

## **[DRAFT] GAS DISTRIBUTION SERVICES INPUT METHODOLOGIES AMENDMENTS DETERMINATION 2022**

**[2022] NZCC**

**The Commission:**

**Part 4 Division**

Sue Begg

Elisabeth Welson

Vhari McWha

**Date of decision:**

[day] [month] 2022

[signature]

[name], Commissioner

Dated at Wellington this [day] of [month] 2022

COMMERCE COMMISSION

Wellington, New Zealand

<b>Determination history</b>		
<b>Determination date</b>	<b>Decision number</b>	<b>Determination name</b>
28 September 2012	[2012] NZCC 27	Gas Distribution Services Input Methodologies Determination 2012 ('principal determination')*
15 November 2012	[2012] NZCC 34	Electricity and Gas Input Methodologies Determination Amendments (No. 2) 2012
25 February 2013	[2013] NZCC 3	Gas Pipeline Services Input Methodologies Determination Amendment (No. 1) 2013
3 December 2013	[2013] NZCC 23	Gas Distribution Services Input Methodologies Determination Amendment 2013
16 December 2013	n/a	Updated consolidated determination for typographical errors in transcribing the amendments made by amendment [2013] NZCC 23
29 October 2014	[2014] NZCC 27	Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for price-quality regulation) 2014
14 November 2014	n/a	Determination of Input Methodologies by the High Court in Wellington International Airports Ltd and others v Commerce Commission [2013] NZHC 3289 (11 December 2013)
11 December 2014	[2014] NZCC 38	Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for information disclosure regulation) 2014
12 November 2015	[2015] NZCC 28	Electricity and Gas (Customised Paths) Input Methodology Amendments Determination 2015
20 December 2016	[2016] NZCC 25	Gas Distribution Services Input Methodologies Amendments Determination 2016
21 December 2017	[2017] NZCC 31	Gas Distribution Services Input Methodologies Amendments Determination 2017
XXXXX 2022	[2022] NZCC XXX	Gas Distribution Services Input Methodologies Amendments Determination 2022

Drafting notes:

- This determination amends the Gas Distribution Services Input Methodologies Determination 2012, as previously amended, (“principal determination”).
- The included amendments which are secondary legislation are made pursuant to s 48(1) of the Legislation Act 2019.
- Amendments to the principal determination are tracked in red.
- The input methodologies that have been amended are listed below.

<b>Chapter</b>	<b>Clause heading</b>	<b>Clause reference</b>
General Provisions	1.1.1 Application	1.1.2(6), 1.1.2(7), 1.1.2(8)
General Provisions	Interpretation	1.1.4(2)
Subpart 2 of Part 2 – Asset Valuation for Information Disclosure	Physical asset life	2.2.8(1), 2.2.8(3), 2.2.8(4), 2.2.8(5), 2.2.8(6)
Subpart 3 of Part 2 – Treatment of Taxation for Information Disclosure	Deferred tax	2.3.7(1)
Subpart 4 of Part 2 – Cost of Capital for Information Disclosure	Methodology for estimating the weighted average cost of capital	2.4.1(1), 2.4.1(2)
Subpart 4 of Part 2 – Cost of Capital for Information Disclosure	Fixed WACC parameters	2.4.2(2), 2.4.2(4), 2.4.2(7)
Subpart 4 of Part 2 – Cost of Capital for Information Disclosure	Methodology for estimating risk-free rate	2.4.3
Subpart 2 of Part 4 – Asset Valuation for Default Price-Quality Paths	Total depreciation	4.2.2(3), 4.2.2(4)
Subpart 3 of Part 4 – Treatment of Taxation for Default Price-Quality Paths	Deferred tax	4.3.4(1)
Subpart 4 of Part 4 – Cost of Capital for Default Price-Quality Paths	Methodology for estimating the weighted average cost of capital	4.4.1(1), 4.4.1(2)
Subpart 4 of Part 4 – Cost of Capital for Default Price-Quality Paths	Fixed WACC parameters	4.4.2(2), 4.4.2(4), 4.4.2(7)
Subpart 4 of Part 4 – Cost of Capital for Default Price-Quality Paths	Methodology for estimating risk-free rate	4.4.3
Subpart 5 of Part 4 – Reconsideration of the Default Price-Quality Path	Capacity Event	4.54A

Subpart 5 of Part 4 – Reconsideration of the Default Price-Quality Path	Risk Event	4.54B
Subpart 5 of Part 4 – Reconsideration of the Default Price-Quality Path	When price-quality paths may be reconsidered	4.5.5(1), 4.5.5(4), 4.5.5(5), 4.5.5(6),
Subpart 5 of Part 4 – Reconsideration of the Default Price-Quality Path	Amending price-quality path after reconsideration	4.5.6(2), 4.5.6(3)
Section 3 of Subpart 3 of Part 5 – Determination of Customised Price-Quality paths - Treatment of Taxation	Deferred tax	5.3.19

Under Part 4 of the Commerce Act 1986 (**Act**) the Commerce Commission makes the following determination:

#### **TITLE**

1. This determination is the Gas Distribution Input Methodologies Amendments Determination 2022.

#### **INTERPRETATION**

2. In this determination (excluding Attachment A), the words or phrases in bold type bear the following meanings:
  - 2.1 **Act** has the same meaning as in the **principal determination**;
  - 2.2 **disclosure year** has the same meaning as in the **principal determination**; and
  - 2.3 **principal determination** means the Gas Distribution Input Methodologies Determination 2012 [2012] NZCC 27.

#### **DETERMINATION AMENDED**

3. This determination amends the **principal determination**.

#### **COMMENCEMENT**

4. This determination comes into force on the date after which notice of the determination is given in the New Zealand Gazette in accordance with section 52W of the **Act**.

#### **APPLICATION OF AMENDMENTS**

5. The amendments to Part 2 of the **principal determination** take effect from the start of the first **disclosure year** after this determination comes into force.
6. All other amendments take effect as soon as this determination comes into force.

#### **PRINCIPAL DETERMINATION AMENDMENTS**

7. The amendments to the **principal determination** are the deletions, substitutions and additions to the attached copy of the **principal determination** that are tracked in red in Attachment A.

# ATTACHMENT A

## GAS DISTRIBUTION SERVICES INPUT METHODOLOGIES DETERMINATION 2012

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

## PART 1 GENERAL PROVISIONS

### 1.1.1 Title

This determination is the Gas Distribution Services Input Methodologies Determination 2012.

### 1.1.2 Application

- (1) The **input methodologies** in this determination apply to **gas distribution services**.
- (2) The **input methodologies** relating to cost allocation in Part 2 Subpart 1, Part 5 Subpart 3 Section 2 and Part 5 Subpart 5 Section 3 also apply to any **other regulated service supplied** by a **GDB**, as provided by the provision in question.
- (3) The **input methodologies** in this determination in-
  - (a) Part 2 of this determination apply in relation to information disclosure regulation under Part 4 Subpart 4 of the **Act**;
  - (b) Part 3 of this determination apply to default/customised price-quality regulation under Part 4 Subpart 6 of the **Act**;
  - (c) Part 4 of this determination apply in relation to default price-quality paths under sections 53O and 53P of Part 4 Subpart 6 of the **Act**; and
  - (d) Part 5 of this determination apply in relation to customised price-quality paths under sections 53Q to 53ZA of Part 4 Subpart 4 of the **Act**.
- (4) The **input methodologies** in Part 2, including any applicable definitions in clause 1.1.4(2), apply from the commencement of **disclosure year 2019**.
- (5) The **input methodologies** in Appendix Part 2, including any definitions in clause 6.1.1(5) of Appendix Part 1, apply until the commencement of **disclosure year 2019**.
- (6) The **input methodologies** in Part 3, including any applicable definitions in clause 1.1.4(2), apply for-
  - (a) a **DPP which commences on or after in force, or which will be in force, from** 1 October 2017; and
  - (b) a **CPP application** made on or after 23 December 2016.

*Example: The input methodologies in Part 2, Part 3 and Part 4, including any definitions in clause 1.1.4(2), apply for a CPP application made on or after 23 December 2016 (the commencement date of the Gas Distribution Services Input Methodologies Amendments Determination 2016).*

- (7) The **input methodologies** in Part 4, Subpart 1, including any applicable definitions in clause 1.1.4(2), apply for a **DPP which commences on or after in force, or which will be in force, from** 1 October 2022.

*Example: The input methodologies in Part 4, Subpart 1, including any definitions in clause 1.1.4(2), apply the cost allocation changes for the GDB DPP reset which takes effect from 1 October 2022 and to any values forecast by applying the input methodologies for the reset.*

- (8) The **input methodologies** in Part 4, Subparts 2-8, including any applicable definitions in clause 1.1.4(2), apply for a **DPP which commences on or after in force, or which will be in force, from** 1 October 2017.



*Example: The input methodologies in Part 4, Subparts 2-8, including any definitions in clause 1.1.4(2), apply for the GDB DPP reset which takes effect from 1 October 2017 and to any values forecast by applying the input methodologies for the reset.*

- (9) The **input methodologies** in Appendix Part 3B, Subpart 1, including any definitions in clause 6.1.1(5) of Appendix Part 1, apply for a **DPP** in force, or that was in force, until 30 September 2022.

*Example: The cost allocation input methodologies in Appendix Part 3B, Subpart 1, continue to apply for the GDB DPP that applies until 30 September 2022.*

- (10) The **input methodologies** in Part 5, including any applicable definitions in clause 1.1.4(2), apply for a **CPP application** made on or after 23 December 2016.

*Example: To the extent that they are referenced by provisions in Part 5 for a CPP application made on or after 23 December 2016 (the commencement date of the Gas Distribution Input Methodologies Amendments Determination 2016), the input methodologies in Part 4, including any applicable definitions in clause 1.1.4(2), apply for the CPP application.*

- (11) For the avoidance of doubt, if the **Commission** determines that any forecast values are required to be calculated consistent with Part 3 or Part 4 prior to the application of subclauses (6) and (8) for the determination of a **DPP** that is to come into effect after the commencement date of any provision in this determination, the provisions in Part 3 and Part 4, and any applicable definitions in clause 1.1.4(2), will apply in setting the forecast values at the time when the **Commission** requires the forecast information.
- (12) For the avoidance of doubt, if the **Commission** determines that any forecast values are required to be calculated consistent with the **input methodologies** relating to cost allocation in Part 2, Subpart 1, for the determination of a **DPP** that is to come into effect after the date specified in subclause (4), any provision in this determination in respect of cost allocation, and any applicable definitions in clause 1.1.4(2), will apply at the time when the **Commission** requires the forecast information.

### 1.1.3 Commencement

This determination comes into force on the day after the date on which notice of it is given in the New Zealand Gazette under s 52W of the **Act**.

