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Input methodology amendments for electricity distribution services

Default price-quality paths

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1. Introduction

Purpose of this paper

- 1.1 This paper explains changes we have made to the input methodologies affecting the default price-quality paths for electricity distributors, and why we have made them.

Amendments affect the default price-quality paths to apply from 1 April 2015

- 1.2 The amendments explained in this paper are made pursuant to section 52X of the Commerce Act 1986, and change the input methodologies that apply to the default price-quality paths for electricity distributors from 1 April 2015. The amendments will not apply to Orion New Zealand's customised price-quality path determined for the period 1 April 2014 to 31 March 2019.
- 1.3 The amendments primarily relate to changes to the input methodologies for default price-quality paths (Part 4 of the input methodologies determination). However, they also include related amendments which affect the input methodologies for information disclosure (Part 2 of the input methodologies determination) and customised price-quality paths (Part 5).

We consulted on two types of amendments

- 1.4 We consulted on two types of amendments to the input methodologies, which are explained in this paper.
 - 1.4.1 The first type of amendments focuses on changes that affect aspects of the financial model used by the Commission to set starting prices based on the current and project profitability of each distributor.
 - 1.4.2 The second type of amendments focuses on changes that affect other aspects of default price-quality paths.

Following consultation, this paper gives reasons for our final decision

- 1.5 We have considered all submissions made during consultation on these amendments and the amendments to the Incremental Rolling Incentive Scheme (IRIS), and in the parallel consultation on the default price-quality paths for the next regulatory period. We are grateful for all submissions received.
- 1.6 This paper gives reasons for our final decision.

Overview of amendments

1.7 The first type of amendments:

- 1.7.1 reflect a mid-year cash-flow timing assumption in the relevant definitions of notional deductible interest for the treatment of taxation;¹
- 1.7.2 correct for the double deduction of the term credit spread differential allowance when calculating the regulatory tax allowance; and
- 1.7.3 correct the definition of amortisation of initial differences in asset values to take account of the changes in initial difference values that result from the age, sale and acquisition of relevant assets.

1.8 Chapters 2-4 explain our reasons for the first type of amendments.

1.9 The second type of amendments introduce new recoverable costs:

- 1.9.1 relating to the revenue-linked quality incentive scheme we have implemented under section 53M(2);
- 1.9.2 relating to the incentives for energy efficiency and demand side management initiatives;
- 1.9.3 to provide a 'wash-up' for forecast capital expenditure for the year (or years) prior to the setting of a default price-quality path determination;
- 1.9.4 to provide a 'wash-up' for additional expenditure provided for in a regulatory period for transmission asset purchases forecast to be completed prior to a price reset, but which were not concluded;
- 1.9.5 to provide for the recovery of levies or other charges, revenues, or costs associated with the extended reserves regime administered by the Electricity Authority; and
- 1.9.6 to allow for the one-off recovery of additional revenue for three distributors.

¹ Similar updates to the timing assumptions for customised price-quality path determinations were made in the *Electricity and Gas Input Methodology Determination Amendments (No. 2) 2012* [2012] NZCC 34.

- 1.10 The second type of amendments also:
- 1.10.1 allow for the recovery of prudent expenditure incurred in response to a catastrophic event, on reconsideration of the default price-quality path; and
 - 1.10.2 allow for the financial impact of price path reconsideration events, other than catastrophic events;
 - 1.10.3 modify the treatment of avoided transmission charges associated with distributed generation;
 - 1.10.4 limit the risk of under-and over-recovery of pass-through and recoverable costs.
- 1.11 Chapters 5-14 explain our reasons for the second type of amendments.

Material released alongside this paper

- 1.12 Alongside this paper, we have published an input methodology amendment determination for the first and second type amendments (amendment determination).²
- 1.13 We have also published an input methodology amendment determination that gives effect to the IRIS, and a reasons paper that explains why we have made those amendments.³

² *Electricity Distribution Input Methodology Amendments Determination 2014* [2014] NZCC 31.

³ *Incremental Rolling Incentive Scheme Input Methodology Amendments Determination 2014* [2014] NZCC 32; Commerce Commission "Amendments to input methodologies for electricity distribution services and Transpower New Zealand: Incremental Rolling Incentive Scheme" (27 November 2014).

2. Amendment to the definition of notional deductible interest

Purpose of this chapter

- 2.1 This chapter provides reasons for the amendment to the definition of notional deductible interest used in the treatment of taxation input methodologies.

Description of the amendment

- 2.2 This amendment changes the definition of notional deductible interest used in the treatment of taxation input methodologies to apply a mid-year cash-flow timing assumption to the calculation of notional interest amounts. The current input methodologies assume year-end payments rather than payments being made during the year.
- 2.3 The amendment provides formulas that assume interest payments are to be made continuously through the year at a constant rate, which would be closely equivalent to a single interest payment being made at mid-year. The interest payable amount is discounted using the cost of debt.

Why we have made the amendment

- 2.4 Mid-year timing assumptions recognise that suppliers will pay interest during the year, and the amount paid will be less than if payments were to be made at year-end. The amendment aligns the timing assumptions for the interest tax deductions with the mid-year timing assumptions adopted for other cash flows within the input methodologies.
- 2.5 The mid-year timing assumption improves the accuracy of the annual notional deductible interest amount. The change is identical to input methodology amendments previously made for gas pipeline services.⁴
- 2.6 Submissions supported the amendment.⁵

⁴ Refer: *Gas Distribution Services Input Methodologies Determination 2012* [2012] NZCC 27; *Gas Transmission Services Input Methodologies Determination 2012* [2012] NZCC 28.

⁵ Vector "EDB DPP IM amendments" 14 July 2014; Powerco "Re: Proposed amendments to input methodologies for electricity distribution services – June 2014" 7 July 2014; Electricity Networks Association "Proposed amendments to input methodologies for Electricity Distribution Services" 18 July 2014.

Implementation of the amendment

- 2.7 This amendment is given effect by changes to clauses 2.3.4(2), 4.3.3(2) and 5.3.16(2) of the input methodologies.
- 2.8 The amendment changes the input methodologies that apply to treatment of taxation for information disclosure, default price-quality paths and customised price-quality paths.
- 2.9 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

3. Correction to the double deduction of the term credit spread differential allowance

Purpose of this chapter

- 3.1 This chapter provides reasons for the correction to the double deduction of the term credit spread differential allowance when calculating the regulatory tax allowance in the treatment of taxation input methodologies for default price-quality paths.

