Public version

Draft Electricity Distribution Services (Incremental Rolling Incentive Scheme) Input Methodology Amendments Determination 2015

Date of draft input methodology: 27 February 2015

THIS DRAFT DETERMINATION IS FOR CONSULTATION PURPOSES ONLY

Regulation Branch, Commerce Commission

Wellington, NEW ZEALAND

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Electricity Distribution Services (Incremental Rolling Incentive Scheme) Input Methodology Amendments Determination 2015

Pursuant to Part 4 of the Commerce Act 1986 (the Act) the Commerce Commission makes the following determination:

1.   DETERMINATION 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 52W of the Commerce Act 1986.

3.   INTERPRETATION

3.1   Terms in bold type have the meaning given to those terms in the **EDB IM 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   Throughout this determination, all new text is in <u>underscored mark-up</u>, and deleted text is ~~strikethrough mark-up~~.

4.   EDB IM AMENDMENTS

4.1   In the **EDB IM Determination**, amend clause 1.1.4(2) as follows:

"**adjustment to the opex incentive** means the amount calculated in accordance with clause 3.3.4~~(2)~~;

"**actual opex** has the meaning specified in clause 3.3.3(9);

"**amount carried forward** means, for any given **disclosure year**, the amount determined in accordance with clause 3.3.3;

"**capex incentive amount** means the amount determined in accordance with clause 3.3.~~7~~<u>10</u>(2);

"**forecast opex** has the meaning specified in clause 3.3.3(8);

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

"**opex incentive amount** means the amount determined in accordance with clause 3.3.2(2);

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"**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 amount**;

"**starting price year**, in relation to an **EDB**, means –

(a)   the first **disclosure year** of a **DPP regulatory period** or **CPP regulatory period**, and

(b)   the **disclosure year** immediately following the expiration of a **CPP** applicable to the **EDB**;".

4.2   In the **EDB IM Determination**, amend clause 3.1.3(1)(a) as follows:

"(a)   any amount that is–

"(i)   an **IRIS incentive adjustment** calculated in respect of a **non-exempt EDB**; or

"(ii)   a positive net balance determined in accordance with clause 3.3.~~12~~15(2), provided that any requirements pursuant to an **ID determination** regarding **auditor** certification of any value determined in accordance with Section 3 of Subpart 3 have been met;".

4.3   In the **EDB IM Determination**, amend Subpart 3 of Part 3 as follows:

SUBPART 3 Incremental rolling incentive scheme

SECTION 1   Annual IRIS incentive adjustments

3.3.1   Calculation of annual IRIS incentive adjustment as recoverable cost

(1)   A **non-exempt EDB** must calculate an **IRIS incentive adjustment** for each **disclosure year** of each **regulatory period**.

(2)   The 'IRIS incentive adjustment' is the amount determined in accordance with the formula–

   opex incentive amount + **capex incentive amount**.

SECTION 2   Operating expenditure incentives

3.3.2   How to calculate opex incentive amounts

(1)   An **opex incentive amount** must be calculated for each **disclosure year** of a **regulatory period**, subject to subclause (3).

(2)   The 'opex incentive amount' for a **disclosure year** is an amount equal to the sum of–

   (a)   all **amounts carried forward** into that **disclosure year** from a **disclosure year** in a preceding **regulatory period**; and

   (b)   where applicable under clause 3.3.4(1), an **adjustment to the opex incentive** for that **disclosure year**.

(3)   An **opex incentive amount** shall not be calculated:

   (a)   by Orion New Zealand Limited, for any **disclosure year** in a **regulatory period** commencing on, or prior to, 1 April 2020; and

   (b)   by any other **EDB**, for any **disclosure year** commencing prior to 1 April 2020, unless the **EDB** becomes subject to a **CPP**.

3.3.3   How to calculate the amount carried forward to subsequent disclosure years

(1)   An 'amount carried forward' must be calculated for each **disclosure year** of a **regulatory period**, subject to subclause (6).

(2)   The 'amount carried forward' for 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–

   forecast opex$_t$ – **actual opex**$_t$

   where–

   t means **the disclosure year** in question.