### 1.1.4 Interpretation

- (1) In this determination-

(a) unless otherwise stated, references to-

- (i) 'Sections' are to sections within the same subpart; and  
(ii) 'Subparts' are to subparts within the same part,

in which the reference is made;

- (b) unless stated otherwise, references to Parts, Subparts and Sections are to named and numbered parts, subparts and sections of the determination;  
(c) unless the context otherwise requires, a word which denotes the singular also denotes the plural and vice versa;

- (d) unless stated otherwise, any reference to an allowance, amount, cost, sum or value is a reference to an allowance, amount, cost, sum or value calculated in relation to a **GDB** in respect of a **disclosure year**; and
- (e) materials incorporated by reference into this determination, including standards promulgated by other bodies, are incorporated under the terms of Schedule 5 of the **Act**.

(2) In this determination, including in the schedules, the words or phrases in bold type bear the following meanings:

**67th percentile estimate of WACC**

means, for the purpose of-

- (a) Part 2, the 67th percentile estimate of post-tax **WACC**, determined in accordance with clause 2.4.5(4);
- (b) Part 3, the 67th percentile estimate of post-tax **WACC**, determined in accordance with clause 4.4.5(2); and
- (c) Part 4 and Part 5, the 67th percentile estimate of vanilla **WACC**, determined in accordance with clause 4.4.5(1);

**2005 authorisation valuation**

means the valuation of assets adopted as of 30 June 2005 by the **Commission** in authorising the supply of **controlled services**, being, in respect of-

- (a) Powerco Limited-
  - (i) system fixed assets of \$257,722,084;
  - (ii) metering assets of \$8,544,348; and
  - (iii) non-system fixed assets of \$2,927,760; and
- (b) Vector Limited-
  - (i) system fixed assets of \$216,353,334; and
  - (ii) non-system fixed assets of \$9,564,140;

**2009 authorisation assets**

means-

- (a) assets included in the **2005 authorisation valuation** for the **GDB** in question; and
- (b) other assets **commissioned** by the **GDB** in question between 1

	July 2005 to 30 June 2009 inclusive in relation to the supply of <b>controlled services</b> by the <b>GDB</b> ;
<b>2009 disclosed assets</b>	means assets- <ul style="list-style-type: none"> <li>(a) included by the <b>GDB</b> in question in the 'Non-Current Assets' category in the <b>2009 disclosure financial statements</b>; and</li> <li>(b) that are not <b>2009 authorisation assets</b>;</li> </ul>
<b>2009 disclosure financial statements</b>	means the financial statements disclosed by the <b>GDB</b> in question in accordance with the Gas (Information Disclosure) Regulations 1997 for the financial year ending in 2009;
	<b>A</b>
<b>ABAA</b>	means accounting-based allocation approach, as described in, in the case of - <ul style="list-style-type: none"> <li>(a) <b>operating costs</b>, clause 2.1.3(1); and</li> <li>(b) <b>regulated service asset values</b>, clause 2.1.3(2);</li> </ul>
<b>ACAM</b>	means avoidable cost allocation methodology, as described in clause 2.1.5;
<b>Act</b>	means the Commerce Act 1986;
<b>additional assets</b>	means assets of a <b>GDB</b> which are not <b>existing assets</b> and are forecast to be <b>commissioned</b> ;
<b>adjusted depreciation</b>	means <b>total depreciation</b> for all assets calculated as if no amount of <b>revaluation</b> had been included in the calculation of any <b>opening RAB value</b> following the determination of the <b>initial RAB</b> ;
<b>adjusted tax value</b>	has the same meaning as defined in the <b>tax depreciation rules</b> ;
<b>aggregate closing RAB value for additional assets</b>	means the amount determined in accordance with clause 4.2.1(5);

<b>aggregate closing RAB value for existing assets</b>	means the amount determined in accordance with clause 4.2.1(3);
<b>aggregate opening RAB value for additional assets</b>	means the amount determined in accordance with clause 4.2.1(4);
<b>aggregate opening RAB value for existing assets</b>	means the amount determined in accordance with clause 4.2.1(2);
<b>allocation methodology type</b>	means one of <b>ACAM</b> , <b>ABAA</b> or <b>OVABAA</b> ;
<b>allocator metric</b>	means the value in units (e.g., number of employees or kilometres of pipeline) for each <b>cost allocator</b> or <b>asset allocator</b> used to calculate the proportion of <b>operating costs</b> or <b>regulated service asset values</b> to be allocated to each of- <ul style="list-style-type: none"> <li>(a) <b>gas distribution services</b>,</li> <li>(b) where applicable, each <b>other regulated service</b>; and</li> <li>(c) where applicable, each <b>unregulated service</b>;</li> </ul>
<b>allocator type</b>	means the basis for the attribution or allocation of an <b>operating cost</b> or <b>regulated service asset value</b> to <b>gas distribution services</b> and <b>other regulated services</b> , viz. 'directly attributable', 'causal' or 'proxy';
<b>allowable notional revenue</b>	has the meaning specified in clause 3.1.1(2);
<b>allowable revenue before tax</b>	means allowable revenue before tax as determined by the <b>Commission</b> ;
<b>alternative depreciation method</b>	means a depreciation method which is not the <b>standard depreciation method</b> ;
<b>amalgamate</b>	means amalgamate in accordance with Part 13 of the Companies Act 1993 and <b>amalgamation</b> is to be construed accordingly;
<b>amortisation of initial differences in asset values</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.5;</li> <li>(b) Part 4, clause 4.3.3(3); and</li> <li>(c) Part 5, clause 5.3.17;</li> </ul>
<b>amortisation of revaluations</b>	means the amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.3.6;
- (b) Part 4, clause 4.3.3(5); and
- (c) Part 5, clause 5.3.18;

**arm's-length deduction**

means in respect of-

- (a) **operating costs not directly attributable**, an amount of **operating costs** incurred by a **GDB** in the supply of **unregulated services** that have been recouped in an **arm's-length transaction**; and
- (b) **regulated service asset values not directly attributable**, the amount of **regulated service asset values** in respect of assets used by a **GDB** in the supply of **unregulated services** for which a recoupment of **capital costs** has been made by the **GDB** in an **arm's-length transaction**,

in respect of which the **GDB** wishes account to be taken for cost allocation purposes;

**arm's-length transaction**

means a transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests;

**assessment period**

means the period between the end of the most recent **disclosure year** prior to submission of the **CPP application** in question and the **GDB's** anticipated commencement date of the **CPP**, assuming that-

- (a) the **CPP application** is neither discontinued in accordance with s 53S of the **Act** nor deferred in accordance with s 53Z of the **Act**; and
- (b) reasonable time is allotted for the **Commission** to undertake its assessment of the **CPP application** in accordance with ss 53S, 53T and 53U of the **Act**;

<b>asset adjustment process</b>	has the meaning specified in clause 2.2.1;
<b>asset allocator</b>	means a proportion of a quantifiable measure used to allocate <b>regulated service asset values</b> that are not <b>directly attributable</b> and whose quantum is- <ul style="list-style-type: none"> <li>(a) based on a <b>causal relationship</b>;</li> <li>or</li> <li>(b) equal to a <b>proxy asset allocator</b>;</li> </ul>
<b>asset category</b>	has the meaning specified in Schedule D;
<b>asset life</b>	means a finite period in respect of an asset, being- <ul style="list-style-type: none"> <li>(a) its <b>physical asset life</b>; or</li> <li>(b) where an alternative asset life to the <b>physical asset life</b> is sought for the purpose of a <b>CPP</b> pursuant to clause 5.5.10(3)(d), the alternative asset life determined pursuant to clause 5.3.8;</li> </ul>
<b>asset relocations capex</b>	means <b>capex</b> principally incurred in relocating assets where the relocation does not result in the assets having service potentials materially different to their service potentials in their original location;
<b>asset replacement and renewal capex</b>	means <b>capex</b> predominantly associated with- <ul style="list-style-type: none"> <li>(a) the progressive physical deterioration of the condition of <b>network</b> assets or their immediate surrounds; or</li> <li>(b) expenditure arising as a result of the <b>obsolescence of network assets</b>;</li> </ul>
<b>auditor</b>	means- <ul style="list-style-type: none"> <li>(c) where the <b>GDB</b> is a public entity (as defined in s 4 of the Public Audit Act 2001), the Auditor-General; or</li> <li>(b) in all other cases, a <b>person</b> who-</li> </ul>

- (i) is qualified for appointment as auditor of a company under the Companies Act 1993;
- (ii) is **independent**; and

where the **GDB** is a **CPP applicant**-

- (iii) is not a **verifier** of the **GDB's CPP proposal**;
- (iv) has not assisted with the compilation of the information in that proposal;
- (v) has not provided opinions or advice (other than in relation to audit reports) on the methodologies or processes used or to be used in compiling the information in the proposal; and
- (vi) is neither professionally associated with nor directed by any **person** who has provided such assistance, opinions or advice;

**average debt premium**

has the meaning specified in, and is the amount determined in accordance with-

- (a) Part 2, clause 2.4.4(2); and
- (b) Part 4, clause 4.4.4(2);

## B

**base year**

means the **disclosure year** selected by the **Commission**;

**building blocks allowable revenue after tax**

means the amount determined in accordance with clause 5.3.3;

**building blocks allowable revenue before tax**

means the amount determined in accordance with clause 5.3.2;

**business**

has the same meaning as defined in s 2 of the **Act**;

<b>business day</b>	means any day on which statistics relating to trading in New Zealand government bonds are published by a financial information service such as Bloomberg or Reuters;
<b>C</b>	
<b>capacity event</b>	has the meaning specified in clause 4.5.4A;
<b>capex</b>	means <b>capital expenditure</b> ;
<b>capex forecast</b>	means the part of the <b>CPP proposal</b> , provided pursuant to clause 5.5.27, that forecasts <b>capex</b> for the <b>next period</b> ;
<b>capex wash-up adjustment</b>	means the amount that is the difference between the revenues for a <b>DPP regulatory period</b> or <b>CPP regulatory period</b> using the actual values of <b>commissioned</b> assets for a prior <b>regulatory period</b> and the revenues using forecast <b>commissioned</b> assets applied by the <b>Commission</b> when setting <b>prices</b> , and is calculated in accordance with clause 3.1.3(5);
<b>capital contributions</b>	means, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, money or the monetary value of other consideration charged to or received from <b>consumers</b> or other parties for the purposes of asset construction, acquisition or enhancement;</li> <li>(b) Part 4, money or the monetary value of other consideration to be charged to or received from <b>consumers</b> or other parties for the purposes of asset construction, acquisition or enhancement; and</li> <li>(c) Part 5, money or the monetary value of other consideration forecast to be charged to or received from <b>consumers</b> or other parties for the purposes of asset construction, acquisition or enhancement;</li> </ul>



**capital costs**

means either or both the return on or return of **regulated service asset values**;

