

Proposed Electricity Distribution Input Methodology Amendments 2014

Date of draft determination: 18 July 2014

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Regulation Branch, Commerce Commission

Wellington, NEW ZEALAND

18 July 2014

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Electricity Distribution Input Methodology Amendments 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 *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (the **EDB 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(2):

"2013-15 NPV wash-up allowance means the amount specified in the **DPP determination** for the **regulatory period** commencing 1 April 2015 for Alpine Energy Limited, Centralines Limited, and Top Energy Limited reflecting the impact of the capped alternative rate of change for those suppliers in the *Electricity Distribution Services Default Price-Quality Path Determination 2012* [2012] NZCC 35

"Capex wash-up adjustment means the amount equal to the difference between the allowed return for a **regulatory period** on and of assets forecast to be **commissioned** in the preceding **disclosure year** and the return for the **regulatory period** on and of assets **commissioned** in the **disclosure year** in question, and is calculated in accordance with clause 3.1.3(7)

"Catastrophic event allowance means the amount determined by the **Commission** for —

- “(a) the additional net costs (over and above those provided for in a **DPP determination** or **CPP determination**) prudently incurred in responding to a **catastrophic event**, other than costs that are foregone revenue, and

“(b) any **recoverable costs** and **pass-through costs** the **EDB** was permitted to recover under the applicable **DPP determination** or **CPP determination** through **prices**, but did not recover due to the **catastrophic event**

“incurred in or relating to the period between a **catastrophic event** and the effective date of an amendment to the **DPP** following reconsideration of the **price-quality path** under clause [reference to be confirmed]¹

“**Distributed generation allowance** means any positive allowance for costs incurred and amounts payable or negative allowance for amounts receivable in relation to the regulation of avoided transmission charges arising from distributed generation, including embedded or notionally embedded generation, made under:

“(a) Schedule 6.4 of Part 6 of the Electricity Industry Participation Code, or

“(b) the Electricity Industry Act 2010.

“**Distribution prices** means prices, other than transmission prices

“**Energy efficiency and demand incentive allowance** means the allowance for foregone revenue attributable to energy efficiency and demand side management initiatives as approved by the **Commission** in accordance with a **DPP determination** or **CPP determination**

“**Non transmission recoverable cost** means a **recoverable cost**, other than a **transmission recoverable cost**

“**Quality incentive adjustment** means an amount that provides incentives for a **non-exempt EDB** to maintain or improve its quality of supply in accordance with s 53M(2) of the **Act**, and is a function of –

“(a) a **non-exempt EDB’s** performance above or below the quality targets, up to the caps or collars specified in relation to the quality targets,

“(b) revenue at risk, and

“(c) incentive rate,

“as specified for the **non-exempt EDB** in a **DPP determination** or **CPP determination**

“**Transmission asset wash-up adjustment** means an amount equal to the allowance specified in a **DPP determination** or **CPP determination** for the additional **capital**

¹ This catastrophic event re-opener clause will be inserted when the High Court issues its orders on the appeals on the input methodologies. We currently expect this to be after our draft decision on the default price-quality paths to apply from 1 April 2015 has been released, but well before our final decision is published, which is due in November 2014. Clauses 4.5.1 to 4.5.3 currently cover the reconsideration of a default price-quality path.

expenditure or **operating expenditure** associated with a transmission asset forecast to be purchased in **the disclosure year** immediately preceding **the regulatory period**.

“**Transmission charge** means any payment made in respect of a **transmission recoverable cost**.”

“**Transmission prices** means prices attributable to **transmission charges**, published in accordance with an **ID determination**.”

“**Transmission recoverable cost** means a **recoverable cost** specified in clause 3.1.3(1)(b), (c), (d), or (f).”