(3) The 'amount carried forward' for a **disclosure year** that is not the first or last **disclosure year** of a **regulatory period** is calculated in accordance with the formula–

(**forecast opex**$_t$ – **actual opex**$_t$) – (**forecast opex**$_{t-1}$ – **actual opex**$_{t-1}$)

where–

t means the **disclosure year** in question; and

$t\text{-}1$ means the **disclosure year** preceding the **disclosure year** in question.

(4) The 'amount carried forward' for 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) An **amount carried forward** shall not be calculated:

(a) by Orion New Zealand Limited, for any **disclosure year** commencing prior to 1 April 2019; and

(b) by any other **EDB**, for any **disclosure year** commencing prior to 27 November 2014.

(7) Each **amount carried forward** is notionally carried forward from the **disclosure year** in respect of which it is calculated into each of the subsequent 5 **disclosure years**.

(8) 'Forecast opex', subject to clauses 3.3.13 and 3.3.14, is, for a **disclosure year** –

(a) in a **DPP regulatory period** applying to an **EDB** for which starting prices applicable to the **EDB** were determined by the **Commission** under s 53P(3)(b) or s 53X(2), the amount of forecast **operating expenditure** specified by the **Commission** for the relevant **disclosure year** in the **DPP determination** for the purpose of calculating an **opex incentive amount**; ~~or~~

(b) in a **DPP regulatory period** applying to an **EDB** for which the prices applicable to the **EDB** were the prices that applied at the end of the preceding **DPP regulatory period** or **CPP regulatory period**, the amount of forecast **operating expenditure** specified by the **Commission** in the **DPP determination** or otherwise notified to the **EDB** by the **Commission**; or

~~(b)~~(c) in a **CPP regulatory period** applying to an **EDB**, the amount of **forecast operating expenditure** specified by the **Commission** for the relevant **disclosure year** in accordance with clause 5.3.2(6)(b).

(9) 'Actual opex' is the amount of **operating costs** allocated to **electricity distribution services** for the relevant **disclosure year** calculated in accordance with Part 2.

3.3.4 How to calculate the adjustment to the opex incentive for the second year of a regulatory period

(1) An **adjustment to the opex incentive** must be calculated for–

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(a) the second **disclosure year** of a **DPP regulatory period** (including a **DPP regulatory period** that has been amended by a **quality standard variation CPP**) applicable to the **EDB**;

(b) the second **disclosure year** of a **CPP regulatory period** (other than a **quality standard variation**) applicable to the **EDB**; and

(c) the second **disclosure year** following expiration of a **CPP regulatory period** (other than a **quality standard variation**) applicable to the **EDB**, unless the **disclosure year** in question is a **starting price year**.

Standard case DPP

(2) For an **EDB** subject to a **DPP**, unless subclause (4) applies, Tthe 'adjustment to the opex incentive', where the starting prices for the current **DPP regulatory period** are–

(a) determined by the **Commission** in accordance with s 53P(3)(b) of the **Act**, is an amount equal to the 'base year adjustment term' calculated in accordance with clause 3.3.5; and

(b) the prices that applied at the end of the preceding **DPP regulatory period** or **CPP regulatory period**, is an amount calculated in accordance with the formula–

> *base year adjustment term + roll-over adjustment term*
>
> where–
>
> *base year adjustment term* means the amount calculated in accordance with clause 3.3.5; and
>
> *roll*-over *adjustment term* means the amount calculated in accordance with clause 3.3.6.

Standard case CPP

(3) The 'adjustment to the opex incentive' for an **EDB** subject to a **CPP** (other than a **quality standard variation**), unless subclauses (5) or (6) applies, is calculated in accordance with the formula–

> *base year adjustment term + baseline adjustment term*
>
> where–
>
> *base year adjustment term* means the amount calculated in accordance with clause 3.3.5;
>
> *baseline adjustment term* means the amount calculated in accordance with clause 3.3.7.

Special case of a DPP following a single starting price year

(4)   The 'adjustment to the opex incentive' for an **EDB** subject to a **DPP**, when the **disclosure year** immediately preceding the current **regulatory period** was a **starting price year**, is calculated in accordance with the formula–

> *base year adjustment term + roll-over adjustment term + roll-over adjustment term 2 + penultimate year adjustment term + single year adjustment term*
>
> where–
>
> *base year adjustment term* means the amount calculated in accordance with clause 3.3.5;
>
> *roll-over adjustment term* means the amount calculated in accordance with clause 3.3.6;
>
> *roll-over adjustment term 2* means the amount calculated in accordance with clause 3.3.8(1);
>
> *penultimate year adjustment term* means the amount calculated in accordance with clause 3.3.8(2); and
>
> *single year adjustment term* means the amount calculated in accordance with clause 3.3.8(3).