**capital expenditure**

means costs, for the purposes of-

- (a) Part 2-
  - (i) incurred in the acquisition or development of an asset that is, or is intended to be, **commissioned**; and
  - (ii) that are or are or are intended to be included in the **value of commissioned asset**;
- (b) Part 4-
  - (i) forecast to be incurred in the acquisition or development of an **additional asset**; and
  - (ii) that are included in the **forecast aggregate value of commissioned asset**, but only to the extent that the costs are forecast to be included in an **aggregate closing RAB value for additional assets**; and
- (c) Part 5-
  - (i) incurred or forecast to be incurred in the acquisition or development of an asset that is, or is intended to be, **commissioned**; and
  - (ii) that are included or intended to be included in the **value of commissioned asset** or **forecast value of commissioned asset**, as the case may be, but only to the extent that the costs are included or are

	intended to be included in a <b>closing RAB value</b> ;
<b>catastrophic event</b>	has the meaning specified in, for the purposes of – <ul style="list-style-type: none"> <li>(a) Part 4, clause 4.5.1; and</li> <li>(b) Part 5, clause 5.7.1;</li> </ul>
<b>catastrophic event allowance</b>	means the amount determined by the <b>Commission</b> for– <ul style="list-style-type: none"> <li>(a) additional net costs (over and above those provided for in a <b>DPP determination</b> or <b>CPP determination</b>) prudently incurred by a <b>GDB</b> in responding to a <b>catastrophic event</b>, other than costs that are foregone revenue;</li> <li>(b) <b>pass-through costs</b> and <b>recoverable costs</b> the <b>GDB</b> was permitted to recover under the applicable <b>DPP determination</b> or <b>CPP determination</b> through <b>prices</b>, but did not recover due to a <b>catastrophic event</b>, incurred in or relating to the period between a <b>catastrophic event</b> and the effective date of an amendment to the <b>DPP</b> or <b>CPP</b> following reconsideration of the price-quality path under clause 4.5.5(1)(a)(i) or clause 5.7.7(2)(a);</li> </ul>
<b>causal relationship</b>	means, in relation to- <ul style="list-style-type: none"> <li>(a) <b>operating costs</b>, a circumstance in which a cost driver leads to an <b>operating cost</b> being incurred during the 18 month period terminating on the last day of the <b>disclosure year</b> in respect of which the cost allocation is carried out; and</li> <li>(b) <b>regulated service asset values</b>, a circumstance in which a factor influences the utilisation of an</li> </ul>

	asset during the 18 month period terminating on the last day of the <b>disclosure year</b> in respect of which the asset allocation is carried out;
<b>change event</b>	has the meaning specified in, for the purposes of – <ul style="list-style-type: none"> <li>(a) Part 4, clause 4.5.2; and</li> <li>(b) Part 5, clause 5.7.2;</li> </ul>
<b>closing RAB value</b>	means the value determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(b) Part 2, clause 2.2.4(4); and</li> <li>(c) Part 5, clause 5.3.6(3);</li> </ul>
<b>closing tax losses</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.2(4);</li> <li>(b) Part 4, clause 4.3.2(3)(b); and</li> <li>(d) Part 5, clause 5.3.14(5);</li> </ul>
<b>closing works under construction</b>	means the amount determined in accordance with clause 5.3.12(3);
<b>Commission</b>	has the same meaning as defined in s 2 of the <b>Act</b> ;
<b>commissioned</b>	means used by a <b>GDB</b> to provide <b>gas distribution services</b> and <b>commission</b> shall be construed accordingly;
<b>commissioning date</b>	means the date that an asset is or is forecast to be first <b>commissioned</b> , as the case may be;
<b>committed</b>	in respect of a <b>project</b> or <b>programme</b> , means all approvals internal and external to the <b>GDB</b> that are required in order for work on the <b>project</b> to commence have been received;
<b>customer connection capex</b>	means <b>capex</b> predominantly associated with the establishment of new <b>connection points of consumers</b> to the <b>network</b> , or alterations to existing <b>connection points</b> where the expenditure relates to connection assets and/or parts of the <b>network</b> for which

	the expenditure is recoverable in total, or in part, by a <b>capital contribution</b> ;
<b>connection point</b>	means a physical connection point on the <b>network</b> with another pipeline or <b>consumer</b> , at which gas is imported into or exported from the <b>network</b> ;
<b>consumer</b>	has the same meaning as defined in s 2(1) of the Gas Act 1992;
<b>contingent project</b>	has the meaning specified in clause 5.7.5(1);
<b>controlled services</b>	means the services to which clause 5 of the Commerce (Control of Natural Gas Services) Order 2005 applies;
<b>corporate tax rate</b>	means the rate of income taxation applying to companies as specified in the <b>tax rules</b> ;
<b>cost allocator</b>	means a proportion of a quantifiable measure used to allocate <b>operating costs</b> that are not <b>directly attributable</b> , and whose quantum is- <ul style="list-style-type: none"> <li>(a) based on a <b>causal relationship</b>;</li> <li>or</li> <li>(b) equal to a <b>proxy cost allocator</b>;</li> </ul>
<b>cost of debt</b>	means the amount specified for $r_d$ in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.1(3); and</li> <li>(b) Part 4 and Part 5, clause 4.4.1(3);</li> </ul>
<b>CPI</b>	means- <ul style="list-style-type: none"> <li>(a) subject to paragraph (b), the consumer price index stipulated for each quarter in the 'All Groups Index SE9A' as published by Statistics New Zealand; and</li> <li>(b) in respect of quarters prior to any quarter in which the rate of <b>GST</b> is amended after this determination comes into force, the same index as described in paragraph (a), multiplied by the Reserve Bank of New Zealand's forecast change in that index</li> </ul>

	(expressed as a decimal) arising from the amendment;
<b>CPP</b>	means customised price-quality path;
<b>CPP applicant</b>	means a <b>GDB</b> who- <ul style="list-style-type: none"> <li>(a) is preparing a <b>CPP proposal</b>; or</li> <li>(b) has made a <b>CPP proposal</b> that has not been determined;</li> </ul>
<b>CPP application</b>	has the meaning specified in clause 5.1.1(2);
<b>CPP determination</b>	means a determination of a <b>CPP</b> in relation to <b>gas distribution services</b> made by the <b>Commission</b> under s 52P of the <b>Act</b> ;
<b>CPP inflation rate</b>	has the meaning specified in clause 5.3.4(10);
<b>CPP proposal</b>	means a proposal made by a <b>GDB</b> to the <b>Commission</b> for a <b>CPP</b> comprising the information specified in Part 5 Subpart 5;
<b>CPP regulatory period</b>	means- <ul style="list-style-type: none"> <li>(a) in relation to a <b>CPP proposal</b>, the 5 <b>disclosure years</b> following the <b>assessment period</b>; and</li> <li>(b) in relation to a particular <b>CPP</b>, the period to which the relevant <b>CPP determination</b> relates;</li> </ul>
<b>current period</b>	means the 5 <b>disclosure years</b> preceding the <b>disclosure year</b> in which the <b>CPP application</b> is submitted;
<b>D</b>	
<b>debt issuance costs</b>	means costs associated with the issuance of debt by a supplier (including, but not limited to, arrangement fees, legal fees, brokerage, advertising, credit rating fees, registry costs, listing fees, syndicate fees, trustee fees, facility fees, line fees, roadshow and marketing costs, paying agency fees and any fee or premium incurred in entering into an interest rate or cross-currency derivative);

<b>debt premium</b>	for the purpose of Part 2 or Part 4, has the meaning specified in, and is the amount determined in accordance with, clause 2.4.4(5);
<b>debt premium reference year</b>	means a 12 month period ending on 28 February;  <i>Example: 'debt premium reference year 2016' means the twelve month period ending 28 February 2016;</i>
<b>demand group</b>	means a pricing category (irrespective of the pricing methodology used) that has a discrete rate of growth in the demand for <b>gas distribution services</b> over the <b>CPP regulatory period</b> ;  <i>Examples: industrial consumers, commercial consumers, residential consumers, non-standard consumer groups, large capacity connections, or a combination or sub-group of each of these;</i>
<b>depreciation</b>	means an allowance to account for the diminution in an asset's remaining service life potential in the <b>disclosure year</b> in question with respect to its <b>opening RAB value</b> , or, for the purpose of Part 4, its <b>aggregate opening RAB value for existing assets</b> and <b>aggregate opening RAB value for additional assets</b> , and the amount of such allowance is determined in accordance with, for the purpose of-  (a) Part 2, clause 2.2.5(2); (b) Part 4, clause 4.2.2(2);and (c) Part 5, clause 5.3.7(2);
<b>depreciation temporary differences</b>	has the meaning specified, for the purpose of-  (a) Part 2, clause 2.3.8(2); (b) Part 4, clause 4.3.5; and (c) Part 5, clause 5.3.20(2);
<b>designated individual</b>	means an individual who is-

- (a) **independent**; and
- (b) engaged or instructed by a **person** falling within paragraph (a) of the definition of verifier to verify (in accordance with Schedule G) part or all of the **CPP proposal** which that **person** is engaged to verify;

**directly attributable**

means, in relation to-

- (a) **operating costs**, wholly and solely incurred by the **GDB** in or in relation to its **supply** of one **regulated service**; and
- (b) **regulated service asset values**, wholly and solely related to an asset used by the **GDB** in or in relation to its **supply** of one **regulated service**;

**director**

means, in the case of a **GDB** that is-

- (a) a company (as 'company' is defined in s 2 of the Companies Act 1993), an individual occupying the position of director of the **GDB**, by whatever name that position is called;
- (b) a partnership (other than a special partnership), a partner;
- (c) a special partnership, a general partner; and
- (d) any other body corporate or unincorporated body, an individual occupying a position in the body that is comparable with that of director of a company;

**disclosure year**

shall be construed as a 12 month period ending on the date specified in an **ID determination** as the last date in the period to which annual disclosure relates;

*Example: where the **ID determination** provides that disclosure is required by a **GDB** in respect of the annual period*

*ending on 30 June, then  
'disclosure year', in respect of the  
**GDB**, means the 12 month period  
ending on 30 June, and  
'disclosure year 2010' means the  
12 month period ending on 30  
June 2010;*

**disposed asset**

means, for the purpose of-

- (a) Part 2, an asset that, in the **disclosure year** or other period in question, has been sold or transferred, or has been irrecoverably removed from the **GDB's** possession without consent but is not a **lost asset**; and
- (b) Part 5, an asset that, in relation to a **disclosure year**, is-
  - (i) sold or transferred but is not a lost asset; or
  - (ii) forecast to be sold or transferred;

**document**

has the same meaning as defined in s 2 of the **Act**;

**DPP**

means default price-quality path;

**DPP determination**

means a **DPP** determination in relation to **gas distribution services** made by the **Commission** under s 52P of the **Act**;

**DPP regulatory period**

means the period to which the relevant **DPP determination** relates;

**E**

**easement**

means a right to use but not possess **land** belonging to another **person** or a right to prevent certain uses of another **person's land**;

**easement land**

means **land** acquired with the intention of-

- (a) creating an **easement** in respect of it; and
- (b) disposing of the **land** thereafter;