Description of the amendment

- 3.2 This amendment corrects the double deduction of the term credit spread differential allowance when calculating the regulatory tax allowance for the treatment of taxation input methodologies for default price-quality paths.
- 3.3 The term credit spread differential is included as a deduction in the definitions of both the regulatory profit / (loss) before tax and the regulatory tax adjustments and clause 4.3.1 uses these two terms to derive the regulatory tax allowance. As a result, the term credit spread differential allowance is incorrectly deducted twice when calculating the regulatory tax allowance.

Why we have made the amendment

- 3.4 The change corrects an identified error in the input methodologies. The change is identical to input methodology amendments previously made for gas pipeline services.⁶
- 3.5 Submissions supported the amendment.⁷

⁶ Refer: *Gas Distribution Services Input Methodologies Determination 2012* [2012] NZCC 27; *Gas Transmission Services Input Methodologies Determination 2012* [2012] NZCC 28.

⁷ Vector "EDB DPP IM amendments" 14 July 2014; Powerco "Re: Proposed amendments to input methodologies for electricity distribution services – June 2014" 7 July 2014; Electricity Networks Association "Proposed amendments to input methodologies for Electricity Distribution Services" 18 July 2014.

Implementation of the amendment

- 3.6 This amendment is given effect by deleting the reference to the term credit spread differential in the formula for 'regulatory profit / (loss) before tax' in clause 4.3.1(4).
- 3.7 This amendment changes the input methodologies that apply to the treatment of taxation for default price-quality paths.
- 3.8 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

4. Correction to the definition of amortisation of initial differences in asset values

Purpose of this chapter

- 4.1 This chapter provides reasons for the correction to the definition of amortisation of initial differences in asset values.

Description of the amendment

- 4.2 This amendment corrects the definition of amortisation of initial differences in asset values to take account of the changes in initial difference values that result from the age, sale and acquisition of relevant assets.
- 4.3 Clause 4.3.3(3) defines the 'amortisation of initial differences in asset values' for each disclosure year as the 'initial differences in asset values' divided by the 'weighted average remaining useful life of relevant assets'.

Why we have made the amendment

- 4.4 The definition for default price-quality paths in clause 4.3.3(3) does not take account of changes to the initial differences that occur after the first day of the disclosure year 2010 such as the aging, sale or acquisition of assets.
- 4.5 In contrast, the definition for the equivalent provision applying to information disclosure in clause 2.3.5 does take account of the changes in initial difference values that result from the age, sale and acquisition of relevant assets. This clause defines the 'amortisation of initial differences in asset values' for each disclosure year as the 'opening unamortised initial differences in asset values' divided by the 'weighted average remaining useful life of relevant assets'.
- 4.6 Submissions supported the amendment.⁸

⁸ Vector "EDB DPP IM amendments" 14 July 2014; Powerco "Re: Proposed amendments to input methodologies for electricity distribution services – June 2014" 7 July 2014; Electricity Networks Association "Proposed amendments to input methodologies for Electricity Distribution Services" 18 July 2014.

Implementation of the amendment

- 4.7 This amendment is given effect by changes to clauses 1.1.4(2), 4.3.3(3), 4.3.3(5) and 4.3.3(6) of the input methodologies.
 - 4.7.1 A new definition of 'initial differences in asset values' is included in clause 1.1.4(2).
 - 4.7.2 A new definition of 'amortisation of initial differences in asset values' appears in clauses 1.1.4(2), 4.3.3(3), 4.3.3(5) and 4.3.3(6).
- 4.8 The amendment changes the definitions in the general provisions of the input methodologies, and the input methodologies that apply to the treatment of taxation for default price-quality paths.
- 4.9 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

5. Introduction of a quality incentive adjustment recoverable cost

Purpose of this chapter

- 5.1 This chapter gives reasons for the amendment that introduces a quality incentive adjustment recoverable cost.

Description of the amendment

- 5.2 This amendment introduces a recoverable cost relating to the revenue-linked quality incentive scheme for both System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) reliability targets under s 53M(2) of the Act.⁹
- 5.3 Individual SAIDI and SAIFI targets, associated caps and collars, and a distributor-specific incentive rate, for each disclosure year are specified in the default price-quality path determination. Electricity distributors will calculate a financial reward or penalty using the formula set out in the default price-quality path determination, and apply this as a recoverable cost, ie, either a positive or negative amount.

Why we have made the amendment

- 5.4 We consider that it is appropriate that rewards or penalties under the revenue-linked quality incentive scheme specified in the default price-quality path determination are treated as a recoverable cost. The formula set out in the default price-quality path determination means that there is a two-year lag before a distributor receives a revenue reward or penalty.
- 5.5 The amendment will increase certainty for distributors that any performance exceeding the quality standards at the end of a regulatory period can still result in a reward in the next regulatory period. Any penalty resulting from performance below the quality standards will still be given effect to.
- 5.6 Vector and the Major Energy Users' Group (MEUG) agreed with the amendment.¹⁰

⁹ The revenue-linked quality incentive scheme is described in: Commerce Commission "Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Main policy paper" (28 November 2014), Chapter 6; Commerce Commission "Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Quality standards, targets, and incentives" (28 November 2014).

¹⁰ Vector "Further EDB DPP IM amendments" 29 August 2014, paragraph 3; Major Electricity Users' Group "Submission on type 2 IM amendments to implement DPP for RCP2" 29 August 2014, paragraph 3a.

Implementation of the amendment

- 5.7 This amendment is given effect by changes to clauses 1.1.4(2) and 3.1.3(1)(p) of the input methodologies.
 - 5.7.1 New definitions of 'quality incentive adjustment', 'revenue at risk' and 'incentive rate' are included in clause 1.1.4(2).
 - 5.7.2 A new recoverable cost term is added to the list of recoverable costs as clause 3.1.3(1)(p).
- 5.8 The amendment changes the definitions in the general provisions of the input methodologies, and the input methodologies that apply for the specification of price for both default and customised price-quality paths.
- 5.9 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

6. Introduction of an energy efficiency and demand side management allowance recoverable cost

Purpose of this chapter

- 6.1 This chapter gives reasons for the amendment that introduces an energy efficiency and demand side management allowance recoverable cost.

