Draft Incremental Rolling Incentive Scheme Input
Methodology Amendments 2014


Date of draft determination: 18 July 2014
Pursuant to Part 4 of the Commerce Act 1986 (the Act) the Commerce Commission makes the following determination:

1. **DETERMINATIONS AMENDED**

   This determination amends the following determinations:

   (a) *Electricity Distribution Services Input Methodologies Determination 2012*, [2012] NZCC 26 (the *EDB IM Determination*);

   (b) *Gas Distribution Services Input Methodologies Determination 2012*, [2012] NZCC 27 (the *GDB IM Determination*);

   (c) *Gas Transmission Services Input Methodologies Determination 2012*, [2012] NZCC 28 (the *GTB IM Determination*); and

   (d) *Transpower Input Methodologies Determination*, [2012] NZCC 17 (the *Transpower IM Determination*).

2. **COMMENCEMENT**

   This determination comes into force on the date on which notice of the determination is given in the New Zealand Gazette under section 52X of the Commerce Act 1986.

3. **INTERPRETATION**

   3.1 Terms in bold type have the meaning given to those terms in the applicable Determination. Terms in bold type used in this determination that are defined in the Act, but not this determination, have the same meaning as in the Act.

   3.2 Nothing in this determination limits the *Commission’s* authority to amend any Determination in accordance with the Act.

4. **EDB IM AMENDMENTS**

   4.1 In the *EDB IM Determination*, insert the following new definitions in clause 1.1.4:

   “*incentive adjustment* means the recoverable cost amount determined under clause 3.3.1(2);”

   “*opex incentive adjustment* means the amount determined in accordance with clause 3.3.3(2);”

   “*capex incentive adjustment* means the amount determined in accordance with clause 3.3.10(1);”
“amount carried forward” means, for any given disclosure year, the amount determined in accordance with clause 3.3.2;

“retention factor” means the percentage amount determined by the Commission in a CPP determination or DPP determination for the purpose of calculating the capex incentive adjustment;

“starting price year” means a disclosure year for which new starting prices were determined for the EDB in accordance with s 53P(3), or the disclosure year immediately following the expiration of a CPP;

4.2 In the EDB IM Determination, delete the definitions for “allowed controllable opex” and “actual controllable opex”.

4.3 In the EDB IM Determination, replace clause 3.1.3(1)(a) with:

“any incentive adjustment calculated in accordance with clause 3.3.1(2);”

4.4 In the EDB IM Determination, replace subpart 3 of Part 3 with:

“SUBPART 3 Incremental rolling incentive scheme

3.3.1 Calculation of annual incremental rolling incentive scheme recoverable costs

“(1) Subject to subclause (3), an EDB must calculate and apply the incentive adjustment as a recoverable cost for each disclosure year of each regulatory period.

“(2) The ‘incentive adjustment’ is the amount determined in accordance with the formula–

opex incentive adjustment + capex incentive adjustment.

“(3) An EDB must calculate the incentive adjustment commencing in the first full regulatory period commencing after the first disclosure year for which it has calculated an amount carried forward.

“(4) An EDB must calculate an amount carried forward commencing from the first disclosure year commencing after [date of amendment].

SECTION 1 Operational expenditure incentives

3.3.2 How to calculate the amount carried forward into subsequent disclosure years

“(1) Each EDB must calculate an ‘amount carried forward’ in each disclosure year, subject to clause 3.3.11.

“(2) The ‘amount carried forward’ in the first disclosure year of a regulatory period, including the first disclosure year following expiration of a CPP
determination applicable to the EDB, subject to subclause (5), is calculated in accordance with the formula –

\[
\text{forecast opex} - \text{actual opex}
\]

“(3) The ‘amount carried forward’ in all but the first or last disclosure year of a regulatory period is calculated in accordance with the formula –

\[
(forecast \text{ opex}_t - actual \text{ opex}_t) - (forecast \text{ opex}_{t-1} - actual \text{ opex}_{t-1})
\]

where –

\[ t \] means the disclosure year for which the amount carried forward is being calculated

\[ t-1 \] means the disclosure year prior to the disclosure year for which the amount carried forward is being calculated

“(4) The ‘amount carried forward’ in the last disclosure year of a regulatory period is nil.

“(5) Where an EDB is subject to a DPP determination for no more than one consecutive disclosure year of the DPP regulatory period, the ‘amount carried forward’ for that disclosure year is nil.

“(6) ‘Forecast opex’ is, for a disclosure year –

“(a) in a DPP regulatory period for which new starting prices applicable to the EDB were determined by the Commission under s 53P(3)(b) or s 53X(2), the amount of operating expenditure determined by the Commission for the relevant disclosure year in accordance with clause 4.1.1(1);

“(b) in a DPP regulatory period for which the prices applicable to the EDB were the prices in effect at the expiration of the previous DPP or CPP, the amount of operating expenditure specified by the Commission in the DPP determination or, if not specified, notified by the Commission and calculated using the same methodology used to calculate operating expenditure in the most recent regulatory period for which new starting prices were determined under s 53P(3)(b) or in a CPP determination; or

“(c) in a CPP regulatory period applicable to the EDB, the amount of forecast operating expenditure determined by the Commission for the relevant disclosure year in accordance with clause 5.3.2(6)(b).

“(7) ‘Actual opex’ is the amount of operating costs attributable to electricity distribution services for the relevant disclosure year as reported under an ID determination and calculated in accordance with Part 2.
3.3.3 How to calculate the opex incentive adjustment to be applied as a recoverable cost

“(1) Each amount carried forward determined in accordance with clause 3.3.2 is notionally carried forward, subject to clause 3.3.11, from the disclosure year in respect of which it is determined into each of the subsequent 5 disclosure years.

“(2) In each of the disclosure years after a regulatory period into which an amount carried forward has been carried pursuant to subclause (1), a net balance (the ‘opex incentive adjustment’) must be determined by addition of—

“(a) any amounts carried forward into that disclosure year from a preceding regulatory period; and

“(b) any adjustment amounts determined in accordance with clauses 3.3.4.

3.3.4 How to calculate the adjustment amount in the second year of a regulatory period

“(1) The adjustment amount must be calculated in the second disclosure year of—

“(a) a DPP regulatory period, including a DPP regulatory period that has been amended by a quality standard variation CPP determination;

“(b) a CPP regulatory period (other than a quality standard variation) currently applicable to the EDB; and

“(c) following the expiration of a CPP regulatory period (other than a quality standard variation) applicable to the EDB, unless new starting prices have been determined for the EDB in accordance with s 53P(3) or a CPP.

“(2) The ‘adjustment amount’ is, subject to clause 3.3.8, in the case of an EDB currently subject to—

“(a) a DPP, subject to subclause 3.3.8(1), where the starting prices for the current DPP regulatory period were—

“(i) determined by the Commission in accordance with s 53P(3)(b) of the Act—

– (base year adjustment term)

“(ii) the prices that applied at the end of the preceding DPP or CPP regulatory period, calculated in accordance with the formula—
“(b) a CPP (other than a quality standard variation), subject to subclause 3.3.8(2), calculated in accordance with the formula—

CPP adjustment term 1 + CPP adjustment term 2 − base year adjustment term.

“3.3.5 How to calculate the base year adjustment term

The ‘base year adjustment term’ is calculated in accordance with the formula—

\[
\frac{(\text{forecast opex}_{t-1} - \text{actual opex}_{t-1}) - (\text{forecast opex}_{t-2} - \text{actual opex}_{t-2})}{(1+WACC)^4}
\]

where—

WACC means the WACC as determined by the Commission and applicable to the EDB’s current CPP or DPP

t-1 means the disclosure year immediately preceding the current regulatory period

t-2 means the disclosure year two years prior to the current regulatory period

“3.3.6 How to calculate the roll-over adjustment term

The ‘roll-over adjustment term’ is calculated in accordance with the formula—

\[
\text{actual opex}_{t-2} - \text{forecast opex}_t \\
\times \\
((1-(1+WACC)^{-6})/WACC) \\
\times \\
(1+WACC)^2
\]

where—

WACC means the WACC as determined by the Commission and applicable to the EDB’s current DPP

t means the first disclosure year of the current regulatory period
t-2 means the disclosure year two years prior to the current regulatory period

"3.3.7 How to calculate adjustment amounts applicable to CPP regulatory periods

“(1) The ‘CPP adjustment term 1’ is calculated in accordance with the formula –

\[
\frac{\text{conditional value} - \text{amount carried forward}_{t-2}}{(1+WACC)^4}
\]

where–

WACC means the WACC as determined by the Commission and applicable to the EDB’s current CPP

t-2 means the disclosure year two years prior to the current CPP regulatory period

“(2) The ‘CPP adjustment term 2’ is calculated in accordance with the formula –

\[
\text{conditional value} - \text{amount carried forward}_{t-2} \times \left(\frac{(1- (1+WACC)^5)}{WACC}\right) \times (1+WACC)^2
\]

where–

WACC means the WACC as determined by the Commission and applicable to the EDB’s current CPP

t-2 means the disclosure year two years prior to the CPP regulatory period

“(3) The ‘conditional value’ is –

“(a) if the amount carried forward in the disclosure year two years prior to the current CPP regulatory period was greater than zero, the greater of –

“(i) nil; or

“(ii) the amount carried forward in the disclosure year two years prior to the CPP regulatory period or the amount carried forward in the disclosure year two years prior to the CPP regulatory period plus the amount carried forward in the...
disclosure year prior to the CPP regulatory period, whichever is less;

“(b) if the amount carried forward in the disclosure year two years prior to the CPP regulatory period was less than or equal to zero, the lesser of –

“(i) nil; or

“(ii) the amount carried forward in the disclosure year two years prior to the CPP regulatory period or the amount carried forward in the disclosure year two years prior to the CPP regulatory period plus the amount carried forward in the disclosure prior to the CPP regulatory period, whichever is greater.

