) need to be amended to account for amalgamations and mergers.

2.4.5 Approval of adjustments

37. Schedule 3C of the Draft DPP Determination refers to the adjustments of the price path being demonstrated to the reasonable satisfaction of the Commission. However, the Draft DPP Determination does not set out the process for this approval. We consider this further in Section 3.

2.4.6 Reference to timing of transactions

38. The description of the timing of Major Transactions is inconsistent throughout the Draft DPP Determination. We consider that this introduces unnecessary complexity and potential confusion.
39. Clauses refer to a range of descriptors for the timing of a transaction including:
 - a) the year of the transaction

- b) when consumers transfer
 - c) when ICPs transfer
 - d) when consumers are supplied by a different ENB
 - e) when ICPs are supplied by a different ENB
 - f) when assets are transferred.
40. We suggest that a reference to the Assessment Period within which the transaction occurred is the simplest approach. If more specificity is required about the specific date or the direction in which ICPs move, we suggest that references to the year in which ICPs first become supplied by a different ENB should be used.

2.5 Quality standards and the quality incentive scheme

41. We note that a number of refinements to the proposed method for determining the quality standards and incentive scheme have been included in the consultation papers. We appreciate the careful consideration the Commission has made of our previous submissions on these topics, and are pleased to see that a number of our previous concerns have now been addressed.
42. We support the proposed refinements to the quality standards which:
- a) Separate the quality standards from the quality incentive scheme
 - b) Set the compliance standard using a two out of three year test, with the quality limits set at the level of the caps not the targets
 - c) Ignore prior period compliance in setting the quality standards (as stated in paragraph 4.77 of the Companion Paper)
 - d) Determine the boundary values for the purpose of identifying major event days (MEDs) at the 23rd highest daily unplanned value in the reference period
 - e) Normalise MEDs for SAIDI and SAIFI independently
 - f) Calculate the standard deviation values (for the purpose of deriving the caps and collars) using daily values.
43. We note that the Commission has not accepted ENA's recommendations to substitute the average SAIDI value when an extreme event occurs. We continue to submit that it is not appropriate for EDBs to receive windfalls or pay penalties due to the relative frequency of adverse weather. Climate change models indicate that the incidence of extreme weather is likely to increase, thus giving rise to an *ex ante* expectation that EDBs will more likely pay penalties to consumers for more frequent events, and thus on an expectations basis the NPV=0 criterion would not be met. If the Commission's assumption is that the frequency of extreme events will even out over a regulatory period, then we expect to see analysis that validates that assumption.

2.6 Pass-through of 2015 Electricity Authority levies

44. As acknowledged in the DPP Companion Paper, there is an unanticipated change in the allocation of Electricity Authority (EA) levies in 2015, which is expected to result in ENBs under-recovering these levies through prices this year. The EA has written to ENA indicating that no relief will be granted to ENBs and therefore non-exempt ENBs will remain responsible for paying these increased levies. There is currently no provision in the DPP for this situation to be addressed.
45. We note that Clause 8.7 of the current DPP Determination provides for the recovery of 2010 Commerce Act levies, which were incurred prior to the current regulatory period. We consider a similar mechanism should be included in the 2015 DPP Determination, to allow for the recovery of the difference between the forecast and actual EA levies for the current Assessment Period.
46. We propose that a simple solution to allow non-exempt ENBs to recover the increased costs would be to allow the increased amounts to be a recoverable cost in the 2016 year. The recoverable cost amount could be calculated as follows:
- $$(1.1719 - 0.4342) \times \text{number of ICPs in 2014} \times 0.75 \times 0.95 \times (1 + \text{cost of debt})$$
47. The first term is the difference between the draft and invoiced levies for "registry and consumer operations" notified to EDBs in the EA's consultation documents. This is multiplied by the number of connections for each ENB. This is then multiplied by 0.75, since the higher levies only apply for three-quarters of the current pricing year. The 0.95 term recognises that ENBs generally apply a compliance buffer to minimise the risks of non-compliance with the DPP. The last term is a time value of money adjustment, to allow the value to be recovered in 2016 in real terms.
48. While this approach will not perfectly reproduce the levies that ENBs will pay under the increased levy rate, it is conservative in favour of consumers and pragmatic in the circumstances.

2.7 Assurance requirements

49. We are disappointed that our previous submissions on the form of the assurance opinion have not been responded to in the Draft DPP Determination. Given the manual nature of outage recording processes which are common for ENBs, we do not consider that the 'complete and accurate' assurance requirement is reasonable for the DPP.
50. We note that the remainder of the assurance requirements provide significant comfort that the DPP has been complied with and that the information used has been properly extracted from source records. The requirement to publish in Compliance Statements the processes and procedures for recording outages, provides readers of Compliance Statements additional useful information about the reliability information used in DPP assessments.

51. We therefore re-iterate our previous submission that subclause (vii) of Schedule 7 is removed.

2.8 Energy efficiency and demand incentive allowance

52. In our September submission on the Draft DPP Determination, we made a number of suggestions for improving the drafting pertaining to the proposed energy efficiency and demand incentive allowance. While there have been some minor edits, two of our key submission points have been ignored, namely:

- a) That the DPP Determination must include reference to the principles that are to apply when applying for and assessing the value of the allowance. Otherwise, the principles (which we understood the Commission was supportive of) have no status.
- b) That there needs to be certainty of the process for consideration and approval of the allowance. Our 15 September submission contained appropriate drafting in this respect.

53. We continue to believe that the Draft DPP Determination is deficient in ignoring these two matters.

54. The principles have been previously proposed and agreed to help provide guidance to ENBs in making applications in relation to this allowance, and to provide the parameters against which an application will be assessed. Specifying the principles in the Determination will provide greater certainty for all parties about how applications will be considered and approved. Including them would be consistent with the proposed inclusion of the policy intent relating to the extended reserves allowance (which we support).