Description of the amendment

- 6.2 This amendment introduces a recoverable cost relating to the financial incentives to compensate electricity distributors for revenue foregone because of energy efficiency and demand side management initiatives that are specified in the default price-quality path determination.¹¹
- 6.3 Electricity distributors can calculate an amount that they consider demonstrates revenue foregone because of energy efficiency and demand side management initiatives, and apply this as a recoverable cost.
- 6.4 This recoverable cost will require approval by the Commission.¹² The approval process will be set out in the default price-quality path determination or customised price-quality path determination for the relevant regulatory period.¹³

Why we have made the amendment

- 6.5 The provision of incentives explicitly directed to the promotion of demand side management or energy efficiency initiatives is a new feature of the default price-quality paths from 1 April 2015. Commission approval is necessary to ensure that any allowance for foregone revenue is appropriately identified as being caused by, or arising from, the energy efficiency or demand side management initiative.

¹¹ The incentives provided for energy efficiency and demand side management initiatives in the default price-quality path are described in: Commerce Commission "Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Main policy paper" (28 November 2014), Chapter 7.

¹² The requirement to obtain the Commission's approval for charges payable by an electricity distributor to Transpower New Zealand Limited in respect of a new investment contract has been removed.

¹³ The determination will set out the approval process at a high level. More detail about the process will be provided in the 'Compliance Requirements' paper, for example, the principles and timeframes that will apply. As this is a new scheme, this will enable specific aspects of the approval process to be modified over time as the Commission and distributors become more familiar with it. Refer: Commerce Commission "Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Compliance requirements" (28 November 2014), Chapter 7.

- 6.6 Given the need for Commission approval, there is an effective two-year lag before the distributor will be entitled to recover the allowed foregone revenue. Similar to the amendment that introduces a quality incentive adjustment recoverable cost, this new recoverable cost term will create more certainty for industry. It will also promote further investment in energy efficiency.
- 6.7 Vector and MEUG agreed with the amendment.¹⁴

Implementation of the amendment

- 6.8 This amendment is given effect by changes to clauses 1.1.4(2) and 3.1.3(1)(m) of the input methodologies.
- 6.8.1 A new definition of 'energy efficiency and demand incentive allowance' is included in clause 1.1.4(2).
- 6.8.2 A new recoverable cost term is added to the list of recoverable costs as clause 3.1.3(1)(m).
- 6.9 The amendment changes the definitions in the general provisions of the input methodologies, and the input methodologies that apply for the specification of price for both default and customised price-quality paths.
- 6.10 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

¹⁴ Vector "Further EDB DPP IM amendments" 29 August 2014, paragraph 3; Major Electricity Users' Group "Submission on type 2 IM amendments to implement DPP for RCP2" 29 August 2014, paragraph 3b.

7. Introduction of a recoverable cost for the ‘wash-up’ of forecast capital expenditure

Purpose of this chapter

- 7.1 This chapter gives reasons for the amendment that introduces a recoverable cost for the 'wash-up' of forecast capital expenditure for the year (or years) prior to the setting of a default price-quality path determination.

Description of the amendment

- 7.2 This amendment introduces a recoverable cost that ‘washes up’ for the revenue impact of capital expenditure forecast for the year (or years) prior to the resetting of prices under a default price-quality path determination.¹⁵ The objective of the wash-up is to place distributors in approximately the same position as that in which the value of the regulatory asset base was known at the commencement of the regulatory period at the time prices were reset.¹⁶
- 7.3 The amendment provides that electricity distributors must calculate a ‘capex wash-up adjustment’, and apportion this as a recoverable cost evenly over each disclosure year of a default price-quality path regulatory period, other than the first year. The apportioned amounts are adjusted for the cost of debt to reflect the time value of money.
- 7.4 The ‘capex wash-up adjustment’ is specified as:¹⁷

[T]he present value of the difference in the series of building block allowable revenues before tax for a default price-quality path regulatory period from adopting actual values of commissioned assets instead of the forecast commissioned assets applied by the Commission in the year (or years) preceding the regulatory period when setting prices.

¹⁵ In most cases the ‘wash-up’ would be expected to apply in respect of the disclosure year immediately prior to the regulatory period for which prices are reset (eg, the 2015 disclosure year for the 2016-2020 default price-quality path regulatory period). However, when setting future price-quality paths it is possible that more than one year of forecast capital expenditure may be relied on to effectively construct the opening regulatory asset value at the commencement of a regulatory period. The amendment caters for these multi-year situations.

¹⁶ The ‘wash-up’ provided for forecast capital expenditure in the default price-quality path is described further in: Commerce Commission "Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Main policy paper" (28 November 2014), Chapter 7; Commerce Commission "Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Low cost forecasting approaches" (28 November 2014), Chapter 4.

¹⁷ *Electricity Distribution Input Methodology Amendments Determination 2014* [2014] NZCC 31, clause 1.1.4(2).

- 7.5 Distributors must also use the actual value of depreciation for the relevant preceding year (or years) for those newly commissioned assets.¹⁸
- 7.6 The present value is determined using a discount rate equal to the weighted average cost of capital used by the Commission in setting prices for the current default price-quality path regulatory period.
- 7.7 The building blocks allowable revenue before tax for the regulatory period must be calculated using the same methodology that was applied by the Commission in setting starting prices. This includes using all of the same financial inputs for the forecast years prior to the regulatory period (with the exception of commissioned assets and depreciation).¹⁹
- 7.8 The actual values of commissioned assets and depreciation will be available from distributors' information disclosure values calculated under Part 2 of the input methodologies. The Commission also intends to make spreadsheets available to distributors in due course to assist with the necessary wash-up calculations.