“3.3.8 Additional adjustments where the preceding price-quality path applied for 1 year or less

“(1) If the disclosure year immediately preceding the current DPP regulatory period was a starting price year, the adjustment amount is increased by an amount calculated in accordance with the formula –

“(a) if the starting prices in the starting price year were new starting prices determined by the Commission in accordance with s 53P(3)(b) or s 53X of the Act, subject to paragraph (c) –

\[
\frac{(\text{actual opex}_{t-3} - \text{forecast opex}_{t-2})}{(1+WACC)^4}
\]

where–

WACC means the WACC as determined by the Commission and applicable to the EDB’s current DPP

t-2 means the disclosure year two years prior to the current regulatory period

t-3 means the disclosure year three years prior to the current regulatory period

“(b) if the starting prices in the starting price year were the prices that applied at the end of an immediately preceding DPP or CPP regulatory period –

starting price year adjustment term – ((the sum of all amounts carried forward into the starting price year) x (1+WACC)^3)

where–

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WACC means the WACC as determined by the Commission and applicable to the EDB’s current DPP

“(2) If the disclosure year immediately preceding the current CPP regulatory period was a starting price year, subject to subclause (3), the adjustment amount is increased by an amount calculated in accordance with the formula –

“(a) if the starting prices in the starting price year were new starting prices determined by the Commission in accordance with s 53P(3)(b) or s 53X of the Act, subject to paragraph (c) –

starting price year adjustment term

+ 

\[((\text{forecast opex}_t-2 - \text{actual opex}_t-2) - (\text{forecast opex}_t-3 - \text{actual opex}_t-3)) \times (1-(1+WACC)^{-4} / WACC) \times (1+WACC)^2\]

where–

WACC means the WACC as determined by the Commission and applicable to the EDB’s current CPP

t-2 means the disclosure year two years prior to the current regulatory period

t-3 means the disclosure year three years prior to the current regulatory period

“(b) if the starting prices in the starting price year were the prices that applied at the end of an immediately preceding DPP or CPP regulatory period, subject to paragraph (c), calculated in accordance with the formula –

starting price year adjustment term – \((\text{the sum of all amounts carried forward in the starting price year}) \times (1+WACC)^2\)

where–

WACC means the WACC as determined by the Commission and applicable to the EDB’s current CPP or DPP

t-2 means the disclosure year two years prior to the current regulatory period

t-3 means the disclosure year three years prior to the current regulatory period
“(3) Notwithstanding subclause (2), if the two **disclosures years** immediately preceding the current regulatory period were **starting price years**, the adjustment amount is increased by an amount calculated in accordance with the formula –

“(a) if the starting prices in the **starting price year** two **disclosure years** prior to the current **CPP regulatory period** were the prices that applied at the end of an immediately preceding **CPP regulatory period**, and the starting prices in the subsequent **starting price year** were new starting prices determined by the **Commission** in accordance with s 53P(3)(b) of the Act –

\[
\frac{(\text{actual opex}_{t-3} - \text{forecast opex}_{t-2})}{(1+WACC)^4}
\]

\[
- ((\text{the sum of all amounts carried forward into the starting price year}) \\
\times (1+WACC)^3)
\]

+ \[
((\text{forecast opex}_{t-2} - \text{actual opex}_{t-2}) - (\text{forecast opex}_{t-3} - \text{actual opex}_{t-3})) \\
\times ((1-(1+WACC)^5 / WACC) \times (1+WACC)^3)
\]

+ \[
((\text{forecast opex}_{t-3} - \text{actual opex}_{t-3}) - (\text{forecast opex}_{t-4} - \text{actual opex}_{t-4})) \\
\times ((1-(1+WACC)^4 / WACC) \times (1+WACC)^3)
\]

+ \[
((\text{forecast opex}_{t-2} - \text{actual opex}_{t-2}) - (\text{forecast opex}_{t-3} - \text{actual opex}_{t-3})) \\
\times (1+WACC)^2)
\]

where –

WACC means the **WACC** as determined by the **Commission** and applicable to the **EDB’s current CPP**

t-2 means the **disclosure year** two years prior to the current **regulatory period**

t-3 means the **disclosure year** three years prior to the current **regulatory period**

t-4 means the **disclosure year** four years prior to the current **regulatory period**

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“(b) if the starting prices in each of the starting price years were the prices that applied at the end of an immediately preceding regulatory period –

\[
\left(\left(\text{forecast opex}_{t-2} - \text{actual opex}_{t-2}\right) - \left(\text{forecast opex}_{t-3} - \text{actual opex}_{t-3}\right)\right) \\
\times \left(\frac{(1-(1+WACC)^{-5})}{WACC}\cdot(1+WACC)^{3}\right)
\]

+ 

\[
\left(\left(\text{forecast opex}_{t-3} - \text{actual opex}_{t-3}\right) - \left(\text{forecast opex}_{t-4} - \text{actual opex}_{t-4}\right)\right) \\
\times \left(\frac{(1-(1+WACC)^{-3})}{WACC}\cdot(1+WACC)^{2}\right)
\]

+ 

\[
\left(\left(\text{forecast opex}_{t-2} - \text{actual opex}_{t-2}\right) - \left(\text{forecast opex}_{t-3} - \text{actual opex}_{t-3}\right)\right) \\
\times (1+WACC)^{2}
\]

– 

\[
\left(\text{the sum of all amounts carried forward into the starting price year two disclosure years prior to the current CPP regulatory period}\right) \\
\times (1+WACC)^{3}
\]

– 

\[
\left(\text{the sum of all amounts carried forward into the starting price year immediately preceding the current CPP regulatory period}\right) \\
\times (1+WACC)^{2}
\]

where–

WACC means the WACC as determined by the Commission and applicable to the EDB’s current CPP

t-2 means the disclosure year two years prior to the current regulatory period

t-3 means the disclosure year three years prior to the current regulatory period

t-4 means the disclosure year four years prior to the current regulatory period.

“3.3.9 How to calculate the starting price year adjustment term for DPP regulatory periods of one year

The ‘starting price year adjustment term’ is calculated in accordance with the formula –

\[
\left(\text{forecast opex}_{t-2} - \text{actual opex}_{t-2}\right)
\]

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(forecast opex\textsubscript{t-3} – actual opex\textsubscript{t-3})
\times
(1-(1+WACC)^{-4} / WACC) \times (1+WACC)^{2}

where–
WACC means the WACC as determined by the Commission and applicable to the EDB’s current CPP or DPP

t-2 means the disclosure year two years prior to the current regulatory period

t-3 means the disclosure year three years prior to the current regulatory period

“SECTION 2 Capital expenditure incentives

“3.3.10 Capex incentive adjustment

“(1) The capex incentive adjustment –

“(a) must be calculated in the second disclosure year of each DPP regulatory period for which a capex incentive adjustment is calculated and applies, regardless of whether the EDB is subject to a CPP or the DPP during that DPP regulatory period;

“(b) in the second disclosure year of the DPP regulatory period is the amount calculated in accordance with the formula –

\textit{IRIS capex wash-up adjustment} + retention adjustment

“(c) is nil in every other disclosure year of the current DPP regulatory period.

“(2) The ‘IRIS capex wash-up adjustment’ is the amount equal to the present value of the differences in the series of revenues for the preceding DPP regulatory period, adopting–

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

“instead of–

“(b) for each disclosure year of the preceding DPP regulatory period in which the EDB was subject to a DPP, the forecast aggregate value of
commissioned assets determined by the Commission in respect of those disclosure years; and

“(c) for each disclosure year of the preceding DPP regulatory period in which the EDB was subject to a CPP, the sum of the forecast value of commissioned assets determined by the Commission in respect of those disclosure years.

