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Public version

Proposed Amendments to Input Methodologies for Electricity Distribution Services

Consultation paper

Amendments proposed to be made under s 52X and 52V(2) of the Commerce Act 1986 to the input methodologies for electricity distribution services.

Publication date: 18 July 2014

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1. Introduction

Purpose of paper

1.1 This paper sets out proposed amendments to the input methodologies for electricity distribution services, for consultation with interested persons. Alongside this paper we have released marked up drafting for the proposed amendments[1].

1.2 This paper should be read in conjunction with our paper of 4 July 2012, which sets out the reasons for the draft input methodologies we propose.

Proposed amendments affect the 2012 input methodologies determination

1.3 The draft methodologies we propose in this paper are issued under section 52X and 52V(2) of the Commerce Act 1986, and would affect the input methodologies determined for electricity distribution services in 2012.[2]

1.4 The amendments primarily relate to changes to the input methodologies for default price-quality paths (Part 4 of the input methodologies determination). However, they also include consequential amendments to the input methodologies for information disclosure (Part 2 of the input methodologies determination) and customised price-quality paths (Part 5).[3]

1.5 These amendments should be considered in conjunction with:

1.5.1 the draft determination of the default price-quality paths for electricity distributors;[4]

1.5.2 the Compliance Paper;[5] and

1.5.3 the Main Policy Paper.[6]

1.6 All of these documents have been published on our website.[7]

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1 Commerce Commission "Proposed Electricity Distribution Input Methodology Amendments 2014" (18 July 2014).

2 Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26.

3 This was signalled in our notice of intention of 29 April 2014 made under section 52V(1) of the Act.

4 Commerce Commission "Electricity Distribution Services Default Price-Quality Path Draft Determination 2015" (18 July 2014).

5 Commerce Commission "Proposed Compliance Requirements for the 2015-2020 Default Price-Quality Paths for Electricity Distributors" (18 July 2014).

6 Commerce Commission "Proposed default price-quality paths for electricity distributors from 1 April 2015" (4 July 2014).

7 Go to http://www.comcom.govt.nz/regulated-industries/electricity/electricity-default-price-quality-path/default-price-quality-path-from-2015/.

Two types of proposed amendments for the default price-quality paths

1.7 The proposed amendments in this paper are the second of two types of amendments relating to the input methodologies relevant to default price-quality paths. If implemented, the proposed changes will be reflected in our decision on the default price-quality paths for electricity distributors to apply from 1 April 2015.

1.8 The first type of proposed amendments, released on 24 June 2014, focus on changes that would primarily affect the model we use to set starting prices based on the current and project profitability of each distributor. The second type of proposed amendments, which this paper addresses, focus on changes that would affect other aspects of default price-quality paths.

We prioritised the proposed amendments that would affect our model

1.9 We prioritised the proposed amendments that would affect our model so that our proposed model could be released before our draft decision on the default price-quality paths for electricity distributors.[8] The proposed amendments were to correct for the double deduction of the term credit spread differential allowance when calculating the:

1.9.1 regulatory tax allowance; and

1.9.2 amortisation of initial differences in asset values.

1.10 We also proposed an amendment to reflect a mid-year cash flow timing assumption in the relevant definitions of notional deductible interest for the treatment of taxation.[9]

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8 Commerce Commission "Proposed amendments to input methodologies for electricity distribution services – consultation paper" (24 June 2014).

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

Consultation on the two types of proposed amendments

1.11 In our notice of intention of 29 April 2014, we advised that we planned to consult separately on the two types of proposed amendments.

1.12 Table 1.1 sets out an updated timetable for our consultation process on the two types of proposed amendments. The date for the final decision is indicative.

Table 1.1: Updated consultation process

Date	Publication / event
29 April 2014	Notice of intention released
24 June 2014	Draft of first type of proposed amendments released
18 July 2014	Submissions due on first type of proposed amendments
18 July 2014	Draft of second type of proposed amendments released
29 August 2014	Submissions due on second type of proposed amendments
12 September 2014	Cross-submissions due on second type of proposed amendments[10]
30 September 2014	Final decision on both types of proposed amendments

Consultation on amendments to implement the Incremental Rolling Incentive Scheme

1.13 We are also separately considering amendments to the input methodologies to implement an expanded Incremental Rolling Incentive Scheme (IRIS) that would affect default price-quality paths. The draft amendments released in accordance with sections 52X and 52V(2) of the Act have been released along-side these proposed amendments.