Why we have made the amendment

- 7.9 Along with using the recoverable costs provisions for the 'capex wash-up adjustment', this is a cost-effective way of updating the forecast building block revenues for the actual value of assets commissioned. By setting out the method for calculating the difference between the forecast and actual return on and return of commissioned assets, distributors are able to calculate the adjustment themselves.
- 7.10 Submissions did not raise any concerns about the amendment to provide a 'wash-up' for forecast capital expenditure. Vector suggested a helpful drafting refinement for the amendment determination.²⁰

¹⁸ Where only one year of forecast commissioned asset values is involved then actual depreciation will be nil because the input methodologies do not permit depreciation to be calculated for newly commissioned asset in their year of commissioning.

¹⁹ The actual values of commissioned assets will flow through to affect the calculation of building blocks allowable revenues before tax for the regulatory period other than the return on and of capital, including forecast revaluations and most aspects of the tax regulatory allowance.

²⁰ Vector "Further EDB DPP IM amendments" 29 August 2014, paragraph 8.

- 7.11 We also received a submission from Network Tasman that requested the introduction of a 'capex cap wash-up'. This would provide a wash-up for large projects that push a distributor's capital expenditure above its capital expenditure cap.²¹ Network Tasman suggested that an approval process could be established to consider and approve the projects eligible for the wash-up.
- 7.12 However, we have not included a 'capex cap wash-up' because it is unnecessary given that such distributors can apply for a customised price-quality path.

Implementation of the amendment

- 7.13 This amendment is given effect by changes to clauses 1.1.4(2), 3.1.3(1)(q), 3.1.3(8) and 3.1.3(9) of the input methodologies.
- 7.13.1 A new definition of 'capex wash-up adjustment' is included in clause 1.1.4(2).
- 7.13.2 A new recoverable cost term is added to the list of recoverable costs as clause 3.1.3(1)(q).
- 7.13.3 New clauses 3.1.3(8) and 3.1.3(9) specify the methodology which must be used by distributors to calculate the wash-up.
- 7.14 The amendment changes the definitions in the general provisions of the input methodologies, and the input methodologies that apply for the specification of price for both default and customised price-quality paths.
- 7.15 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

²¹ Network Tasman Limited "Submission to the Commerce Commission Concerning Low Cost Forecasting Approaches for Default Price Quality Paths" 15 August 2014, paragraphs 12-13.

8. Introduction of a recoverable cost for the ‘wash-up’ of forecast transmission asset purchases

Purpose of this chapter

- 8.1 This chapter gives reasons for the amendment that introduces a recoverable cost for the ‘wash-up’ of forecast transmission asset purchases.²²

Description of the amendment

- 8.2 This amendment introduces a recoverable cost for the ‘wash-up’ of transmission asset purchases that are forecast to be completed prior to a price reset, but which are not concluded.
- 8.3 The Commission will identify in the relevant default price-quality path or customised price-quality path determination the present value of the amount of revenues resulting from the additional expenditure forecast to be incurred during the regulatory period relating to transmission asset purchases forecast to occur prior to the regulatory period. Affected distributors will then know in advance the amount of the wash-up adjustment that must be made if the purchase is not completed.
- 8.4 The amendment provides that a ‘transmission asset wash-up adjustment’ must be calculated by an electricity distributor for each disclosure year of a default price-quality path regulatory period other than the first year. The adjustment is then applied as a recoverable cost. This recoverable cost, which is a negative amount, is effectively spread equally over the regulatory period, adjusted for the cost of debt.

Why we have made the amendment

- 8.5 We have made the amendment because it is a cost-effective method to update the revenue for distributors when a transmission asset that was forecast to be purchased prior to the regulatory period is not purchased.
- 8.6 Using the recoverable costs provisions enables distributors to calculate the relevant amounts of the recoverable cost using the information contained in the default price-quality path determination themselves. We consider that this a more cost-effective approach for providing this ‘wash-up’, and will provide greater certainty as to its impact.

²² The ‘wash-up’ provided for forecast transmission asset purchases in the default price-quality path is described in: Commerce Commission "Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Main policy paper" (28 November 2014), Attachment D.

- 8.7 An alternative was to introduce a new re-opener provision, similar to that used for Transpower. However, we do not consider this to be cost-effective, because it would require re-opening the price path during the first disclosure year of the regulatory period.

Implementation of the amendment

- 8.8 This amendment is given effect by changes to clauses 1.1.4(2) and 3.1.3(1)(r) of the input methodologies.
- 8.8.1 A new definition of 'transmission asset wash-up adjustment' is included in clause 1.1.4(2).
- 8.8.2 A new recoverable cost term is added to the list of recoverable costs as clause 3.1.3(1)(r).
- 8.9 The amendment changes the definitions in the general provisions of the input methodologies, and the input methodologies that apply for the specification of price for both default and customised price-quality paths.
- 8.10 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

9. Introduction of a recoverable cost for the pass-through of costs associated with the extended reserves regime

Purpose of this chapter

- 9.1 This chapter provides reasons for the amendment that introduces a recoverable cost to provide for the recovery of levies or other charges, revenues, or costs associated with the extended reserves regime administered by the Electricity Authority (EA).

Description of the amendment

- 9.2 This amendment introduces a recoverable cost to provide for the recovery of levies or other charges, revenues, or costs associated with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves that may be implemented during a regulatory period. Electricity distributors can calculate amounts relating to extended reserves, and apply this as a recoverable cost, which can be a positive or negative amount.
- 9.3 This recoverable cost will require approval by the Commission. The approval process will be specified for each regulatory period in a default price-quality path determination or customised price-quality path determination. The Commission's approval of this recoverable cost will have regard to any stated policy intent by the EA on whether:
- 9.3.1 compensation payments to be made by a distributor would be expected to be treated as negative recoverable costs; or
 - 9.3.2 revenues to be received by a distributor would be expected to be treated as unregulated income.

Why we have made the amendment

- 9.4 The addition of a new recoverable costs term for any amounts incurred or received associated with the extended reserves regime, subject to the Commission's approval, means we can be flexible in our approach to any regulations released by the EA. No mechanism currently exists to allow for pass-through of any levy or other charges or costs associated with extended reserves.
- 9.5 This amendment gives some certainty to distributors that these charges can be passed through without impairing our ability to ensure that appropriate Part 4 incentives are maintained.