“(3) For the purpose of subclause (2) –

“(a) the present value must be determined by discounting the revenues to the end of the preceding DPP regulatory period using a discount rate equal to the 75th percentile estimate of WACC applicable to each disclosure year in accordance with any DPP determination or CPP determination, and then adjusting that amount as at the commencement of the second disclosure year of the current DPP regulatory period using the cost of debt;

“(b) the series of revenues for each disclosure year of the preceding DPP regulatory period are those used to set starting prices for the EDB in any DPP determination or CPP determination and must –

“(i) be calculated using the methodology applied by the Commission for the EDB and specified in the relevant DPP determination or CPP determination;

“(ii) for subclause (i), adopt the sum of depreciation calculated under Part 2 in respect of each disclosure year for assets having a commissioning date in the preceding DPP regulatory period;

“(iii) for each disclosure year in which the EDB was subject to a DPP determination, apply the rate of change generally applicable to all EDBs instead of any alternative rate of change for a particular EDB;

“(iv) for each disclosure year in which the EDB was subject to a CPP determination, apply the rate of change specified in the CPP determination; and

“(v) be expressed consistent with cash flow timing assumptions for calculating amounts in revenue date terms for the EDB and specified in the relevant DPP determination or CPP determination;

“(c) where revenues from adopting the sum of value of commissioned assets exceed the revenues from using the forecast values of commissioned assets (as determined using the forecast aggregate value of commissioned assets for each disclosure year in which the
EDB was subject to a DPP and sum of the forecast value of commissioned assets for each disclosure year in which the EDB was subject to a CPP) then the difference is a positive amount of IRIS capex wash-up adjustment; and

“(d) where revenues from adopting the sum of value of commissioned assets is less than the revenues from using the forecast value of commissioned assets (as determined using the forecast aggregate value of commissioned assets for each disclosure year in which the EDB was subject to a DPP and sum of the forecast value of commissioned assets for each disclosure year in which the EDB was subject to a CPP) then the difference is a negative amount of IRIS capex wash-up adjustment.

“(8) ‘Retention adjustment’ is calculated in accordance with the formula –

\[(\text{forecast value of commissioned assets} - \text{actual value of commissioned assets}) \times \text{retention factor}\]

“(9) ‘Forecast value of commissioned assets’ is–

“(a) for each year of the previous DPP regulatory period in which the supplier was subject to a DPP, the present value, as at the first day of the current DPP regulatory period, of the sum of the forecast aggregate value of commissioned assets for each disclosure year, as determined by the Commission and calculated in accordance with clause 4.2.5;

“(b) for each year of the previous DPP regulatory period in which the supplier was subject to a CPP, the present value, as at the first day of the current DPP regulatory period, of the sum of the forecast value of commissioned assets for each disclosure year, as determined by the Commission and calculated in accordance with clause 5.3.11.

“(10) ‘Actual value of commissioned assets’ is the present value, as at the first day of the current DPP regulatory period, of the value of commissioned assets for all assets that were commissioned during the previous DPP regulatory period, as disclosed under an ID determination and calculated in accordance with clause 2.2.11.

“(11) The ‘retention factor’ for each DPP regulatory period is the amount specified by the Commission in the relevant DPP determination.

“(12) For the CPP regulatory period applicable to Orion New Zealand Limited ending 31 March 2019, the methodology applied by the Commission to calculate the starting prices will be notified by the Commission.
“SECTION 3  Special provisions applying after a catastrophic event

“3.3.11 Calculating incentive adjustments after a catastrophic event

“Where a price-quality path is amended following a catastrophic event, the forecast opex and forecast value of commissioned assets used to calculate the amount carried forward in the disclosure year in which the catastrophic event occurred and each subsequent disclosure year prior to the effective date of the amendment to the price-quality path, is the amount specified by the Commission in the amended DPP determination or CPP determination.”

4.5 In the EDB IM Determination, insert new subpart 8 in Part 4:

“SUBPART 8 – Incentive Mechanisms

“4.8.1 Determination of capex incentives

“(1) The Commission will determine the forecast return, forecast depreciation, and the method for calculating return, for each disclosure year of the DPP regulatory period for all assets forecast to be commissioned.

“(2) The Commission will specify the retention factor that applies for each EDB during the DPP regulatory period.”

4.6 In the EDB IM Determination, delete subclause 5.3.1(a), renumbering subsequent subclauses accordingly.

4.7 In the EDB IM Determination, insert new Subpart 7 in Part 5:

“5.7.1 Determination of capex incentives

“(1) The Commission will determine the forecast return, forecast depreciation, and the method for calculating return, for each disclosure year of the current DPP regulatory period for all assets forecast to be commissioned.

“(2) The Commission will specify the retention factor that applies for each EDB during the CPP regulatory period.”
5. **GDB IM AMENDMENTS**

5.1 In the **GDB IM Determination**, insert the following new definitions in clause 1.1.4:

“**IRIS year** means the period of time specified in a **DPP determination** or **CPP determination** for which a **GDB**’s compliance with the price-quality path is assessed;

“**incentive adjustment** means the recoverable cost amount determined under clause 3.3.1(2);

“**opex incentive adjustment** means the amount determined in accordance with clause 3.3.3(2);

“**capex incentive adjustment** means the amount determined in accordance with clause 3.3.10(1);

“**amount carried forward** means, for any given **IRIS year**, the amount determined in accordance with clause 3.3.2;

“**retention factor** means the percentage amount determined by the **Commission** in a **CPP determination** or **DPP determination** for the purpose of calculating the **capex incentive adjustment**;

“**starting price year** means an **IRIS year** for which new starting prices were determined for the **GDB** in accordance with s 53P(3), or the **IRIS year** immediately following the expiration of a **CPP**;”

5.2 In the **GDB IM Determination**, delete the definitions for “allowed controllable opex” and “actual controllable opex”.

5.3 In the **GDB IM Determination**, replace clause 3.1.3(1)(a) with:

“any **incentive adjustment** calculated in accordance with clause 3.3.1(2);”

5.4 In the **GDB IM Determination**, replace subpart 3 of Part 3 with:

“**SUBPART 3 Incremental rolling incentive scheme**

“3.3.1 **Calculation of annual incremental rolling incentive scheme recoverable costs**

“(1) Subject to subclause (3), an **GDB** must calculate and apply the **incentive adjustment** as a recoverable cost for each **IRIS year** of each **regulatory period**.

“(2) The ‘incentive adjustment’ is the amount determined in accordance with the formula–

\[ \text{opex incentive adjustment} + \text{capex incentive adjustment} \]
“(3) An GDB must calculate the incentive adjustment commencing in the first full regulatory period commencing after the first IRIS year for which it has calculated an amount carried forward.

“(4) An GDB must calculate an amount carried forward commencing from the first IRIS year commencing after [date of amendment].

“SECTION 1   Operational expenditure incentives

“3.3.2 How to calculate the amount carried forward into subsequent IRIS years

“(1) Each GDB must calculate an ‘amount carried forward’ in each IRIS year, subject to clause 3.3.11.

“(2) The ‘amount carried forward’ in the first IRIS year of a regulatory period, including the first IRIS year following expiration of a CPP determination applicable to the GDB, subject to subclause (5), is calculated in accordance with the formula –

\[ \text{forecast opex} - \text{actual opex} \]

“(3) The ‘amount carried forward’ in all but the first or last IRIS year of a regulatory period is calculated in accordance with the formula –

\[ (\text{forecast opex}_t - \text{actual opex}_t) - (\text{forecast opex}_{t-1} - \text{actual opex}_{t-1}) \]

where–

\[ t \] means the IRIS year for which the amount carried forward is being calculated

\[ t-1 \] means the IRIS year prior to the IRIS year for which the amount carried forward is being calculated

“(4) The ‘amount carried forward’ in the last IRIS year of a regulatory period is nil.

“(5) Where an GDB is subject to a DPP determination for no more than one consecutive IRIS year of the DPP regulatory period, the ‘amount carried forward’ for that IRIS year is nil.

“(6) ‘Forecast opex’ is, for an IRIS year –

“(a) in a DPP regulatory period for which new starting prices applicable to the GDB were determined by the Commission under s 53P(3)(b) or s 53X(2), the amount of operating expenditure determined by the Commission for the relevant IRIS year in accordance with clause 4.1.1(1);

“(b) in a DPP regulatory period for which the prices applicable to the GDB were the prices in effect at the expiration of the previous DPP or CPP,
the amount of operating expenditure specified by the Commission in the DPP determination or, if not specified, notified by the Commission and calculated using the same methodology used to calculate operating expenditure in the most recent regulatory period for which new starting prices were determined under s 53P(3)(b) or in a CPP determination; or

“(c) in a CPP regulatory period applicable to the GDB, the amount of forecast operating expenditure determined by the Commission for the relevant IRIS year in accordance with clause 5.3.2(6)(b).