<b>EDB</b>	has the same meaning as in the Electricity Distribution Input Methodologies Determination 2012;
<b>engineer</b>	means an individual who is- <ul style="list-style-type: none"> <li>(a) a chartered professional engineer as defined in s 6 of the Chartered Professional Engineers of New Zealand Act 2002;</li> <li>(b) acting in that professional capacity; and</li> <li>(c) <b>independent</b>;</li> </ul>
<b>error event</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 4, clause 4.5.3(1); and</li> <li>(b) Part 5, clause 5.7.3(1);</li> </ul>
<b>excluded asset</b>	means an asset that is- <ul style="list-style-type: none"> <li>(a) not used to <b>supply gas distribution services</b> as of 30 June 2009;</li> <li>(b) designated as 'excluded' type as a result of the <b>asset adjustment process</b>; or</li> <li>(c) <b>easement land</b>;</li> </ul>
<b>existing assets</b>	means assets of a <b>GDB</b> for which an aggregate closing RAB value for existing assets is calculated for the <b>base year</b> ;
<b>expenditure objective</b>	means <b>the</b> objective that <b>capital expenditure</b> and <b>operating expenditure</b> reflects the efficient costs that a prudent <b>GDB</b> would require to- <ul style="list-style-type: none"> <li>(a) meet or manage the expected demand for <b>gas distribution services</b>, at appropriate service standards, during the <b>DPP regulatory period or CPP regulatory period</b> and over the longer term; and</li> <li>(b) comply with applicable regulatory obligations associated with those <b>services</b>;</li> </ul>

## F

<b>false or misleading information</b>	has the meaning specified in clause 4.5.5(3);
<b>finance lease</b>	has the same meaning as under <b>GAAP</b> ;
<b>fittings</b>	has the same meaning as defined in s 2(1) of the Gas Act 1992;
<b>fixed life easement</b>	means an <b>easement</b> that- (a) is of fixed duration; or (b) whilst of indefinite duration, is to be held for a fixed period;
<b>forecast aggregate value of commissioned assets</b>	means the amount determined in accordance with clause 4.2.5;
<b>forecast aggregate value of disposed assets</b>	means the amount determined in accordance with clause 4.2.6;
<b>forecast CPI</b>	means the amount specified in, for the purpose of Part 5, clause 5.3.4(11);
<b>forecast CPI for CPP revaluation</b>	means the amount specified in accordance with clause 5.3.10(5);
<b>forecast CPI for DPP revaluation</b>	means the amount specified in accordance with clause 4.2.3(4);
<b>forecast operating expenditure</b>	has the meaning specified in clause 5.3.2(6);
<b>forecast regulatory tax allowance</b>	has the meaning specified in clause 5.3.13;
<b>forecast value of commissioned asset</b>	means the value determined in accordance with clause 5.3.11;
<b>found asset</b>	has the meaning specified in clause 2.2.12(1);

## G

<b>GAAP</b>	means generally accepted accounting practice in New Zealand, save that, where the cost of an asset is being determined in accordance with this determination, only the cost model of recognition is applied insofar as an election may be made between the cost model of recognition and the fair value model of recognition;
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<b>gas distribution services</b>	means any <b>gas pipeline services</b> (as defined in s 55A of the <b>Act</b> ) supplied across a <b>network</b> ;
<b>GDB</b>	means supplier of <b>gas distribution services</b> ;
<b>GPB</b>	means <b>GDB</b> or GTB (as 'GTB' is defined in the Commerce <b>Commission</b> (Gas Transmission Input Methodologies) Determination 2012);
<b>GST</b>	has the same meaning as defined in s YA 1 of the Income Tax Act 2007 as amended from time to time, and any equivalent legislation that supplements or replaces that definition;

## H

<b>highly probable</b>	<p>means one in respect of which the following conditions have been met at the time the <b>CPP application</b> is made:</p> <ul style="list-style-type: none"> <li>(a) the <b>directors</b> have approved a plan to sell either or both the <b>other regulated service</b> or <b>unregulated service</b>, as the case may be;</li> <li>(b) the <b>GDB</b> is taking active steps to- <ul style="list-style-type: none"> <li>(i) locate a buyer for the assets; and</li> <li>(ii) complete the plan, referred to in paragraph (a);</li> </ul> </li> <li>(c) the <b>GDB</b> is actively marketing the assets for sale at a price that is reasonable;</li> <li>(d) the <b>directors</b> expect the sale to complete within 12 months of the <b>CPP application</b> being made; and</li> <li>(e) actions to date do not contemplate that significant amendment to the plan may be made or that it will be withdrawn;</li> </ul>
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## I

<b>ID determination</b>	means an information disclosure determination in relation to a <b>GDB</b> made by the <b>Commission</b> under s 52P of the <b>Act</b> ;
<b>identifiable non-monetary asset</b>	has the same meaning as under <b>GAAP</b> (which, for the avoidance of doubt, includes <b>right-of use</b> assets), except <del>save</del> that goodwill is excluded;
<b>identified programme</b>	means a <b>project</b> or <b>programme</b> that a <b>GDB</b> intends to undertake during the <b>next period</b> and which is selected by the <b>verifier</b> for detailed assessment in accordance with clause G4(1);
<b>included asset</b>	means an asset which, as a result of the <b>asset adjustment process</b> , is designated as 'included';
<b>included value</b>	means value assigned to an <b>included asset</b> ;
<b>independent</b>	means neither in a relationship with, nor having an interest in, the <b>GDB</b> in question that is likely to involve him her or it in a conflict of interest between his, her or its duties to the <b>GDB</b> and his, her or its duties to the <b>Commission</b> ;
<b>initial differences in asset values</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.5(3); and</li> <li>(b) Part 5, clause 5.3.17(3);</li> </ul>
<b>initial RAB</b>	has the meaning specified in clause 2.2.2;
<b>initial RAB value</b>	means value of an asset in the <b>initial RAB</b> determined in accordance with clause 2.2.3(4);
<b>input methodology</b>	has the same meaning as defined in s 52C of the <b>Act</b> ;
<b>investment grade credit rated</b>	means endorsed with a credit rating by an established credit rating agency (such as Standard and Poor's) of "investment grade" on that agency's credit rating scale applicable to long-term investments;

## L

<b>land</b>	excludes <b>easements</b> ;
<b>leverage</b>	means the ratio of debt capital to total capital and is the amount specified in, for the purpose of- <ul style="list-style-type: none"><li>(a) Part 2, clause 2.4.2(1); and</li><li>(b) Part 4, clause 4.4.2(1);</li></ul>
<b>levy</b>	means a tax, charge or fee directly imposed by or under legislation- <ul style="list-style-type: none"><li>(a) on-<ul style="list-style-type: none"><li>(i) <b>GDBs</b> alone; or</li><li>(ii) a class of persons (other than the general public or <b>businesses</b> in general) that includes <b>GDBs</b>; or</li></ul></li><li>(b) in relation to <b>gas distribution services</b>;</li></ul>
<b>line item</b>	means, in respect of- <ul style="list-style-type: none"><li>(a) assets, a group of assets within an <b>asset category</b> for which the same <b>asset allocator</b> is used to allocate their <b>regulated service asset values</b>; and</li><li>(b) costs, a group of <b>operating costs</b> within an <b>opex category</b> for which the same <b>cost allocator</b> is used to allocate them,</li></ul> <b>to gas distribution services and other regulated services;</b>
<b>local authority</b>	has the same meaning as defined in s 5(1) of the Local Government Act 2002;
<b>lost asset</b>	means an asset- <ul style="list-style-type: none"><li>(a) not included in the <b>initial RAB</b>; and</li><li>(b) having, in relation to the <b>disclosure year in question</b>, an <b>unallocated opening RAB value</b>,</li></ul> but determined by the <b>GDB</b> in that <b>disclosure year</b> never to have been used to provide <b>gas distribution services</b> ;

## M

<b>major transaction</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"><li>(a) Part 4, clause 4.5.4; and</li><li>(b) Part 5, clause 5.7.4;</li></ul>
<b>maximum allowable revenue after tax</b>	means the amount determined in accordance with clause 5.3.4(8);
<b>maximum allowable revenue before tax</b>	means the amount determined in accordance with clause 5.3.4;
<b>mid-point estimate of WACC</b>	means, for the purpose of- <ul style="list-style-type: none"><li>(a) Part 2, the mid-point estimate of-<ul style="list-style-type: none"><li>(i) vanilla <b>WACC</b> as estimated in accordance with clause 2.4.1(1); or</li><li>(ii) post-tax <b>WACC</b> as estimated in accordance with clause 2.4.1(2),</li></ul>as the case may be;</li><li>(b) Part 3, the mid-point estimate of post-tax <b>WACC</b>, as estimated in accordance with clause 4.4.1(2); and</li><li>(c) Part 4, the mid-point estimate of-<ul style="list-style-type: none"><li>(i) vanilla <b>WACC</b> as estimated in accordance with clause 4.4.1(1);</li><li>(ii) post-tax <b>WACC</b> as estimated in accordance with clause 4.4.1(2),</li></ul>as the case may be;</li></ul>
<b>modified value</b>	means the value of a <b>value modified asset</b> assigned in accordance with clause 2.2.1;
<b>multi-rate PIE</b>	has the same meaning as defined in s YA 1 of the Income Tax Act 2007;

## N

<b>Nelson-Siegel-Svensson approach</b>	has the meaning specified in clause 2.4.4(9);
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<b>network</b>	<p>means the system used to distribute gas to a <b>consumer</b>, comprising pipelines and associated <b>fittings</b> between-</p> <p>(a) a delivery point from a <b>transmission network</b>; and</p> <p>(b) the <b>point of supply</b>,</p> <p>provided that where the pipelines and associated <b>fittings</b> are owned by the same <b>person</b> who owns the relevant <b>transmission network</b>, the delivery point is the place specified by that <b>person</b>;</p>
<b>network spare</b>	<p>means an asset that is held by a <b>GDB</b> to replace any other asset it holds should that other asset be withdrawn from use owing to failure or damage;</p>
<b>next period</b>	<p>means the period commencing on the first day of the <b>disclosure year</b> during which the <b>CPP application</b> is submitted and terminating on the last day of the 5 <b>disclosure years</b> following the <b>assessment period</b>;</p>
<b>notional revenue</b>	<p>has the meaning specified in clause 3.1.1(3);</p>
<b>NZ IAS 24</b>	<p>means <i>New Zealand Equivalent to International Accounting Standard 24, Related Party Disclosures (NZ IAS 24)</i>, issued by the New Zealand Accounting Standards Board of the External Reporting Board in November 2009, incorporating amendments to 31 December 2015, under s 24(1)(a) of the Financial Reporting Act 1993;</p>
<b>O</b>	
<b>opening deferred tax</b>	<p>has the meaning specified in, for the purpose of-</p> <p>(a) Part 2, clause 2.3.7;</p> <p>(b) Part 4, clause 4.3.4(1); and</p> <p>(c) Part 5, clause 5.3.19;</p>
<b>opening RAB value</b>	<p>means the value determined in accordance with-</p>