55. We also note that the most recent version of the Draft DPP Determination has introduced new restrictions to the scope of the allowance. The reason for these additional limitations is not explained in the DPP Determination Companion Paper, and they are not consistent with the recommendations of the ENA's energy efficiency working group.

56. We do not support the proposal to exclude from consideration any energy efficiency or demand side management initiative which 'expands the distribution system or its capacity or which renew, repair or maintain it, or (as previously stated) that are primarily tariff based'.

57. It is reasonable that ENBs will have choices in enhancing or maintaining their networks which will have implications for energy efficiency and demand side management, and hence may result in foregone revenue. To exclude any such initiatives (as well as tariff based initiatives) considerably narrows the scope of activities which may qualify for this incentive. We submit that these proposed exclusions are unlawful when tested against the requirements of section 54Q.

3. Approvals process

58. There are a number of aspects of the DPP compliance process which require Commission approval. These include:
- a)* Energy efficiency and demand incentive allowance
 - b)* Price restructures
 - c)* Major transactions
 - d)* Extended reserves allowance.
59. With the exception of the specification of application dates for some requirements, the Draft DPP Determination is silent on the approval process. For example it is not clear whether the Commission's approval is to be ex-ante or ex-post in all situations, and how the auditors and Directors are to complete their sign-off where compliance is subject to Commission approval.

3.1 Energy efficiency and demand incentive allowance and extended reserves allowance

60. For both the energy efficiency and demand incentive allowance and the extended reserves allowance, the draft DPP Determination indicates that the value of each allowance will be approved by the Commission following application by an ENB.
61. The Draft DPP Determination sets out various details about the process involved, including:
- a)* when the approval is to be lodged
 - b)* what must be included in an application
 - c)* the ability for the Commission to request additional information
 - d)* what the Commission may approve in terms of value for each recoverable cost
 - e)* when the approved allowance can be recovered through prices.
62. However, the Draft DPP Determination does not set out the timing or process for receiving this approval. As previously submitted, given there are time constraints on when the allowance may be recovered, the approval must be granted in a timely way. Accordingly we submit that the DPP Determination includes a timeframe that ensures approval will occur in time for prices to be set in the following year. Otherwise, it may not be possible to recover the amount in the timeframe specified.

3.2 Price restructures

63. Where lagged quantities are to be estimated following a price restructure, the Draft DPP Determination requires information to be provided to the Commission both ex-ante and ex-post. We consider that the ex-post requirement to include information in Compliance Statements is reasonable because it provides the necessary transparency over the information used to support the compliance position.
64. We note that it is proposed that ex-ante provision of this information is necessary because it gives the Commission an opportunity to raise price path compliance concerns with the ENB in advance of or during the year, rather than allowing potential over-charging to persist.
65. However, it is not clear what the Commission will do with the ex-ante information in the event that it has concerns. There is no ex-ante approval process specified, and once ENBs have published prices for a pricing year, they are generally prevented from making further pricing changes in a year, due to UoSA requirements with retailers.

3.3 Major transactions

66. Schedule 3C of the Draft DPP Determination requires any adjustments of the price path following a Major Transaction to be demonstrated to the reasonable satisfaction of the Commission. However, the Draft DPP Determination does not set out the process for this approval.
67. The requirement in clause 10.1 to advise the Commission of Major Transactions is only relevant to transactions which meet the specified materiality tests. Further the additional information to be included in the Compliance Statement is to be provided to the Commission ex-post.
68. Accordingly we submit that as a minimum, the DPP Determination needs to set out:
 - a) when the Commission will approve the recalculation of allowable notional revenue, pass-through costs and recoverable costs, and
 - b) what information the non-exempt ENBs party to a transaction must provide to the Commission, and when.

4. Incremental Rolling Incentive Scheme

69. The proposed amendments to the IMs to introduce a revised and expanded IRIS scheme are extremely complex, and in many cases not intuitive. This introduces compliance risk, and limits understanding of the scheme for interested parties. The complexity partly reflects the number of different regulatory price path scenarios which may apply across the DPP/CPP framework.

4.1 Reducing complexity

70. We suggest that a number of refinements and improvements could be made to reduce the complexity, and make the IMs more accessible. We encourage the Commission to consider these suggestion prior to finalising the IMs:

- a) Inconsistent terminology – there are often multiple terms used to refer to the same component of the IRIS incentive (for example: ‘opex’ and ‘operating expenditure’, ‘forecast aggregate value of commissioned assets’ and ‘forecast value of commissioned assets’). This is largely due to existing (non-IRIS) IM terminology. There is an opportunity to clean up the terminology, which would make the IMs more internally consistent, and reduce complexity.
- b) Not all of the terms used to calculate the IRIS incentive have been labelled (ie: they have no name), so they are unable to be easily referred to in other clauses (other than by clause reference). This makes the interplay between different components of the IRIS incentive more difficult than it needs to be. For example Clause 3.3.8(1) requires additional adjustments to the ‘adjustment to the opex incentive’ to be made, and there are a number of different permutations, which apply in different circumstances. We submit that each should be a defined term, and specified in the relevant formula, to aid transparency and understanding.
- c) Not all of the terms which are defined are labelled with meaningful names, which hinders understanding. We note that many of the terms are meaningful (eg: roll over adjustment term), but CPP adjustment term 1 and CPP adjustment term 2 are less helpful. It would be most useful if the terms used were consistent with the function or the step in the process that is being specified, to assist with understanding.
- d) The Draft IRIS IM Determination accommodates a range of situations for ENBs subject to CPP and DPPs including how starting prices are set (ie: either with reference to current or projected profitability or rolled over) and different lengths of DPP or CPP regulatory periods. We suggest that some of the options provided for will be far more common than others, for example 5 yearly DPPs, with prices reset with reference to profitability. We suggest that the structure of the IM would be improved if the drafting for the common scenarios was self-contained, and did not include the provisions for other scenarios. This would enable users to focus solely on the text that is relevant to

their circumstances, without having to assess and then choose to ignore the text that does not apply.