“(7) ‘Actual opex’ is the amount of operating costs attributable to gas distribution services for the relevant IRIS year calculated in accordance with Part 2 and reported under an ID determination, with the amounts reported in each disclosure year pro-rated by the number of months in the disclosure year that relates to the IRIS year.

“3.3.3 How to calculate the opex incentive adjustment to be applied as a recoverable cost

“(1) Each amount carried forward determined in accordance with clause 3.3.2 is notionally carried forward, subject to clause 3.3.11, from the IRIS year in respect of which it is determined into each of the subsequent 5 IRIS years.

“(2) In each of the IRIS years after a regulatory period into which an amount carried forward has been carried pursuant to subclause (1), a net balance (the ‘opex incentive adjustment’) must be determined by addition of–

(a) any amounts carried forward into that IRIS year from a preceding regulatory period; and

(b) any adjustment amounts determined in accordance with clauses 3.3.4.

“3.3.4 How to calculate the adjustment amount in the second year of a regulatory period

“(1) The adjustment amount must be calculated in the second IRIS year of –

“(a) a DPP regulatory period, including a DPP regulatory period that has been amended by a quality standard variation CPP determination;

“(b) a CPP regulatory period (other than a quality standard variation) currently applicable to the GDB; and

“(c) following the expiration of a CPP regulatory period (other than a quality standard variation) applicable to the GDB, unless new starting prices have been determined for the GDB in accordance with s 53P(3) or a CPP.
“(2) The ‘adjustment amount’ is, subject to clause 3.3.8, in the case of an GDB currently subject to –

“(a) a DPP, subject to subclause 3.3.8(1), where the starting prices for the current DPP regulatory period were –

“(i) determined by the Commission in accordance with s 53P(3)(b) of the Act –

– (base year adjustment term)

“(ii) the prices that applied at the end of the preceding DPP or CPP regulatory period, calculated in accordance with the formula –

roll-over adjustment term – base year adjustment term

“(b) a CPP (other than a quality standard variation), subject to subclause 3.3.8(2), calculated in accordance with the formula –

CPP adjustment term 1 + CPP adjustment term 2 – base year adjustment term.

“3.3.5 How to calculate the base year adjustment term

The ‘base year adjustment term’ is calculated in accordance with the formula –

\[
\frac{(\text{forecast opex}_{t-1} - \text{actual opex}_{t-1}) - (\text{forecast opex}_{t-2} - \text{actual opex}_{t-2})}{(1+WACC)^4}
\]

where –

WACC means the WACC as determined by the Commission and applicable to the GDB’s current CPP or DPP

t-1 means the IRIS year immediately preceding the current regulatory period

t-2 means the IRIS year two years prior to the current regulatory period

“3.3.6 How to calculate the roll-over adjustment term

The ‘roll-over adjustment term’ is calculated in accordance with the formula –

\[
\text{actual opex}_{t-2} - \text{forecast opex}_t \times \frac{(1-(1+WACC)^6)/WACC}{WACC}
\]
(1) The ‘CPP adjustment term 1’ is calculated in accordance with the formula –

\[
\frac{\text{conditional value} - \text{amount carried forward}_{t-2}}{(1+WACC)^2}
\]

where–

WACC means the WACC as determined by the Commission and applicable to the GDB’s current CPP

t means the first IRIS year of the current regulatory period

t-2 means the IRIS year two years prior to the current regulatory period

(2) The ‘CPP adjustment term 2’ is calculated in accordance with the formula –

\[
\frac{\text{conditional value} - \text{amount carried forward}_{t-2}}{(1- (1+WACC)^5)} / WACC \\
\times (1+WACC)^2
\]

where–

WACC means the WACC as determined by the Commission and applicable to the GDB’s current CPP

t-2 means the IRIS year two years prior to the current CPP regulatory period

(3) The ‘conditional value’ is –
“(a) if the amount carried forward in the IRIS year two years prior to the current CPP regulatory period was greater than zero, the greater of –

“(i) nil; or

“(ii) the amount carried forward in the IRIS year two years prior to the CPP regulatory period or the amount carried forward in the IRIS year two years prior to the CPP regulatory period plus the amount carried forward in the IRIS year prior to the CPP regulatory period, whichever is less;

“(b) if the amount carried forward in the IRIS year two years prior to the CPP regulatory period was less than or equal to zero, the lesser of –

“(i) nil; or

“(ii) the amount carried forward in the IRIS year two years prior to the CPP regulatory period or the amount carried forward in the IRIS year two years prior to the CPP regulatory period plus the amount carried forward in the disclosure prior to the CPP regulatory period, whichever is greater.

“3.3.8 Additional adjustments where the preceding price-quality path applied for 1 year or less

“(1) If the IRIS year immediately preceding the current DPP regulatory period was a starting price year, the adjustment amount is increased by an amount calculated in accordance with the formula –

“(a) if the starting prices in the starting price year were new starting prices determined by the Commission in accordance with s 53P(3)(b) or s 53X of the Act, subject to paragraph (c) –

\[
(\text{actual opex}_{t-3} - \text{forecast opex}_{t-2}) / (1 + \text{WACC})^4
\]

where--

WACC means the WACC as determined by the Commission and applicable to the GDB’s current DPP

t-2 means the IRIS year two years prior to the current regulatory period

t-3 means the IRIS year three years prior to the current regulatory period.
“(b) if the starting prices in the starting price year were the prices that applied at the end of an immediately preceding DPP or CPP regulatory period –

starting price year adjustment term – ((the sum of all amounts carried forward into the starting price year) x (1+WACC)^2)

where –

WACC means the WACC as determined by the Commission and applicable to the GTB’s current DPP

“(2) If the IRIS year immediately preceding the current CPP regulatory period was a starting price year, subject to subclause (3), the adjustment amount is increased by an amount calculated in accordance with the formula –

“(a) if the starting prices in the starting price year were new starting prices determined by the Commission in accordance with s 53P(3)(b) or s 53X of the Act, subject to paragraph (c) –

starting price year adjustment term

+ 

(((forecast opex_{t-2} – actual opex_{t-2}) – (forecast opex_{t-3} – actual opex_{t-3})) x (1-(1+WACC)^4 / WACC) x (1+WACC)^2)

where–

WACC means the WACC as determined by the Commission and applicable to the GDB’s current DPP

t-2 means the IRIS year two years prior to the current regulatory period

t-3 means the IRIS year three years prior to the current regulatory period

“(b) if the starting prices in the starting price year were the prices that applied at the end of an immediately preceding DPP or CPP regulatory period, subject to paragraph (c), calculated in accordance with the formula –

starting price year adjustment term – ((the sum of all amounts carried forward in the starting price year) x (1+WACC)^2)

where–

WACC means the WACC as determined by the Commission and applicable to the GDB’s current DPP

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t-2 means the IRIS year two years prior to the current regulatory period.

t-3 means the IRIS year three years prior to the current regulatory period.

“(3) Notwithstanding subclause (2), if the two disclosures years immediately preceding the current regulatory period were starting price years, the adjustment amount is increased by an amount calculated in accordance with the formula –

“(a) if the starting prices in the starting price year two IRIS years prior to the current CPP regulatory period were the prices that applied at the end of an immediately preceding CPP regulatory period, and the starting prices in the subsequent starting price year were new starting prices determined by the Commission in accordance with s 53P(3)(b) of the Act –

\[
\frac{(\text{actual opex}_{t-3} - \text{forecast opex}_{t-2})}{(1+WACC)^4} - \\
((\text{the sum of all amounts carried forward into the starting price year}) \\
x (1+WACC)^3) + \\
(\text{((forecast opex}_{t-2} - \text{actual opex}_{t-2}) - (\text{forecast opex}_{t-3} - \text{actual opex}_{t-3})) \\
x ((1-(1+WACC)^{-5} / WACC) x (1+WACC)^3) + \\
(\text{((forecast opex}_{t-3} - \text{actual opex}_{t-3}) - (\text{forecast opex}_{t-4} - \text{actual opex}_{t-4})) \\
x ((1-(1+WACC)^{-4} / WACC) x (1+WACC)^3) + \\
(\text{((forecast opex}_{t-2} - \text{actual opex}_{t-2}) - (\text{forecast opex}_{t-3} - \text{actual opex}_{t-3})) \\
x (1+WACC)^2)
\]

where–

WACC means the WACC as determined by the Commission and applicable to the GDB’s current CPP.

