

[DRAFT] Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018

[2018] NZCC [XX]

The Commission:

Part 4 Division

Sue Begg

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Date of determination:

[XX] March 2018

Determination version history		
This determination amends the <i>Electricity Distribution Services Default Price-Quality Path Determination 2015</i> [2014] NZCC 33, 28 November 2014, as it applies to Wellington Electricity Lines Limited.		
Publication date	Decision No.	Determination name
28 November 2014	[2014] NZCC 33	Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33
26 March 2015	[2015] NZCC 9	Electricity Distribution Services (Top Energy Limited) Default Price-Quality Path Amendment Determination 2015
9 July 2015	[2015] NZCC 18	Electricity Distribution Services (Powerco Limited) Default Price-Quality Path Amendment Determination 2015
11 May 2017	[2017] NZCC 9	Electricity Distribution Services Default Price-Quality Path (CPP Window) Amendment Determination 2017
[XX] 2018	[2018] NZCC [XX]	Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018

Commerce Commission
Wellington, New Zealand

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

1. Title

1.1 This determination is the Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018.

2. Commencement

2.1 This determination takes effect on 1 April 2018.

3. Application

3.1 This determination amends the *Electricity Distribution Services Default Price-Quality Path Determination 2015* [2014] NZCC 33, 28 November 2014, as it applies to **Wellington Electricity** to set the customised price-quality path for **Wellington Electricity**, and is made under sections 53Q and 53V of the **Act**.

3.2 This determination applies to **Wellington Electricity**, and replaces all terms of the *Electricity Distribution Services Default Price-Quality Path Determination 2015* [2014] NZCC 33, 28 November 2014 as they apply to **Wellington Electricity**.

4. Interpretation

4.1 Unless the context otherwise requires:

- (a) terms in bold type in this determination, including its schedules, have the meaning given to those terms in clause 4.2;
- (b) terms used in this determination that are defined in the **Act** but not in this determination have the same meanings as in the **Act**;
- (c) terms used in this determination that are defined in the **IM determination** but not in this determination have the same meanings as in the **IM determination**;
- (d) any reference to a period of time is interpreted in accordance with section 35 of the Interpretation Act 1999; and
- (e) a word which denotes the singular also denotes the plural and vice versa.

4.2 In this determination, unless the context otherwise requires, –

67th percentile estimate of post-tax WACC has the meaning given in the **IM determination**;

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A

Act	means the Commerce Act 1986;
Actual allowable revenue	means- <ul style="list-style-type: none">(a) for the first assessment period, the amount specified in paragraph (2)(a) of Schedule 1.5; and(b) for the second to third assessment periods, the amount specified in paragraph (2)(b) of Schedule 1.5;
Actual net allowable revenue	means- <ul style="list-style-type: none">(a) for the first assessment period, the amount specified as forecast net allowable revenue for the first assessment period; and(b) for the second to third assessment periods, the amount calculated in paragraph (3) of Schedule 1.5;
Actual pass-through costs and recoverable costs	means- <ul style="list-style-type: none">(a) for the first assessment period, the sum of all pass-through costs and recoverable costs that were incurred in the assessment period <i>plus</i> the pass-through balance <i>multiplied</i> by $(1 + 67^{\text{th}}$ percentile estimate of post-tax WACC); and(b) for the second to third assessment periods, the sum of all pass-through costs and recoverable costs that were incurred in the assessment period, excluding any recoverable cost that is a revenue wash-up draw down amount;
Actual revenue	means the sum of actual revenue from prices plus other regulated income ;
Actual revenue from prices	means the sum of each price <i>multiplied</i> by each corresponding actual quantity ;

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Amalgamate and Amalgamation	has the meaning given in the IM determination ;
Annual compliance statement	means a written statement required to be made by Wellington Electricity in respect of the wash-up amount calculation, quality standards and transactions under clause 11.4-11.6;
Assessment period	means- <ul style="list-style-type: none">(a) a 12 month period commencing 1 April and ending on 31 March of the following year during the CPP regulatory period, for which compliance with a price-quality path must be demonstrated;(b) for the purpose of clause 9.1 and 9.3, a 12 month period commencing 1 April and ending on 31 March of the following year, for which compliance with a price-quality path must be demonstrated;
C	
Capex incentive amount	has the meaning given in the IM determination ;
Class B interruptions	means planned interruptions by Wellington Electricity ;
Class C interruptions	means unplanned interruptions originating within the system fixed assets of Wellington Electricity ;
Commission	means the Commerce Commission as defined in section 2 of the Act ;
Consumer	has the meaning given in the IM determination ;
CPI	has the meaning given in the IM

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determination;

CPP regulatory period

means the **regulatory period** 1 April 2018 to 31 March 2021 during which **Wellington Electricity** is subject to a customised price-quality path;

D

Director

has the meaning given in the **IM determination;**

DPP regulatory period

means the **regulatory period** 1 April 2015 to 31 March 2020;

E

EDB

means a supplier of **electricity lines services** other than **Transpower;**

Electricity lines services

has the meaning given in the **IM determination;**

Extended reserves allowance

has the meaning given in the **IM determination;**

F

Forecast aggregate value of commissioned asset

has the meaning given in the **IM determination;**

Forecast allowable revenue

means the amount calculated for each **assessment period** as specified in Schedule 1.4;

Forecast net allowable revenue

means the amount specified in Schedule 1.3;

Forecast opex

has the meaning given in the **IM determination;**

Forecast pass-through and recoverable costs

means the sum of all the forecast **pass-through costs** and forecast **recoverable costs**, excluding any **recoverable cost** that is a **revenue wash-up**

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draw down amount;

Forecast revenue from prices means the amount calculated for each **assessment period** as specified in Schedule 1.2;

I

IM determination means the *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26, including, for the avoidance of doubt, any amendment in effect at the time of determination of a default price-quality path or customised price-quality path;

Independent auditor means a person who—

- (a) is qualified for appointment as auditor of a company under the Companies Act 1993; and
- (b) has no relationship with, or interest in, **Wellington Electricity** that is likely to involve the person in a conflict of interest; and
- (c) has not assisted with the preparation of the **annual compliance statement** or provided advice or opinions (other than in relation to audit reports) on the methodologies or processes used in preparing the **annual compliance statement**; and
- (d) has the necessary expertise to properly prepare an assurance report required by clause 11.5(e); but
- (e) need not be the same person as the person who audits **Wellington Electricity** accounts for any other purpose;

Input methodology has the same meaning as in section 52C of the **Act**;

Interruption means, in relation to the conveyance of

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electricity to a **consumer** by means of a **prescribed voltage electric line**, the cessation of conveyance of electricity to that **consumer** for a period of 1 minute or longer, or disconnection of that **consumer**, other than—

- (a) in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves; or
- (b) as a result of an automatic under voltage, under frequency, or rolling outage scheme or similar arrangement required as part of the system operator services or other instruction from an authorised regulator; or
- (c) for breach of the contract under which the electricity is conveyed; or
- (d) as a result of a request from the **consumer**; or
- (e) as a result of a request by the **consumer's** electricity retailer; or
- (f) for the purpose of isolating an unsafe installation;

M

Major event day

means any day where the daily **SAIDI value** for **Class C interruptions** or daily **SAIFI value** for **Class C interruptions** exceeds the applicable **SAIDI unplanned boundary value** or **SAIFI unplanned boundary value**;

Major transaction

has the meaning given in the **IM determination**;

Merger

means a transaction whereby **Wellington Electricity** takes over, or otherwise merges with, any other **non-exempt EDB** other than by an amalgamation under Part 13 of the

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Companies Act 1993, which without limitation includes:

- (a) the purchase of all the assets of another **non-exempt EDB**;
- (b) the acquisition of sufficient shares in another **non-exempt EDB** to have an interest in the other **non-exempt EDB** sufficient to enable it, whether directly or indirectly, to exert a substantial degree of influence over the activities of the other **non-exempt EDB**; or
- (c) a scheme of arrangement under Part 15 of the Companies Act 1993 having like effect;

N

Non-exempt EDB

has the meaning given in the **IM determination**;

Non-reopener transaction

means a transaction, whether contingent or not, where **consumers** are acquired or no longer **supplied** by **Wellington Electricity** and that transaction-

- (a) has resulted in, or will result in, the acquisition of, or an agreement to acquire, assets with a value which is equivalent to less than 10% of **Wellington Electricity's opening RAB value** in the **assessment period** of acquisition;
- (b) has resulted in, or will result in, the disposal of, or an agreement to dispose of, assets of **Wellington Electricity** with a value of less than 10% of the **opening RAB value** in the **assessment period** of disposal;
- (c) has, or is likely to have, the effect of **Wellington Electricity** acquiring rights or interests with a value which is

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equivalent to less than 10% of the **opening RAB value** in the **assessment period** of acquisition; or

- (d) has, or is likely to have, the effect of **Wellington Electricity** incurring obligations or liabilities or contingent liabilities, excluding loans or borrowing costs in respect of assets, with a value, which is equivalent to less than 10% of the **opening RAB value** in the **assessment period** of incurring the obligation;