Special case of a CPP following a single starting price year

(5)   Unless subclause (6) applies, the 'adjustment to the opex incentive' for an **EDB** subject to a **CPP** (other than a **quality standard variation**), when the **disclosure year** immediately preceding the current **regulatory period** was a **starting price year**, is calculated in accordance with the formula–

> *base year adjustment term + baseline adjustment term + roll-over adjustment term 2 + penultimate year adjustment term + single year adjustment term*
>
> where–
>
> *base year adjustment term* means the amount calculated in accordance with clause 3.3.5;
>
> *baseline adjustment term* means the amount calculated in accordance with clause 3.3.7;
>
> *roll-over adjustment term 2* means the amount calculated in accordance with clause 3.3.8(1);
>
> *penultimate year adjustment term* means the amount calculated in accordance with clause 3.3.8(2); and
>
> *single year adjustment term* means the amount calculated in accordance with clause 3.3.8(3).

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Special case of a CPP following two consecutive starting price years

(6)   The 'adjustment to the opex incentive' for an **EDB** subject to a **CPP** (other than a **quality standard variation**), when the two **disclosure years** immediately preceding the current **regulatory period** were each a **starting price year**, is calculated in accordance with the formula–

> *baseline adjustment term + roll-over adjustment term 3 + roll-over adjustment term 4 + savings adjustment term 1 + savings adjustment term 2 + savings adjustment term 3 + year 5 forecast adjustment term*
>
> where–
>
> *baseline adjustment term* means the amount calculated in accordance with clause 3.3.7;
>
> *roll-over adjustment term 3* means the amount calculated in accordance with clause 3.3.9(1);
>
> *roll-over adjustment term 4* means the amount calculated in accordance with clause 3.3.9(2);
>
> *savings adjustment term 1* means the amount calculated in accordance with clause 3.3.9(3);
>
> *savings adjustment term 2* means the amount calculated in accordance with clause 3.3.9(4);
>
> *savings adjustment term 3* means the amount calculated in accordance with clause 3.3.9(5); and
>
> *year 5 forecast adjustment term* means the amount calculated in accordance with clause 3.3.9(6).

3.3.5   How to calculate the base year adjustment term

A 'base year adjustment term' is calculated in accordance with the formula–

$$-\left(\frac{(\textbf{forecast opex}_{t-1} - \textbf{actual opex}_{t-1}) - (\textbf{forecast opex}_{t-2} - \textbf{actual opex}_{t-2})}{(1 + WACC)^4}\right)$$

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 prior to the current **regulatory period**; and

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

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3.3.6 How to calculate the roll-over adjustment term

A 'roll-over adjustment term' is calculated in accordance with the formula–

(actual opex$_{t-2}$ – 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**; and

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

3.3.7 How to calculate the baseline adjustment term applicable to CPP regulatory periods

(1) A 'baseline adjustment term' is calculated in accordance with the formula–

non-recurrent differences in penultimate year

$\times$

$((1-(1+WACC)^{-6})/WACC)$

$\times$

$(1+WACC)^2$

where–

non-recurrent differences in penultimate year means the amount calculated in accordance with subclause (2); and

$WACC$ means the **WACC** as determined by the **Commission** and applicable to the **EDB**'s current **CPP regulatory period**.

(2) A 'non-recurrent differences in penultimate year' is an amount determined by the **Commission**, having regard to the views of interested persons, attributable to the impact of non-recurrent factors which cause differences between **forecast opex** and **actual opex** in the **disclosure year** commencing 2 years prior to the current **regulatory period**, and notified to the **EDB**.

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3.3.8 How to calculate adjustment terms applicable to regulatory periods preceded by a single starting price year

(1) A 'roll-over adjustment term 2' is calculated in accordance with the formula–

$$(\textbf{actual opex}_{t-4} - \textbf{forecast opex}_{t-2})$$

$$\times$$

$$(1+WACC)^2$$

where–

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

t-2 means the **disclosure year** commencing two years prior to the current **disclosure year**; and

t-4 means the **disclosure year** commencing four years prior to the current **disclosure year**.