- e) We note that the term ‘capex’ is widely used throughout the IRIS IM, however the IRIS is an incentive scheme which applies to the ‘commissioned assets’ not capex. This is potentially misleading.
- f) Provide more meaningful supporting explanations for each clause. While the IRIS IM Companion Paper includes some commentary which explains the purpose of each term in the IM, the commentary is often not sufficiently detailed, for example for clauses 3.3.7, 3.3.8 and 3.3.9. These clauses contain formulae for:
 - CPP opex adjustment terms
 - additional opex adjustment terms where the preceding regulatory period applied for 1 year or less
 - starting price year adjustment terms.

The formulae in each subclause are complex however there is no explanation provided as to the purpose of each formula (ie: what the user should expect to be the outcome of applying the formula). Given the complexity of the formulas, we consider that full explanations are required to assist ENBs to understand the purpose of the formula, which is necessary for reasonableness assessments of the prescribed calculations (and to aid in understanding the opex IRIS scheme).

4.2 Forecasting expenditure

4.2.1 Inadequate DPP expenditure forecasts

- 71. One of the key reasons that an ENB may apply for a CPP is that the expenditure forecasts which underpin a DPP price path are inadequate. The CPP option is intended to allow ENBs to seek price-quality path outcomes which are more suited to their circumstances than those provided for using the lower cost forecasting methods employed when DPPs are reset.
- 72. It is critical for the effective performance of Part 4 of the Commerce Act that the DPP/ CPP framework operates as intended.
- 73. Due to the complexities and timing constraints in preparing and approving a CPP application however, there is inevitably a delay in an ENB obtaining a CPP which remedies inadequate expenditure forecasts in a DPP.
- 74. The proposed IRIS IM does not adequately accommodate these circumstances as, for the purpose of the IRIS, the Commission’s DPP opex and capex forecasts provide the baseline against which the IRIS incentive is assessed, until a CPP comes into effect. Thus an ENB will be penalised for expenditure which exceeds the baseline, even when it has legitimate reasons for doing so, which are subsequently endorsed via a CPP Determination.

75. We therefore submit that the IRIS baseline forecast opex and capex should be adjusted in these circumstances, to reflect the expenditure required by the ENB prior to a CPP coming into effect, which was not reflected in the Commission's DPP forecasts for the regulatory period.
76. We note that this is able to be readily achieved in practice as the CPP assessment process provides adequate scrutiny over the ENB's expenditure, thus enabling the Commission to verify the amount of the adjustment required.

4.2.2 Resetting price paths using prices from the preceding regulatory period

77. The IRIS scheme requires forecasts of expenditure, against which actual expenditure can be assessed, and the relevant incentive calculated. When prices are determined for a DPP using current and projected profitability, and for a CPP, the forecasts are explicitly included in the calculation of the price path. They are determined in accordance with the processes contained in the CPP IM, or DPP reset process and DPP IMs.
78. If prices are rolled over between regulatory periods, there is no expenditure forecast established which supports the price path. The draft IRIS IM proposes that the Commission will determine expenditure forecasts where prices are rolled over, specifically for the purpose of the IRIS scheme. However there are no parameters, principles or processes set out which give us some idea as to how this will occur, and what criteria will be used to establish the forecasts for the purpose of the IRIS.
79. While we acknowledge that, to date, the Commission has not been inclined to roll over prices, the option exists and the successful operation of the proposed IRIS scheme depends on the Commission's forecasts in this respect. We consider that the current proposals introduce unacceptable risk for ENBs, because of the absence of defined criteria and processes for determining the forecasts.

4.3 Forthcoming amendments

80. We understand that the draft IRIS IM Determination is likely to change because the Commission is considering further:
 - a) How to accommodate transactions (we refer the Commission to our previous comments on this point, which are set out in our 15 September submission)
 - b) Operating expenditure IRIS formulas when transiting between CPPs (which are similar to concerns raised by Transpower regarding how the opex IRIS operates across its IPP).
81. Paragraph 1 of page 11 of the IRIS IM Companion Paper states that the Commission is currently considering a submission from Transpower which may lead to changes to the proposed CPP opex adjustment terms. We would appreciate it an opportunity for consultations on the revised CPP opex adjustment terms before the final Determination is published.
82. Accordingly we have not focussed on these two issues for the purpose of this submission.

83. Appendix 3 includes our suggested technical mark-ups for the IRIS IMs, ie: they address errors which we have identified, but not the issues outlined above.

Appendix 1: Detailed comments on the draft IM Determination

Reference	Item	Suggested Amendment	Reason
Para 4.1(c) (added)	Definition of “base year”	Add statement that base year will be defined in a DPP determination.	Specification of the base year in a DPP determination will help in understanding the capex wash-up method, since this method now refers to the base year.
Para 4.1 (c)	Definition of “energy efficiency and demand incentive allowance”	<p>Refer to initiatives, projects and activities, rather than a single item.</p> <p>Change reference to energy efficiency “and” demand side management initiatives, projects and activities to “or”.</p> <p>Also replace reference to the amount being “specified in” a DPP/CPP Determination to being “approved in accordance with” a Determination.</p>	<p>There may be more than one initiative, project or activity involved. The July Draft IM Determination was consistent with this.</p> <p>Some initiatives, projects and activities may be either energy efficiency or demand side management initiatives, but not necessarily both.</p> <p>The draft DPP Determination does not specify the amounts of this allowance, but instead specifies that the Commission may approve a value.</p>