[10] As part of this cross-submission, parties are welcome to provide cross-submissions on the type one amendments in the published paper, Commerce Commission “Proposed amendments to input methodologies for electricity distribution services – consultation paper” (24 June 2014) if they wish.

1.14 Table 1.2 sets out an updated timetable for our consultation process on the IRIS. The date of our final decision on the IRIS is indicative.

Table 1.2: Updated consultation process for IRIS

Indicative date	Publication / event
30 April 2013	Notice of intention released
20 September 2013	Process and issues paper released
21 October 2013	Closing date for submissions on process and issues paper
1 November 2013	Closing date for cross-submissions on process and issues paper
18 July 2014	Draft of proposed IRIS amendments released
29 August 2014	Submissions due on proposed amendments
12 September 2014	Cross-submissions due on proposed amendments
30 September 2014	Final decision on IRIS

Overview of this paper

1.15 Chapter 2 provides a summary of the proposed amendments in this paper, explains each amendment, and our reasons for making them.

1.16 Chapter 3 sets out how you can provide your views on the proposed amendments and the next steps in our process.

2. Proposed amendments

Purpose of chapter

2.1 This chapter provides a summary of the proposed amendments in this paper, explains each amendment, and our reasons for making them. Our proposed drafting of each amendment, and the clause to be updated, is noted for each proposed amendment.

Summary of the proposed amendments in this paper

2.2 This paper proposes amendments to the input methodologies to:

2.2.1 give effect to the quality incentive scheme we propose to implement under section 53M(2);

2.2.2 give effect to the incentives for energy efficiency and demand side management initiatives we propose to implement, consistent with section 54Q;

2.2.3 introduce a 'wash-up' for capital expenditure in the final year of the current default price-quality path, ie, 1 April 2014 to 31 March 2015, in order to more accurately reflect the regulatory asset base used to forecast return on and of capital during the next regulatory period;

2.2.4 introduce a 'wash-up' for additional expenditure provided in a regulatory period for spur asset purchases that were forecast to be completed prior to the reset, but which were not concluded;

2.2.5 allow for the recovery of prudent expenditure incurred in response to a catastrophic event prior to the re-opened price path taking effect;

2.2.6 allow for pass-through of any levy or other charges or costs associated with any automatic under-frequency load shedding (AUFLS) programme that the Electricity Authority (EA) may implement during the regulatory period;

2.2.7 update the recoverable cost term for transmission costs avoided as a result of distributed generation in the event the EA introduces any changes in approach; and

2.2.8 allow for a one-off recovery of additional revenue for three distributors (Alpine Energy, Top Energy, and Centralines) to address the NPV-negative impact of our decision at the 2012 reset to limit price increases in the last two years of the current regulatory period.

2.3 As signalled in Chapter 5 of our Main Policy Paper, we are also considering whether to make an amendment to the input methodologies to limit the risk of under- or over-recovery of transmission-related recoverable costs. This would affect clause 3.1.1 of the current input methodologies, which covers the specification of price.

Giving effect to the proposed quality incentive scheme

2.4 Table 2.1 sets out the proposed amendments to give effect to the proposed quality incentive scheme. The reasons for this amendment are set out in Chapter 6 of the Main Policy Paper.

Table 2.1: Proposed quality incentive scheme

Determination clause	Proposed change	Proposed definition
1.1.4(2)	Add a new definition for 'quality incentive adjustment'.	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 EDBs 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.
3.1.3(1)(p)	Add a new recoverable costs term for the 'quality incentive adjustment'.	A recoverable cost is a cost that is… a quality incentive adjustment.

2.5 One of the main changes in approach that we have proposed for the default price-quality paths from 1 April 2015 is to implement a revenue-linked quality incentive scheme for both SAIDI and SAIFI reliability targets under s 53M(2) of the Act. This would replace the current pass/fail approach based on SAIDI and SAIFI reliability limits.[11]

2.6 Each distributor will have individual SAIDI and SAIFI targets, associated caps and collars, and a distributor-specific incentive rate, for each disclosure year specified in the default price-quality path determination. Distributors will calculate and apply the reward or penalty using the formula set out in the default price-quality path determination.