(2) A 'penultimate year adjustment term' is calculated in accordance with the formula–

$$(\textbf{forecast opex}_{t-3} - \textbf{actual opex}_{t-3}) - (\textbf{forecast opex}_{t-4} - \textbf{actual opex}_{t-4})$$

$$\times$$

$$((1-(1+WACC)^{-4})/WACC)$$

$$\times$$

$$(1+WACC)^2$$

where–

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

t-3 means the **disclosure year** commencing three years prior to the current **disclosure year**; and

t-4 means the **disclosure year** commencing four years prior to the current **disclosure year**.

(3) A 'single year adjustment term' is calculated in accordance with the formula–

$$(\textbf{forecast opex}_{t-2} - \textbf{forecast opex}_{t-4}) / (1+WACC)^4$$

where–

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

t-2 means the **disclosure year** commencing two years prior to the current **disclosure year**; and

t-4 means the **disclosure year** commencing four years prior to the current **disclosure year**.

3.3.9 How to calculate adjustment terms applicable to CPP regulatory periods preceded by two successive starting price years

(1) A 'roll-over adjustment term 3' is calculated in accordance with the formula–

(actual opex$_{t-5}$ – forecast opex$_{t-3}$)

×

$(1+WACC)^3$

where–

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

t-3 means the **disclosure year** commencing three years prior to the current **disclosure year**; and

t-5 means the **disclosure year** commencing five years prior to the current **disclosure year**.

(2) A 'roll-over adjustment term 4' is calculated in accordance with the formula–

(actual opex$_{t-4}$ – forecast opex$_{t-2}$)

×

$(1+WACC)^2$

where–

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

t-2 means the **disclosure year** commencing two years prior to the current **disclosure year**; and

t-4 means the **disclosure year** commencing four years prior to the current **disclosure year**.

(3)   A 'savings adjustment term 1' is calculated in accordance with the formula–

$$(\textbf{actual opex}_{t-5} - \textbf{actual opex}_{t-4})$$

$$\times$$

$$((1-(1+WACC)^{-4})/WACC)$$

$$\times$$

$$(1+WACC)^{3}$$

where–

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

$t\text{-}4$ means the **disclosure year** commencing four years prior to the current **disclosure year**; and

$t\text{-}5$ means the **disclosure year** commencing five years prior to the current **disclosure year**.

(4)   A 'savings adjustment term 2' is calculated in accordance with the formula–

$$(\textbf{actual opex}_{t-4} - \textbf{actual opex}_{t-3})$$

$$\times$$

$$((1-(1+WACC)^{-4})/WACC)$$

$$\times$$

$$(1+WACC)^{2}$$

where–

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

$t\text{-}3$ means the **disclosure year** commencing three years prior to the current **disclosure year**; and

$t\text{-}4$ means the **disclosure year** commencing four years prior to the current **disclosure year**.

(5)   A 'savings adjustment term 3' is calculated in accordance with the formula–

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

where–

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

t-2 means the **disclosure year** commencing two years prior to the current **disclosure year**; and

t-3 means the **disclosure year** commencing three years prior to the current **disclosure year**.

(6) A 'year 5 forecast adjustment term' is calculated in accordance with the formula–

(forecast opex$_{t-5}$ – **forecast opex**$_{t-4}$**)**

$\times$

$((1/(1+WACC)^{-4}) + 1/(1+WACC)^2 – 1/(1+WACC)^2)$

where–

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

t-4 means the **disclosure year** commencing four years prior to the current **disclosure year**; and

t-5 means the **disclosure year** commencing five years prior to the current **disclosure year**.

SECTION 3   Capital expenditure incentives

~~3.3.7~~3.3.10   How to calculate capex incentive amounts

(1) A **capex incentive amount** must be calculated for each **disclosure year** of a **DPP regulatory period** irrespective of whether the **EDB** in question is subject to a **CPP** or ~~a~~ **DPP** during that **DPP regulatory period**, subject to subclause (3).