23

t-2 means the IRIS year two years prior to the current regulatory period.
t-3 means the **IRIS year** three years prior to the current **regulatory period**

t-4 means the **IRIS year** four years prior to the current **regulatory period**

“(b) if the starting prices in each of the **starting price years** were the prices that applied at the end of an immediately preceding **regulatory period** –

$$
((\text{forecast opex}_{t-2} - \text{actual opex}_{t-2}) - (\text{forecast opex}_{t-3} - \text{actual opex}_{t-3})) \\
\times ((1-(1+WACC)^{-5} / WACC) \times (1+WACC)^3)
$$

+ $$
((\text{forecast opex}_{t-3} - \text{actual opex}_{t-3}) - (\text{forecast opex}_{t-4} - \text{actual opex}_{t-4})) \\
\times ((1-(1+WACC)^{-3} / WACC) \times (1+WACC)^2)
$$

+ $$
((\text{forecast opex}_{t-2} - \text{actual opex}_{t-2}) - (\text{forecast opex}_{t-3} - \text{actual opex}_{t-3})) \\
\times (1+WACC)^2
$$

– $$
((\text{the sum of all amounts carried forward into the starting price year two disclosure years prior to the current CPP regulatory period}) \times (1+WACC)^3)
$$

– $$
((\text{the sum of all amounts carried forward into the starting price year immediately preceding the current CPP regulatory period}) \times (1+WACC)^2)
$$

where–

WACC means the **WACC** as determined by the **Commission** and applicable to the **GDB’s current CPP**

t-2 means the **IRIS year** two years prior to the current **regulatory period**

t-3 means the **IRIS year** three years prior to the current **regulatory period**

t-4 means the **IRIS year** four years prior to the current **regulatory period**.
3.3.9 How to calculate the starting price year adjustment term for DPP regulatory periods of one year

The ‘starting price year adjustment term’ is calculated in accordance with the formula –

\[
\left( \left( \text{forecast opex}_{t-2} - \text{actual opex}_{t-2} \right) - \left( \text{forecast opex}_{t-3} - \text{actual opex}_{t-3} \right) \right) \times \left( 1 - \left( \frac{1}{1+WACC} \right)^{-4} / WACC \right) \times (1+WACC)^2
\]

where –

WACC means the WACC as determined by the Commission and applicable to the GDB’s current CPP or DPP

t-2 means the IRIS year two years prior to the current regulatory period

t-3 means the IRIS year three years prior to the current regulatory period

SECTION 2 Capital expenditure incentives

3.3.10 Capex incentive adjustment

(1) The capex incentive adjustment –

"(a) must be calculated in the second IRIS year of each DPP regulatory period for which a capex incentive adjustment is calculated and applies, regardless of whether the GDB is subject to a CPP or the DPP during that DPP regulatory period;

(b) in the second IRIS year of the DPP regulatory period is the amount calculated in accordance with the formula –

\[
\text{IRIS capex wash-up adjustment} + \text{retention adjustment}
\]

(c) is nil in every other IRIS year of the current DPP regulatory period.

(2) The ‘IRIS capex wash-up adjustment’ is the amount equal to the present value of the differences in the series of revenues for the preceding DPP regulatory period, adopting:

"(a) the sum of the value of commissioned assets for each IRIS year of that preceding DPP regulatory period,
“instead of–

“(b) for each IRIS year of the preceding DPP regulatory period in which the GDB was subject to a DPP, the forecast aggregate value of commissioned assets determined by the Commission in respect of those IRIS years; and

“(c) for each IRIS year of the preceding DPP regulatory period in which the GDB was subject to a CPP, the sum of the forecast value of commissioned assets determined by the Commission in respect of those IRIS years.

“(3) For the purpose of subclause (2) –

“(a) the present value must be determined by discounting the revenues to the end of the preceding DPP regulatory period using a discount rate equal to the 75th percentile estimate of WACC applicable to each IRIS year in accordance with any DPP determination or CPP determination, and then adjusting that amount as at the commencement of the second IRIS year of the current DPP regulatory period using the cost of debt;

“(b) the series of revenues for each IRIS year of the preceding DPP regulatory period are those used to set starting prices for the GDB in any DPP determination or CPP determination and must –

“(i) be calculated using the methodology applied by the Commission for the GDB and specified in the relevant DPP determination or CPP determination;

“(ii) for subclause (i), adopt the sum of depreciation calculated under Part 2 in respect of each IRIS year for assets having a commissioning date in the preceding DPP regulatory period;

“(iii) for each IRIS year in which the GDB was subject to a DPP determination, apply the rate of change generally applicable to all GDBs instead of any alternative rate of change for a particular GDB;

“(iv) for each IRIS year in which the GDB was subject to a CPP determination, apply the rate of change specified in the CPP determination; and

“(v) be expressed consistent with cash flow timing assumptions for calculating amounts in revenue date terms for the GDB and specified in the relevant DPP determination or CPP determination;
“(c) where revenues from adopting the sum of value of commissioned assets exceed the revenues from using the forecast values of commissioned assets (as determined using the forecast aggregate value of commissioned assets for each IRIS year in which the GDB was subject to a DPP and sum of the forecast value of commissioned assets for each IRIS year in which the GDB was subject to a CPP) then the difference is a positive amount of IRIS capex wash-up adjustment; and

“(d) where revenues from adopting the sum of value of commissioned assets is less than the revenues from using the forecast value of commissioned assets (as determined using the forecast aggregate value of commissioned assets for each IRIS year in which the GDB was subject to a DPP and sum of the forecast value of commissioned assets for each IRIS year in which the GDB was subject to a CPP) then the difference is a negative amount of IRIS capex wash-up adjustment.

“(8) ‘Retention adjustment’ is calculated in accordance with the formula –

\[(\text{forecast value of commissioned assets} - \text{actual value of commissioned assets}) \times \text{retention factor}\]

“(9) ‘Forecast value of commissioned assets’ is –

“(a) for each year of the previous DPP regulatory period in which the supplier was subject to a DPP, the present value, as at the first day of the current DPP regulatory period, of the sum of the forecast aggregate value of commissioned assets for each IRIS year, as determined by the Commission and calculated in accordance with clause 4.2.5;

“(b) for each year of the previous DPP regulatory period in which the supplier was subject to a CPP, the present value, as at the first day of the current DPP regulatory period, of the sum of the forecast value of commissioned assets for each IRIS year, as determined by the Commission and calculated in accordance with clause 5.3.11.

“(10) ‘Actual value of commissioned assets’ is the present value, as at the first day of the current DPP regulatory period, of the value of commissioned assets for all assets that were commissioned during the previous DPP regulatory period, calculated in accordance with clause 2.2.11 and consistent with the amounts reported under an ID determination.

“(11) The ‘retention factor’ for each DPP regulatory period is the amount specified by the Commission in the relevant DPP determination.
“(12) For the DPP regulatory period ending 30 September 2017, the methodology applied by the Commission to calculate the starting prices will be notified by the Commission.

“SECTION 3 Special provisions applying after a catastrophic event

“3.3.11 Calculating incentive adjustments after a catastrophic event

“Where a price-quality path is amended following a catastrophic event, the forecast opex and forecast value of commissioned assets used to calculate the amount carried forward in the IRIS year in which the catastrophic event occurred and each subsequent IRIS year prior to the effective date of the amendment to the price-quality path, is the amount specified by the Commission in the amended DPP determination or CPP determination.”

5.5 In the GDB IM Determination, insert new subpart 8 in Part 4:

“SUBPART 8 – Incentive Mechanisms

“4.8.1 Determination of capex incentives

“(1) The Commission will determine the forecast return, forecast depreciation, and the method for calculating return, for each IRIS year of the DPP regulatory period for all assets forecast to be commissioned.

“(2) The Commission will specify the retention factor that applies for each GDB during the DPP regulatory period.”

5.6 In the GDB IM Determination, delete subclause 5.3.1(a), renumbering subsequent subclauses accordingly.

5.7 In the GDB IM Determination, insert new Subpart 7 in Part 5:

“5.7.1 Determination of capex incentives

“(1) The Commission will determine the forecast return, forecast depreciation, and the method for calculating return, for each IRIS year of the current DPP regulatory period for all assets forecast to be commissioned.

“(2) The Commission will specify the retention factor that applies for each GDB during the CPP regulatory period.”
6. **GTB IM AMENDMENTS**

6.1 In the **GTB IM Determination**, insert the following new definitions in clause 1.1.4:

“**incentive adjustment** means the recoverable cost amount determined under clause 3.3.1(2);”

“**opex incentive adjustment** means the amount determined in accordance with clause 3.3.3(2);”

“**capex incentive adjustment** means the amount determined in accordance with clause 3.3.10(1);”

“**amount carried forward** means, for any given **disclosure year**, the amount determined in accordance with clause 3.3.2;”

“**retention factor** means the percentage amount determined by the **Commission** in a **CPP determination** or **DPP determination** for the purpose of calculating the **capex incentive adjustment**;”

“**starting price year** means a **disclosure year** for which new starting prices were determined for the **GTB** in accordance with s 53P(3), or the **disclosure year** immediately following the expiration of a **CPP**;”

6.2 In the **GTB IM Determination**, delete the definitions for “allowed controllable opex” and “actual controllable opex”.