2.7 There is therefore a two-year lag before a distributor receives revenue reward or penalty. This means that performance in the last two years of a regulatory period will not be assessed until the next regulatory period, following a reset.

2.8 To ensure appropriate incentives are maintained in the last two years of the regulatory period, we consider it would be preferable to have the reward or penalty treated as a recoverable cost. This will increase certainty for distributors that any performance exceeding the quality standards at the end of a regulatory period can still result in a reward in the next regulatory period. Any penalty resulting from performance below the quality standards will still be given effect to.

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11 Commerce Commission “Proposed default price-quality paths for electricity distributors from 1 April 2015” (4 July 2014). Reliability targets are expressed as System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI).

Giving effect to incentives for energy efficiency and demand side management initiatives

2.9 Table 2.2 sets out the proposed amendments to give effect to the financial incentives we propose to make available to compensate distributors for revenue forgone because of energy efficiency and demand side management initiatives (excluding tariff-based measures). The reasons for this amendment are set out in Chapter 7 and Attachment E of the Main Policy Paper.

Table 2.2: Incentives for energy efficiency and demand side management initiatives

Determination clause	Proposed change	Proposed definition
1.1.4(2)	Add a new definition for 'energy efficiency and demand incentive allowance'.	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**.
3.1.3(1)(m)	Add a new recoverable costs term for the 'energy efficiency and demand incentive allowance'.	A recoverable cost is a cost that is… an energy efficiency and demand incentive allowance, subject to the requirement specified in subclause (2).

2.10 A new feature of the proposed default price-quality paths from 1 April 2015 is the introduction of incentives to promote demand side management or energy efficiency initiatives.

2.11 As discussed in our Main Policy Paper, a review and approval process is necessary to ensure that any allowance for foregone revenue is appropriately identified as being caused by, or arising from, the energy efficiency or demand side management initiative.[12] The principles we intend to apply in our review and approval process are set out in Table E1 of our Main Policy Paper.

12 Commerce Commission "Proposed default price-quality paths for electricity distributors from 1 April 2015" (4 July 2014).

2.12 Given the need for a reasonable assessment process, there is an effective two-year lag before the distributor will be entitled to recover the allowed foregone revenue. Our view is that a new recoverable cost term will create more certainty for industry, and promote further investment in energy efficiency.

‘Wash-ups’ for forecast capital expenditure and forecast spur assets purchases

2.13 Table 2.3 sets out the proposed amendments to introduce two ‘wash-ups’ for:

2.13.1 forecast versus actual capital expenditure that takes place in the final year of the current default price-quality path, ie, 1 April 2014 to 31 March 2015; and

2.13.2 additional expenditure provided in a regulatory period for spur asset purchases that were forecast to be completed before the reset, but which were not concluded.

2.14 The reasons for this amendment are set out in Attachment D of the main policy paper and are discussed further below.

Table 2.3: 'Wash-ups' for forecast capital expenditure and forecast spur assets purchases

Determination clause	Proposed change	Proposed definition
1.1.4(2)	Add a new definition for 'capex wash-up adjustment'	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).
1.1.4(2)	Add a new definition for 'transmission asset wash-up adjustment'.	Transmission asset wash-up adjustment means an amount equal to the allowance specified in a DPP determination or CPP determination for the additional capital expenditure or operating expenditure associated with a transmission asset forecast to be purchased in the disclosure year immediately preceding the regulatory period.
3.1.3(1)(r)	Add a new recoverable costs term for 'transmission asset wash-up adjustment'.	A recoverable cost is a cost that is…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.

Determination clause	Proposed change	Proposed definition
3.1.3(1)(q)	Add a new recoverable costs term for 'capex wash-up adjustment'.	A recoverable cost is a cost that is… a capex wash-up adjustment, recovered in equal proportions in each remaining disclosure year of the regulatory period adjusted for the cost of debt.
3.1.3(7) and (8)	Add new clauses to set out the method for calculating capital expenditure 'wash-ups'.	(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. (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

Determination clause	Proposed change	Proposed definition
		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.