- 9.6 No submissions were received that opposed this amendment, though MEUG noted that it did not support automatic pass-through of costs in principle.²³ Other submissions provided some helpful drafting refinements for the amendment determination.²⁴

Implementation of the amendment

- 9.7 This amendment is given effect by changes to clauses 1.1.4(2), 3.1.3(1)(o) and 3.1.3(7) of the input methodologies.
- 9.7.1 A new definition of 'extended reserves allowance' included in clause 1.1.4(2).
- 9.7.2 A new recoverable cost term is added to the list of recoverable costs as clause 3.1.3(1)(o).
- 9.8 A new clause 3.1.3(7) provides that the Commission's approval of this recoverable cost will have regard to any stated policy intent by the EA on whether:
- 9.8.1 compensation payments to be made by a distributor would be expected to be treated as negative recoverable costs; or
- 9.8.2 revenues to be received by a distributor would be expected to be treated as unregulated income.
- 9.9 The amendment changes the definitions in the general provisions of the input methodologies, and the input methodologies that apply for the specification of price for both default and customised price-quality paths.
- 9.10 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

²³ Major Electricity Users' Group "Submission on type 2 IM amendments to implement DPP for RCP2" 29 August 2014, paragraph 3e.

²⁴ Vector "Further EDB DPP IM amendments" 29 August 2014, paragraph 9; Vector "Proposed amendments to the input methodologies – first and second type" 31 October 2014, paragraph 6.

10. Introduction of a recoverable cost to allow for a one-off recovery of additional revenue

Purpose of this chapter

10.1 This chapter provides reasons for the amendment that introduces a recoverable cost to allow for a one-off recovery of additional revenue for three distributors.

Description of the amendment

10.2 This amendment introduces a recoverable cost to allow for a one-off recovery of additional revenue for three distributors (Alpine Energy, Top Energy, and Centralines).

Why we have made the amendment

10.3 This amendment addresses the impact of the limit to price increases for Alpine Energy, Top Energy, and Centralines in the last two years of the current regulatory period (1 April 2013 – 31 March 2015). Our reasons for allowing a one-off recovery of additional revenue for these distributors are explained in more detail in Chapter 5 of our Main Policy Paper.²⁵

10.4 No submissions were received that opposed this amendment.

Implementation of the amendment

10.5 This amendment is given effect by changes to clauses 1.1.4(2) and 3.1.3(1)(s) of the input methodologies.

10.5.1 A new definition of '2013-15 NPV wash-up allowance' is included in clause 1.1.4(2).

10.5.2 A new recoverable cost term is added to the list of recoverable costs as clause 3.1.3(1)(s).

10.6 The amendment changes the definitions in the general provisions of the input methodologies, and the input methodologies that apply for the specification of price for both default and customised price-quality paths.

10.7 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

²⁵ Commerce Commission "Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Main policy paper" (28 November 2014), Chapter 5.

11. Allowing for the recovery of prudent expenditure incurred in response to a catastrophic event

Purpose of this chapter

11.1 This chapter provides reasons for the amendment to allow for the recovery of prudent expenditure incurred in response to a catastrophic event. The amendment covers expenditure between the time of the event and the point at which a reconsideration of the default price-quality path takes effect.²⁶

Description of the amendment

11.2 This amendment allows for the recovery of prudent expenditure incurred in response to a catastrophic event, prior to any reconsideration of a price-quality path taking effect. The Commission will specify the amount that can be recovered as a recoverable cost by amending the relevant default price-quality path or customised price-quality path determination issued in response to a catastrophic event.

11.3 The recoverable cost amount covers the additional net costs prudently incurred by a distributor in its response to a catastrophic event (ie, costs that are not provided for in a default price-quality path or customised price-quality path):

11.3.1 It includes unrecovered pass-through or recoverable costs, and costs related to the financial impact of a catastrophic event on a quality incentive scheme; and

11.3.2 It excludes any foregone revenue due to the impact of a catastrophic event.

11.4 This amendment is substantively the same as that included in the variation to the specification of price input methodology agreed with Orion New Zealand for its customised price-quality path in the event of the path being re-opened for another catastrophic event.²⁷

²⁶ The High Court has ordered that the input methodologies that apply to the default price-quality paths be amended to provide for reconsideration of the path following a catastrophic event or a change to regulatory or legislative requirements. Refer: *Wellington International Airport Ltd and others v Commerce Commission [2013] NZHC 3289*. The amended determinations were notified in the New Zealand Gazette on 27 November 2014.

²⁷ Commerce Commission “Setting the customised price-quality path for Orion New Zealand Limited” (29 November 2013), paragraphs C34–36.

Why we have made the amendment

- 11.5 In making this amendment, we consider that:
- 11.5.1 the risks of future catastrophic events should be shared between distributors and consumers, consistent with the Part 4 purpose; and
 - 11.5.2 ex post compensation should be provided for additional net (operational and capital expenditure) costs incurred due to any catastrophic events that occur during the default price-quality path period.
- 11.6 In these circumstances, providing ex post compensation for additional net costs will strengthen the existing incentives that the distributor has to restore supply on its network. Consumers will benefit from expenditure to repair the electricity distribution network because it will help ensure that demand is able to be met.
- 11.7 However, no additional compensation (either ex ante or ex post) will be provided for lower-than-forecast revenues due to future catastrophic events. This is because:
- 11.7.1 investor diversification minimises the impact of demand risk (to well-diversified investors, only the demand risks that affect all investments matter);
 - 11.7.2 the demand risks specific to one investment can be expected to be offset by those of other investments, and unexpected positive and negative shocks may be experienced by individual businesses over time (such shocks are therefore of little consequence to a diversified investor);
 - 11.7.3 allocating some of the risks and costs of catastrophic events to distributors creates incentives for those distributors to manage these risks efficiently (ie, and therefore avoids any moral hazard); and
 - 11.7.4 demand risk is borne by consumers after the re-opened default price-quality path takes effect (ie, under our approach only some of the risk is allocated to distributors).
- 11.8 Defining the share of risks between distributors and consumers prior to any future catastrophic event provides greater certainty to all parties.