6.3 In the **GTB IM Determination**, replace clause 3.1.3(1)(a) with:

“any **incentive adjustment** calculated in accordance with clause 3.3.1(2);”

6.4 In the **GTB IM Determination**, replace subpart 3 of Part 3 with:

“**SUBPART 3 Incremental rolling incentive scheme**

“3.3.1 **Calculation of annual incremental rolling incentive scheme recoverable costs**

“(1) Subject to subclause (3), an **GTB** must calculate and apply the **incentive adjustment** as a recoverable cost for each **disclosure year** of each **regulatory period**.

“(2) The ‘incentive adjustment’ is the amount determined in accordance with the formula–

\[ \text{opex incentive adjustment} + \text{capex incentive adjustment} \]

“(3) An **GTB** must calculate the **incentive adjustment** commencing in the first full regulatory period commencing after the first **disclosure year** for which it has calculated an **amount carried forward**.
“(4) An GTB must calculate an amount carried forward commencing from the first disclosure year commencing after [date of amendment].

SECTION 1 Operational expenditure incentives

3.3.2 How to calculate the amount carried forward into subsequent disclosure years

“(1) Each GTB must calculate an ‘amount carried forward’ in each disclosure year, subject to clause 3.3.11.

“(2) The ‘amount carried forward’ in the first disclosure year of a regulatory period, including the first disclosure year following expiration of a CPP determination applicable to the GTB, subject to subclause (5), is calculated in accordance with the formula –

forecast opex – actual opex

“(3) The ‘amount carried forward’ in all but the first or last disclosure year of a regulatory period is calculated in accordance with the formula –

\[(\text{forecast opex}_t – \text{actual opex}_t) – (\text{forecast opex}_{t-1} – \text{actual opex}_{t-1})\]

where–

t means the disclosure year for which the amount carried forward is being calculated

t-1 means the disclosure year prior to the disclosure year for which the amount carried forward is being calculated

“(4) The ‘amount carried forward’ in the last disclosure year of a regulatory period is nil.

“(5) Where an GTB is subject to a DPP determination for no more than one consecutive disclosure year of the DPP regulatory period, the ‘amount carried forward’ for that disclosure year is nil.

“(6) ‘Forecast opex’ is, for a disclosure year –

“(a) in a DPP regulatory period for which new starting prices applicable to the GTB were determined by the Commission under s 53P(3)(b) or s 53X(2), the amount of operating expenditure determined by the Commission for the relevant disclosure year in accordance with clause 4.1.1(1);

“(b) in a DPP regulatory period for which the prices applicable to the GTB were the prices in effect at the expiration of the previous DPP or CPP, the amount of operating expenditure specified by the Commission in the DPP determination or, if not specified, notified by the
Commission and calculated using the same methodology used to calculate operating expenditure in the most recent regulatory period for which new starting prices were determined under s 53P(3)(b) or in a CPP determination; or

“(c) in a CPP regulatory period applicable to the GTB, the amount of forecast operating expenditure determined by the Commission for the relevant disclosure year in accordance with clause 5.3.2(6)(b).

“(7) ‘Actual opex’ is the amount of operating costs attributable to electricity transmission services for the relevant disclosure year as reported under an ID determination and calculated in accordance with Part 2.

“3.3.3 How to calculate the opex incentive adjustment to be applied as a recoverable cost

“(1) Each amount carried forward determined in accordance with clause 3.3.2 is notionally carried forward, subject to clause 3.3.11, from the disclosure year in respect of which it is determined into each of the subsequent 5 disclosure years.

“(2) In each of the disclosure years after a regulatory period into which an amount carried forward has been carried pursuant to subclause (1), a net balance (the ‘opex incentive adjustment’) must be determined by addition of–

“(a) any amounts carried forward into that disclosure year from a preceding regulatory period; and

“(b) any adjustment amounts determined in accordance with clauses 3.3.4.

“3.3.4 How to calculate the adjustment amount in the second year of a regulatory period

“(1) The adjustment amount must be calculated in the second disclosure year of –

“(a) a DPP regulatory period, including a DPP regulatory period that has been amended by a quality standard variation CPP determination;

“(b) a CPP regulatory period (other than a quality standard variation) currently applicable to the GTB; and

“(c) following the expiration of a CPP regulatory period (other than a quality standard variation) applicable to the GTB, unless new starting prices have been determined for the GTB in accordance with s 53P(3) or a CPP.
“(2) The ‘adjustment amount’ is, subject to clause 3.3.8, in the case of an **GTB** currently subject to –

“(a) a **DPP**, subject to subclause 3.3.8(1), where the starting prices for the current **DPP regulatory period** were –

“(i) determined by the **Commission** in accordance with s 53P(3)(b) of the **Act** –

— **(base year adjustment term)**

“(ii) the prices that applied at the end of the preceding **DPP** or **CPP regulatory period**, calculated in accordance with the formula –

**roll-over adjustment term** – **base year adjustment term**

“(b) a **CPP** (other than a **quality standard variation**), subject to subclause 3.3.8(2), calculated in accordance with the formula –

\[
\text{CPP adjustment term 1} + \text{CPP adjustment term 2} - \text{base year adjustment term}
\]

“3.3.5 How to calculate the base year adjustment term

The ‘base year adjustment term’ is calculated in accordance with the formula –

\[
(\text{forecast opex}_{t-1} - \text{actual opex}_{t-1}) - (\text{forecast opex}_{t-2} - \text{actual opex}_{t-2})
\]

\[
(1+WACC)^4
\]

where –

**WACC** means the **WACC** as determined by the **Commission** and applicable to the **GTB**’s current **CPP** or **DPP**

**t-1** means the **disclosure year** immediately preceding the current **regulatory period**

**t-2** means the **disclosure year** two years prior to the current **regulatory period**

“3.3.6 How to calculate the roll-over adjustment term

The ‘roll-over adjustment term’ is calculated in accordance with the formula –

\[
\text{actual opex}_{t-2} - \text{forecast opex}_t
\]

\[
\times \left(\frac{1-(1+WACC)^6}{WACC}\right)
\]

DRAFT DETERMINATION – FOR CONSULTATION PURPOSES ONLY
33

x

(1+WACC)²

where—

WACC means the WACC as determined by the Commission and applicable to the GTB’s current DPP

t means the first disclosure year of the current regulatory period

t-2 means the disclosure year two years prior to the current regulatory period

“3.3.7 How to calculate adjustment amounts applicable to CPP regulatory periods

“(1) The ‘CPP adjustment term 1’ is calculated in accordance with the formula –

\[
\frac{\text{conditional value} - \text{amount carried forward}_{t-2}}{(1+WACC)^2}
\]

where—

WACC means the WACC as determined by the Commission and applicable to the GTB’s current CPP

t-2 means the disclosure year two years prior to the current CPP regulatory period

“(2) The ‘CPP adjustment term 2’ is calculated in accordance with the formula –

\[
\frac{\text{conditional value} - \text{amount carried forward}_{t-2}}{(1- (1+WACC)^{-5}) / WACC}
\]

\[
\times (1+WACC)^2
\]

where—

WACC means the WACC as determined by the Commission and applicable to the GTB’s current CPP

t-2 means the disclosure year two years prior to the CPP regulatory period

DRAFT DETERMINATION – FOR CONSULTATION PURPOSES ONLY
“(3) The ‘conditional value’ is –

“(a) if the amount carried forward in the disclosure year two years prior to the current CPP regulatory period was greater than zero, the greater of –

“(i) nil; or

“(ii) the amount carried forward in the disclosure year two years prior to the CPP regulatory period or the amount carried forward in the disclosure year two years prior to the CPP regulatory period plus the amount carried forward in the disclosure year prior to the CPP regulatory period, whichever is less;

“(b) if the amount carried forward in the disclosure year two years prior to the CPP regulatory period was less than or equal to zero, the lesser of –

“(i) nil; or

“(ii) the amount carried forward in the disclosure year two years prior to the CPP regulatory period or the amount carried forward in the disclosure year two years prior to the CPP regulatory period plus the amount carried forward in the disclosure prior to the CPP regulatory period, whichever is greater.