2.15 We propose to use the recoverable costs provisions in the input methodologies to introduce these ‘wash-ups’. We propose to add two new recoverable costs terms for:

2.16 capital expenditure ‘wash-ups’; and

2.17 spur asset ‘wash-ups’.

2.18 The capital expenditure ‘wash-up’ will update the allowed return on and of assets commissioned in the year ending 31 March 2015.

2.19 The forecast return on and of assets commissioned in the year 1 April 2014 to 31 March 2015 will be set out in the default price-quality path determination. The actual value of commissioned assets for that period will be the amount disclosed by the distributor in accordance with our information disclosure requirements.

2.20 We propose to add a new clause in the input methodologies that sets out the method for calculating the difference between the forecast and actual return on and return of commissioned assets. Distributors are therefore able to calculate the adjustment themselves.

2.21 For spur asset purchases forecast for the period from 1 April 2014 to 31 March 2015, the Commission will identify in the default price-quality path determination the amount of additional expenditure forecast for the next regulatory period as a result of the proposed spur asset purchases. Distributors will then know in advance the amount of the adjustment (the 'wash-up') that must be made if the spur asset purchase is not completed before the next regulatory period.

2.22 As an alternative, we have considered introducing a new re-opener provision, similar to that used for Transpower. This would require re-opening the price path during the first disclosure year of the regulatory period to adjust for actual capital expenditure and spur asset purchases.

2.23 However, we consider that the preferable approach is to use the recoverable costs provisions. This is because distributors can calculate the relevant amounts of the recoverable cost using the information contained in the default price-quality path determination themselves. We consider that this a more cost-effective approach to giving effect to these wash-ups, and will provide greater certainty as to the impact of the wash-ups.

Allow for the recovery of prudent expenditure incurred because of a catastrophic event

2.24 Table 2.4 sets out the proposed amendments to allow for the recovery of prudent expenditure incurred in response to a catastrophic event following a reconsideration of the default price-quality path. The reasons for this amendment are set out in Chapter 8 of the main policy paper.

2.25 This proposed amendment is substantively the same as that agreed in a variation with Orion in their customised price-quality path in the event of a re-opened customised price-quality path.

Table 2.4: Recovery of prudent expenditure incurred because of a catastrophic event

Determination clause	Proposed change	Proposed definition
1.1.4(2)	Add a new definition for 'catastrophic event allowance'.	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].[13]

[13] 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.

3.1.3(1)(n)	Add a new recoverable costs term for 'catastrophic event allowance'.	A recoverable cost is a cost that is… a catastrophic event allowance, as specified in a DPP determination or CPP determination.

Allow for pass-through of any levy or other charges or costs associated with AUFLS

2.26 Table 2.5 sets out the proposed amendment to allow for pass-through of any levy or other charges, revenues, or costs associated with any automatic under-frequency load shedding (AUFLS) that the Electricity Authority (EA) may implement during the regulatory period.

Table 2.5: Pass-through of any levy or other charges or costs associated with AUFLS

Determination clause	Proposed change	Proposed definition
3.1.3(1)(o)	Add a new recoverable costs term for any amount incurred or received associated with any AUFLS.	A recoverable cost is a cost that is… 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).

2.27 AUFLS is a process administered by the EA that mitigates the risk of a complete collapse of the electricity system following a very major event. AUFLS involves the controlled shedding (interruption) of blocks of electricity supply, such as cutting off the whole electricity supply to several suburbs or towns.

2.28 The EA has stated an intention to refine the current arrangements to utilise more modern technologies that are now available and to have market mechanisms determine which blocks of electricity supply will be shed under AUFLS. We have indicated that we are, in principle, willing to support EA objectives through the default/customised price-quality path regulation that we apply to distributors.[14]

2.29 Our proposed amendment to the input methodologies is to add a new recoverable costs term for any amounts incurred or received associated with any AUFLS, subject to the Commission’s approval. This means we can be flexible in our approach to any regulations released by the EA. We are aware that the EA’s proposed changes may result in distributors receiving compensation payments or incurring charges.