(2) The 'capex incentive amount' for a **disclosure year** is–

(a) the amount calculated in accordance with the following formula for a **disclosure year** in the **DPP regulatory period** other than the first **disclosure year**–

$$\left(\frac{capex\ wash\text{-}up + retention\ adjustment}{l-1}\right) \times (1+r)^{y+0.5}$$

where–

l is the number of **disclosure years** in the **DPP regulatory period**;

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> > *r* is the **cost of debt** applying to the **DPP** or **CPP** in question; and

> > *y* is the number of **disclosure years** preceding the **disclosure year** in question in the **DPP regulatory period**; and

> (b) nil-

> > (i) for the first **disclosure year** of the **DPP regulatory period**; and
> > (ii) for a **disclosure year** in a **DPP regulatory period** which commences prior to 1 April 2020.

(3) A **capex incentive amount** shall not be calculated:

> (a) by Orion New Zealand Limited, for any **disclosure year** in a **regulatory period** commencing on, or prior to, 1 April 2020; and

> (b) by any other **EDB**, for any **disclosure year** in a **DPP regulatory period** commencing prior to 1 April 2020.

~~3.3.8~~3.3.11 How to calculate the capex wash-up

(1) The 'capex wash-up' is an amount equal to the present value of the differences in the series of building block allowable revenues before tax for the preceding **DPP regulatory period**, subject to subclause (2) and clauses ~~3.3.10~~3.3.13 and ~~3.3.11~~3.3.14 from 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**.

(2) For the purpose of subclause (1)–

> (a) the present value must be determined by discounting the building block allowable revenues before tax to the end of the preceding **DPP regulatory period** using a discount rate equal to the **WACC** applied by the **Commission** in setting prices for each **disclosure year** for the relevant **DPP** or **CPP** in the preceding **DPP regulatory period**;

> (b) the series of building block allowable revenues before tax for each **disclosure year** of the preceding **DPP regulatory period** must–

(i) be calculated using the same methodology that was applied by the **Commission** in setting starting prices for the **EDB** for the relevant **DPP** or **CPP**, subject to subparagraphs (ii) and (iii);

(ii) for the purpose of subparagraph (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**; and

(iii) for the purpose of subparagraph (i), adopt the same values for all other inputs to the calculation of building block allowable revenues before tax; and

(c) where building block allowable revenues before tax from adopting the sum of **value of commissioned assets** exceed the building block allowable revenues before tax 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 capex wash-up; and

(d) where building block allowable revenues before tax from adopting the sum of **value of commissioned assets** is less than the building block allowable revenues before tax 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 capex wash-up.

3.3.~~9~~12   How to calculate the retention adjustment

(1) The 'retention adjustment' is calculated in accordance with the formula–
(PV of forecast commissioned asset values – PV of actual commissioned asset values) x **retention factor**.

(2) 'PV of forecast commissioned asset values' is an amount equal to the sum of–

(a) the present value, as at the end of the preceding **DPP regulatory period**, of the **forecast aggregate value of commissioned assets** for each **disclosure year** of the preceding **DPP regulatory period** for which the **EDB** was subject to a **DPP**; and

(b) the present value, as at the end of the preceding **DPP regulatory period**, of the sum of the **forecast value of commissioned assets** for each **disclosure year** of the preceding **DPP regulatory period** for which the **EDB** was subject to a **CPP**.

(3) 'PV of actual commissioned asset values' is the present value, as at the end of the preceding **DPP regulatory period**, of the **value of commissioned asset** calculated in accordance with Part 2 for every asset that was **commissioned** during the preceding **DPP regulatory period**.

SECTION 4   Price-quality path amendments and other events

3.3.10~~3.3.13~~   Calculating incentive adjustments for price-quality path amendments

Where a price-quality path is amended following–

(a)   a catastrophic event;

(b)   a **change event**;

(c)   an error; or

(d)   provision of false or misleading information under clause 4.5.4(1)(e) or 5.6.4(4),

the **forecast opex** and **forecast aggregate value of commissioned assets** required to be used by the **EDB** to calculate the **amount carried forward** for the **disclosure year** in which the 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**.