Reference	Item	Suggested Amendment	Reason
Para 4.1 (c)	Definition of “quality incentive adjustment”	Remove sub-clauses specifying what the quality incentive adjustment is a function of (and add this text to the DPP Determination).	This amendment will increase the flexibility of the quality incentive adjustment for future regulatory periods, ie: it will permit different quality incentive schemes (e.g. ones that may not be a function of revenue at risk and incentive rates). The definitions are more usefully included in the DPP Determination.
Para 4.1 (c)	Definitions of “incentive rate” and “revenue at risk”	Remove definitions, and include in DPP Determination.	If the definition of “quality incentive adjustment” is amended as suggested above, these terms will no longer be used in the IMs.
Para 4.1 (c)	Definition of “incentive rate”	<i>If definition of ‘quality incentive rate’ NOT amended as suggested above:</i> Add reference to this being the ‘incremental’ reward or penalty.	The proposed wording states it is the “reward or penalty” attributable to certain performance. This is not correct – it is the ‘rate’ of change used in calculating the reward or penalty changes, as performance changes.
Para 4.1 (c)	Definition of “reconsideration event allowance”	Add reference to clauses [to be confirmed – for DPP] and 5.6.4(4) [for CPP] when referring to the provision of false or misleading information in sub-para (c)	“The provision of false or misleading information” is not defined in clause 1.1.4(2) of the IMs. Therefore, the clause which specifies what it means needs to be referred to when this item is being discussed.

Reference	Item	Suggested Amendment	Reason
Para 4.5(q) and (r)	Formulae for annual recovery of capex wash-up and transmission asset wash-up in IM list of recoverable costs	Adjust amount of inflation by the cost of debt to be 'y + 0.5'	Proposed formulae assume year-start timing for recovery. Our suggested amendment involves mid-year timing, which is consistent with other timing assumptions in the IMs for revenue and recoverable costs.
Para 4.6 (added)	IM 3.1.3(2), requirement for approval of certain recoverable costs	Add reference to CPP determination	Consistent with new wording for pass-through and recoverable costs in other proposed amendments, to refer to specifications in both DPP and CPP Determinations.
Para 4.6	New IM clause 3.1.3(7), specifying what the Commission will have regard to when approving extended reserves allowance	Remove clause (and add similar text to DPP Determination).	We suggest that the policy intent should not be included in the IM, rather that it is a consideration that the Commission will take into account when approving the allowance, and thus should be in the DPP Determination.
Para 4.7	New IM clause 3.1.3(8) specifying method for determining capex wash-up amount	Amend structure of IM 3.1.3(8) such that reference to resetting prices under s 53P(3)(b) relates to the whole clause, not just sub-clause (8)(b).	The proposed wording suggests that this reference may only be relevant for sub-clause (8)(b), but it is necessary for the whole IM clause 3.1.3(8). The capex wash-up should only occur if prices are reset based on current and projected profitability.

Reference	Item	Suggested Amendment	Reason
Para 4.7	New IM clause 3.1.3(9)(b)(i) specifying method for calculating building block revenues for the purposes of the capex-wash-up	Expand reference to using the “same forecast operating expenditure” to using values for all inputs to the calculation of building block revenues except for the value of commissioned assets.	Forecast opex is just one of the items that should be the same under both sets of commissioned assets.
Para 4.7	New IM clauses 3.1.3(9)(b)(ii) and (iii) specifying depreciation values and cash flow timing assumptions to be used in calculation	Remove sub-clauses	<p>The reference in the previous sub-clause to “the same methodology” is sufficient for specifying the method for calculating depreciation and the timing assumptions to be used to calculate building block revenues.</p> <p>We also note that the proposed reference to Part 2 is also incorrect for DPP depreciation. Depreciation should be calculated consistent with Part 4, not Part 2. Otherwise this method does more than simply adjust the values for commissioned assets.</p>

Appendix 2: Detailed comments on the draft DPP Determination

Reference	Item	Suggested Amendment	Reason
Clause 2	Specification of base year	Add new sub-clause specifying the year used as the base year	As stated in Appendix 1, specification of the base year in the DPP Determination will help in understanding the capex wash-up method, since this method now refers to the base year.
Clause 4.2	Definitions of “capex incentive allowance” and “opex incentive allowance”	Replace terms with “capex incentive amount” and “opex incentive amount”	The proposed terms are inconsistent with those used in the Draft IRIS IM Determination.
Clause 4.2	Definition of “change event”	Insert definition for this term, which is currently omitted, or alternatively a reference to an IM definition	We note that a definition of change event current exists in the CPP IM. Once the reconsideration provisions are finalised for the DPP, a definition of ‘change event’ could be included in IM Clause 1.1.4, which would then apply to both DPPs and CPPs

Reference	Item	Suggested Amendment	Reason
Clause 4.2	Definitions of “incentive rate” and “revenue at risk”	Move definitions proposed for IM Determination to the DPP Determination.	If the IM definition of ‘quality incentive adjustment’, and the DPP Determination specification of the value, is amended as suggested above, these terms will be used in the DPP Determination and require a definition.
Clause 4.2	Definition of “incentive rate”	<i>If ‘incentive rate’ definition included in the DPP Determination as suggested above:</i> Add reference to this being the ‘incremental’ reward or penalty.	The proposed wording states it is the “reward or penalty” attributable to certain performance. This is not correct – it is the ‘rate’ of change used in calculating the reward or penalty changes, as performance changes.
Clause 4.2	Definition of “Major Event Day”	Replace references to SAIDI and SAIFI Assessed Values with daily SAIDI and SAIFI Values for Class C interruptions	Under the proposed method, only unplanned SAIDI and SAIFI is normalised. The proposed definition of Major Event Day is inconsistent with this method. Our suggested amendment is consistent with the definitions of SAIDI and SAIFI Assessed Values in Schedule 4A.
Clause 4.2	Definition of “Prices”	Replace “consists of” with “includes”	Distribution and pass-through prices are not the only possible components of prices. Our amendment is consistent with the wording in the July draft.