14 Electricity Authority “Efficient procurement of extended reserves - response paper to the second consultation” (8 April 2014), paragraph 3.6.14. This view is subject to such arrangements being practicable and consistent with the achievement of our own statutory objectives and consultation processes.

2.30 The proposed amendment ensures we have a placeholder in the input methodologies that will allow us to activate appropriate recoverable costs once changes to AUFLS are confirmed. No mechanism currently exists to allow for pass-through of any levy or other charges or costs associated with AUFLS.

2.31 It is not yet clear what the costs and revenues associated with AUFLS might be or how they might be defined. The proposed amendment gives some certainty to distributors without impairing our ability to ensure that any recoverable cost allowed in relation to AUFLS maintains appropriate Part 4 incentives.

Update to the recoverable cost term for transmission costs

2.33 Table 2.6 sets out the proposed amendment to the existing treatment of avoided transmission charges associated with distributed generation to accommodate any changes the Electricity Authority (EA) may implement during the regulatory period.

Table 2.6: Update to the recoverable cost term for transmission costs

Determination clause	Proposed change	Proposed definition
1.1.4(2)	Add a new definition for 'distributed generation allowance'.	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.
3.1.3(1)(f)	Add a new recoverable costs term for the 'distributed generation allowance'.	A recoverable cost is a cost that is…a distributed generation allowance, subject to the requirement specified in subclause (2).

2.34 Our input methodologies currently provide for recovery of an amount equal to the transmission costs that an efficient market operation service provider (as defined in the Electricity Industry Participation Code) is able to avoid as a result of the connection of distributed (also known as embedded) generation.[15] The EA's regulations are currently set out in Schedule 6.4 of Part 5 of the Electricity Industry Participation Code.

15 Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26, clause 3.1.3(f). We have previously advised that this includes both embedded and notionally embedded distributed generation, refer: Letter to Allen Carvell (Group General Manager, Vector) *Re: request for amendment in relation to embedded generation*, 12 September 2012.

2.35 The EA is considering making changes to the regulations governing distributed generation. We are proposing to amend the recoverable cost term to allow for appropriate treatment of recoverable costs under the current regulations or any future regulations made under the Electricity Industry Act 2010. This proposed amendment ensures we can be flexible in the event of any changes to the Code.

Allow for a one-off recovery of additional revenue for three distributors

2.36 Table 2.6 sets out the proposed amendments to allow for a one-off recovery of additional revenue for three distributors (Alpine Energy, Top Energy, and Centralines). The proposed amendment addresses the impact of the limit to price increases for these distributors in the last two years of the current regulatory period (1 April 2013 – 31 March 2015). The reasons for this amendment are set out in paragraphs 5.10 to 5.20 of the main policy paper.

2.37 The amounts that may be recovered will be calculated by the Commission and set out in the default price-quality path determination.

Table 2.6: A one-off recovery of additional revenue for four distributors

Determination clause	Proposed change	Proposed definition
1.1.4(2)	Add a new definition for '2013-15 NPV wash-up allowance'.	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.
3.1.3(1)(s)	Add a new recoverable costs term for '2013-15 NPV wash-up allowance'.	A recoverable cost is a cost that is…an amount equal to the 2013-15 NPV wash-up allowance.

Limiting risk of under- or over-recovery of transmission recoverable costs

2.38 Table 2.7 sets out proposed amendments which introduce a mechanism to limit the risk of under- or over-recovery of transmission recoverable costs due to uncertainty associated with forecasting. The reasons for this amendment are set out in Chapter 5 of the Main Policy Paper.

2.39 We invited Vector to propose the necessary drafting to modify the 'specification of price' input methodology and the default price-quality path determination to implement the mechanism. We have adopted Vector's proposed drafting for the purposes of consultation, with some minor changes. The amendments to the 'specification of price' input methodology will:

2.39.1 limit the calculation of allowable notional revenue and notional revenue for the weighted average price cap to 'distribution prices' only; and

2.39.2 exclude various transmission charges from the recoverable cost terms in the DPP price path.

2.40 The net recovery of transmission charges as a recoverable cost through 'transmission prices' is then achieved via a mechanism in the default price-quality path determination. The mechanism is explained in more detail in Chapter 3 of the Compliance Paper, released alongside this paper, and these amendments should be read in conjunction with the Compliance Paper.