“3.3.8 Additional adjustments where the preceding price-quality path applied for 1 year or less

“(1) If the disclosure year immediately preceding the current DPP regulatory period was a starting price year, the adjustment amount is increased by an amount calculated in accordance with the formula –

“(a) if the starting prices in the starting price year were new starting prices determined by the Commission in accordance with s 53P(3)(b) or s 53X of the Act, subject to paragraph (c)–

$$\frac{\text{(actual opex}_{t-3} - \text{forecast opex}_{t-2})}{(1 + \text{WACC})^4}$$

where–

WACC means the WACC as determined by the Commission and applicable to the GTB’s current DPP

t-2 means the disclosure year two years prior to the current regulatory period

DRAFT DETERMINATION – FOR CONSULTATION PURPOSES ONLY
t-3 means the disclosure year three years prior to the current regulatory period

“(b) if the starting prices in the starting price year were the prices that applied at the end of an immediately preceding DPP or CPP regulatory period –

starting price year adjustment term – ((the sum of all amounts carried forward into the starting price year) x (1+WACC)^2)

where –

WACC means the WACC as determined by the Commission and applicable to the GTB’s current DPP

“(2) If the disclosure year immediately preceding the current CPP regulatory period was a starting price year, subject to subclause (3), the adjustment amount is increased by an amount calculated in accordance with the formula –

“(a) if the starting prices in the starting price year were new starting prices determined by the Commission in accordance with s 53P(3)(b) or s 53X of the Act, subject to paragraph (c) –

starting price year adjustment term

+ 

(((forecast opex_{t-2} – actual opex_{t-2}) – (forecast opex_{t-3} – actual opex_{t-3})) 

x (1-(1+WACC)^4 / WACC) x(1+WACC)^2)

where–

WACC means the WACC as determined by the Commission and applicable to the GTB’s current CPP

t-2 means the disclosure year two years prior to the current regulatory period

t-3 means the disclosure year three years prior to the current regulatory period

“(b) if the starting prices in the starting price year were the prices that applied at the end of an immediately preceding DPP or CPP regulatory period, subject to paragraph (c), calculated in accordance with the formula –

starting price year adjustment term – ((the sum of all amounts carried forward in the starting price year) x (1+WACC)^2)
where—

WACC means the WACC as determined by the Commission and applicable to the GTB’s current CPP

t-2 means the disclosure year two years prior to the current regulatory period

t-3 means the disclosure year three years prior to the current regulatory period

“(3) if the two disclosures years immediately preceding the current regulatory period were starting price years, calculated in accordance with the formula –

“(a) if the starting prices in the starting price year two disclosures years prior to the current CPP regulatory period were the prices that applied at the end of an immediately preceding CPP regulatory period, and the starting prices in the subsequent starting price year were new starting prices determined by the Commission in accordance with s 53P(3)(b) of the Act –

\[
\frac{(\text{actual opex}_{t-3} - \text{forecast opex}_{t-2})}{(1+WACC)^4}
\]

–

((the sum of all amounts carried forward into the starting price year) x (1+WACC)^3)

+ \[(\text{forecast opex}_{t-2} - \text{actual opex}_{t-2}) - (\text{forecast opex}_{t-3} - \text{actual opex}_{t-3})\] x \[(1-(1+WACC)^{-5}/WACC) x (1+WACC)^3]\)

+ \[(\text{forecast opex}_{t-3} - \text{actual opex}_{t-3}) - (\text{forecast opex}_{t-4} - \text{actual opex}_{t-4})\] x \[(1-(1+WACC)^{-4}/WACC) x (1+WACC)^3]\)

+ \[(\text{forecast opex}_{t-2} - \text{actual opex}_{t-2}) - (\text{forecast opex}_{t-3} - \text{actual opex}_{t-3})\] x (1+WACC)^2)

where—

WACC means the WACC as determined by the Commission and applicable to the GTB’s current CPP
t-2 means the disclosure year two years prior to the current regulatory period

t-3 means the disclosure year three years prior to the current regulatory period

t-4 means the disclosure year four years prior to the current regulatory period

“(b) if the starting prices in each of the starting price years were the prices that applied at the end of an immediately preceding regulatory period –

$$((\text{forecast opex}_t - \text{actual opex}_t) - (\text{forecast opex}_{t-1} - \text{actual opex}_{t-1})) \times ((1-(1+WACC)^{-5} / WACC) \times (1+WACC)^3) + ((\text{forecast opex}_{t-1} - \text{actual opex}_{t-1}) - (\text{forecast opex}_{t-2} - \text{actual opex}_{t-2})) \times ((1-(1+WACC)^{-3} / WACC) \times (1+WACC)^2) + ((\text{forecast opex}_{t-2} - \text{actual opex}_{t-2}) - (\text{forecast opex}_{t-3} - \text{actual opex}_{t-3})) \times (1+WACC)^2) - ((\text{the sum of all amounts carried forward into the starting price year two disclosure years prior to the current CPP regulatory period}) \times (1+WACC)^3) - ((\text{the sum of all amounts carried forward into the starting price year immediately preceding the current CPP regulatory period}) \times (1+WACC)^2)$$

where –

WACC means the WACC as determined by the Commission and applicable to the GTB’s current CPP

t-2 means the disclosure year two years prior to the current regulatory period

t-3 means the disclosure year three years prior to the current regulatory period

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t-4 means the disclosure year four years prior to the current regulatory period.

“3.3.9 How to calculate the starting price year adjustment term for DPP regulatory periods of one year

The ‘starting price year adjustment term’ is calculated in accordance with the formula –

\[
(((\text{forecast opex}_{t-2} - \text{actual opex}_{t-2})

- \text{forecast opex}_{t-3} - \text{actual opex}_{t-3}))

\times (1-(1+WACC)^{-4} / WACC) \times (1+WACC)^2)
\]

where –

WACC means the WACC as determined by the Commission and applicable to the GTB’s current CPP or DPP

t-2 means the disclosure year two years prior to the current regulatory period

t-3 means the disclosure year three years prior to the current regulatory period

“SECTION 2 Capital expenditure incentives

“3.3.10 Capex incentive adjustment

“(1) The capex incentive adjustment –

“(a) must be calculated in the second disclosure year of each DPP regulatory period for which a capex incentive adjustment is calculated and applies, regardless of whether the GTB is subject to a CPP or the DPP during that DPP regulatory period;

“(b) in the second disclosure year of the DPP regulatory period is the amount calculated in accordance with the formula –

\[
\text{IRIS capex wash-up adjustment + retention adjustment}
\]

“(c) is nil in every other disclosure year of the current DPP regulatory period.
“(2) The ‘IRIS capex wash-up adjustment’ is the amount equal to the present value of the differences in the series of revenues for the preceding DPP regulatory period, adopting-

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

“instead of–

“(b) for each disclosure year of the preceding DPP regulatory period in which the GTB was subject to a DPP, the forecast aggregate value of commissioned assets determined by the Commission in respect of those disclosure years; and

“(c) for each disclosure year of the preceding DPP regulatory period in which the GTB was subject to a CPP, the sum of the forecast value of commissioned assets determined by the Commission in respect of those disclosure years.

“(3) For the purpose of subclause (2) –

“(a) the present value must be determined by discounting the revenues to the end of the preceding DPP regulatory period using a discount rate equal to the 75th percentile estimate of WACC applicable to each disclosure year in accordance with any DPP determination or CPP determination, and then adjusting that amount as at the commencement of the second disclosure year of the current DPP regulatory period using the cost of debt;

“(b) the series of revenues for each disclosure year of the preceding DPP regulatory period are those used to set starting prices for the GTB in any DPP determination or CPP determination and must –

“(i) be calculated using the methodology applied by the Commission for the GTB and specified in the relevant DPP determination or CPP determination;

“(ii) for subclause (i), adopt the sum of depreciation calculated under Part 2 in respect of each disclosure year for assets having a commissioning date in the preceding DPP regulatory period;

“(iii) for each disclosure year in which the GTB was subject to a DPP determination, apply the rate of change generally applicable to all GTBs instead of any alternative rate of change for a particular GTB;
“(iv) for each disclosure year in which the GTB was subject to a CPP determination, apply the rate of change specified in the CPP determination; and

“(v) be expressed consistent with cash flow timing assumptions for calculating amounts in revenue date terms for the GTB and specified in the relevant DPP determination or CPP determination;

“(c) where revenues from adopting the sum of value of commissioned assets exceed the revenues from using the forecast values of commissioned assets (as determined using the forecast aggregate value of commissioned assets for each disclosure year in which the GTB was subject to a DPP and sum of the forecast value of commissioned assets for each disclosure year in which the GTB was subject to a CPP) then the difference is a positive amount of IRIS capex wash-up adjustment; and

“(d) where revenues from adopting the sum of value of commissioned assets is less than the revenues from using the forecast value of commissioned assets (as determined using the forecast aggregate value of commissioned assets for each disclosure year in which the GTB was subject to a DPP and sum of the forecast value of commissioned assets for each disclosure year in which the GTB was subject to a CPP) then the difference is a negative amount of IRIS capex wash-up adjustment.