	(a) for the purpose of Part 2, clause 2.2.4(3); and
	(b) for the purpose of Part 5, clause 5.3.6(1);
<b>opening tax losses</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.2(3);</li> <li>(b) Part 4, clause 4.3.2(3)(a); and</li> <li>(c) Part 5, clause 5.3.14(3);</li> </ul>
<b>opening works under construction</b>	has the meaning specified in clause 5.3.12(1);
<b>operating cost</b>	means a cost incurred by the <b>GDB</b> in question relating to the <b>supply</b> of- <ul style="list-style-type: none"> <li>(a) <b>regulated services</b> alone; or</li> <li>(b) <b>regulated services</b> and one or more <b>unregulated service</b>,</li> </ul> and excludes- <ul style="list-style-type: none"> <li>(c) a cost that is treated as a cost of an asset by <b>GAAP</b>;</li> <li>(d) amounts that are depreciation, tax, subvention payments, revaluations or an interest expense, in accordance with their meanings under <b>GAAP</b>;</li> <li>(e) <b>debt issuance costs</b>;</li> <li>(f) <b>pass-through costs</b>;</li> <li>(g) <b>recoverable costs</b>; and</li> <li>(h) distribution of profits to <b>consumers</b>;</li> </ul>
<b>operating expenditure</b>	for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 4, means the value of <b>operating costs</b> attributable to <b>gas distribution services</b> supplied by a <b>GDB</b> which are forecast to be incurred in the <b>disclosure year</b> in question as determined by the <b>Commission</b>; and</li> <li>(b) Part 5, means <b>operating costs</b> after application of clause 5.3.5;</li> </ul>
<b>opex</b>	means <b>operating expenditure</b> ;
<b>opex category</b>	has the meaning specified in Schedule D;



<b>opex forecast</b>	means the part of a <b>CPP proposal</b> , provided pursuant to clause 5.5.27, that forecasts <b>operating expenditure</b> for the <b>next period</b> ;
<b>other regulated income</b>	for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 4, means forecast income associated with the supply of <b>gas distribution services</b> other than- <ul style="list-style-type: none"> <li>(i) through <b>prices</b>;</li> <li>(i) investment-related income;</li> <li>(ii) <b>capital contributions</b>; or</li> <li>(iii) <b>vested assets</b>,</li> </ul> as determined by the <b>Commission</b>; and </li> <li>(b) Part 5, has the meaning specified in clause 5.3.2(7);</li> </ul>
<b>other regulated service</b>	means a <b>regulated service</b> , other than <b>gas distribution services</b> , supplied by the <b>GDB</b> in question;
<b>OVABAA</b>	means the optional variation to accounting-based allocation approach, as described in clause 2.1.4;
<b>OVABAA allocation increase</b>	means, in respect of either or both- <ul style="list-style-type: none"> <li>(a) <b>operating costs</b>; and</li> <li>(b) <b>regulated service asset values</b>,</li> </ul> not <b>directly attributable</b> , as the case may be, allocated to <b>gas distribution services</b> , the dollar difference between the amount determined pursuant to the last application of clause 2.1.4(7)(c) and the application of clause 2.1.4(2)(a) or 2.1.4(3)(a), as the case may be;
<b>P</b>	
<b>pass-through cost</b>	has the meaning specified in clause 3.1.2(1);
<b>permanent differences</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.3; and</li> </ul>

	(b) Part 5, clause 5.3.15;
<b>person</b>	has the same meaning as defined in s 2 of the <b>Act</b> ;
<b>physical asset life</b>	has the meaning specified in clause 2.2.8;
<b>point of supply</b>	has the same meaning as specified in regulation 5 of the Gas (Safety and Measurement) Regulations 2010;
<b>prescribed investor rate</b>	has the same meaning as defined in the Income Tax Act 2007 or any subsequent legislation that supplements or replaces the provisions relating to prescribed investor rate in the Income Tax Act 2007;
<b>prices</b>	has the meaning specified in clause 3.1.1(4);
<b>pricing period</b>	has the same meaning as specified in the <b>DPP determination</b> ;
<b>pricing principles</b>	means the principles specified in clause 2.5.2;
<b>probabilistic risk assessment</b>	means the assessment of a risk associated with a <b>GDB's network</b> , based on the severity of the adverse consequence(s) and the probability of each consequence occurring, if the risk eventuates;
<b>programme</b>	means a group of related <b>projects</b> with a common purpose;
<b>project</b>	means a temporary endeavour requiring concerted effort, undertaken to create a defined outcome;
<b>proxy asset allocator</b>	means a proportion of a quantifiable measure- <ul style="list-style-type: none"> <li>(a) used to allocate <b>regulated service asset values</b> for which a <b>causal relationship</b> cannot be established; and</li> <li>(b) whose quantum is based on factors in existence during the 18 month period terminating on the last day of the most recent <b>disclosure year</b> in respect of</li> </ul>

which the asset allocation is carried out;

**proxy cost allocator** means a proportion of a quantifiable measure-

- (a) used to allocate **operating costs** for which a **causal relationship** cannot be established; and
- (b) whose quantum is based on factors in existence during the 18 month period terminating on the last day of the most recent **disclosure year** in respect of which the cost allocation is carried out;

## Q

**qualifying debt** has the meaning specified in, for the purpose of-

- (a) Part 2, clause 2.4.7(1); and
- (b) Part 4, clause 4.4.10(1);

**qualifying issuer** means a New Zealand resident limited liability company -

- (a) that-
  - (i) undertakes the majority of its business activities in Australia and New Zealand; or
  - (ii) is part of a corporate group that undertakes the majority of its business activities in Australia and New Zealand;
- (b) that-
  - (i) does not operate predominantly in the banking or finance industries; or
  - (ii) is part of a corporate group that does not operate predominantly in the banking or finance industries; and

	(c) that issues <b>vanilla NZ\$ denominated bonds</b> that are publicly traded;
<b>qualifying rating</b>	means- <ul style="list-style-type: none"> <li>(a) a Standard and Poor's long term credit rating of the specified grade; or</li> <li>(b) an equivalent long term credit rating of another internationally recognised rating agency;</li> </ul>
<b>qualifying supplier</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.7(2); and</li> <li>(b) Part 4, clause 4.4.10(2);</li> </ul>
<b>quantity</b>	has the meaning specified in clause 3.1.1(5)

## R

<b>recoverable cost</b>	has the meaning specified in clause 3.1.3;
<b>regulated goods or services</b>	has the same meaning as defined in s 52C of the <b>Act</b> ;
<b>regulated service</b>	means a type of service <b>supplied</b> by a <b>GDB</b> pursuant to the <b>supply</b> of a <b>regulated good or service</b> , which, for the avoidance of doubt, includes the following types of services: <ul style="list-style-type: none"> <li>(a) <b>gas distribution services</b>;</li> <li>(b) gas transmission services, as defined in the Gas Transmission Services Input Methodologies Determination 2012; and</li> <li>(c) electricity distribution services, as defined in the Electricity Distribution Services Input Methodologies Determination 2012;</li> </ul>
<b>regulated service asset value</b>	means, in respect of an asset- <ul style="list-style-type: none"> <li>(a) used by a <b>GDB</b> in the <b>supply</b> of- <ul style="list-style-type: none"> <li>(i) one or more <b>regulated service</b>; or</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>(ii) one or more <b>regulated service</b> and one or more <b>unregulated service</b>;</li> </ul> <p>where at least one of those <b>regulated services</b> is a <b>gas distribution service</b>-</p> <ul style="list-style-type: none"> <li>(iii) in the <b>disclosure year 2009</b>, its <b>unallocated initial RAB value</b>; and</li> <li>(iv) in all other <b>disclosure years</b>, its <b>unallocated closing RAB value</b>; and</li> </ul>
	<ul style="list-style-type: none"> <li>(b) used by a <b>GDB</b> only in the <b>supply</b> of- <ul style="list-style-type: none"> <li>(i) one or more <b>other regulated service</b>; or</li> <li>(ii) one or more <b>other regulated service</b> and one or more <b>unregulated service</b>;</li> </ul> </li> </ul> <p>in-</p> <ul style="list-style-type: none"> <li>(iii) the <b>disclosure year 2009</b>, its unallocated initial RAB value; and</li> <li>(iv) all other <b>disclosure years</b>, its unallocated closing RAB value,</li> </ul> <p>determined in accordance with the <b>input methodologies</b> applicable to the <b>other regulated service</b>.</p>
<b>regulated supplier</b>	means a supplier of <b>regulated goods or services</b> ;
<b>regulatory investment value</b>	has the meaning specified in clause 5.3.2(2);
<b>regulatory net taxable income</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.1(2);</li> <li>(b) Part 4, clause 4.3.1(2); and</li> <li>(c) Part 5, clause 5.3.13(2);</li> </ul>
<b>regulatory period</b>	means the regulatory period for default/customised price-quality

	regulation applicable to a <b>GDB</b> as specified in a determination made under s 52P of the <b>Act</b> ;
<b>regulatory period term</b>	means, the length in years of the relevant <b>regulatory period</b> , but which may commence at a different time to the <b>regulatory period</b>  <i>Example: where the length of the <b>regulatory period</b> is 4 years, then 'regulatory period term' means 4 years or a 4 year period;</i>
<b>regulatory profit / (loss) before tax</b>	has the meaning specified in, for the purpose of-  (a) Part 2, clause 2.3.1(4); (b) Part 4, clause 4.3.1(4); and (c) Part 5, clause 5.3.13(4);
<b>regulatory taxable income</b>	means the amount determined in accordance with, for the purpose of-  (a) Part 2, clause 2.3.1(3); and (b) Part 5, clause 5.3.13(3);
<b>regulatory tax adjustments</b>	means the amount determined in accordance with, for the purpose of-  (a) Part 2, clause 2.3.4; (b) Part 4, clause 4.3.3; and (c) Part 5, clause 5.3.16;
<b>regulatory tax allowance</b>	has the meaning specified, for the purpose of-  (a) Part 2, clause 2.3.1; and (b) Part 4, clause 4.3.1;
<b>regulatory taxable income</b>	means the amount determined in accordance with, for the purpose of-  (a) Part 2, clause 2.3.1(3); (b) Part 4, clause 4.3.1(3); and (c) Part 5, clause 5.3.13(3);
<b>regulatory tax asset value</b>	has the meaning specified in, for the purpose of-  (a) Part 2, clause 2.3.9; and (b) Part 5, clause 5.3.21;
<b>regulatory templates</b>	has the meaning specified in clause 5.5.27(2);
<b>related party</b>	means-