4.2 In the **EDB IM Determination** amend sub-clause 3.1.1(2) as follows:

“(2) Allowable notional revenue means, in respect of a 12 month period, a function of-

“(a) relevant **CPIs**;

“(b) the X factor applicable to the **EDB**; and

“(c) ~~prices~~ **distribution prices** in the preceding 12 month period multiplied by quantities net of-

“(i) the sum of relevant **pass-through costs**; and

“(ii) the sum of relevant ~~recoverable costs~~ **non transmission recoverable costs**.

4.3 In the **EDB IM Determination** amend sub-clause 3.1.3(3) as follows:

“(3) Notional revenue means, in respect of a 12 month period, ~~prices~~ **distribution prices** in that period multiplied by quantities net of-

“(a) the sum of relevant **pass-through costs**; and

“(b) the sum of relevant ~~recoverable costs~~ **non-transmission recoverable costs**

4.4 In the **EDB IM Determination** amend sub-clause 3.1.3(1) as follows:

“(1) A recoverable cost is a cost that is-

...

“(f) ~~an amount equal to transmission costs that an efficient market operation service provider (as 'market operation service provider' is defined in the Electricity Industry Participation Code) is able to avoid as a result of the connection of distributed generation determined in accordance with Schedule 6.4 of Part 6 of the Electricity Industry~~

~~Participation Code~~ a **distributed generation allowance**, subject to the requirement specified in subclause (2);

...

“(m) **an energy efficiency and demand incentive allowance**, subject to the requirement specified in subclause (2);

“(n) **a catastrophic event allowance**, as specified in a **DPP determination or CPP determination**;

“(o) **a positive allowance for costs incurred and amounts payable or negative allowance for amounts receivable under any automatic under-frequency load shedding regulation made under the Electricity Industry Act 2010**, subject to the requirement specified in subclause (2);

“(p) **a quality incentive adjustment**;

“(q) **a capex wash-up adjustment**, recovered in equal proportions in each remaining disclosure year of the **regulatory period** adjusted for the **cost of debt**;

“(r) **a negative amount equal to the transmission asset wash-up adjustment**, if the acquisition of the transmission asset is not completed prior to the commencement of the **regulatory period** in accordance with the terms of any contract setting out the terms and condition of sale, recovered in equal proportions in each remaining disclosure year of the **regulatory period** adjusted for the **cost of debt**;

“(s) **an amount equal to the 2013-15 NPV wash-up allowance.**”

4.5 In the **EDB IM Determination** add a new sub-clause 3.1.3(7) as follows:

“(7) For the purpose of subclause 3.1.3(1)(q), the ‘capex wash-up adjustment’ is an amount calculated for an **EDB** that has starting prices reset pursuant to s 53P(3)(b) of the **Act**, equal to the present value of the difference in the series of revenues for the **regulatory period** arising from the adoption of the sum of **value of commissioned assets** for the **disclosure year** immediately following the **base year**, instead of the **forecast aggregate value of commissioned assets** determined by the **Commission** in respect of that **disclosure year**.

4.6 In the **EDB IM Determination** add a new sub-clause 3.1.3(8) as follows:

“(8) For the purpose of subclause (7)-

“(a) the present value must be determined by discounting the revenues to the commencement of the **regulatory period** using a discount rate equal to the **75th percentile estimate of WACC**, and then adjusting

that amount as at the commencement of the second **disclosure year** of the **regulatory period** using the **cost of debt**;

- “(b) the series of revenues for the **regulatory period** are those used to reset starting prices based on the current and projected profitability of each **EDB** and must-
 - “(i) be calculated using the method applied by the **Commission** in resetting the starting prices for the **EDB**;
 - “(ii) apply the industry wide X factor instead of any alternative rate of change for a particular **EDB**; and
 - “(iii) be expressed consistent with cash flow timing assumptions for calculating amounts in revenue date terms;
- “(c) where revenues from adopting the sum of **value of commissioned assets** exceed the revenues from using the **forecast aggregate value of commissioned assets** then the difference is a positive amount of 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 aggregate value of commissioned assets** then the difference is a negative amount of capex wash-up adjustment.