O

Opening RAB value

has the meaning given in the **IM determination**;

Opening wash-up account balance

means the amount calculated as specified in paragraph (1) of Schedule 1.6;

Opex incentive amount

has the meaning given in the **IM determination**;

Other regulated income

has the meaning given in the **IM determination**;

P

Pass-through balance

is the cumulative difference as at 31 March 2018 between the revenue from **pass-through prices** and the sum of **pass-through costs** and **recoverable costs** in the **DPP regulatory period** up to that date;

Pass-through costs

has the meaning given in the **IM determination**;

Pass-through prices

means, as at 31 March 2018, the portion of **prices** attributable to **pass-through costs** and **recoverable costs** in the **DPP regulatory period** up to that date;

Planned interruption	12 means any interruption other than an unplanned interruption ;
Prescribed voltage electric line	means an electric line that is capable of conveying electricity at a voltage equal to or greater than 3.3 kilovolts;
Prices	has the meaning given in the IM determination ;
Q	
Quality incentive adjustment	has the meaning given in the IM determination , and is calculated in accordance with Schedule 4;
Quantity	has the meaning given in the IM determination ;
R	
Recoverable costs	has the meaning given in the IM determination ;
Regulatory period	has the meaning given in the IM determination ;
Resilience index	means an index spanning from 0 to 100 used to measure Wellington Electricity's performance in delivering improvements to its networks' ability to respond to a major earthquake;
Resilience index assessed value	means the resilience index value for an assessment period calculated in accordance with paragraph (5) of Schedule 3;
Resilience index cap	means the maximum resilience index value used for purposes of calculating the quality incentive adjustment , and is specified in Schedule 4;
Resilience index collar	means the minimum resilience index value used for purposes of calculating the quality

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incentive adjustment, and is specified in Schedule 4;

Resilience index minimum means the **resilience index value** against which **Wellington Electricity's** compliance with the quality standards is assessed, and is specified in Schedule 3;

Resilience index target means the **resilience index value** used for purposes of calculating the **quality incentive adjustment**, and is specified in Schedule 4;

Resilience index value means a value on the **resilience index**;

Resilience performance value means a value specified in column C of Schedule 9;

Retention factor has the meaning given in the **IM determination**;

Revenue foregone means-

- (a) where the **revenue reduction percentage** is greater than 20%, the 'revenue foregone' must be calculated in accordance with the formula –
actual net allowable revenue X (revenue reduction percentage – 20%);
- (b) where the **revenue reduction percentage** is not greater than 20%, the 'revenue foregone' is nil;

Revenue reduction percentage is 1 *minus* (**actual revenue from prices ÷ forecast revenue from prices**);

Revenue wash-up draw down amount means the amount calculated as specified in paragraph (4) of Schedule 1.5;

S

SAIDI assessed value means the sum of **SAIDI values** for an **assessment period** calculated in accordance

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with Schedule 3;

SAIDI cap	means the maximum SAIDI value used for purposes of calculating the quality incentive adjustment , and is specified in Schedule 4;
SAIDI collar	means the minimum SAIDI value used for purposes of calculating the quality incentive adjustment , and is specified in Schedule 4;
SAIDI limit	means the SAIDI value against which Wellington Electricity's compliance with the quality standards is assessed, and is specified in Schedule 3;
SAIDI target	means the SAIDI value used for purposes of calculating the quality incentive adjustment , and is specified in Schedule 4;
SAIDI unplanned boundary value	means the value specified in Schedule 3;
SAIDI value	means the system average interruption duration index values, where any interruption that spans multiple calendar days accrues to the day on which the interruption began;
SAIFI assessed value	means the sum of SAIFI values for an assessment period calculated in accordance with Schedule 3;
SAIFI cap	means the maximum SAIFI value used for purposes of calculating the quality incentive adjustment , and is specified in Schedule 4;
SAIFI collar	means the minimum SAIFI value used for purposes of calculating the quality incentive adjustment , and is specified in Schedule 4;
SAIFI limit	means the SAIFI value against which Wellington Electricity's compliance with the quality standards is assessed, and is specified in Schedule 3;
SAIFI target	means the SAIFI value used for purposes of

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calculating the **quality incentive adjustment**,
and is specified in Schedule 4;

SAIFI unplanned boundary value means the value specified in Schedule 3;

SAIFI value means the system average interruption
frequency index values;

Supply has the meaning given in the **IM
determination**;

System fixed assets means all fixed assets owned, provided,
maintained, or operated by **Wellington
Electricity** that are used or intended to be used
for the supply of **electricity lines services**;

T

Transpower has the meaning set out in section 54B
of the **Act**;

U

Unplanned interruption means any **interruption** in respect of
which less than 24 hours' notice, or no
notice, was given either to the public or
to all **consumers** affected by the
interruption;

Unregulated services has the meaning given in the **IM
determination**;

V

**Voluntary undercharging
amount foregone** means the amount as specified in
paragraph (5) of Schedule 1.5;

W

Wash-up amount means the amount calculated for each
assessment period as specified in
Schedule 1.5;

Wellington Electricity	16 means Wellington Electricity Lines Limited's EDB ;
Working day	has the meaning given in section 2(1) of the Act .

5. Customised price-quality path

During the **CPP regulatory period**, **Wellington Electricity** must comply with the customised price-quality path, which consists of:

- (a) the price path specified in clause 8; and
- (b) the quality standards specified in clause 9.

6. Applicable input methodologies

6.1 The **input methodologies** that apply are the following parts of the **IM determination**:

- (a) Subpart 1 of Part 3 – Specification of price;
- (b) Subpart 2 of Part 3 – Amalgamations;
- (c) Subpart 3 of Part 3 – Incremental rolling incentive scheme;
- (d) Section 1 of Subpart 3 of Part 5 – Determination of annual allowable revenues;
- (e) Section 2 of Subpart 3 of Part 5 – Cost allocation and asset valuation;
- (f) Section 3 of Subpart 3 of Part 5 – Treatment of taxation;
- (g) Section 4 of Subpart 3 of Part 5 – Cost of capital;
- (h) Section 5 of Subpart 3 of Part 5 – Alternative methodologies with equivalent effect; and
- (i) Subpart 6 of Part 5 – Catastrophic events and reconsideration of a customised price-quality path.

6.2 The **input methodologies** that are applied are subject to the variation agreed with **Wellington Electricity**, which is attached as Schedule 10.

7. When the customised price-quality path may be reconsidered

7.1 The customised price-quality path in this determination may be reconsidered in accordance with clause 5.6.7 of the **IM determination**.

8. Price path

Starting price

- 8.1 The starting price that applies to **Wellington Electricity** for the **CPP regulatory period** is set out in Schedule 1.1.

Rate of change

- 8.2 The annual rate of change in revenue, relative to the **CPI**, that is allowed during the **CPP regulatory period** is 0%.

Compliance with the price path

- 8.3 The **forecast revenue from prices** for each **assessment period** must not exceed the **forecast allowable revenue** for the **assessment period**.

Wash-up amount calculation

- 8.4 **Wellington Electricity** must calculate the **wash-up amount** for each **assessment period** using the methodology specified in Schedule 1.5.

9. Quality standards

Compliance with quality standards

- 9.1 **Wellington Electricity** must, in respect of each **assessment period**, either:
- (a) comply with the annual reliability assessment specified in clause 9.3 for that **assessment period**; or
 - (b) have complied with the annual reliability assessment in each of the two preceding **assessment periods**.
- 9.2 **Wellington Electricity** must, in respect of each **assessment period**, comply with the annual resilience assessment specified in clause 9.4 for that **assessment period**.

Annual reliability assessment

- 9.3 For the purpose of clause 9.1(a), to comply with the annual reliability assessment—
- (a) **Wellington Electricity's SAIDI assessed value** for the **assessment period** must not exceed the **SAIDI limit** specified in Schedule 3; and
 - (b) **Wellington Electricity's SAIFI assessed value** for the **assessment period** must not exceed the **SAIFI limit** specified in Schedule 3.

Annual resilience assessment

- 9.4 For the purpose of clause 9.2, to comply with the annual resilience assessment, **Wellington Electricity's resilience index assessed value** for the **assessment period** must be at or above the **resilience index minimum** specified in Schedule 3.

10. Transactions

Requirement to notify the Commission of an amalgamation, merger or transaction

- 10.1 **Wellington Electricity** must notify the **Commission** in writing within 30 **working days** after entering into an agreement with another **EDB** or **Transpower** for an **amalgamation, merger, major transaction** or **non-reopener transaction**.

Impact on the customised price-quality path following an amalgamation, merger or transaction

- 10.2 If **Wellington Electricity** enters into an agreement with another **EDB** or **Transpower** for an **amalgamation, merger, major transaction** or **non-reopener transaction**, the **Commission** may amend the customised price-quality path for **Wellington Electricity**.