	<ul style="list-style-type: none"> <li>(a) a person that is related to the <b>GDB</b>, where the <b>GDB</b> would be considered as the 'reporting entity', as specified in the definition of 'related party' in <b>NZ IAS 24</b>; or</li> <li>(b) any part of the <b>GDB</b> that does not <b>supply gas distribution services</b>;</li> </ul>
<b>related party transaction</b>	<p>means-</p> <ul style="list-style-type: none"> <li>(a) the procurement of an asset or good or service from a <b>related party</b> by the part of the <b>GDB</b> that <b>supplies the gas distribution service</b>; or</li> <li>(b) the sale or supply of an asset or good or service to a <b>related party</b> by the part of the <b>GDB</b> that supplies the <b>gas distribution service</b>;</li> </ul>
<b>remaining asset life</b>	means the term remaining of an asset's <b>asset life</b> at the commencement of the <b>disclosure year</b> in question;
<b>remaining asset life for additional assets</b>	has the meaning specified in clause 4.2.2(3)(b);
<b>remaining asset life for existing assets</b>	has the meaning specified in clause 4.2.2(3)(a);
<b>revaluation</b>	<p>means the amount determined in accordance with, for the purpose of-</p> <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.2.9(2); and</li> <li>(b) Part 4, clause 4.2.3(2); and</li> <li>(c) Part 5, clause 5.3.10(2);</li> </ul>
<b>revaluation rate</b>	<p>has the meaning specified in, for the purpose of-</p> <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.2.9(4);</li> <li>(b) Part 4, clause 4.2.3(3); and</li> <li>(c) Part 5, clause 5.3.10(4);</li> </ul>
<b>'reversal' and 'reverse'</b>	have the same meanings as under <b>GAAP</b> ;
<b>right-of-use asset</b>	has the same meaning as under <b>GAAP</b> ;

<b>risk event</b>	has the meaning specified in clause 4.5.4B;
<b>S</b>	
<b>selection rationale</b>	<p>means a description of either or both of the-</p> <ul style="list-style-type: none"> <li>(a) criteria applied; and</li> <li>(b) fundamental reasons used,</li> </ul> <p>for, either or both-</p> <ul style="list-style-type: none"> <li>(c) determining; and</li> <li>(d) selecting,</li> </ul> <p>each-</p> <ul style="list-style-type: none"> <li>(e) <b>asset allocator</b> and associated <b>allocator metric</b>; and</li> <li>(f) <b>cost allocator</b> and associated <b>allocator metric</b>;</li> </ul>
<b>services</b>	has the same meaning as defined in s 2 of the <b>Act</b> ;
<b>standard depreciation method</b>	means, in respect of an asset whose <b>remaining asset life</b> is the term remaining of its <b>physical asset life</b> at the commencement of the <b>disclosure year</b> in question, method specified in clause 5.3.7 excluding any method referred to in the whole clauses to which clause 5.3.7 is subject;
<b>standard error</b>	means estimated standard deviation;
<b>standard physical asset life</b>	means life for an asset as specified in Schedule A;
<b>supply</b>	has the same meaning as defined in s 2 of the <b>Act</b> , and <b>supplied</b> must be construed accordingly;
<b>system growth capex</b>	means <b>capex</b> principally incurred in implementing a change in demand on the <b>network</b> assets, and includes expenditure that is not recoverable (in total or in part) from the <b>consumer supplied</b> at the point of connection to the <b>network</b> who is the source of the change in demand;



## T

<b>tax asset value</b>	means the value determined in accordance with, for the purpose of- <ul style="list-style-type: none"><li>(a) Part 2, clause 2.3.9(2); and</li><li>(b) Part 5, clause 5.3.21(2);</li></ul>
<b>tax depreciation rules</b>	means the <b>tax rules</b> that relate to the determination of depreciation allowances for tax purposes;
<b>tax effect</b>	means the product of multiplication by the <b>corporate tax rate</b> ;
<b>tax rules</b>	means the rules applicable to a <b>GDB</b> for determining income tax payable in the Income Tax Act 2007 (as amended from time to time, and any equivalent preceding legislation, or any subsequent legislation that supplements or replaces that Act);
<b>temporary differences</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"><li>(a) Part 2, clause 2.3.8; and</li><li>(b) Part 5, clause 5.3.20;</li></ul>
<b>term credit spread difference</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"><li>(a) Part 2 and Part 5, clause 2.4.8(1); and</li><li>(b) Part 4, clause 4.4.9(1);</li></ul>
<b>term credit spread differential</b>	is the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"><li>(a) Part 2 and Part 5, clause 2.4.9(3); and</li><li>(b) Part 4, clause 4.4.8(1);</li></ul>
<b>term credit spread differential allowance</b>	for the purpose of- <ul style="list-style-type: none"><li>(a) Part 2 and Part 5, means the sum of <b>term credit spread differentials</b>; and</li><li>(b) Part 4, means the amount determined in accordance with clause 4.4.7(2);</li></ul>
<b>total depreciation</b>	means, for the purpose of-

	(a) Part 2 and Part 5, the sum of <b>depreciation</b> for all assets; and
	(b) Part 4, the value determined in accordance with clause 4.2.2;
<b>total opening RAB value</b>	means, for the purpose of –
	(a) Part 4, the amount determined in accordance with clause 4.2.1(1);
	(b) Part 5, the meaning specified in clause 5.3.6(7);
<b>total revaluation</b>	means, for the purpose of-
	(a) Part 2 and Part 5, the sum of <b>revaluation</b> for all assets; and
	(b) Part 4, the value determined in accordance with clause 4.2.3;
<b>transitional pricing methodology</b>	has the meaning specified in clause 5.4.1(3);
<b>transmission network</b>	has the same meaning as is defined for 'network' in the Gas Transmission Services Input Methodologies Determination 2012;
<b>trigger event</b>	has the meaning specified in clause 5.7.5(3);
	<b>U</b>
<b>unallocated closing RAB value</b>	means the value determined in accordance with, for the purpose of-
	(a) Part 2, clause 2.2.4(2); and
	(b) Part 5, clause 5.3.6(6);
<b>unallocated depreciation</b>	means an allowance to account for the diminution in an asset's remaining service life potential in the <b>disclosure year</b> in question with respect to its <b>unallocated opening RAB value</b> and the amount of such allowance is determined in accordance with, for the purpose of-
	(a) Part 2, clause 2.2.5(1); and
	(b) Part 5, clause 5.3.7(1);
<b>unallocated initial RAB value</b>	means value of an asset in the <b>initial RAB</b> determined in accordance with clause 2.2.3(1);

<b>unallocated opening RAB value</b>	means value determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.2.4(1); and</li> <li>(b) Part 5, clause 5.3.6(5);</li> </ul>
<b>unallocated revaluation</b>	means amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.2.9(1); and</li> <li>(b) Part 5, clause 5.3.10(1);</li> </ul>
<b>unduly deterred</b>	means, solely as a result of an allocation to the <b>unregulated service</b> in question of either or both of- <ul style="list-style-type: none"> <li>(a) <b>operating costs not directly attributable</b>; and</li> <li>(b) <b>regulated service asset values not directly attributable</b>,</li> </ul> <p>the <b>operating costs not directly attributable</b> or <b>capital costs</b> associated with the <b>regulated service asset values not directly attributable</b> (as the case may be) to be borne by that <b>unregulated service</b> would cause that <b>unregulated service</b> to be-</p> <ul style="list-style-type: none"> <li>(c) discontinued; or</li> <li>(d) not provided,</li> </ul> <p>and '<b>unduly deter</b>' must be construed accordingly;</p>
<b>unforeseen project</b>	has the meaning specified in clause 5.7.6;
<b>unregulated service</b>	means any good or service <b>supplied</b> by the <b>GDB</b> that is not a <b>regulated service</b> ;
<b>utilised tax losses</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.2;</li> <li>(b) Part 4, clause 4.3.2(1); and and</li> <li>(c) Part 5, clause 5.3.14;</li> </ul>

## V

<b>value modified asset</b>	means an asset which, as a result of the <b>asset adjustment process</b> is designated as 'value modified' type;
<b>value of commissioned asset</b>	means the value determined in accordance with clause 2.2.11;

<b>value of found asset</b>	means the value of a <b>found asset</b> determined in accordance with clause 2.2.12(2);
<b>valuer</b>	means an individual who- <ul style="list-style-type: none"> <li>(a) is registered as a valuer under the Valuers Act 1948;</li> <li>(b) holds a current practising certificate issued by- <ul style="list-style-type: none"> <li>(i) the Property Institute of New Zealand; or</li> <li>(ii) the New Zealand Institute of Valuers;</li> </ul> </li> <li>(c) has been engaged to act in his or her professional capacity as a valuer; and</li> <li>(d) is <b>independent</b>;</li> </ul>
<b>vanilla NZ\$ denominated bonds</b>	means senior unsecured nominal debt obligations denominated in New Zealand dollars without callable, puttable, conversion, profit participation, credit enhancement or collateral features;
<b>verification report</b>	means a report prepared by a <b>verifier</b> in accordance with Schedule G;
<b>verifier</b>	means- <ul style="list-style-type: none"> <li>(a) a <b>person</b> who- <ul style="list-style-type: none"> <li>(i) is <b>independent</b>; and</li> <li>(ii) has been engaged to verify the <b>CPP applicant's CPP proposal</b> in accordance with Schedule G; or</li> </ul> </li> <li>(b) a <b>designated individual a person</b> described in paragraph (a);</li> </ul>
<b>vested asset</b>	means an asset associated with the <b>supply of gas distribution services</b> received by a <b>GDB</b> - <ul style="list-style-type: none"> <li>(a) without provision of consideration; or</li> <li>(b) with provision of nominal consideration;</li> </ul>

## W

<b>WACC</b>	means weighted average cost of capital;
<b>WACC change</b>	means an event described in clause 5.7.7(4);
<b>working day</b>	has the same meaning as defined in s 2 of the <b>Act</b> ; and
<b>works under construction</b>	means an asset, or a collection of assets that- <ul style="list-style-type: none"><li>(a) has been or is being or is forecast to be constructed by, or on behalf of, a <b>GDB</b>;</li><li>(b) has not been <b>commissioned</b>;</li><li>and</li><li>(c) the <b>GDB</b> intends to <b>commission</b>.</li></ul>

## PART 2 INPUT METHODOLOGIES FOR INFORMATION DISCLOSURE

### SUBPART 1 Cost allocation

#### 2.1.1 Cost allocation process

(1) Any-

- (a) **operating costs**; and
- (b) **regulated service asset values**,

that are **directly attributable** to **gas distribution services supplied** by the **GDB** must be allocated to **gas distribution services**.

(2) Any-

- (a) **operating costs**; and
- (b) **regulated service asset values**,

that are **directly attributable** to any **other regulated service supplied** by the **GDB** must be allocated to the **other regulated service** to which they are **directly attributable**.

(3) Any **operating costs** and **regulated service asset values** that are not allocated in accordance with subclauses (1) and (2) must be allocated to **gas distribution services** and **other regulated services** using, at the supplier's election-

- (a) **ABAA**; or
- (b) **OVABAA**.

(4) Notwithstanding anything else in this Subpart, the maximum value of-

- (a) **operating costs** that may be allocated to **gas distribution services** and **other regulated services**, in aggregate, must not exceed the total value of **operating costs**; and
- (b) **regulated service asset values** that may be allocated to **gas distribution services** and **other regulated services**, in aggregate, must not exceed the total **regulated service asset values**,

that would be allocated to **gas distribution services** and **other regulated services**, in aggregate, using **ACAM** in accordance with clause 2.1.5.