11.9 The recoverable cost term we have introduced helps provide an appropriate level of compensation to distributors for expenditure incurred after the event following a catastrophic event and prior to any reconsideration taking place. We note that the consequences of catastrophic events are also responded to in other ways:

11.9.1 A reconsidered path will include allowances for further prudently incurred operating and capital expenditure.

11.9.2 Only part of the total demand risk is borne by distributors. After the path has been reconsidered, prices are able to be adjusted to reflect reduced demand. Therefore, demand risk is effectively shared because the impact of lower-than-forecast revenues is borne by consumers post-reset.

11.9.3 Distributors can continue to earn a return on and of capital on assets that are damaged beyond repair (but which are not disposed of).

11.10 Further details on these reasons are provided in the following sections.

Distributors and consumers should share the risks of future catastrophic events

11.11 As we have explained previously, our view is that the risks of future catastrophic events should be shared between distributors and consumers.²⁸

11.12 Our view is that ex post compensation should be provided to distributors for additional net operational and capital expenditure incurred due to any catastrophic events that occur during the default price-quality path. In these circumstances, allowing ex post compensation for additional net costs helps strengthen incentives for the distributor to focus on restoring its network in the aftermath of a catastrophic event.

²⁸ Commerce Commission "Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Main policy paper" (28 November 2014), Chapter 8; Commerce Commission "Setting the customised price-quality path for Orion New Zealand Limited" (29 November 2013), paragraph B40.

11.13 However, it would be inconsistent with the Part 4 purpose for consumers to bear the entire financial impact of catastrophic events costs because:

11.13.1 it is unusual for consumers to bear all the costs and risks of catastrophic events in a workably competitive market (workably competitive markets tend to manage risks efficiently, by allocating identified risks to the party best placed to manage them);

11.13.2 regulated distributors (and their investors) are generally better placed than consumers to manage the risks of catastrophic events through a combination of measures, such as diversification, insurance, self-insurance, and investment in network strengthening or resilience; and

11.13.3 allocating all the costs and risks of catastrophic events to consumers would reduce the incentives for distributors to manage these risks efficiently (ie, create a moral hazard).²⁹

11.14 This statement applies irrespective of whether a distributor applies for a customised price-quality path, or a reconsideration of the default price-quality path.

Compensation for prudent and efficient costs, but not foregone revenue

11.15 We have previously considered the most appropriate sharing of risk between distributors and consumers following a catastrophic event as part of our decision on Orion's customised price-quality path.³⁰

11.16 In particular, we determined that after a catastrophic event:

11.16.1 distributors should be compensated for prudent additional net costs incurred before the price-quality path is reset;

11.16.2 distributors should be compensated for prudent additional net costs that are forecast to be incurred after the price-quality path is reset; and

11.16.3 distributors should be cushioned against changes in future demand, by factoring in up-to-date forecasts when the price-quality path is reset.

²⁹ A moral hazard is a situation where a party will have a tendency to take risks because the costs that could result will not be felt by the party taking the risk.

³⁰ Commerce Commission "Setting the customised price-quality path for Orion New Zealand Limited" (29 November 2013), paragraph C20.

- 11.17 However, no additional compensation (either ex ante or ex post) is to be provided for lower-than-forecast revenues due to future catastrophic events prior to any future path reset.
- 11.18 Our approach means that distributors bear only the demand risk of a catastrophic event from the time of the event to the reset of the path.
- 11.19 We consider it appropriate to provide ex post compensation for additional net costs incurred by distributors in responding to future catastrophic events because:
- 11.19.1 allowing ex post compensation for additional net costs helps strengthen incentives for the distributor to focus on restoring its network in the aftermath of a catastrophic event (without necessarily maintaining the same level of planning and oversight as it would for business as usual expenditure); and
 - 11.19.2 additional expenditure following a catastrophic event may be vital to meet demand in a region (consumers benefit from this expenditure because it helps mitigate any deterioration in quality of service).
- 11.20 Foregone revenue is excluded from the 'catastrophic event allowance' to ensure the financial impact of the catastrophic event is appropriately shared between consumers and the relevant distributor.
- 11.21 Our approach means that distributors bear only the demand risk of a catastrophic event from the time of the event to the reset of the path. We think this is appropriate given:
- 11.21.1 risks should be shared between distributors and consumers;
 - 11.21.2 the fact that distributors are subject to price cap (rather than revenue cap) regulation implies they should bear demand risk (both positive and negative) by default; and
 - 11.21.3 as noted above in paragraph 11.13.2, this demand risk can be mitigated by the shareholders of an investor in a distributor through a number of measures including diversification.
- 11.22 We would expect that across a balanced portfolio, the demand risk associated with catastrophic events to a diversified investor is likely to be small. A diversified investor would benefit from positive demand shocks that would offset to some extent negative demand shocks from catastrophic events. For example, the increased demand from people moving from Christchurch to other areas, or the benefits of an event such as the rugby world cup.

11.23 A diversified investor could still face a small downside demand risk from catastrophic events that is not fully removed by diversification. However any compensation should not be applied on an ex post basis through a recoverable cost as this would remove incentives for distributors to manage this risk.

Prior allocation of risks provides greater certainty

11.24 Submissions were generally supportive of our introducing a recoverable cost to ensure appropriate compensation for costs incurred due to a catastrophic event and prior to the start of an amended price-quality path. However some submitters felt that the recoverable cost term had been defined too narrowly. In particular they did not agree that excluding foregone revenue was appropriate.³¹

11.25 For example, Wellington Electricity did not think this exclusion was appropriate because the circumstances of the event are not known in advance. Wellington Electricity submitted that it would be best to keep the specification open so that a decision on which costs should be included could be made at the time of the reconsideration.³² This approach was supported by PwC who thought it was inappropriate to restrict the definition of the recoverable cost prior to any event taking place.³³

11.26 We disagree with submissions on this point. We believe that leaving opening the specification of the catastrophic event allowance would lead to further uncertainty on how we might share costs between distributors and consumers following a catastrophic event. As noted above our position on this point has been clearly stated and a recoverable cost definition that is inconsistent with this approach would create further uncertainty.

³¹ For example, Major Electricity Users' Group "Submission on type 2 IM amendments to implement DPP for RCP2" 29 August 2014, paragraph 3 d) and Electricity Networks Association "Submission on proposed default price-quality paths for electricity distributors from 1 April 2015" 15 August 2014, paragraph 122.