Reference	Item	Suggested Amendment	Reason
Clause 4.2	Definitions of “SAIDI Assessed Value” and “SAIFI Assessed Value”	Remove reference to “adjusted” values	It is unclear what this adjustment refers to. SAIDI and SAIFI values are sufficiently defined to not require this qualification and no adjustment applies in this clause.
Clause 8.2	Description of rates of change	Replace “allowed by” with “allowed for”	Our suggested amendment is consistent with the wording used in Schedule 2.
Clauses 8.5 and 8.6	Description of i	Change reference to Electricity Lines Services to the singular.	Our suggested amended wording is consistent with Schedule 3B.
Clause 8.5	Description of $Q_{i,t-2}$	Move reference ‘two years prior to t’	The proposed wording introduces uncertainty as to whether it is the quantities or the prices which are lagged. This amendment makes it clear that it is the quantities.
Clause 8.9	Description of how quantities are revised following a price restructure	Label fourth sub-paragraph as (d)	This appears to be an error. Our suggested amendment is consistent with the July version.

Reference	Item	Suggested Amendment	Reason
Clause 8.10(d)	Limitation on methodology used for estimating lagged quantities following a price restructure	Replace “the same methodology” with “a similar methodology”.	<p>We consider that it is reasonable for the methodology to be refined over time as new information becomes available.</p> <p>Accordingly, in our view the draft DPP Determination wording is too restrictive.</p>
Clause 8.12 (added)	Allowance for EA levies	Add clause allowing recovery of EA levies from 2015 as a pass-through cost in 2016.	As discussed in Section 2.6.
Clause 10.1(b)	Revenue materiality test for notification of a Major Transaction	Specify the Assessment Period for the test, to be that following the transaction.	<p>The proposed wording allows the test to apply to any future Assessment Period.</p> <p>The year of the transaction may not be appropriate, since the transaction may occur partway through the year.</p> <p>Accordingly we recommend that the Assessment Period immediately following the transaction is specified for the materiality tests.</p>

Reference	Item	Suggested Amendment	Reason
Clause 10.4 (added)	Amalgamation of quality standards	Add new clause specifying that, under an amalgamation or merger, amalgamated quality standards will be determined using a similar method to that specified for major transactions, and which is specified in Schedule 4B.	<p>Clause 10.3 does not sufficiently cater for quality standards.</p> <p>IM clause 3.2.1 states that DPPs/CPPs will be amalgamated, but it is not obvious how this should occur for quality standards.</p> <p>Suggest that the method used should be similar to that used for major transactions.</p>
Clause 10.4(b)	Recalculation of pass-through balance and components	Replace “Assessment Period immediately following the completion of the Major Transaction” with “Assessment Period in which the Major Transaction is completed”	The pass-through and recoverable costs are to be recalculated in the year of the transaction. Since the pass-through balance is a function of the pass-through and recoverable costs in the same year, the pass-through balance in the year of the transaction will be affected – not that in the following year.
Clause 11.2(d)(iv)	Statement of Major Transactions	Replace reference to “a” Major Transaction with “any”	The proposed wording is inconsistent with that used in sub-clause (iii). We consider that “any” is more appropriate in this context.
Clause 11.2(g)	Date of annual compliance statement	Replace reference to the date it was “prepared” with “certified”	<p>The document is likely to be ‘prepared’ over a period of time.</p> <p>We consider an appropriate date for the Compliance Statement is that date of Director certification.</p>

Reference	Item	Suggested Amendment	Reason
Clause 11.4(d)	Requirement for pass-through balances, prices and quantities	Only require the pass-through balance from the prior year, not the pass-through prices or quantities	We consider it is excessive to require prior period disaggregated information for the pass-through balance, as it has been previously disclosed.
Clause 11.4(e)	Requirement for pass-through and recoverable costs	Remove reference to “the Assessment Periods to which they apply”	As above, we do not consider that it is necessary to repeat information from the previous year, where it has been previously disclosed, and it is not directly used in the current year calculations.
Clause 11.4(f)	Requirement for details of transmission and NIA charges	Remove requirement to supply information about transmission charges	Information about the amount of transmission charges is already required under sub-clause (e). No further information is required.
Clause 11.4(i)	Requirement for explanation where pass-through balance does not equal zero	Remove this requirement	Sufficient information about the value of the pass-through balance and the reasons for it are included in the information to be provided under sub-clause (h).

Reference	Item	Suggested Amendment	Reason
Clause 11.6	Annual compliance statement requirements - Major Transactions, Mergers or Amalgamations	Limit this clause to referencing clauses 10.1 to 10.4, and not 10.5	<p>Clause 10.5 refers to asset purchases from Transpower, which are not covered under the provisions for amalgamations, mergers or major transactions.</p> <p>Information about the effect of asset purchases from Transpower is required under clause 11.5(d). It is appropriate to exclude it from clause 11.6.</p>
Clause 11.8	Requirements for estimates of lagged quantities	Specify year of restructure as the current or prior year	<p>The wording of the relevant years is inconsistent with that used in clause 11.7.</p> <p>Clause 11.7 is appropriate for price restructures in the current and prior year, and is consistent with the requirements specified in clause 8.8.</p>
Schedule 3A; Schedule 3B	Description of first Assessment Period	Remove capitalisation of “First”, and add reference to “of the Regulatory Period”	<p>“First Assessment Period” is not a defined term, so should not be capitalised.</p> <p>Adding reference to the Regulatory Period improves understanding, and makes the wording consistent with that used elsewhere.</p>
Schedule 3B	Description of X	Add “applicable to the non-exempt EDB”	There is more than one rate of change stated in Schedule 2, and our suggested wording helps with understanding.