#### 2.1.2 Allocation constraints

(1) For the avoidance of doubt, all allocations of-

- (a) **operating costs**; and
- (b) **regulated service asset values**,

not **directly attributable** to **other regulated services supplied** by the **GDB** must be consistent with allocations made in accordance with **input methodologies** relating to cost allocation applying to those **other regulated services**.

(2) Where the **OVABAA** is applied to both **operating costs** not **directly attributable** and **regulated service asset values** not **directly attributable**, the combined amount of

such costs and values that is re-allocated in accordance with clause 2.1.4(5) must not exceed the amount required to ensure that the **unregulated service** is not **unduly deterred**.

- (3) For the avoidance of doubt, after application of this Subpart, notwithstanding anything else that may suggest otherwise, each **unregulated service** must bear at least the total-
  - (a) **operating costs**; and
  - (b) value of assets,

**directly attributable** to that **unregulated service**.

### 2.1.3 Accounting-based allocation approach (ABAA)

- (1) **Cost allocators** must be used to allocate **operating costs** not **directly attributable**, less any **arm's-length deduction**, to-
  - (a) **gas distribution services**; and
  - (b) **other regulated services**.
- (2) **Asset allocators** must be used to allocate **regulated service asset values** not **directly attributable**, less any **arm's-length deduction**, to-
  - (a) **gas distribution services**; and
  - (b) **other regulated services**.
- (3) Where a **GDB** uses a **proxy cost allocator** for the purposes of subclause (1) or a **proxy asset allocator** for the purposes of subclause (2), the **GDB** must, in accordance with the requirements in the relevant **ID determination**, explain why a **causal relationship** cannot be established.
- (4) Where a **GDB** uses a **proxy cost allocator** for the purposes of subclause (1), the **GDB** must, in accordance with the requirements in the relevant **ID determination**, explain the rationale for the quantifiable measure used for that **proxy cost allocator**.
- (5) Where a **GDB** uses a **proxy asset allocator** for the purposes of subclause (2), the **GDB** must, in accordance with the requirements in the relevant **ID determination**, explain the rationale for the quantifiable measure used for that **proxy asset allocator**.

### 2.1.4 Optional variation to accounting-based allocation approach (OVABAA)

- (1) This clause applies to the allocation of-
  - (a) only **operating costs** not **directly attributable**;
  - (b) only **regulated service asset values** not **directly attributable**; or
  - (c) **operating costs** not **directly attributable** and **regulated service asset values** not **directly attributable**.
- (2) **Operating costs** not **directly attributable** less any **arm's-length deduction** must be initially allocated to-
  - (a) **gas distribution services**;
  - (b) **other regulated services**; and
  - (c) each **unregulated service**,

using **cost allocators**.

- (3) **Regulated service asset values** not **directly attributable** less any **arm's-length deduction** must be initially allocated to-

- (a) **gas distribution services**;
- (b) **other regulated services**; and
- (c) each **unregulated service**,

using **asset allocators**.

- (4) Where, after application of subclauses (2)(c), (3)(c) or both, an **unregulated service** would-

- (a) be **unduly deterred**, subclause (5) applies; and
- (b) not be **unduly deterred**, the allocation of either or both of-
  - (i) **operating costs** not **directly attributable**; and
  - (ii) **regulated service asset values** not **directly attributable**

must remain as carried out in accordance with either or both of subclauses (2)(c) and (3)(c).

- (5) Where this subclause applies, any-

- (a) **operating costs**; and
- (b) **regulated service asset values**,

not **directly attributable** that were allocated to an **unregulated service** in accordance with either or both of subclauses (2)(c) and (3)(c) may be reduced to the amount at which the **unregulated service** would no longer be **unduly deterred**.

- (6) For the avoidance of doubt, the adjusted amounts determined in accordance with subclause (5) must be treated as the share of either or both of-

- (a) **operating costs**; and
- (b) **regulated service asset values**,

not **directly attributable** to be borne by the **unregulated service** in question.

- (7) The adjusted amounts determined in accordance with subclause (5) must be deducted from either or both the-

- (a) **operating costs** not **directly attributable**; and
- (b) **regulated service asset values** not **directly attributable**,

to which subclause (2) or (3) applied after any **arm's-length deduction** was made, and the remaining costs or values reallocated between-

- (c) **gas distribution services**;
- (d) **other regulated services**; and
- (e) each remaining **unregulated service**,

in accordance with subclauses (2) and (3).

- (8) Where, after application of subclause (7), the-

- (a) **operating costs**; and
- (b) **regulated service asset values**,



not **directly attributable** allocated to another **unregulated service unduly deter** that **unregulated service**, the process in subclauses (5) and (7) may be repeated subject to the modifications specified in subclause (9).

- (9) When re-applying-
- (a) subclause (5) to another **unregulated service**, the starting values of-
    - (i) **operating costs**; and
    - (ii) **regulated service asset values**,not **directly attributable** allocated to that **unregulated service** must be the values obtained in relation to that **unregulated service** as a result of the previous application of subclause (7); and
  - (b) subclause (7), for "to which subclause (2) or (3) applied after any **arm's-length deduction** was made", substitute "to which this subclause previously applied".
- (10) Subclauses (5) and (7) may be re-applied sequentially in respect of each **unregulated service** which is **unduly deterred** until any remaining **regulated service asset values** or **operating costs** or both are of such quantum that their allocation to the remaining **unregulated services** does not result in any of those **services** being **unduly deterred**.
- (11) For the avoidance of doubt, the reallocation undertaken in accordance with subclause (7) is carried out by grossing up allocation percentages used to make allocations to **gas distribution services, other regulated services** and each remaining **unregulated service** based on the same **cost allocators** or **asset allocators**, as the case may be, used under subclauses (2) and (3), to take into account the omission of the allocation percentages for the **unregulated service** to which allocation has already been made under subclause (5).

#### 2.1.5 Avoidable cost allocation methodology (ACAM)

- (1) In respect of-
- (a) **operating costs**; and
  - (b) **regulated service asset values**,
- not
- directly attributable**
- , less any
- arm's-length deduction**
- , an assessment must be made as to the proportion of each that would be non-avoidable were the
- GDB**
- not to
- supply unregulated services**
- .
- (2) The amounts of non-avoidable-
- (a) **operating costs**; or
  - (b) **regulated service asset values**,
- not
- directly attributable**
- , determined in accordance with subclause (1), must be allocated to
- regulated services**
- in aggregate.
- (3) Where the **GDB** supplies **other regulated services**, the amounts allocated in accordance with subclause (2) must be allocated to each **regulated service supplied** by the **GDB** using the **ABAA**.

## SUBPART 2 **Asset valuation**

### 2.2.1 Asset adjustment process for setting initial RAB

- (1) Asset adjustment process means the process of assets-
  - (a) being designated as one of the following asset types:
    - (i) 'excluded';
    - (ii) 'included'; or
    - (iii) 'value modified';
  - (b) of 'value modified' type being assigned a **modified value**; and
  - (c) of 'included' type being assigned an **included value**.
- (2) Subject to subclauses (3) to (6), under the asset adjustment process, a **GDB** may elect to undertake none, some or all of the following things:
  - (a) modify the value of an asset owned by NGC Holdings Limited or a subsidiary company thereof, which asset is treated as of 'value modified' type;
  - (b) designate an asset, except one of those described in subclause (4), used by a **GDB to supply gas distribution services**, as of 'included' type; and
  - (c) correct the following types of errors found in a **GDB's** asset register, where the error relates to **2009 disclosed assets**:
    - (i) assets omitted in error, which assets are designated as of 'included' type;
    - (ii) assets included in error, which assets are designated as of 'excluded' type; and
    - (iii) assets allocated to the incorrect asset category, or given an estimation of quantity, age, category or location now known to be incorrect, which assets are designated as of 'value modified' type;
- (3) The modified value of an asset to which subclause (2)(a) is applied is determined by adjusting its value-
  - (a) in respect of an asset to which subclause (2)(b) or (2)(c) was applied and valued pursuant to subclause (5) or (6), as the case may be; or
  - (b) where neither subclause (2)(b) nor (2)(c) was applied, included in 'Non-Current Assets' in the **2009 disclosure financial statements**,  
  
to the value it would have had as of 30 June 2009 had it been revalued to take account of changes in the consumer price index since 1 July 2005 consistent with the method used by the **Commission** in its 'Gas Control Model' for the purpose of authorising the supply of **controlled services**.
- (4) For the purpose of subclause (2)(b), the assets are-
  - (a) **2009 authorisation assets**;
  - (b) assets that were eligible to be **2009 authorisation assets**;
  - (c) **2009 disclosed assets**;
  - (d) assets that were eligible to be **2009 disclosed assets**;
  - (e) **easement land**; and
  - (f) intangible assets, unless they are-

- (i) **finance leases; or**
  - (ii) **identifiable non-monetary assets.**
- (5) The included value of an asset to which subclause (2)(b) is applied is-
  - (a) its depreciated historic cost determined by applying **GAAP** as of 30 June 2009; or
  - (b) where sufficient records do not exist to establish this cost, its depreciated carrying value in the general purpose financial statements of the **GDB**.
- (6) The included value or modified value, as the case may be, of an asset to which subclause (2)(c) is applied is determined by-
  - (a) taking its value, subject to subclause (7), that resulted, or for an omitted asset, would have resulted, from application of the Gas (Information Disclosure) Regulations 1997, as of the date-
    - (i) the asset was first **commissioned**; or
    - (ii) that fixed assets were most recently revalued, other than for the sole purpose of accounting for inflation, under the Gas (Information Disclosure) Regulations 1997,

whichever is the later;
  - (b) implementing the corrections or modifications required to account for the matters specified in subclause (2)(c) as the case may be; and
  - (c) adjusting that value to the value as of 30 June 2009 by taking account of-
    - (i) **unallocated depreciation** in accordance with the **standard depreciation method**, where the total asset life used for the purpose of that method is the total asset life used for the purpose of the **2009 disclosure financial statements**; and
    - (ii) revaluation to account for consumer price index changes using a method consistent with that used to account for such revaluation in the **2009 disclosure financial statements**.
- (7) Where subclause (6)(a)(ii) applies, the value must be obtained using the revaluation methodology that was applied, or would have been applied, in respect of that asset as of the date in question.

### 2.2.2 Composition of initial RAB

Initial RAB means-

- (a) **2009 authorisation assets;**
- (b) **2009 disclosed assets;**
- (c) **included assets;** and
- (d) in respect of Powerco Limited, assets first **commissioned** in the period beginning on 1 July 2009 and ending on 30 September 2009,

less-

- (e) **excluded assets;**
- (f) intangible assets, unless they are-
  - (i) **finance leases; or**

- (ii) **identifiable non-monetary assets;**
- (g) **works under construction;** and
- (h) in respect of Powerco Limited, **disposed assets** for the period beginning on 1 July 2009 and ending on 30 September 2009.