11. Annual compliance statements

Annual price-setting compliance statement

- 11.1 **Wellington Electricity** must:

- (a) provide to the **Commission** a written 'annual price-setting compliance statement' in respect of **price** setting-
 - (i) for the first **assessment period**, within five **working days** after the start of the first **assessment period**; and
 - (ii) for the second to third **assessment period**, before the start of each **assessment period**;
- (b) make the 'annual price-setting compliance statement' and the **director's** certificate provided under clause 11.2(c) publicly available on its website within five **working days** after providing it to the **Commission**; and
- (c) provide to the **Commission** schedules reflecting the **prices** and forecast **quantities** used in the calculation of **forecast revenue from prices**, disclosed in an electronic format that is compatible with Microsoft Excel, with the 'annual price-setting compliance statement'.

- 11.2 The 'annual price-setting compliance statement' must:

- (a) state whether or not **Wellington Electricity** has complied with the price path in clause 8 for the **assessment period**;
- (b) state the date on which the statement was prepared; and

- (c) include a certificate in the form set out in Schedule 6, signed by at least one **director of Wellington Electricity**.

11.3 The 'annual price-setting compliance statement' must include the following information:

- (a) **Wellington Electricity's** calculation of its **forecast revenue from prices** together with supporting information for all components of the calculation;
- (b) **Wellington Electricity's** calculation of its **forecast allowable revenue** together with supporting information for all components of the calculation;
- (c) if **Wellington Electricity** has not complied with the price path, the reasons for the non-compliance; and
- (d) if **Wellington Electricity** has not complied with the price path, any actions taken to mitigate any non-compliance and to prevent similar non-compliance in future **assessment periods**.

Annual compliance statement in respect of the wash-up amount calculation, quality standards and transactions

11.4 **Wellington Electricity** must:

- (a) provide to the **Commission** a written 'annual compliance statement' in respect of the **wash-up amount** calculation, quality standards and transactions within 50 **working days** following the end of each **assessment period**;
- (b) make the 'annual compliance statement' publicly available on its website within 5 **working days** after providing it to the **Commission**; and
- (c) provide to the **Commission** schedules reflecting the **prices** and actual **quantities** used to calculate the **wash-up amount**, disclosed in an electronic format that is consistent with Microsoft Excel, with the 'annual compliance statement'.

11.5 The 'annual compliance statement' must:

- (a) state whether or not **Wellington Electricity** has:
 - (i) complied with the requirements to calculate the **wash-up amount** in clause 8.4 for the **assessment period**; and
 - (ii) complied with the quality standards in clause 9 for the **assessment period**;
- (b) state the day on which the statement was prepared;

- (c) state whether or not **Wellington Electricity** has entered into any agreement with another **EDB** or **Transpower** for an **amalgamation, merger, major transaction or non-reopener transaction** in the **assessment period**;
- (d) include a certificate in the form set out in Schedule 7, signed by at least one **director of Wellington Electricity**; and
- (e) be accompanied by an assurance report meeting the requirements in Schedule 8, in respect of all information obtained in the 'annual compliance statement'.

11.6 The 'annual compliance statement' must include any information reasonably necessary to demonstrate whether **Wellington Electricity** has complied with clause 8.4, clause 9, and clause 10.1, including, but not limited to:

Wash-up amount calculation

- (a) details of the **wash-up amount** calculation as specified in clause 8.4, together with supporting information for all components of the calculation;

Quality standards compliance

- (b) if **Wellington Electricity** has not complied with the annual reliability assessment in clause 9.3 for the **assessment period**, the reasons for not complying;
- (c) if **Wellington Electricity** has not complied with the annual resilience assessment in clause 9.4 for the **assessment period**, the reasons for not complying;
- (d) actions taken to mitigate any non-compliance and to prevent similar non-compliance in future **assessment periods**;
- (e) for the annual reliability assessment, the **SAIDI assessed value, SAIFI assessed value, SAIDI limit, SAIFI limit, SAIDI unplanned boundary value, SAIFI unplanned boundary value, SAIDI cap, SAIFI cap, SAIDI collar, SAIFI collar, SAIDI target** and **SAIFI target** for the **assessment period**, and any supporting calculations (including those in Schedule 3) and the annual reliability assessments for the two previous **assessment periods**;
- (f) a description of the policies and procedures which **Wellington Electricity** has used for capturing and recording **Class B interruptions and Class C interruptions**, and for calculating **SAIDI assessed values** and **SAIFI assessed values** for the **assessment period**;
- (g) the cause of each **major event day** within the **assessment period**;
- (h) for the annual resilience assessment, the **resilience index assessed value, resilience index minimum, resilience index cap, resilience index collar** and

resilience index target for the **assessment period**, and any supporting calculations (including those in Schedule 3); and

- (i) for each **resilience performance value** used in calculating the **resilience indexed assessed value**, an explanation of how **Wellington Electricity** has demonstrated that the measure specified in column B of Schedule 9 is met for that **assessment period**.

[XX], Commissioner

Dated at Wellington this [XX] day of March 2018.

COMMERCE COMMISSION

Schedule 1.1: Starting price

Clause 8.1

The starting price for the **CPP regulatory period**, specified as **actual net allowable revenue** for the first **assessment period**, is \$107,391,000.

Schedule 1.2: Calculation of forecast revenue from prices

Clause 8.3

- (1) When setting **prices** for an **assessment period**, **Wellington Electricity** must calculate the 'forecast revenue from prices' for the **assessment period**.
- (2) When calculating the 'forecast revenue from prices', **Wellington Electricity** must prepare a forecast of **quantities** for the **assessment period** to which the **prices** for the **assessment period** will apply.
- (3) The 'forecast revenue from prices' must be calculated as the sum of each **price** multiplied by each corresponding forecast **quantity**.
- (4) All forecast **quantities** used to calculate the 'forecast revenue from prices' must be demonstrably reasonable.

Schedule 1.3: Forecast net allowable revenue

Clause 8.3

Assessment period ending	Forecast net allowable revenue (\$000)
31 March 2019	107,391
31 March 2020	109,614
31 March 2021	111,806

Schedule 1.4: Calculation of forecast allowable revenue

Clause 8.3

- (1) When setting **prices** for an **assessment period**, **Wellington Electricity** must calculate the 'forecast allowable revenue'.
- (2) When calculating the 'forecast allowable revenue', **Wellington Electricity** must prepare a forecast of **pass-through costs** and a forecast of **recoverable costs**, excluding any **recoverable cost** that is a **revenue wash-up draw down amount**.
- (3) All forecasts of **pass-through costs** and **recoverable costs** used to calculate the 'forecast allowable revenue' must be demonstrably reasonable.
- (4) For the purposes of paragraph (3), 'recoverable costs' include the amounts specified in Schedule 2.1.
- (5) The 'forecast allowable revenue' for an **assessment period** must be determined in accordance with the formula -

forecast net allowable revenue + forecast pass-through and recoverable costs + opening wash-up account balance

Schedule 1.5: Calculation of wash-up amount for an assessment period

Clause 8.4

Formula for wash-up amount

- (1) The 'wash-up amount' must be calculated in accordance with the formula –
actual allowable revenue – actual revenue – revenue foregone

Actual allowable revenue

- (2) For the purposes of paragraph (1), 'actual allowable revenue' means-
- (a) for the first **assessment period**-
actual net allowable revenue plus actual pass-through costs and recoverable costs
- (b) for the second to third **assessment periods**-
actual net allowable revenue plus actual pass-through costs and recoverable costs plus revenue wash-up draw down amount
- (3) For the purposes of paragraph (2)(b), 'actual net allowable revenue' for the second to third **assessment periods** means the amount calculated using the following formula –

'actual net allowable revenue' of the previous **assessment period** × (1+ ΔCPI_t) × (1 – X)

where -

ΔCPI is the derived change in the **CPI** to be applied for the **assessment period**, calculated in accordance with the formula -

$$\Delta CPI = \frac{CPI_{Jun,t-1} + CPI_{Sep,t-1} + CPI_{Dec,t-1} + CPI_{Mar,t}}{CPI_{Jun,t-2} + CPI_{Sep,t-2} + CPI_{Dec,t-2} + CPI_{Mar,t-1}} - 1$$

where -

CPI_{q,t-n} is the **CPI** for the quarter year ending q in the 12 month period n years prior to year t;
t is the year in which the **assessment period** ends;
X is the annual rate of change, as specified in clause 8.2.

- (4) For the purpose of paragraph (2)(b), 'revenue wash-up draw down amount' is-
- (a) for the second **assessment period**, nil, including **voluntary undercharging amount foregone**; and

- (b) For the third **assessment period**, the 'opening wash-up account balance' calculated in accordance with Schedule 1.6, including **voluntary undercharging amount foregone**.
- (5) The 'voluntary undercharging amount foregone' for the second to third **assessment periods** is nil.