3.3.1~~1~~4   Calculating incentive adjustments for other events

Where an event that is–

(a)   an **amalgamation**;

(b)   a merger (as defined in a **DPP determination**);

(c)   a major transaction (as defined in a **DPP determination**); or

(d)   an alteration to Part 2 or **ID determination** requirements affecting the quantification of **operating costs** allocated to electricity distribution services or a **value of commissioned asset**,

occurs in a **disclosure year** and–

(e)   the Commission considers; or

(f)   the **EDB** in question satisfies the **Commission** upon application,

that the event has, or is likely to have, a material effect on the calculation of the **opex incentive amount** or **capex incentive amount** that would otherwise have been required to be calculated by the **EDB** then–

(g)   the **forecast opex**; and

(h)   either–

(i)   forecast aggregate value of commissioned assets; or

(ii)   sum of the **forecast value of commissioned assets**,

required to be used by the **EDB** to calculate the **amount carried forward** for that **disclosure year** and each subsequent **disclosure year** in the **regulatory period** may be determined by the **Commission**, and notified to the **EDB**, in order to preserve, to the extent appropriate–

(i)   the correct outcomes for expenditure efficiencies achieved before the event; and

(j)   the relevant incentive properties after the event.

SECTION 5   Transitional provisions

3.3.1~~5~~2   <u>Calculation of annual incremental changes and adjustment term</u>

(1)   The incremental change for the first **disclosure year** of a **CPP regulatory period** commencing prior to 27 November 2014 is determined as the difference between **allowed controllable opex** and **actual controllable opex.**

(2)   The incremental change for a **disclosure year** of a **CPP regulatory period** commencing prior to 27 November 2014 other than the **first** or final **disclosure year** must be determined in accordance with the formula-

(**allowed controllable opex**$_t$ - **actual controllable opex**$_t$) - (**allowed controllable opex**$_{t-1}$ - **actual controllable opex**$_{t-1}$),

where-

t means the **disclosure year** in question; and

$t-1$ means the **disclosure year** preceding the **disclosure year** in question.

(3)   The incremental change for the final **disclosure year** of the **CPP regulatory period** commencing prior to 27 November 2014 is treated as nil.

(4)   The incremental adjustment term is determined-

(a)   in the next **disclosure year** following a **CPP regulatory period** commencing prior to 27 November 2014; and

(b)   by applying the **inflation rate** to the result of the formula-

(**allowed controllable opex**$_{t-1}$ - **actual controllable opex**$_{t-1}$) - (**allowed controllable opex** $_{t-2}$ - **actual controllable opex** $_{t-2}$)

where-

$t-1$ means the final **disclosure year** of the preceding **CPP regulatory period** commencing prior to 27 November 2014; and

$t-2$ means the penultimate **disclosure year** of the preceding **CPP regulatory period** commencing prior to 27 November 2014.

(5)   Inflation rate means the amount determined in accordance with the formula-

$$[(CPI_1 + CPI_2 + CPI_3 + CPI_4) \div (CPI_1^{-4} + CPI_2^{-4} + CPI_3^{-4} + CPI_4^{-4})] - 1,$$

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where-

CPI_n means **forecast CPI** for the nth quarter of the **disclosure year** in question; and

CPI_n^{-4} means **forecast CPI** for the equivalent quarter in the preceding **disclosure year**.

3.3.133.3.16 Determination of amount to be taken into account as a recoverable cost

(1) Each incremental change determined in accordance with clause 3.3.1215 and **incremental adjustment term** is notionally carried forward, subject to clause 3.3.1714, from the **disclosure year** in respect of which it is determined into each of the subsequent 5 **disclosure years** by applying the **inflation rate**.

(2) In each of the **disclosure years** after a **CPP regulatory period in**to which an amount has been carried pursuant to subclause (1), a net balance must be determined by addition of-

    (a) any incremental changes carried into that **disclosure year** from a preceding **CPP regulatory period**; and

    (b) any **incremental adjustment term** carried into that **disclosure year**.

3.3.1417 Calculating gains and losses after a catastrophic event

Where-

    (a) a price-quality path is amended pursuant to clause 5.6.5 by reason of a **catastrophic event**; and

    (b) incremental changes calculated in the remaining **disclosure years** of the **regulatory period** in accordance with clauses 3.3.1512(1) and 3.3.1215(2) are negative,

clause 3.3.1316(1) does not apply to those incremental changes.