“(8) ‘Retention adjustment’ is calculated in accordance with the formula –

\[(\text{forecast value of commissioned assets} - \text{actual value of commissioned assets}) \times \text{retention factor}\]

“(9) ‘Forecast value of commissioned assets’ is–

“(a) for each year of the previous DPP regulatory period in which the supplier was subject to a DPP, the present value, as at the first day of the current DPP regulatory period, of the sum of the forecast aggregate value of commissioned assets for each disclosure year, as determined by the Commission and calculated in accordance with clause 4.2.5;

“(b) for each year of the previous DPP regulatory period in which the supplier was subject to a CPP, the present value, as at the first day of the current DPP regulatory period, of the sum of the forecast value of commissioned assets for each disclosure year, as determined by the Commission and calculated in accordance with clause 5.3.11.

“(10) ‘Actual value of commissioned assets’ is the present value, as at the first day of the current DPP regulatory period, of the value of commissioned assets
for all assets that were commissioned during the previous DPP regulatory period, as disclosed under an ID determination and calculated in accordance with clause 2.2.11.

“(11) The ‘retention factor’ for each DPP regulatory period is the amount specified by the Commission in the relevant DPP determination.

“(12) For the DPP regulatory period ending 30 September 2017, the methodology applied by the Commission to calculate the starting prices will be notified by the Commission.

“SECTION 3 Special provisions applying after a catastrophic event

“3.3.11 Calculating incentive adjustments after a catastrophic event

“Where a price-quality path is amended following a catastrophic event, the forecast opex and forecast value of commissioned assets used to calculate the amount carried forward in the disclosure year in which the catastrophic event occurred and each subsequent disclosure year prior to the effective date of the amendment to the price-quality path, is the amount specified by the Commission in the amended DPP determination or CPP determination.”

6.5 In the GTB IM Determination, insert new subpart 8 in Part 4:

“SUBPART 8 – Incentive Mechanisms

“4.8.1 Determination of capex incentives

“(1) The Commission will determine the forecast return, forecast depreciation, and the method for calculating return, for each disclosure year of the DPP regulatory period for all assets forecast to be commissioned.

“(2) The Commission will specify the retention factor that applies for each GTB during the DPP regulatory period.”

6.6 In the GTB IM Determination, delete subclause 5.3.1(a), renumbering subsequent subclauses accordingly.

6.7 In the GTB IM Determination, insert new Subpart 8 in Part 5:

“5.8.1 Determination of capex incentives

“(1) The Commission will determine the forecast return, forecast depreciation, and the method for calculating return, for each disclosure year of the current DPP regulatory period for all assets forecast to be commissioned.

“(2) The Commission will specify the retention factor that applies for each GTB during the CPP regulatory period.”
7. TRANSPOWER IM AMENDMENTS

7.1 In the Transpower IM Determination, insert the following new definitions in clause 1.1.4:

“opex incentive adjustment means the amount determined in accordance with clause 3.6.3(2);"

“amount carried forward means, for any given disclosure year, the amount determined in accordance with clause 3.6.2;"

7.2 In the Transpower IM Determination, delete the definitions for “allowed controllable opex” and “actual controllable opex”.

7.3 In the Transpower IM Determination, replace clause 3.1.3(1)(a) with:

“any opex incentive adjustment calculated in accordance with clause 3.6.1(2);”

7.4 In the Transpower IM Determination, replace subpart 6 of Part 3 with:

“SUBPART 6 Incremental rolling incentive scheme

“3.6.1 Calculation of annual incremental rolling incentive scheme recoverable costs

“(1) Subject to subclause (3), Transpower must calculate and apply the opex incentive adjustment as a recoverable cost for each disclosure year of each regulatory period.

“(2) Transpower must apply the opex incentive adjustment commencing in the first full regulatory period commencing after the first disclosure year for which it has calculated an amount carried forward.

“(3) Transpower must calculate an amount carried forward commencing from the first disclosure year commencing after [date of amendment].

“3.6.2 How to calculate the amount carried forward into subsequent disclosure years

“(1) Transpower must calculate an ‘amount carried forward’ in each disclosure year, subject to clause 3.6.6.

“(2) The ‘amount carried forward’ in the opening year of a regulatory period is calculated in accordance with the formula –

forecast opex – actual opex

“(3) The ‘amount carried forward’ in all but in all but the opening year or last disclosure year of a regulatory period is calculated in accordance with the formula –
\[(\text{forecast opex}_t – \text{actual opex}_t) - (\text{forecast opex}_{t-1} – \text{actual opex}_{t-1})\]

where–

\(t\) means the disclosure year for which the amount carried forward is being calculated

\(t-1\) means the disclosure year prior to the disclosure year for which the amount carried forward is being calculated

“(4) The ‘amount carried forward’ in the last disclosure year of a regulatory period is nil.

“(5) ‘Forecast opex’ is the amount of operating expenditure determined by the Commission for the relevant disclosure year in an IPP determination, as adjusted by the Commission for any disparity between the forecast CPI and the actual CPI under clause [20.1.6] of the IPP determination.

“(6) ‘Actual opex’ is the amount of operating expenditure for the relevant disclosure year as reported under an ID determination.

“3.6.3 How to calculate the opex incentive adjustment to be applied as a recoverable cost

“(1) Each amount carried forward determined in accordance with clause 3.6.2 is notionally carried forward, subject to clause 3.6.6, from the disclosure year in respect of which it is determined into each of the subsequent 5 disclosure years.

“(2) In each of the disclosure years after a regulatory period into which an amount carried forward has been carried pursuant to subclause (1), a net balance (the ‘opex incentive adjustment’) must be determined by addition of–

“(a) any amounts carried forward into that disclosure year from a preceding regulatory period; and

“(b) any adjustment amount determined in accordance with clauses 3.6.4.

“3.6.4 How to calculate the adjustment amount in the second year of a regulatory period

“(1) The adjustment amount must be calculated in the second disclosure year of the regulatory period in accordance with the formula –

\[RCP \text{ adjustment term 1} + RCP \text{ adjustment term 2} - \text{base year adjustment term}\]

“(2) The ‘base year adjustment term’ is calculated in accordance with the formula–
\[
\frac{(\text{forecast opex}_{t-1} - \text{actual opex}_{t-1}) - (\text{forecast opex}_{t-2} - \text{actual opex}_{t-2})}{(1+WACC)^4}
\]

where:

- \text{WACC} means the \text{WACC} as determined by the \text{Commission} and applicable to \text{Transpower’s current IPP}
- \text{t-1} means the \text{disclosure year} immediately preceding the current \text{regulatory period}
- \text{t-2} means the \text{disclosure year} two years prior to the current \text{regulatory period}

“(3) The ‘RCP adjustment term 1’ is calculated in accordance with the formula –

\[
\frac{\text{conditional value} - \text{amount carried forward}_{t-2}}{(1+WACC)^4}
\]

where:

- \text{WACC} means the \text{WACC} as determined by the \text{Commission} and applicable to \text{Transpower’s current regulatory period}
- \text{t-2} means the \text{disclosure year} two years prior to the current \text{regulatory period}

“(4) The ‘RCP adjustment term 2’ is calculated in accordance with the formula –

\[
\text{conditional value} - \text{amount carried forward}_{t-2} \times ((1- (1+WACC)^{-5}) / WACC) \times (1+WACC)^2
\]

where:

- \text{WACC} means the \text{WACC} as determined by the \text{Commission} and applicable to \text{Transpower’s current regulatory period}
- \text{t-2} means the \text{disclosure year} two years prior to the current \text{regulatory period}

“(5) The ‘conditional value’ is –
“(a) if the amount carried forward in the disclosure year two years prior to the current regulatory period was greater than zero, the greater of –

“(i) nil; or

“(ii) the amount carried forward in the disclosure year two years prior to the regulatory period or the amount carried forward in the disclosure year two years prior to the regulatory period plus the amount carried forward in the disclosure year prior to the regulatory period, whichever is less;

“(b) if the amount carried forward in the disclosure year two years prior to the regulatory period was less than or equal to zero, the lesser of –

“(i) nil; or

“(ii) the amount carried forward in the disclosure year two years prior to the regulatory period or the amount carried forward in the disclosure year two years prior to the regulatory period plus the amount carried forward in the disclosure prior to the regulatory period, whichever is greater.

“3.6.5 Calculating incentive adjustments after a catastrophic event

“Where a price-quality path is amended following a catastrophic event, the forecast opex used to calculate the amount carried forward in the disclosure year in which the catastrophic event occurred and each subsequent disclosure year prior to the effective date of the amendment to the price-quality path, is the amount specified by the Commission in the amended IPP determination.”