Schedule 1.6: Calculation of opening wash-up account balance

Clause 8.4

- (1) The 'opening wash-up account balance' means-
- (a) for the first **assessment period**, the estimated amount of the **pass-through balance** at 31 March 2018 of \$10,280,000; and
 - (b) for second to third **assessment periods**, the *closing wash-up account balance* of the previous **assessment period**.
- (2) For the purpose of paragraph (1)(b), the 'closing wash-up account balance' means-
- (a) for the first **assessment period**, the amount calculated in accordance with the formula-

(pass-through balance – the estimated amount of the pass-through balance at 31 March 2018 of \$10,280,000) × (1 + 67th percentile estimate of post-tax WACC); and
 - (b) for the second to third **assessment periods**, the amount calculated in accordance with the formula –

wash-up amount for the previous assessment period × (1 + 67th percentile estimate of post-tax WACC)

Schedule 2.1: Recoverable costs

- (1) The **forecast opex** used for calculating the **opex incentive amount** is specified in paragraph (1) of Schedule 2.2.
- (2) The **forecast aggregate value of commissioned assets** and **retention factor** used for calculating the **capex incentive amount** are specified in paragraphs (2)-(3) of Schedule 2.2.
- (3) The CPP proposal application fee, specified in clause 3.1.3(1)(h) of the **IM determination**, for **Wellington Electricity** is \$23,000.
- (4) The CPP assessment fee, specified in clause 3.1.3(1)(i) of the **IM determination**, for **Wellington Electricity** is [XX].
- (5) The CPP verifier fee, specified in clause 3.1.3(1)(j) of the **IM determination**, for **Wellington Electricity** is nil.
- (6) The CPP auditor fee, specified in clause 3.1.3(1)(k) of the **IM determination**, for **Wellington Electricity** is \$71,386.05.
- (7) The **extended reserves allowance** for **Wellington Electricity** must be approved in accordance with Schedule 5.
- (8) The **quality incentive adjustment** for **Wellington Electricity** must be calculated in accordance with Schedule 4.
- (9) The **capex wash-up adjustment**, in accordance with clause 3.1.3(1)(p) of the **IM determination**, is -\$489,000 as of 1 April 2019, -\$518,000 as of 1 April 2020 and - \$350,000 as of 1 April 2021.

Schedule 2.2: Specified amounts for the incremental rolling incentive scheme

- (1) For the purposes of calculating the **opex incentive amount** for **Wellington Electricity** for the **CPP regulatory period**, the **forecast opex**, and the **assessment period** to which it applies, is as set out in Table 2.2.1.

Table 2.2.1: Forecast opex for Wellington Electricity for the CPP regulatory period 1 April 2018 – 31 March 2021

Assessment period ending	Forecast opex (\$000)
31 March 2019	34,131
31 March 2020	35,184
31 March 2021	34,039

- (2) For the purposes of calculating the **capex incentive amount** for **Wellington Electricity** for the **CPP regulatory period**, the **forecast aggregate value of commissioned assets**, and the **assessment period** to which it applies, is as set out in Table 2.2.2.

Table 2.2.2: Forecast aggregate value of commissioned assets for Wellington Electricity for the CPP regulatory period 1 April 2018 – 31 March 2021

Assessment period ending	Forecast aggregate value of commissioned assets (\$000)
31 March 2019	39,516
31 March 2020	42,355
31 March 2021	44,485

- (3) For the purposes of calculating the **capex incentive amount** for **Wellington Electricity** for the **CPP regulatory period**, the **retention factor** is 15%.

Schedule 3: Quality standards

Clause 9

- (1) The **SAIDI limit, SAIFI limit, SAIDI unplanned boundary value, SAIFI unplanned boundary value and resilience index minimum** for **Wellington Electricity** for the **CPP regulatory period** are as set out in Table 3.1.

Table 3.1: SAIDI limit, SAIFI limit, SAIDI unplanned boundary value, SAIFI unplanned boundary value, and resilience index minimum for the CPP regulatory period 1 April 2018 – 31 March 2021

Wellington Electricity	18/19	19/20	20/21
SAIDI limit	40.630	40.630	40.630
SAIDI unplanned boundary value	2.103	2.103	2.103
SAIFI limit	0.625	0.625	0.625
SAIFI unplanned boundary value	0.031	0.031	0.031
Resilience index minimum	0	0	60.0

Calculation of the SAIDI assessed value

- (2) **Wellington Electricity's SAIDI assessed value** ($SAIDI_{assess}$) for an **assessment period** is calculated in accordance with the formula—

$$SAIDI_{assess} = (0.5 \times SAIDI_B) + SAIDI_C$$

where-

$SAIDI_B$ is the sum of the daily **SAIDI values** for **Class B interruptions** commencing within the **assessment period**; and

$SAIDI_C$ is the sum of the daily **SAIDI values** for **Class C interruptions** commencing within the **assessment period**, where any daily **SAIDI value** for **Class C interruptions** greater than the **SAIDI unplanned boundary value** equals the **SAIDI unplanned boundary value**.

Calculation of the SAIFI assessed value

- (3) **Wellington Electricity's SAIFI assessed value** ($SAIFI_{assess}$) for an **assessment period** is calculated in accordance with the formula –

$$SAIFI_{assess} = (0.5 \times SAIFI_B) + SAIFI_C$$

where-

$SAIFI_B$ is the sum of the daily **SAIFI values** for **Class B interruptions** commencing within the **assessment period**; and

$SAIFI_C$ is the sum of the daily **SAIFI values** for **Class C interruptions** commencing within the **assessment period**, where any daily **SAIFI value** for **Class C interruptions** greater than the **SAIFI unplanned boundary value** equals the **SAIFI unplanned boundary value**.

Calculation of the resilience index assessed value

- (4) Where **Wellington Electricity** can reasonably demonstrate that a measure in column B of Schedule 9 has been met as at the last day of the relevant **assessment period**, the corresponding **resilience performance value** is an 'attained resilience performance value' for the purposes of assessing a **resilience index assessed value** for that **assessment period**.
- (5) **Wellington Electricity's resilience index assessed value** ($RESIL_{assess}$) for an **assessment period** is the sum of 'attained resilience performance values' for that **assessment period**.

Schedule 4: How to calculate the quality incentive adjustment

- (1) The **quality incentive adjustment** must be calculated by **Wellington Electricity** within **50 working days** following the expiration of the **assessment period** in accordance with paragraph (5), adjusted for the time-value of money using the **67th percentile estimate of post-tax WACC**, and is a **recoverable cost** in the **assessment period** following that in which it was calculated.
- (2) The **SAIDI target**, **SAIDI collar** and **SAIDI cap** for **Wellington Electricity** during the **CPP regulatory period** 1 April 2018 to 31 March 2021 are as set out in Table 4.1.

Table 4.1: SAIDI quality incentive measures for the CPP regulatory period 1 April 2018 – 31 March 2021

Wellington Electricity	18/19	19/20	20/21
SAIDI target	35.4358	35.4358	35.4358
SAIDI collar	30.2414	30.2414	30.2414
SAIDI cap	40.6302	40.6302	40.6302

- (3) The **SAIFI target**, **SAIFI collar**, and **SAIFI cap** for **Wellington Electricity** during the **CPP regulatory period** 1 April 2018 to 31 March 2021 are as set out in Table 4.2.

Table 4.2: SAIFI quality incentive measures for the CPP regulatory period 1 April 2018 – 31 March 2021

Wellington Electricity	18/19	19/20	20/21
SAIFI target	0.5465	0.5465	0.5465
SAIFI collar	0.4682	0.4682	0.4682
SAIFI cap	0.6248	0.6248	0.6248

- (4) The **resilience index target**, **resilience index collar**, and **resilience index cap** for **Wellington Electricity** during the third **assessment period** are as set out in Table 4.3.

Table 4.3: resilience quality incentive measures for the third assessment period

Wellington Electricity	20/21

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Resilience index target	100
Resilience index collar	0
Resilience index cap	100

- (5) The ‘quality incentive adjustment’ is calculated in accordance with the following formula–

$$S_{TOTAL} = S_{SAIDI} + S_{SAIFI} + S_{RESILIENCE}$$

where–

S_{TOTAL} is the ‘quality incentive adjustment’ applicable as a **recoverable cost**;

S_{SAIDI} is the amount calculated in accordance with paragraph (6);

S_{SAIFI} is the amount calculated in accordance with paragraph (8); and

$S_{RESILIENCE}$ is the amount calculated in accordance with paragraph (10).

- (6) For the purposes of paragraph (5)–

- (a) S_{SAIDI} is the amount, subject to subparagraph (b), calculated in accordance with the following formula –

$$S_{SAIDI} = SAIDI_{IR} \times (SAIDI_{target} - SAIDI_{assess})$$

where–

$SAIDI_{IR}$ is the amount calculated in accordance with paragraph (7);

$SAIDI_{target}$ is the **SAIDI target** specified for **Wellington Electricity** for the **assessment period**; and

$SAIDI_{assess}$ is the **SAIDI assessed value** for the **assessment period**, calculated in accordance with Schedule 3, subject to subparagraph (b).

- (b) Where $SAIDI_{assess}$ is –

(i) greater than the $SAIDI_{cap}$, $SAIDI_{assess}$ equals the $SAIDI_{cap}$;

(ii) less than the $SAIDI_{collar}$, $SAIDI_{assess}$ equals the $SAIDI_{collar}$.