Table 2.7: Limiting risk of under- or over-recovery of transmission recoverable costs

Determination clause	Proposed change	Proposed definition
1.1.4(2)	Add new definition for 'distribution prices'	Distribution prices means prices, other than transmission prices.
1.1.4(2)	Add new definition for 'non transmission recoverable cost'.	Non transmission recoverable cost means a recoverable cost, other than a transmission recoverable cost.
1.1.4(2)	Add new definition for 'transmission charge'.	Transmission charge means any payment made in respect of a transmission recoverable cost.
1.1.4(2)	Add new definition for 'transmission prices'.	Transmission prices means prices attributable to transmission charges, published in accordance with an ID determination.

Determination clause	Proposed change	Proposed definition
1.1.4(2)	Add new definition for 'transmission recoverable cost'.	Transmission recoverable cost means a recoverable cost specified in clause 3.1.3(1)(b), (c), (d), or (f).
3.1.1(2)	Limit allowable notional revenue to distribution prices only and exclude transmission charges from recoverable costs.	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) 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 non transmission recoverable costs.
3.1.1(3)	Limit notional revenue to distribution prices only and exclude transmission charges from recoverable costs.	Notional revenue means, in respect of a 12 month period, distribution prices in that period multiplied by quantities net of- (a) the sum of relevant pass-through costs; and (b) the sum of relevant non transmission recoverable costs.

2.41 The amendment to the 'specification of price' input methodology will apply to both default price-quality paths and customised price-quality paths, but will not affect Orion's current customised price-quality path.

2.42 We invite submissions on whether the proposed amendment, in conjunction with the provisions of the draft default price-quality path determination, which has been released at the same time as this paper, achieves an appropriate outcome. For instance, we would be interested in feedback on whether:

2.42.1 further specification is needed for indirect transmission charges; and

2.42.2 the treatment of posted discounts is adequately catered for.

3. How you can provide your views and next steps

3.1 This chapter sets out how you can provide your views on the proposed amendments in this paper, and the next steps in our process.

Timeframe for providing your views

3.2 We welcome your views on the amendments proposed in this paper.

3.2.1 Submissions are due by **5pm, Friday 29 August 2014.**

3.2.2 Cross-submissions are due by **5pm, Friday 12 September 2014.**

3.3 A number of other consultation steps are being conducted in parallel as part of the reset of the default price-quality paths for electricity distributors.[16] As well as allowing parties to consider each aspect of the proposals simultaneously, we have allowed 6 weeks for submissions on each publication, and 2 weeks for cross-submissions.

3.4 We do not intend to take into account any material that is submitted outside of the timeframes provided. Any party that is concerned about the time to engage with the material should contact us with a request for an extension outlining their specific concerns.

Address for submissions

3.5 Submissions should be addressed to:

John McLaren (Chief Advisor, Regulation Branch)
c/o regulation.branch@comcom.govt.nz

Format for submissions

3.6 We prefer submissions in both MS Word and PDF file formats.

3.7 Please include "Submission on Proposed Electricity Distribution Services IM Amendments, 4 July 2014" in the subject line of your email.

[16] Commerce Commission "Proposed default price-quality paths for electricity distributors from 1 April 2015" (4 July 2014), Chapter 9.

Requests for confidentiality

3.8 We encourage full disclosure of submissions so that all information can be tested in an open and transparent manner, but we offer the following guidance.

3.8.1 If it is necessary to include confidential material in a submission, both confidential and public versions of the submission should be provided.

3.8.2 The responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.

3.9 We request that you provide multiple versions of your submission if it contains confidential information or if you wish for the published electronic copies to be 'locked'. This is because we intend to publish all submissions and cross-submissions on our website. Where relevant, please provide both an 'unlocked' electronic copy of your submission, and a clearly labelled 'public version'.

Next steps in our process

3.10 We intend to make a final decision on the proposed amendments in this paper by 30 September 2014. As indicated in Chapter 1, we intend to consult separately on a third round of proposed amendments to the input methodologies, which are needed to implement the Incremental Rolling Incentive Scheme (IRIS).