Reference	Item	Suggested Amendment	Reason
Schedule 3C	References to the year of a Major Transaction	<p>Standardise references to the timing of transactions:</p> <p>Where possible, refer to the timing with reference to the year the Major Transaction occurs.</p> <p>Where more specificity is required about the direction of the movement in ICPs, refer to the year in which ICPs are supplied by a different EDB.</p>	<p>As discussed in Section 2.4.6 above, the proposed wording is inconsistent throughout Schedule 3C.</p> <p>Suggest referring to the year in which a Major Transaction occurs is the simplest approach. If more specificity is required about the specific date or the direction in which ICPs move, suggest referring to the year in which ICPs first become supplied by a different ENB.</p>
Schedule 3C, para 1	Recalculation of price path components	Add reference to demonstrating “the impact of the Major Transaction” on the price path components.	The proposed wording is ambiguous. The amendment makes it clear and helps understanding.
Schedule 4B	References to consumers and ICPs	Replace all references to ‘consumers’ being transferred or supplied by another EDB with ‘ICPs’	As discussed above.
Schedule 4B	Adjustments following Major Transactions and Transpower purchases	Separate methods for adjusting quality standards following a Major Transaction and following a purchase of assets from Transpower	As discussed in Section 2.4.2 and 2.4.3 above, we consider the methods for each type of transaction should use different weights.

Reference	Item	Suggested Amendment	Reason
Schedule 4B	Adjustments following Major Transactions	Base the adjustments on the SAIDI/SAIFI for the ICPs transferred	As discussed in Section 2.4.2 above, the use of SAIDI/SAIFI for the whole network introduces unnecessary distortions into the quality standards.
Schedule 4B	Adjustments following Transpower purchases	Weight the SAIDI/SAIFI values using historic numbers of interruptions	As discussed in Section 2.4.3 above, the use of ICPs generates spurious outcomes.
Schedule 4B	Adjustments following amalgamations or mergers	Specify a method for how to adjust the quality standards following an amalgamation or merger	As discussed in Section 2.4.4 above, the clauses in the Draft DPP Determination and IMs do not adequately provide for amalgamated quality standards.
Schedule 4B	Alternative method	Add clauses allowing ENBs to use an alternative method for adjusting the quality standards following a transaction, subject to approval from the Commission.	This amendment to the quality standards is consistent with that allowed for price path adjustments.

Reference	Item	Suggested Amendment	Reason
Schedule 4B	References to the year of a Major Transaction	<p>Standardise references to the timing of transactions:</p> <p>Where possible, refer to the timing with reference to the year the Major Transaction occurs.</p> <p>Where more specificity is required about the direction of the movement in ICPs, refer to the year in which ICPs are supplied by a different EDB.</p>	As discussed above.
Schedule 5, para 1(b)	Restriction on pass-through and recoverable costs	Replace reference to “be” recovered to “have been”	The restriction should be whether they have already been recovered, which does not require ENBs to contemplate future actions.
Schedule 5, para 2(g)	Specification of schedule for IRIS amounts	Replace terms “capex incentive allowance” and “opex incentive allowance” with “capex incentive amount” and “opex incentive amount”	The proposed terms are inconsistent with those used in the draft IRIS IM Determination.

Reference	Item	Suggested Amendment	Reason
Schedule 5A, para 1	Specification of approval for energy efficiency and demand incentive allowance	Refer to plural initiatives, projects and activities. Change reference to energy efficiency “and” demand side management initiatives, projects and activities to “or”.	There may be more than one initiative, project or activity involved. The wording in the July Draft IM Determination is consistent with this. Some initiatives, projects and activities may be energy efficiency or demand side management related, but not both.
Schedule 5A, para 1(b)	Description of types of initiatives which qualify for the energy efficiency and demand incentive allowance	Remove reference to reducing costs	Not all initiatives which are consistent with the objectives of s 54Q of the Act will necessarily reduce the costs of distributing electricity. A business may choose to increase costs to achieve quality outcomes for example, and reduce earnings as a result. This restriction is not consistent with the principles previously proposed and agreed.
Schedule 5A, para 1	Restriction on types of initiatives which qualify for energy efficiency and demand incentive allowance	Remove proposed restrictions on types of initiative	The proposed wording will disallow some projects which are consistent with the objectives of s 54Q of the Act. This is also not consistent with the principles previously proposed and agreed. Given that the Commission approves all allowances, we consider that this restriction is unnecessary.

Reference	Item	Suggested Amendment	Reason
Schedule 5A, para 3	Ability to request additional information	Add specification that requests will consider costs of providing the information in the context of the benefits identified.	We consider that the Commission should have regard to compliance costs in these circumstances. The suggested amendment will allow reasonable requests.
Schedule 5B, para 1	Description of the quality incentive allowance	Add text which we have suggested is moved from the IM Determination	As discussed above, we consider that this text is better located in the DPP Determination than in the IM Determination.
Schedule 5B, paras 2 and 3	Description of SAIDI and SAIFI targets, caps and collars	Remove ‘S’ after EDB	This appears to be an error.
Schedule 5B, para 5(a)	Description of SAIDI _{IR}	Replace reference to para 5 with para 6	This proposed wording references the wrong paragraph.
Schedule 5B, para 6	Description of SAIDI _{cap}	Remove reference to Schedule 4	This is unnecessary, and not included in corresponding descriptions of other items.
Schedule 5B, paras 9-12	References to specification of caps and collars	Remove clauses	The caps and collars are not specified within this schedule (unlike in the July version). Therefore, a reference to the location of these values is unnecessary.