- (7) For the purposes of paragraph (6), ‘ $SAIDI_{IR}$ ’ is the amount calculated in accordance with the following formula –

$$SAIDI_{IR} = \frac{0.5 \times REV_{RISK}}{SAIDI_{cap} - SAIDI_{target}}$$

where-

$SAIDI_{cap}$ is the **SAIDI cap** specified for **Wellington Electricity** for the **assessment period**;

$SAIDI_{target}$ is the **SAIDI target** specified for **Wellington Electricity** for the **assessment period**; and

REV_{RISK} is 1% of the **forecast net allowable revenue** for **Wellington Electricity** specified in Schedule 1.3.

(8) For the purposes of paragraph (5)–

(a) S_{SAIFI} is the amount, subject to subparagraph (b), calculated in accordance with the following formula –

$$S_{SAIFI} = SAIFI_{IR} \times (SAIFI_{target} - SAIFI_{assess})$$

where-

$SAIFI_{IR}$ is the amount calculated in accordance with paragraph (8);

$SAIFI_{target}$ is the **SAIFI target** specified for **Wellington Electricity** for the **assessment period**; and

$SAIFI_{assess}$ is the **SAIFI assessed value** for the **assessment period**, calculated in accordance with Schedule 3, subject to subparagraph (b).

(b) Where $SAIFI_{assess}$ is –

(i) greater than the $SAIFI_{cap}$, $SAIFI_{assess}$ equals the $SAIFI_{cap}$;

(ii) less than the $SAIFI_{collar}$, $SAIFI_{assess}$ equals the $SAIFI_{collar}$.

(9) For the purposes of paragraph (8), ‘ $SAIFI_{IR}$ ’ is the amount calculated in accordance with the following formula –

$$SAIFI_{IR} = \frac{0.5 \times REV_{RISK}}{SAIFI_{cap} - SAIFI_{target}}$$

where-

$SAIFI_{cap}$ is the **SAIFI cap** specified for **Wellington Electricity** for the **assessment**

period;

$SAIFI_{target}$ is the **SAIFI target** specified for **Wellington Electricity** for the **assessment period**; and

REV_{RISK} is 1% of the **forecast net allowable revenue** for **Wellington Electricity** specified in Schedule 1.3.

(10) For the purposes of paragraph (5)–

(a) $S_{RESILIENCE}$ is–

- (i) for the first **assessment period** and the second **assessment period**, nil; and
- (ii) for the third **assessment period**, the amount, subject to subparagraph (b), calculated in accordance with the following formula –

$$S_{RESILIENCE} = RESIL_{IR} \times (RESIL_{target} - RESIL_{assess})$$

where–

$RESIL_{IR}$ is the amount calculated in accordance with paragraph (11);

$RESIL_{target}$ is the **resilience index target** specified for **Wellington Electricity** for the **assessment period**; and

$RESIL_{assess}$ is the **resilience index assessed value**, calculated in accordance with Schedule 3, subject to subparagraph (b).

(b) Where $RESIL_{assess}$ is –

- (i) greater than the $RESIL_{cap}$, $RESIL_{assess}$ equals the $RESIL_{cap}$;
- (ii) less than the $RESIL_{collar}$, $RESIL_{assess}$ equals the $RESIL_{collar}$.

(11) For the purposes of paragraph (10), ' $RESIL_{IR}$ ' is the amount calculated in accordance with the following formula–

$$RESIL_{IR} = \frac{-1 \times REV_{RISK}}{RESIL_{cap} - RESIL_{collar}}$$

where–

$RESIL_{cap}$ is the **resilience index cap** specified for **Wellington Electricity** for the **assessment period**;

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$RESIL_{target}$ is the **resilience index target** specified for **Wellington Electricity** for the **assessment period**; and

REV_{RISK} is $\$34,567,000 \times 15\%$.

Schedule 5: Approval of extended reserves allowances

- (1) **Wellington Electricity** must, no later than 70 **working days** following the end of an **assessment period**, submit an application for approval of an **extended reserves allowance** if any amounts were incurred or received in that **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves.
- (2) The application for approval must include:
 - (a) all compensation payments made by **Wellington Electricity** in the **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves;
 - (b) all compensation payments and revenue received by **Wellington Electricity** in the **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves;
 - (c) an estimate of the compensation payments and revenue received by **Wellington Electricity** in the **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves that should be associated with **unregulated services**, along with reasons for such treatment; and
 - (d) any other explanatory material or supporting information reasonably necessary to demonstrate costs incurred and amounts payable or receivable in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves.
- (3) The **Commission** may request additional information, independent evidence, **director** certificates, or audit statements relating to the information provided in the application.
- (4) The **Commission** may approve by notice in writing to **Wellington Electricity**, subject to clause 3.1.3(7) of the **IM determination**, an allowance for costs incurred and amounts payable, or for amounts receivable, under any extended reserves regulations made under the Electricity Industry Act 2010, as determined by the **Commission**.
- (5) The amount approved by the **Commission** is an 'extended reserves allowance' **recoverable cost** under clause 3.1.3(1)(n) of the **IM determination** in the **assessment period** to which the application relates.

Schedule 6: Form of director's certificate for annual price-setting compliance statement

Clause 11.2(c)

I/We, *[insert full name/s]*, being director/s of Wellington Electricity certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached annual price-setting compliance statement of Wellington Electricity, and related information, prepared for the purposes of the *Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018* has been prepared in accordance with all the relevant requirements, and all forecasts used in the calculations for forecast revenue from prices and forecast allowable revenue are reasonable**[except in the following respects]*.

**[insert description of non-compliance]*

[Signatures of directors]

[Date]

*Delete if inapplicable.

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding \$100,000 in the case of an individual or \$300,000 in the case of a body corporate.

Schedule 7: Form of director's certificate for annual compliance statement

Clause 11.5(d)

I/We, *[insert full name/s]*, being director/s of Wellington Electricity certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached annual compliance statement of Wellington Electricity, and related information, prepared for the purposes of the *Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018* has been prepared in accordance with all the relevant requirements**[except in the following respects]*.

**[insert description of non-compliance]*

[Signatures of directors]

[Date]

*Delete if inapplicable.

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding \$100,000 in the case of an individual or \$300,000 in the case of a body corporate.

Schedule 8: Independent auditor's report on annual compliance statement

Clause 11.5(e)

For the purpose of clause 11.5(e), **Wellington Electricity** must procure an assurance report by an **independent auditor** in respect of the **annual compliance statement** that is prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000), signed by the **independent auditor** (either in his or her own name or that of his or her firm), and that-

- (a) is addressed to the **directors** of **Wellington Electricity** and to the **Commission** as the intended users of the assurance report;
- (b) states—
 - (i) that it has been prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000);
 - (ii) the work done by the **independent auditor**;
 - (iii) the scope and limitations of the assurance engagement;
 - (iv) the existence of any relationship (other than that of auditor) which the **independent auditor** has with, or any interests which the **independent auditor** has in, **Wellington Electricity** or any of its subsidiaries;
 - (v) whether the **independent auditor** has obtained sufficient recorded evidence and explanations that he or she required and, if not, the information and explanations not obtained; and
 - (vi) whether, in the **independent auditor's** opinion, as far as appears from an examination, the information used in the preparation of the **annual compliance statement** has been properly extracted from **Wellington Electricity's** accounting and other records, sourced from its financial and non-financial systems; and
- (c) states whether (and, if not, the respects in which it has not), in the **independent auditor's** opinion, **Wellington Electricity** has complied, in all material respects, with the *Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018* in preparing the **annual compliance statement**.

Schedule 9: How to assess performance on resilience index

For the purposes of this schedule, NBS means national building standards.

