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Dear Ben

EDB IM amendments wash-up amendments

This is Vector's submission on the Commerce Commission's (Commission) *Proposed amendments to input methodologies for electricity distribution businesses – wash-up amounts* consultation. (EDB, IM).

We support the Commission's proposed IM amendments to correct errors in the revenue wash-up. However, we also recommend the Commission include some additional drafting to avoid confusion and ensure the 'wash-up draw down amount' can be calculated correctly.

Wash-up draw down amount

Under Clause 3.1.4(5) of the IM, the wash-up draw down amount has two components: (1) the wash-up account balance for t-2 and (2) the wash-up drawdown amount for t-1, where t is the disclosure year before applying any time value of money adjustment.

In simple terms and without considering any time value of money adjustment, the wash-up draw down amount for the disclosure year 2026 will consist of (1) the wash-up account balance for 2024 and (2) the wash-up drawdown amount for 2025.

The Commission's proposed IM amendment has addressed the first component of the wash-up account balance for 2024 by referring to the calculations used in DPP3. However, it does not define the second component – the wash-up drawdown amount for 2025.

Accordingly, our understanding is the wash-up drawdown amount for 2025 would be calculated using Clause 3.1.4(5) of DPP4, rather than Schedule 1.6 of DPP3.

We understand the Commission intends for the 2026 wash-up drawdown amount to equal the 2024 wash-up amount under DPP3, by netting off 2023's wash-up amount and 2025's wash-up drawdown amount.

However, the term "wash-up drawdown amount" in Clause 3.1.4 (5) differs from "revenue wash-up drawdown amount" as defined in DPP3. Under DPP3, this amount is calculated per paragraph (4) of Schedule 1.6 and is the opening wash-up account balance per Schedule 1.7. Therefore, the

2025 revenue wash-up drawdown amount under DPP3 should equal the 2023 wash-up amount, accounting for a two-year lag. Under the new IM, the term “revenue wash-up drawdown amount” is replaced by “wash-up drawdown amount” as defined in Clause 3.1.4 (5).

This discrepancy would require EDBs to recalculate the 2025 “wash-up drawdown amount” per the new IM’s Clause 3.1.4 (5), as it differs from DPP3. Without additional wording in the IM, Clause 3.1.4 (5) will apply, causing a new calculation cycle due to differing definitions.

Recommendations

We recommend the Commission resolve this by either:

- a) **Simplifying the proposed clause 3.1.4(2A):** the Commission could directly link between the wash-up drawdown amount for 2026 and the wash-up amount for 2024 as calculated in accordance with Schedules 1.6 and 1.7 of DPP3 before adjusting for value time of money. i.e. the IM could be amended to simply state “the wash-up drawdown amount for 2026 equals the wash-up amount for 2024 as set under DPP3”; or
- b) **Define the “wash-up draw down amount” for the years before 2026:** The Commission could alternatively provide a definition of the term “wash-up drawdown amount” for years before 2026 in accordance with Schedules 1.6 and 1.7 of DPP3. This term should align with the “revenue wash-up drawdown amount” defined in DPP3 to ensure clarity and consistency.

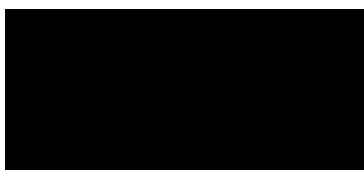
The formula proposed in the IM amendments are complex. However, the ultimate goal is straightforward: the wash-up drawdown amount for 2026 should equal the wash-up amount for 2024. The Commission could simplify this by directly stating, “The wash-up drawdown amount for 2026 equals the wash-up amount for 2024 as set under DPP3.”

Accordingly, we recommend simplifying the proposed clause 3.1.4(2A) as described in para (a). However, if the Commission maintains its proposed approach it should include a definition of the “wash-up draw down amount” for the years before 2026 to ensure the correct calculations can be made.

Compliance model

In addition, we understand the Commission intends to release a compliance model to assist stakeholders with revenue wash-up calculations. We recommend the Commission prioritise releasing this model, along with a consultation on it, to better promote certainty about the IM requirements.

Yours sincerely



Richard Sharp

GM Economic Regulation and Pricing