Reference	Item	Suggested Amendment	Reason
Schedules 5C and 5D	Table headings	Add “Assessment Period” label to the table columns	This will aid understanding.
Schedule 5D	Specification of NPV wash-up allowance	Add reference to relevant IM clause	This will make the wording consistent with Schedule 5C.
Schedule 5E, para 1	Specification of avoided transmission charge calculation method	Remove “the” in first sentence.	This appears to be a typographical error.
Schedule 5E, para 1(a)	Method for determining avoided transmission charge for purchases prior to the DPP period	Add reference to the values applying in each of the 5 years following	The proposed wording does not specify which years the recoverable cost is to be calculated for
Schedule 5E, para 1(a)(i)	Specification of transmission charges	Replace “charge was first recovered” with “purchase occurred”	The proposed wording is ambiguous, and could refer to the first year in which transmission charges were paid. The suggested amendment is consistent with wording used elsewhere.

Reference	Item	Suggested Amendment	Reason
Schedule 5E, para 1(a)(ii)	Second method for determining the value for per-DPP period purchases	Move the term “adjusted”	The proposed wording is ambiguous. Our suggested amendment is consistent with the wording in the current DPP Determination.
Schedule 5G	How to calculate IRIS recoverable cost amounts	Replace terms “capex incentive allowance” and “opex incentive allowance” with “capex incentive amount” and “opex incentive amount”	The proposed terms are inconsistent with those used in the draft IRIS IM Determination.
Schedule 5G	Tables of IRIS recoverable cost amounts	Replace description of “2015-2020” Regulatory Period with “1 April 2015 – 31 March 2020”	The proposed wording is inconsistent with the rest of DPP Determination.
Schedule 5G	Tables of IRIS recoverable cost amounts	Add “Assessment Period” label to the table columns	This will aid understanding.
Schedule 5G	Reference to commissioned assets	Add “aggregate” after “forecast” in “forecast value of commissioned assets”	This amendment makes the wording consistent with the DPP IMs.

Reference	Item	Suggested Amendment	Reason
Schedule 5H, para 2	Application for approval of extended reserves allowance	Replace references to the extended reserves “regime” with references to regulations under the Electricity Industry Act	The proposed wording is inconsistent within the Schedule and IM definition.
Schedule 5H, paras 2(c) and 5(b) (added)	Amounts associated with unregulated services	Replace references to “unregulated income” with “associated with unregulated services”.	The IMs define unregulated services, but not unregulated income. Hence the amended wording is consistent with the IMs.
Schedule 5H, para 3	Ability to request additional information related to extended reserves allowances	Add specification that requests will consider the likely costs and benefits of the additional information	We consider that the Commission should have regard to compliance costs in these circumstances. The suggested amendment will allow reasonable requests
Schedule 5H, paras 4 and 5	Time period for recovery of extended reserves allowance	Allow recovery in year after approval, not the year of approval.	Allowing the recovery in year in which the amount is approved means it is not known when prices are set. We don’t think this restriction is necessary. We consider it is better, and more consistent with other lagged approvals, to approve the amount in one year, and recover it in the following year (after an adjustment for the time value of money). This approach is consistent with the energy efficiency and demand incentive allowance.

Reference	Item	Suggested Amendment	Reason
Schedule 5H, para 5 (added)	Specification of what the Commission will have regard to when approving extended reserves allowance	Add paragraph which we suggested was moved from IM Determination	We consider it is more appropriate for this to be specified in the DPP Determination, rather than the IM Determination.
Schedule 7, para 1(b)(vii)	Specification of 'proper records to enable complete and accurate compilation'	Remove sub-paragraph	As discussed in Section 2.7 above.

Appendix 3: Detailed comments on the draft IRIS IM Determination

Reference	Item	Suggested Amendment	Reason
Para 4.4, clauses 3.3.1 (2), 3.3.2 (2), 3.3.3 (1)-(5), 3.3.3 (8), 3.3.3 (9), 3.3.4 (2), 3.3.10 (2)	<p>'IRIS incentive adjustment'</p> <p>'Opex incentive amount'</p> <p>'Amount carried forward'</p> <p>'Capex incentive amount'</p> <p>'forecast opex'</p> <p>'actual opex'</p> <p>'adjustment to the opex incentive'</p>	These terms should be in bold type.	These terms are currently presented with quotation marks. They are defined terms, as per para 4.1. All the other defined terms in the document are in bold, and these terms should be too.
Para 4.4, clause 3.3.3.(8).(b)	Forecast opex	Specify the method that the Commission will use to determine the amount of forecast opex in a DPP regulatory period applying to an ENB where prices are rolled over from the end of the preceding DPP regulatory period or CPP regulatory period	<p>The proposed wording is ambiguous. It does not include a formal process to determine the forecast opex.</p> <p>The IMs should set out the formal process in advance, to provide certainty for ENBs.</p>

Reference	Item	Suggested Amendment	Reason
Para 4.4, clause 3.3.4 (1)	An adjustment to the opex incentive must be calculated for the second disclosure year of a DPP or CPP period	We suggest spreading all opex adjustments equally across the regulatory period (from the second year) to avoid potential pricing instability within the regulatory period.	<p>The draft IM Determination proposes to calculate and apply all opex adjustment terms in full in the second year of each regulatory period. This is inconsistent with the revised treatment of capex adjustment terms which are calculated for every year of a regulatory period other than the first year (ie, years 2 to 5).</p> <p>We submit that a consistent approach should be applied to opex adjustment terms. Spreading recovery over the regulatory period helps avoid the potential for a large one-off impact.</p>
Para 4.4, clauses 3.3.4 (1)(c) 3.3.4 (2)(b)	Adjustments to the opex incentive for the second year of a regulatory period	Insert 'CPP' after 'quality standard variation'.	This appears to be an error. The term 'quality standard variation CPP' is used elsewhere in the document.
Para 4.4, clause 3.3.8 (1)	Adjustments to the opex incentive where the preceding regulatory period applied for 1 year or less	There is no term assigned to the formulae (and hence adjustment) specified in this clause	<p>This is inconsistent with clauses 3.3.5, 3.3.6 and 3.3.7.</p> <p>We suggest 'Single Regulatory Period Adjustment'.</p>

Reference	Item	Suggested Amendment	Reason
Para 4.4 clause 3.3.8 (2)	Adjustments to the opex incentive if the two disclosure years immediately prior to the current regulatory period are starting price years	There is no term assigned to the formulae (and hence adjustment) specified in this clause	As above, this is inconsistent with clauses 3.3.5, 3.3.6 and 3.3.7. We suggest ‘Consecutive Single Regulatory Period Adjustment’.
Para 4.4. clause 3.3.8.(2) (a)	Formula for adjustments to the opex incentive where the preceding regulatory period applied for 1 year or less and the prices in the starting price year are determined in accordance with s 53P(3)(b) or s 53X	Replace the “+” between the fourth and fifth elements of the formula with “-”	This appears to be an error. The proposed formula is inconsistent with the formula in the accompanying model ⁸ .