A	B	C
Mobile substations		
Resilience performance	Measured by demonstrating	Resilience performance value
Ability to get key CBD substations downed in and earthquake up and running	Wellington Electricity has one mobile 10MVA substation +11KV portable switch board deployed in the Hutt region	9.2
Ability to get a key Hutt area substations downed in and earthquake up and running	Wellington Electricity has one mobile 10MVA substation deployed in the Wellington Central Business District Area	6.5
Emergency hardware		
Resilience performance	Measured by demonstrating	Resilience performance value
Capability to replace 33kV fluid filled cables, damaged in and earthquake, with overhead lines.	Spare hardware required to construct at least 4km emergency overhead power lines to replace 33kV fluid filled cable damage.	3.3
	Spare hardware required to construct at least 8km emergency overhead power lines to replace 33kV fluid filled cable damage.	3.3
	Spare hardware required to construct at least 12km emergency overhead power lines to replace 33kV fluid filled cable damage.	3.3
	Spare hardware required to construct at least 16km emergency overhead power lines to replace 33kV fluid filled cable damage.	3.3
	Spare hardware required to construct at least 19km emergency overhead power lines to replace 33kV fluid filled cable damage.	2.2
Capability to repair damaged 33KV XLPE cable damaged in an earthquake	Wellington Electricity holds stock of 12 cable joining kits and 500m 33KV cable lengths.	0.3
Ability to respond to 11KV cable and equipment faults		
Resilience performance	Measured by demonstrating	Resilience performance value
Capability to respond to 11KV cable and equipment faults	WELL holds 12 11kV transformers and 30 units of 11kV switchgear available for deployment in the case of an earthquake.	3.2
	WELL holds three sets of cable fault location equipment available for deployment in the case of an earthquake.	2
	WELL holds 1018 11kV cable joint repair kits available for deployment in the case of an earthquake.	9.9
	WELL holds 4,090m of spare 11kV cable available for deployment in the case of an earthquake.	0.9
	WELL holds a generation connection transformer available for deployment in the case of an earthquake.	0.4

A	B	C
Strengthening of key Substations		
Resilience performance	Measured by demonstrating	Resilience performance value
Ability of key buildings to withstand earthquakes	Customhouse Quay 40 Zone substation building strengthened to at least 67% of NBS	0.6
	174 Victoria Street (TS847 & TS743) Zone substation building strengthened to at least 67% of NBS	0.5
	Flagstaff hill (Flagstaff Line Street) Zone substation building strengthened to at least 67% of NBS	0.8
	Frederick Street Zone substation building strengthened to at least 67% of NBS	0.7
	Wallace Street Zone substation building strengthened to at least 67% of NBS	0.7
	Wha Street (TS703) Zone substation building strengthened to at least 67% of NBS	0.3
	209 Hutt Road Zone substation building strengthened to at least 67% of NBS	0.2
	69 Miramar Avenue Zone substation building strengthened to at least 67% of NBS	0.5
	Messines Road (TS718) 6Zone substation building strengthened to at least 67% of NBS	0.4
	Upland Road 59 Zone substation building strengthened to at least 67% of NBS	0.3
	139 Thorndon Quay Zone substation building strengthened to at least 67% of NBS	0.5
	Chaytor Street Zone substation building strengthened to at least 67% of NBS	0.4
	22 Donald Street Zone substation building strengthened to at least 67% of NBS	0.2
	92 Washington Avenue Zone substation building strengthened to at least 67% of NBS	0.2
	Moore Street Zone substation building strengthened to at least 67% of NBS	0.7
	36 Dixon Street Zone substation building strengthened to at least 67% of NBS	0.4
	Karori Zone substation building strengthened to at least 67% of NBS	0.5
	2 Awa Road Zone substation building strengthened to at least 67% of NBS	0.2
	Colway Street Zone substation building strengthened to at least 67% of NBS	0.2
	215 The Terrace Zone substation building strengthened to at least 67% of NBS	0.3
	Hataitai Zone substation building strengthened to at least 67% of NBS	0.3
37 Mersey Street Zone substation building strengthened to at least 67% of NBS	0.2	
Nairn Street Zone substation building strengthened to at least 67% of NBS	0.5	
Bowen Hospital Zone substation building strengthened to at least 67% of NBS	0.3	
Wayside West Zone substation building strengthened to at least 67% of NBS	0.2	
Ira Street 8 Zone substation building strengthened to at least 67% of NBS	0.9	
Waikowhai Zone substation building strengthened to at least 67% of NBS	0.7	
University Zone substation building strengthened to at least 67% of NBS	0.6	

A	B	C
Resilience performance	Measured by demonstrating	Resilience performance value
Ability of key buildings to withstand earthquakes	41 Bloomfield Terrace Zone substation building strengthened to at least 67% of NBS	0.2
	MacDonald Crescent Zone substation building strengthened to at least 67% of NBS	0.5
	Makara Radio Zone substation building strengthened to at least 67% of NBS	0.3
	Wainuiomata Zone substation building strengthened to at least 67% of NBS	0.7
	Gracefield Zone substation building strengthened to at least 67% of NBS	1
	Seaview Zone substation building strengthened to at least 67% of NBS	0.5
	Petone Zone substation building strengthened to at least 67% of NBS	0.5
	Korokoro Zone substation building strengthened to at least 67% of NBS	0.5
	Waterloo Zone substation building strengthened to at least 67% of NBS	0.6
	Trentham Zone substation building strengthened to at least 67% of NBS	0.5
	Maidstone Zone substation building strengthened to at least 67% of NBS	0.5
	Brown Owl Zone substation building strengthened to at least 67% of NBS	0.6
	Ngauranga Zone substation building strengthened to at least 67% of NBS	0.7
	Johnsonville Zone substation building strengthened to at least 67% of NBS	0.5
	Tawa Zone substation building strengthened to at least 67% of NBS	0.5
	Kenepuru Zone substation building strengthened to at least 67% of NBS	0.8
	Porirua Zone substation building strengthened to at least 67% of NBS	0.4
	Waitangirua Zone substation building strengthened to at least 67% of NBS	0.4
	Titahi Bay Zone substation building strengthened to at least 67% of NBS	0.5
	Mana Zone substation building strengthened to at least 67% of NBS	0.3
	Whitemans Road Zone substation building strengthened to at least 67% of NBS	0.3
	Queen Street Zone substation building strengthened to at least 67% of NBS	0.2
	41 Barber Grove Zone substation building strengthened to at least 67% of NBS	0.3
	Marsden Street Zone substation building strengthened to at least 67% of NBS	0.2
	Downer Street Zone substation building strengthened to at least 67% of NBS	0.2
	Park Street B Zone substation building strengthened to at least 67% of NBS	0.1
Johnsonville Town Centre Zone substation building strengthened to at least 67% of NBS	0.2	
Main Road 24 Zone substation building strengthened to at least 67% of NBS	0.2	

A	B	C
Resilience performance	Measured by demonstrating	Resilience performance value
Ability of key buildings to withstand earthquakes	9 Semple Street Zone substation building strengthened to at least 67% of NBS	0.2
	25 Mein Street Zone substation building strengthened to at least 67% of NBS	0.3
	415 Adelaide Road Zone substation building strengthened to at least 67% of NBS	0.3
	130 Rintoul Street Zone substation building strengthened to at least 67% of NBS	0.3
	254 Willis Street Zone substation building strengthened to at least 67% of NBS	0.3
	Kings Crescent Zone substation building strengthened to at least 67% of NBS	0.3
	Haywards Load Control Zone substation building strengthened to at least 67% of NBS	0.5
	3 Wall Place Zone substation building strengthened to at least 67% of NBS	0.3
	Broken Hill Road A Zone substation building strengthened to at least 67% of NBS	0.3
	Housing Corporation Zone substation building strengthened to at least 67% of NBS	0.4
	Hutt Park Road B Zone substation building strengthened to at least 67% of NBS	0.3
	Dulux Zone substation building strengthened to at least 67% of NBS	0.3
	BP Terminal Zone substation building strengthened to at least 67% of NBS	0.4
	Hutt Rec A Zone substation building strengthened to at least 67% of NBS	0.2
	Knights Road Zone substation building strengthened to at least 67% of NBS	0.3
	Waterloo Road A Zone substation building strengthened to at least 67% of NBS	0.3
	VIC Zone substation building strengthened to at least 67% of NBS	0.3
	66 Mabey Road Zone substation building strengthened to at least 67% of NBS	0.3
	Eastern Hutt Road A Zone substation building strengthened to at least 67% of NBS	0.3
	Fergusson Drive A Zone substation building strengthened to at least 67% of NBS	0.2
	Bathurst Street Zone substation building strengthened to at least 67% of NBS	0.2
	26 Gower Street (TS801) Zone substation building strengthened to at least 67% of NBS	0.3
	Islington Street Zone substation building strengthened to at least 67% of NBS	0.3
	Fire Station Zone substation building strengthened to at least 67% of NBS	0.5
	Keys Street Zone substation building strengthened to at least 67% of NBS	0.3
	Whakatiki Street A Zone substation building strengthened to at least 67% of NBS	0.3
Whakatiki Street B Zone substation building strengthened to at least 67% of NBS	0.3	
Bill Cutting Place Zone substation building strengthened to at least 67% of NBS	0.3	

A	B	C
Resilience performance	Measured by demonstrating	Resilience performance value
Ability of key buildings to withstand earthquakes	32 Dragon Street Zone substation building strengthened to at least 67% of NBS	0.4
	Awatea Street A Zone substation building strengthened to at least 67% of NBS	0.4
	Lyttelton Avenue B Zone substation building strengthened to at least 67% of NBS	0.3
	St Andrews Road Zone substation building strengthened to at least 67% of NBS	0.5
Communication systems		
Resilience performance	Measured by demonstrating	Resilience performance value
Ability to maintain communications and run network systems following a major earthquake	WELL has established a containerised data centre at Haywards with back up generation of 500kVA.	2.8
	WELL has established a containerised data centre in Newtown with back up generation of 500kVA.	4.6
	WELL has established a containerised data centre Porirua with back up generation of 500kVA.	4.6
	WELL has a communications connection between the primary control centre at Petone head office and disaster recovery control centre at Haywards, as well as between the other two data centres; and has phone exchanges at Petone and Haywards.	3.4
	WELL has a system in place that will allow field service providers access to the Push-Wireless Digital Network in the case of a major earthquake.	2.1

Schedule 10: IM variation

Clause 6.2

Deed to vary the Input Methodologies that will apply to Wellington Electricity Lines Limited's CPP determination

This is a deed between **Wellington Electricity Lines Limited** (Wellington Electricity) and the **Commerce Commission** (Commission) with regard to a variation in accordance with s53V(2)(c) of the Commerce Act 1986 (the Act).