³² Wellington Electricity Lines Limited "Draft Decision on 2015-2020 Default Price-quality Path" 15 August 2014, p.31

³³ PwC "Submission to the Commerce Commission on Proposed Default Price-Quality Paths for Electricity Distributors From 1 April 2015 - Made on behalf of 19 Electricity Distribution Businesses" 15 August 2014, paragraph 82.

11.27 Our approach is consistent with submissions from both Vector and Powerco on Orion's customised price-quality path which recommended that the Commission should provide greater certainty on our approach to cost recovery following a catastrophic event.³⁴

Implementation of the amendment

11.28 This amendment is given effect by changes to clauses 1.1.4(2) and 3.1.3(1)(n) of the input methodologies.

11.28.1 A new definition of 'catastrophic event allowance' is included in clause 1.1.4(2).

11.28.2 A new recoverable cost term is added to the list of recoverable costs as clause 3.1.3(1)(n).

11.29 The amendment changes the definitions in the general provisions of the input methodologies, and the input methodologies that apply for the specification of price for both default and customised price-quality paths.

11.30 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

³⁴ Vector "Submission to the Commerce Commission on Orion CPP Draft Decision" (20 September 2013), p.13 and Powerco "Powerco submission to Setting the 2014-2019 customised price-quality path for Orion New Zealand Limited: Draft Decision" (20 September 2013), p.3.

12. Allowing for the financial impact of price path reconsideration events

Purpose of this chapter

12.1 This chapter provides reasons for the amendment to allow for the recovery of appropriate revenues and costs by distributors or consumers, under certain circumstances resulting in a reconsidered default price-quality path.³⁵ It only applies for the financial impact prior to the reconsidered path taking effect.

Description of the amendment

- 12.2 This amendment covers the additional net financial impact due to price path reconsideration events, other than a catastrophic event. It allows compensation for distributors or consumers of any additional net costs associated with the impact of price path reconsideration events, where those costs are incurred prior to any reconsideration of the price-quality path taking effect.
- 12.3 The Commission will specify the amount that can be recovered as a recoverable cost in the relevant default price-quality path or customised price-quality path determination issued following a price path reconsideration event. The recoverable cost can be a positive or negative amount.
- 12.4 This recoverable cost amount covers the additional net financial impact prudently incurred by a distributor as a result of a legislative or regulatory change event, or amounts to mitigate the effect of an error or provision of false or misleading information. It covers the period from the date of the event (for a change event) or from the start of the existing regulatory period (for an error or false information).³⁶
- 12.5 Amounts related to the financial impact of a price path reconsideration event on a quality incentive scheme are included, as well as any foregone revenue.

³⁵ The recoverable cost applies to reconsideration events other than a catastrophic event.

³⁶ The High Court has ordered that the input methodologies that apply to the default price-quality paths be amended to provide for reconsideration of the path following a catastrophic event or a change to regulatory or legislative requirements. Refer: *Wellington International Airport Ltd and others v Commerce Commission [2013] NZHC 3289*. The amended determinations were notified in the New Zealand Gazette on 27 November 2014.

Why we have made the amendment

12.6 The default price-quality path draft decision proposed the introduction of a recoverable cost that would provide compensation for certain costs incurred following a catastrophic event and before the reconsideration of the price-quality path.

12.7 Following the draft decision we received submissions that the proposed recoverable cost for catastrophic events should be extended to cover the financial impact of other circumstances that result in a reconsideration of a price-quality path.³⁷

12.8 After considering these submissions, we decided that:

12.8.1 enabling a mechanism that allows compensation for the financial impact incurred prior to the start of all types of reconsidered price-quality paths seems appropriate; and

12.8.2 an extension of the catastrophic event allowance is inappropriate given that this has been specified for the explicit circumstances following a catastrophic event.³⁸

12.9 We have therefore introduced a separate recoverable cost.

The financial impact prior to reconsideration should be recoverable

12.10 The regulatory framework defined under Part 4 permits distributors to be compensated for prudent and efficient costs in delivering distribution lines services.

12.11 Under certain circumstances a default price-quality can be reconsidered, either at the request of the distributor or the Commission, due to inaccuracies in the existing path. New circumstances (change events) or more accurate information (correcting errors or false information) makes it eligible for reconsideration.

12.12 In contrast to a catastrophic event, for other reconsideration events we consider the distributor or consumers should expect to fully recover any additional net costs incurred prior to the resetting of the price path.

³⁷ Electricity Networks Association "Submission on proposed default price-quality paths for electricity distributors from 1 April 2015" 15 August 2014, paragraph 123, and PwC "Submission to the Commerce Commission on Proposed Default Price-Quality Paths for Electricity Distributors From 1 April 2015 - Made on behalf of 19 Electricity Distribution Businesses" 15 August 2014, paragraph 83.

³⁸ The catastrophic event allowance is a new recoverable cost term applying to catastrophic events. It is described in Chapter 11 and defined in clause 1.1.4(2) of the input methodologies.

12.13 There appears limited ability for distributors to influence the impact on their costs of these other types of reconsideration events. This is in contrast to a catastrophic event where, as outlined in Chapter 11, there is strong reason to ensure the correct incentives are placed on distributors to make suitable preparations. For these other types of reconsideration events it is therefore more consistent with the Part 4 purpose for consumers to bear the risk (positive or negative) associated with these events.

An extension of the catastrophic event allowance is not appropriate

12.14 The approach to risk sharing for future catastrophic events has been well defined based on previous Commerce Commission decisions.³⁹ In particular we have determined that any decrease in revenue as a result of the catastrophic event will not be compensated for prior to the start of a revised price-quality path.

12.15 As we note above, our approach for catastrophic events is inappropriate for other types of reconsideration events as we do not consider that it is beneficial (in terms of the Part 4 purpose) having distributors bear risks associated with these events.

12.16 We would expect as a general rule that reconsiderations of this type would mitigate the impact on the distributors and consumers to the extent practicable, and in doing so would need to compensate for inaccurate revenue allowances prior to the start of any reconsidered price path.