⁸ Cell Q96, “CPP 13b” tab, Model-CPP-opex-scenario-3-Proposed-amendments-to-IRIS.xlsx (18 July 2014)

Reference	Item	Suggested Amendment	Reason
Para 4.4 new clause 3.3.8.(2) (b)	Formula for adjustments to the opex incentive where the preceding regulatory period applied for 1 year or less and the two disclosure years immediately prior to the current regulatory period are starting price years	Replace the “+” sign between the second and third elements of the formula with “-”	This appears to be an error. The proposed formula is inconsistent with the formula in the accompanying model ⁹ .
Para 4.4 clause 3.3.8.(2) (b)	As above	Replace “immediately” in the fifth element of the formula with “commencing two disclosure years”	This appears to be an error. The proposed formula is inconsistent with the formula in the accompanying model ¹⁰ .
Para 4.4, new Section 3	Capex incentive amount	Replace reference to ‘capex’ with ‘commissioned assets’	The calculation of capex incentive amount detailed in Section 3 is driven by commissioned assets instead of capex. As such, we believe the reference to ‘capex’ is misleading.

⁹ Cell Q93, “CPP 15b” tab, Model-CPP-opex-scenario-3-Proposed-amendments-to-IRIS.xlsx (18 July 2014)

¹⁰ Cell Q95, “CPP 15b” tab, Model-CPP-opex-scenario-3-Proposed-amendments-to-IRIS.xlsx (18 July 2014)

Reference	Item	Suggested Amendment	Reason
Para 4.4 new clause 3.3.10 (2)	Capex incentive amount	Adjust amount of inflation by the cost of debt to be 'y + 0.5'	Proposed formulae assume year-start timing for recovery. Our suggested amendment involves mid-year timing, which is consistent with other timing assumptions in the IMs for revenue and recoverable costs.
Para 4.4, new clause 3.3.10(2)(a)	Cost of debt	Make it clear that the cost of debt used to determine the recoverable costs for a given disclosure year is the cost of debt that applies to that disclosure year either under a DPP or CPP	It is unclear which disclosure year's cost of debt should be used in the proposed calculation.
Para 4.4, new clause 3.3.10(2)(b)(ii)	Capex incentive amount	Remove sub-clause 3.3.10(2)(b)(ii)	This sub-clause appears to be a repeat of clause 3.3.10 (3). We do not consider this repeat is necessary.
Para 4.4, new clause 3.3.11(2)(a)	WACC	Make it clear that the WACC used to discount building block revenues is the WACC applied by the Commission in setting prices for that disclosure year in the preceding DPP regulatory period	It is unclear which DPP regulatory period or disclosure year's WACC should be used in the proposed calculation.

Reference	Item	Suggested Amendment	Reason
Para 4.4 clause 3.3.11(2)(b)(i)	Specifying the method for calculating building block revenues for the purpose of the IRIS capex-wash-up	Replace reference to using the “same forecast operating expenditure” to using the same values for all other inputs to the calculation of the building block revenues	Forecast opex is just one of the items that should be the same under the two sets of calculations.
Para 4.4 clause 3.3.11(2)(b)(ii) and (iii)	Specifying depreciation values and cash flow timing assumptions to be used in calculation	Remove sub-clauses	<p>We suggest these sub-clauses are unnecessary.</p> <p>The reference in the previous sub-clause to “the same methodology” is sufficient for specifying the method for calculating depreciation and the timing assumptions to be used to calculate building block revenues.</p> <p>We also note that the proposed reference to Part 2 is also incorrect for DPP depreciation. Depreciation should be calculated consistent with Part 4, not Part 2. Otherwise this method does more than simply adjust the values for commissioned assets.</p>
Para 4.4, new clause 3.3.11(2)(c)	Capex wash-up	Remove ‘adjustment’ after ‘IRIS capex wash-up’ in the last sentence of this sub-clause	The correct term is ‘capex wash up’, as per sub-clause 3.3.10 (2) (a). As such, the word ‘adjustment’ should be removed.

Reference	Item	Suggested Amendment	Reason
Para 4.4, new clause 3.3.11(2)(d)	Capex wash-up	Remove 'adjustment' after 'IRIS capex wash-up' in the last sentence of this sub-clause	The correct term is 'capex wash up', as per sub-clause 3.3.10 (2) (a). As such, the word 'adjustment' should be removed.
Para 4.4, new clause 3.3.13	Calculating incentive adjustments after a catastrophic event	Add reference to events that lead to the reconsideration event allowance	This clause should capture all events that lead to an amendment of a price quality path. This includes both catastrophic and reconsideration events.
	Exclusion of Orion from the proposed method	Suggest that an additional clause is added to explicitly exclude Orion from the proposed IRIS during Orion's current CPP period.	The Section 5 Transitional provisions in the draft IRIS IM specifies that the current IRIS arrangements will apply to Orion for its current CPP. However, it is not clear that the newly proposed Section 1 and 4 explicitly exclude Orion from the new provisions, leaving open the possibility that both schemes could apply to them.