Background

On 5 December 2017, Wellington Electricity submitted an application for a customised price-quality path to the Commission. The Commission is currently in the process of evaluating Wellington Electricity's customised price-quality path proposal for the purpose of making a determination, as required by s 53T and 53V of the Act.

In accordance with s 52S of the Act, the Commission must apply all relevant input methodologies.

The Commission and Wellington Electricity have agreed to the following variations to the input methodologies that apply to the Commission's determination in accordance with s 53V(2)(c) of the Act.

Deed

1. This deed varies the *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (the IM Determination) as it applies to the Commerce Commission's customised price-quality path determination for Wellington Electricity's customised price-quality path proposal of 5 December 2017.
2. Clause 1.1.4(2) of the IM Determination is amended so that:
 - 2.1 A new definition for '2015 DPP determination' is added to read-
"means the *Electricity Distribution Service Default Price-Quality Path Determination 2015* [2014], NZCC 33, including all amendments as of 9 July 2015;"
 - 2.2 A new definition for '2015 DPP financial model' is added to read-
"means the spreadsheet entitled '*Financial-model-EDB-DPP-2015-2020*' published by the Commission alongside the **2015 DPP determination**."
 - 2.3 The definition of 'building blocks allowable revenue before tax' is
"means, ~~for the amount determined in accordance with clause 5.3.2,~~
 - (a) ~~disclosure years 2019 and 2020, the sum of-~~
 - (i) ~~MAR_{DT}~~ (DPP), determined in accordance with clause 5.3.2(7); and
 - ~~(ii) ~~BBAR_{DT}~~ (readiness), determined in accordance with clause 5.3.2(1);~~
 - (b) ~~disclosure year 2021, the sum of-~~

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(i) BBAR_{DPP} (DPP), determined in accordance with clause 5.3.2(8); and

(ii) BBAR_{DPP} (readiness), determined in accordance with clause 5.3.2(1);”

2.4 The definition of ‘capex wash-up adjustment’ is deleted;

2.5 The definition of ‘CPP regulatory period’ is

“means-

(a) in relation to a CPP proposal, the period beginning on the first day of disclosure year 2019 and terminating on the last day of disclosure year 2021~~the 5 disclosure years following the assessment period;~~ and

(b) in relation to a particular CPP, the period to which the relevant CPP determination relates;”

2.6 A new definition for ‘DPP Other Regulated Income and Disposed Assets Model’ is added to read-

“means the spreadsheet entitled ‘other-regulated-income-and-disposed-assets-model-EDB-DPP-2015-2020’ published by the Commission alongside the 2015 DPP determination;”

2.7 The definition of ‘DPP regulatory period’ is

“means, for the purposes of-

(a) Part 3, Subpart 3, Section 2, the period starting on the first day of disclosure year 2016 and terminating on the last day of disclosure year 2021;

(b) all other sections. ~~means~~ the period to which the relevant DPP determination relates;”

2.8 A new definition for ‘earthquake readiness expenditure’ is added to read-

“means commissioned assets and operating expenditure, reflecting additional expenditure to improve Wellington Electricity Lines Limited’s readiness to respond in the event of a major earthquake;”

2.9 The definition of ‘forecast regulatory tax allowance’ is

“means, the sum of- ~~has the meaning specified in clause 5.3.13;~~

(a) forecast regulatory tax allowance (DPP), determined in accordance with clause 5.3.13(5); and

~~(a)~~(b) forecast regulatory tax allowance (readiness), determined in accordance with clause 5.3.13(1);”

2.10 The definition of ‘forecast value of commissioned asset’ is

“means, for the purposes of-

(a) Part 3, Subpart 3, Section 3, for-

(i) disclosure years 2019 and 2020, the sum of-

the forecast aggregate value of commissioned assets determined by the Commission for the relevant disclosure year in the 2015 DPP determination;
and

the 'forecast value of commissioned assets' specified by the Commission for the relevant disclosure year, where the value reflects earthquake readiness expenditure to be incurred during the CPP regulatory period;

(ii) disclosure year 2021, the sum of-

the forecast aggregate value of commissioned assets determined by the Commission for disclosure year 2021, where for the purposes of determining this value, the value of earthquake readiness expenditure is nil; and

the 'forecast value of commissioned assets' specified by the Commission for disclosure year 2021, where the value only reflects earthquake readiness expenditure to be incurred during the CPP regulatory period;

(b) all other sections, the value determined in accordance with clause 5.3.11;"

2.11 The definition of 'next period' is

"means the period beginning on the first day of disclosure year 2019 and terminating on the last day of disclosure year 2021 ~~commencing on the first day of the disclosure year during which the CPP application is submitted and terminating on the last day of the 5 disclosure years following the assessment period;~~"

2.12 The definition of 'regulatory period' is

"means, for the purposes of-

(a) Part 3, Subpart 3, Section 2, the period starting on the first day of disclosure year 2016 and terminating on the last day of disclosure year 2021;

(b) all other sections, ~~means~~ the regulatory period for default/customised price-quality regulation applicable to an EDB as specified in a determination made under s 52P of the Act;"

3. Clause 3.1.3(1)(p) of the IM Determination is amended so that:

3.1 Clause 3.1.3(1)(p) is:

(p) "an amount reflecting the recovery of a capex wash-up adjustment, as specified in a CPP determination ~~the amount calculated for a non-exempt EDB in accordance with the following formula for each disclosure year other than the first in a DPP regulatory period or CPP regulatory period for which the starting prices were determined by the Commission in a DPP determination or CPP determination-~~

$$\frac{(\text{capex wash-up adjustment})}{i-1} \times (1+i)^{y+0.5}$$

where—
~~l~~ is the number of ~~disclosure years~~ in the ~~DPP regulatory period or CPP regulatory period~~;
~~r~~ is the ~~cost of debt~~ applying to the ~~DPP regulatory period or CPP regulatory period~~; and
~~y~~ is the number of ~~disclosure years~~ preceding the ~~disclosure year~~ in question in the ~~DPP regulatory period or CPP regulatory period~~;

3.2 Clause 3.1.3(8) and 3.1.3(9) are deleted with clauses 3.1.3(11)-(13) renumbered accordingly, including any cross-references to clauses 3.1.3(11)-(13).

4. Clause 3.3.2 of the IM Determination is amended so that:

4.1 Clause 3.3.2 is:

- (1) 'An **opex incentive amount** must be calculated for each disclosure year of a regulatory period, subject to subclause (34).
- (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 an **adjustment to the opex incentive** is applicable during the regulatory period under clause 3.3.4(1)-

(i) the amount calculated in accordance with the following formula for a **disclosure year** in the **DPP regulatory period**-

$$\left(\frac{\text{Adjustment to the opex incentive}}{l - 1} \right) \times (1 + r)^{y+0.5}$$

where—

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

~~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**; or

~~(ii) where subclause (3) applies, nil.~~

~~(3) For the purpose of subclause 3.3.2(2)(b)(ii), 'nil' applies for-~~

~~(a) the first **disclosure year** of the **DPP regulatory period**; or~~

~~(b) a **disclosure year** in a **DPP regulatory period** commencing prior to 1 April 2020."~~

4.2 Clause 3.3.2(4) is renumbered accordingly to be clause 3.3.2(3).

4.3 Clause 1.1.2(5) is amended so that reference to 'clause 3.3.2(4)(b)' is changed to '3.3.2(3)(b)'.

5. Clause 3.3.3(8) of the IM Determination is amended so that it is:

- “(8) ‘Forecast opex’, subject to clauses 3.3.13 and 3.3.14, is, for ~~a disclosure year~~—
- (a) ~~disclosure years 2019 and 2020, the sum of-~~
- (i) ~~the amount of forecast operating expenditure specified by the Commission for the relevant disclosure year in the 2015 DPP determination for the purpose of calculating an opex incentive amount; and~~
- (ii) ~~the amount of forecast operating expenditure specified by the Commission for the relevant disclosure year, where the value reflects earthquake readiness expenditure to be incurred during the CPP regulatory period;~~
- (b) ~~disclosure year 2021, the sum of-~~
- (i) ~~the amount of forecast operating expenditure specified by the Commission for disclosure year 2021, where for the purpose of determining this value, the value of earthquake readiness expenditure is nil; and~~
- (ii) ~~the amount of forecast operating expenditure specified by the Commission for disclosure year 2021, where the value reflects earthquake readiness expenditure to be incurred during the CPP regulatory period~~
- ~~(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;~~
- ~~(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~~
- ~~(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(c)(b).”~~

6. Clause 5.3.2 of the IM Determination is amended so that:

6.1 “(1) ~~‘BBAR_{it}(readiness)’~~ ~~Building blocks allowable revenue before tax~~ for each disclosure year of the next period is determined in accordance with the formula-

$$\begin{aligned}
 & (\text{regulatory investment value} \times \text{cost of capital} + \text{total value of commissioned assets} \times \\
 & (TF_{VCA} - 1) + \text{term credit spread differential allowance} \times TF - \text{total revaluation}) \frac{4}{4} \\
 & (TF_{rev} - \text{corporate tax rate} \times TF) \\
 & + (\text{total depreciation} \times (1 - \text{corporate tax rate} \times TF) \\
 & + \text{forecast operating expenditure} \times TF \times (1 - \text{corporate tax rate})
 \end{aligned}$$

+ (closing deferred tax – opening deferred tax) × (TF – 1)
+ (permanent differences + regulatory tax adjustments - utilised tax losses) ×
corporate tax rate × TF) ÷ (TF_{rev} - corporate tax rate × TF)

where the values of each term specified in this formula, and the terms used to calculate those values, only reflect earthquake readiness expenditure incurred during the CPP regulatory period.”