12.17 This clear difference between catastrophic events and other type of reconsideration events means that we cannot use the same recoverable cost mechanism to cover all circumstances in which a path is reconsidered.

12.18 In particular, the exclusion of foregone revenues in the catastrophic event allowance, which is required to ensure the appropriate incentives are in place consistent with our stated approach to risk sharing for catastrophic events, is not appropriate for other types of reconsideration events.

We have introduced a separate recoverable cost for reconsideration events

12.19 Although we consider the catastrophic event allowance is unsuitable we do agree that introducing a mechanism that allows compensation for additional costs incurred prior to the start of all types of reconsidered price-quality paths is appropriate.

³⁹ Commerce Commission “Setting the customised price-quality path for Orion New Zealand Limited” (29 November 2013), paragraph C20.

- 12.20 We have therefore introduced an additional recoverable cost term that applies to reconsiderations as a result of a change event, error or the provision of false or misleading information.
- 12.21 The new recoverable term enables us to determine, at the time of a price-quality path reconsideration, any additional net costs prudently incurred by the distributor as a result of a change event or to mitigate the effect of an error or the provision of false or misleading information.
- 12.22 We consider that this new recoverable cost is an appropriate addition to the input methodologies. The new term would help us to provide an adequate response to reconsideration events for distributors and consumers. This new recoverable cost does not exclude foregone revenue.
- 12.23 Vector supported the introduction of this amendment when it was included in our updated draft determination that was published on 20 October 2014.⁴⁰

Customer service lines wash-up

- 12.24 Submissions suggested that a wash-up should also be introduced to cover the costs of distributors maintaining customer service lines.⁴¹
- 12.25 After considering the current context and uncertainty of costs, we have not been persuaded that the introduction of an ex post recovery mechanism or additional allowance to apply under the forthcoming default price-quality path is warranted. We do not consider that the potential costs to distributors over the forthcoming reset are significant or immediate enough.

Implementation of the amendment

- 12.26 This amendment is given effect by changes to clauses 1.1.4(2) and 3.1.3(1)(t) of the input methodologies.
- 12.26.1 A new definition of ‘reconsideration event allowance’ is included in clause 1.1.4(2).
- 12.26.2 A new recoverable cost term is added to the list of recoverable costs as clause 3.1.3(1)(t).

⁴⁰ Vector “Proposed amendments to the input methodologies – first and second type” 31 October 2014, paragraph 4.

⁴¹ Electricity Networks Association “Submission on proposed compliance requirements for the 2015-2020 Default Price-Quality Paths for electricity distributors” 29 August 2014, paragraph 66–69.

- 12.27 The amendment changes the definitions in the general provisions of the input methodologies, and the input methodologies that apply for the specification of price for both default and customised price-quality paths.
- 12.28 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

13. Modifying the treatment of avoided transmission charges associated with distributed generation

Purpose of this chapter

- 13.1 This chapter provides reasons for the amendment to modify the treatment of avoided transmission charges associated with distributed generation.

Description of the amendment

- 13.2 This amendment modifies the existing treatment of avoided transmission charges associated with distributed generation to allow any changes implemented in accordance with the Electricity Act 2010 to be accommodated.

Why we have made the amendment

- 13.3 The addition of a new recoverable costs term means that we can be flexible in the event of any changes to the EA's Electricity Industry Participation Code regarding avoided transmission charges associated with distributed generation.
- 13.4 No submissions were received that opposed this amendment.

Implementation of the amendment

- 13.5 This amendment is given effect by changes to clauses 1.1.4(2) and 3.1.3(1)(f) of the input methodologies.
- 13.5.1 A new definition of 'distributed generation allowance' is included in clause 1.1.4(2).
- 13.5.2 A new recoverable cost term is added to the list of recoverable costs as clause 3.1.3(1)(f).
- 13.6 The amendment changes the definitions in the general provisions of the input methodologies, and the input methodologies that apply for the specification of price for both default and customised price-quality paths.
- 13.7 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.

14. Limiting the risk of under- or over-recovery of pass-through and recoverable costs

Purpose of this chapter

- 14.1 This chapter provides reasons for the amendment to limit the risk of under- or over-recovery of pass-through and recoverable costs.

Description of the amendment

- 14.2 This amendment limits the risk of under- or over-recovery of pass-through and recoverable costs arising from uncertainty associated with forecasting.
- 14.3 The amendment achieves this by limiting the calculation of allowable notional revenue and notional revenue for the weighted average price cap to 'distribution prices', which is defined as excluding pass-through and recoverable costs.
- 14.4 The default price-quality path determination includes provisions relating to demonstrating the recovery of pass-through and recoverable costs.

Why we have made the amendment

- 14.5 This amendment helps to resolve the issue of distributors having difficulty forecasting the amounts required to cover pass-through and recoverable costs. In principle, distributors should be able to recover pass-through and the allowed recoverable costs in full. Our reasons for limiting the risk of under- or over-recovery of pass-through and recoverable costs are discussed in more detail in Chapter 5 of our Main Policy Paper.⁴²
- 14.6 No submissions were received that opposed this amendment.

⁴² Commerce Commission "Default price-quality paths for electricity distributors from 1 April 2015 to 31 March 2020: Main policy paper" (28 November 2014), Chapter 5.

Implementation of the amendment

- 14.7 This amendment is given effect by changes to clauses 1.1.4(2), 3.1.1(1), 3.1.1(2), 3.1.1(3) and 3.1.3(1)(b) of the input methodologies.
- 14.7.1 New definitions for 'distribution prices' and 'pass-through prices' are included in the definitions in clause 1.1.4(2).
 - 14.7.2 New clause 3.1.1(1)(f) adds a requirement that the sum of pass-through and recoverable costs passed through to price is separately demonstrated.
 - 14.7.3 The defined term 'prices' in clauses 3.1.1(2) and 3.1.1(3) is replaced with 'distribution prices'.
 - 14.7.4 Indirect transmission charges are included in the arrangement set out in clause 3.1.3(1)(b).
- 14.8 The amendment changes the definitions in the general provisions of the input methodologies, and the input methodologies that apply for the specification of price for both default and customised price-quality paths.
- 14.9 It will apply from 1 April 2015, which corresponds to the start of the next default price-quality path regulatory period.