6.2 Clause 5.3.2(7) is renumbered to 5.3.2(9);

6.3 Clause 5.3.2(7) is added to read-

“(7) ‘MAR_{rev}(DPP)’ means the value for ‘maximum allowable revenue before tax in revenue-date terms for applicable X factor’, for Wellington Electricity Lines Limited for the applicable disclosure year, specified in the 2015 DPP financial model.”

6.4 Clause 5.3.2(8) is added to read-

“(8) ‘BBAR_{rev}(DPP)’ means the value determined in accordance with the formula for ‘BBAR before tax in revenue date terms, calculation not referencing tax’, as applied in the DPP financial model for disclosure year 2020, applied to disclosure year 2021-

(a) where the value for disclosure year 2021 of each term in the formula specified for ‘BBAR before tax in revenue date terms, calculation not referencing tax’ is determined in accordance with the respective formulas applied in the DPP financial model for disclosure year 2020, applied to disclosure year 2021; and

(b) for terms with no formula in the DPP financial model, the value for disclosure year 2021 is determined as follows-

(i) ‘operating expenditure’ means, in relation to a CPP proposal-

that has not been assessed by the Commission, the amount of operating expenditure for the relevant disclosure year included by the CPP applicant in its opex forecast; or

undergoing assessment by the Commission, the amount of operating expenditure determined for the relevant disclosure year by the Commission;

(ii) ‘value of commissioned assets’ means, in relation to a CPP proposal-

that has not been assessed by the Commission, the forecast aggregate value of commissioned assets for the relevant disclosure year included by the CPP applicant in its CPP proposal; or

undergoing assessment by the Commission, the forecast aggregate value of commissioned assets determined for the relevant disclosure year by the Commission;

- (iii) 'forecast changes in CPI used for revaluations' is determined in accordance with clause 4.2.3(4)';
- (iv) 'disposed assets' is the value of that term for disclosure year 2021 specified in the DPP Other Regulated Income and Disposed Assets Model;
- (v) 'other regulated income' is the value of that term for disclosure year 2021 specified in the DPP Other Regulated Income and Disposed Assets Model.

where, for the purposes of determining $B\bar{B}AR_{DPP}$, the value of earthquake readiness expenditure is nil."

7. Clause 5.3.12 of the IM Determination is amended so that it is:

"(1) Opening works under construction means, in respect of-

- (a) the first disclosure year of the next period, nil; and where that year is consecutive to a disclosure year in respect of which disclosure pursuant to an ID determination-
 - (i) has not been made, initial works under construction; and
 - (ii) has been made, the value of works under construction last disclosed in accordance with the ID determination to the extent that it is intended to be included in a closing RAB value; and
- (b) any year other than the first disclosure year of the next period, closing works under construction of the preceding disclosure year.

~~(2) For the purpose of subclause (1)(a)(i), 'initial works under construction' means expenditure incurred on works under construction as of the first day of the disclosure year in question, calculated in accordance with clause 5.3.11, modified in that references in that clause to "forecast commissioning date" are substituted with "forecast date that expenditure is incurred".~~

~~(2)~~ Closing works under construction is the amount determined in accordance with the formula-

opening works under construction + sum of capital expenditure - (sum of value of commissioned assets + sum of forecast value of commissioned assets),

where the values of each term specified in this formula and the terms used to calculate those values only reflect earthquake readiness expenditure incurred during the CPP regulatory period."

- (a) the sum of value of commissioned assets only includes values to the extent that they are included in closing RAB values disclosed pursuant to an ID determination; and
- ~~(a)~~ the sum of forecast value of commissioned assets only includes values to the extent that they are included in the sum of closing RAB values provided pursuant to clause 5.4.11(b)(ii).

8. Clause 5.3.13 of the IM Determination is amended so that:

8.1 Clause 5.3.13(1) is:

“(1) ‘Forecast regulatory tax allowance (readiness)’ is, where forecast **regulatory net taxable income** is-

(a) nil or a positive number, the tax effect of forecast **regulatory net taxable income**; and

(b) a negative number, nil,

where the value of forecast **regulatory net taxable income**, and the terms used to calculate that value, only reflect **earthquake readiness expenditure** incurred during the **CPP regulatory period**.”

8.2 Clause 5.3.13(5) is added to read:

“(5) ‘forecast regulatory tax allowance (DPP)’ means, for-

(a) disclosure years 2019 and 2020, the value for ‘regulatory tax allowance’, for Wellington Electricity Lines Limited for the applicable **disclosure year**, specified in the **2015 DPP Financial Model**;

(b) disclosure year 2021, the value determined in accordance with the formula for ‘regulatory tax allowance’, as applied in the **DPP Financial Model** for **disclosure year 2020**, applied to **disclosure year 2021**:-

(i) where the value for **disclosure year 2021** of each term in the formula for ‘regulatory tax allowance’ is determined in accordance with the respective formulas applied in the **DPP Financial Model** for **disclosure year 2020**, applied to **disclosure year 2021**; and

(ii) for terms with no formulas in the **DPP Financial Model**, the value for **disclosure year 2021** is determined as follows-

‘operating expenditure’ means, in relation to a **CPP proposal**-

that has not been assessed by the **Commission**, the amount of **operating expenditure** for the relevant **disclosure year** included by the **CPP applicant** in its **opex forecast**; or

undergoing assessment by the **Commission**, the amount of **operating expenditure** determined for the relevant **disclosure year** by the **Commission**;

‘value of commissioned assets’ means, in relation to a **CPP proposal**-

that has not been assessed by the **Commission**, the **forecast aggregate value of commissioned assets** for the relevant **disclosure year** included by the **CPP applicant** in its **CPP proposal**; or

undergoing assessment by the Commission, the forecast aggregate value of commissioned assets determined for the relevant disclosure year by the Commission;

'forecast changes in CPI used for revaluations' is determined in accordance with clause 4.2.3(4);

'disposed assets' is the value of that term for disclosure year 2021 specified in the DPP Other Regulated Income and Disposed Assets Model;

'other regulated income' is the value of that term for disclosure year 2021 specified in the DPP Other Regulated Income and Disposed Assets Model.

where, for the purpose of determining 'forecast regulatory tax allowance (DPP)', the value of earthquake readiness expenditure is nil."

Executed as a Deed on ____ day of _____, 2018.

by **Wellington Electricity**

Signature of representative authorised to execute a deed

Signature of representative authorised to execute a deed (or witness)

Name of authorised representative

Name of authorised representative or witness (and address, if witnessed)

Date

Date

by the **Commerce Commission**

Signature of authorised representative

Signature of authorised representative

Name of authorised representative

Name of authorised representative

Date

Date

Explanatory note

- (1) The purpose of the Wellington Electricity Lines Limited Electricity Distribution Customised Price-Quality Path Determination 2018 (“the Determination”) is to set a customised price-quality paths for Wellington Electricity for the three years beginning 1 April 2018 and ending 31 March 2021, pursuant to Part 4 of the Commerce Act 1986 (“the Act”).
- (2) Pursuant to section 53N of the Act, Wellington Electricity is required to provide to the Commerce Commission (“the Commission”), separate compliance statements relating to price setting, the wash-up account calculation, performance against quality standards and transactions. Wellington Electricity must state whether or not it has complied with the customised price-quality path set out in the Determination, provide its wash-up amount calculation, and supporting evidence. The two compliance statements must both be accompanied by a director’s certificate. The compliance statement for the wash-up amount calculation, quality standards and transactions must also be accompanied by an auditor’s report. Wellington Electricity must publish its compliance statements on its website within five working days after submitting them to the Commission.
- (3) A reasons paper providing detailed background to, and analysis of, the Determination can be found at:

[XX]
- (4) Copies of this Determination are available for inspection free of charge at the Commission (during ordinary office hours), on the Commission’s website at the above link, or for purchase at a reasonable price at the Commission.