### 2.2.3 Initial RAB values for assets

- (1) Subject to subclauses (2) and (3), the unallocated initial RAB value of-
- (a) an **included asset** or **value modified asset**, is its **included value** or **modified value**, as the case may be; and
  - (b) any other asset included in **2009 authorisation assets** and described in-
    - (i) paragraph (a) of the definition of 2009 authorisation assets, is its value specified in the **2005 authorisation valuation**; and
    - (ii) paragraph (b) of the definition of 2009 authorisation assets, is its cost determined by applying **GAAP** to the asset as on its **commissioning date**,  
adjusted as of 30 June 2009 by taking account of-
      - (iii) depreciation; and
      - (iv) changes in the consumer price index;
 since 1 July 2005 consistent with the method used by the **Commission** in its 'Gas Control Model' for the purpose of authorising the supply of **controlled services**;
  - (c) any other asset included in **2009 disclosed assets**, is its value included in the 'Non-Current Assets' category in the **2009 disclosure financial statements**; and
  - (d) in respect of Powerco Limited, an asset first **commissioned** in the period beginning on 1 July 2009 and ending on 30 September 2009, is its **value of commissioned asset**.
- (2) For the purpose of subclause (1), where an asset is used by a **GDB** in the **supply** of-
- (a) one or more **regulated service**; or
  - (b) one or more **regulated service** and one or more **unregulated service**,
- where at least one of those **regulated services** is a **gas distribution service**, the unallocated initial RAB value is the value of the asset had no allocation of asset value relevant to regulatory disclosures been undertaken.
- (3) For the purpose of subclause (1), the value established as the unallocated initial RAB value in respect of Powerco Limited must include an adjustment for the three month period beginning on 1 July 2009 and ending on 30 September 2009 by taking account of-
- (a) **unallocated depreciation** applicable to that period in accordance with the **standard depreciation method**, using a remaining asset life consistent with the **2009 disclosure financial statements** or the **Commission's** 'Gas Control Model' for the purpose of authorising the supply of **controlled services** as the case may be; and

- (b) revaluation applicable to that period to account for consumer price index changes using a method consistent with that used in the **2009 disclosure financial statements** or by the **Commission** in its 'Gas Control Model' for the purpose of authorising the supply of **controlled services** as the case may be.
- (4) The initial RAB value of an asset is determined as the value allocated to **gas distribution services** as a result of-
- (a) adopting its **unallocated initial RAB value**; and
  - (b) applying clause 2.1.1 to it as of-
    - (i) in respect of Powerco Limited, 30 September 2009; and
    - (ii) in respect of other **GDBs**, 30 June 2009.

#### 2.2.4 RAB roll forward

- (1) Unallocated opening RAB value in respect of an asset in relation to-
- (a) the **disclosure year 2010**, is its **unallocated initial RAB value**; and
  - (b) a **disclosure year** thereafter is its **unallocated closing RAB value** in the preceding **disclosure year**.
- (2) Unallocated closing RAB value means, in the case of-
- (a) a **found asset**, its **value of found asset**;
  - (b) a **disposed asset**, nil;
  - (c) a **lost asset**, nil;
  - (d) any other asset with an **unallocated opening RAB value**, the value determined in accordance with the formula-
 
$$\text{unallocated opening RAB value} - \text{unallocated depreciation} + \text{unallocated revaluation}; \text{ and}$$
  - (e) any other asset having a **commissioning date** in the **disclosure year** in question, its **value of commissioned asset**.
- (3) Opening RAB value, in respect of an asset, is, for-
- (a) the **disclosure year 2010**, its **initial RAB value**; and
  - (b) a **disclosure year** thereafter, its **closing RAB value** in the preceding **disclosure year**.
- (4) Closing RAB value, in respect of an asset is determined as the value allocated to **gas distribution services** as a result of-
- (a) adopting its **unallocated closing RAB value**; and
  - (b) applying clause 2.1.1 to it.

#### 2.2.5 Depreciation

- (1) Unallocated depreciation, in the case of an asset with an **unallocated opening RAB value**, is determined, subject to subclause (3) and clauses 2.2.6 and 2.2.7, in accordance with the formula-

$[1 \div \text{remaining asset life}] \times \text{unallocated opening RAB value.}$

- (2) Depreciation, in the case of an asset with an **opening RAB value**, is determined, subject to subclause (3) and clause 2.2.6, in accordance with the formula-

$[1 \div \text{remaining asset life}] \times \text{opening RAB value.}$

- (3) For the purposes of subclauses (1) and (2)-
- (a) unallocated depreciation and depreciation are nil in the case of-
    - (i) **land**;
    - (ii) an **easement** other than a **fixed life easement**; and
    - (iii) a **network spare** in respect of the period before which depreciation for the **network spare** in question commences under **GAAP**; and
  - (b) in all other cases, where the asset's **physical asset life** at the end of the **disclosure year** is nil-
    - (i) unallocated depreciation is the asset's **unallocated opening RAB value**; and
    - (ii) depreciation is the asset's **opening RAB value**.

#### 2.2.6 Depreciation - alternative depreciation method

Where, under a **CPP**, in accordance with clause 5.3.8, an **alternative depreciation method** is applied to an asset, unallocated depreciation and depreciation for that asset, in respect of each **disclosure year** of the **CPP regulatory period**, are determined in accordance with that **alternative depreciation method**, subject to, in the case of unallocated depreciation, clause 2.2.7.

#### 2.2.7 Unallocated depreciation constraint

For the purpose of clause 2.2.5, the sum of **unallocated depreciation** of an asset calculated over its **asset life** may not exceed the sum of-

- (a) all **unallocated revaluations** applying to that asset in all **disclosure years**; and
- (b) in the case of an asset-
  - (i) in the **initial RAB**, its **unallocated initial RAB value**; or
  - (ii) not in the **initial RAB**, its **value of commissioned asset** or **value of found asset**.

#### 2.2.8 Physical asset life

- (1) Physical asset life means, subject to subclauses (2) and (5), in the case of-
- (a) a **fixed life easement**, the fixed duration or fixed period (as the case may be) referred to in the definition of **fixed life easement**;
  - (b) an extended life asset or a refurbished asset, its physical service life potential as determined by the **GDB**;
  - (c) ~~a reduced life asset~~ an asset determined by the **GDB** to have a service life potential shorter than its **standard physical asset life**, its physical service life potential determined by an **engineer**, subject to subclause (3);
  - (d) a **found asset** for which a similar asset exists as described in subclause 2.2.12(2)(b)(i), the **asset life** applying to the similar asset;

- (e) a non-**network** asset, or **right-of-use asset**, its **asset life** as determined under **GAAP**;
  - (f) an asset acquired or transferred from a **regulated supplier**, the **asset life** that the vendor would have assigned to the asset at the end of its **disclosure year** had the asset not been transferred;
  - (g) an asset acquired or transferred from an entity other than a **regulated supplier**:
    - (i) where a similar asset exists, the **asset life** assigned to the similar asset; or
    - (ii) where a similar asset does not exist, the physical service life potential determined by an **engineer**, subject to subclause (3).
  - (h) an asset not referred to in paragraphs (a) – (g)-
    - (i) in the **initial RAB** and an **included asset**; or
    - (ii) not in the **initial RAB**,
 and-
    - (iii) having a **standard physical asset life**, its **standard physical asset life**;
    - (iv) not having a **standard physical asset life**, the asset life applying to an asset with an **unallocated opening RAB value** that is similar in terms of asset type; or
    - (v) in all other cases, its physical service life potential determined by an **engineer**, subject to subclause (3);
  - (i) an asset (other than a composite asset) not referred to in paragraphs (a) – (h), its remaining physical service life potential as on 30 June 2009 as determined in accordance with the method used to determine an allowance for depreciation, in the case of a-
    - (i) **2009 authorisation asset**, in the 'Gas Control Model' used by the **Commission** for the purpose of authorising the supply of **controlled services**; and
    - (ii) **2009 disclosed asset**, for the purpose of the **2009 disclosure financial statements**;
  - (j) a composite asset, the average asset life of the assets comprising it determined in accordance with paragraphs (a)–(i), with the modification that each such asset life must be weighted with respect to the proportion of its respective **opening RAB value** to the sum of the **opening RAB values** of the components in the earliest **disclosure year** in which all component assets were held by the **GDB**.
- (2) For the purpose of subclause (1), physical asset life means, in the case of a dedicated asset which is not expected to be used by the **GDB** to provide **gas distribution services** beyond the term of the fixed term agreement relating to the asset between the **GDB** and the **consumer**, at the **GDB's** election, the term of that agreement instead of the physical asset life that would otherwise apply under that subclause.

- (3) For the purpose of subclauses (1)(bc) and (1)(h)(v), a determination made in accordance with this clause by an **engineer** of physical service life potential-
- (a) in relation to an asset with an **unallocated opening RAB value** is deemed applicable to all assets of similar asset type for which there is a requirement in this clause for an **engineer's** determination of physical service life potential; and
  - (b) must be evidenced by a report written by the **engineer** in question that includes an acknowledgement by the **engineer** that the report may be publicly disclosed by a **GDB** pursuant to an **ID determination**.
- (4) In this clause-
- (a) 'dedicated asset' means an asset operated for the benefit of a particular **consumer** pursuant to a fixed term agreement for the **supply of gas distribution services** between the **GDB** in question and that **consumer**;
  - (b) 'extended life asset' means an asset whose physical service life potential is greater than its **standard physical asset life**;
  - (c) 'refurbished asset' means an asset on which work (other than maintenance) has been carried out resulting in an extension to its physical service life potential;
  - (d) ~~'reduced life asset' means an asset determined by the **GDB** to have a physical service life potential shorter than its **standard physical asset life**;~~  
'composite asset' means a configuration of two or more assets that is not capable of operation in the absence of any of those assets.
- (5) If the Commission has applied an adjustment factor in accordance with clause 4.2.2(3), a **GDB** must-
- (a) in respect of the first **disclosure year** of the **DPP regulatory period** in respect of which an adjustment factor is applied by the **Commission** in accordance with clause 4.2.2(3), reduce or extend (as the case may be) the **asset life** of some or all assets that have an **unallocated opening RAB value**, such that the remaining average asset life of existing assets in that **disclosure year** in accordance with subclause (6) is the same value as the **remaining asset life for existing assets** calculated in respect of the **DPP** for that **disclosure year** when applying the formula:  
**aggregate opening RAB value for existing assets ÷ total depreciation**; and
  - (b) for assets **commissioned** in the first and subsequent **disclosure years** of the **DPP regulatory period**, apply a percentage reduction or extension (as the case may be) to the applicable **asset life** for those assets equal to the percentage reduction or extension applied to existing assets of a similar asset type.
- (6) For the purposes of subclause (5)(a), the 'remaining average asset life for existing assets' for a **disclosure year** means the value determined in accordance with the formula-



*sum of opening RAB value for all assets ÷ sum of depreciation for all assets”.*

#### 2.2.9 Revaluation

- (1) Unallocated revaluation is the amount determined, subject to subclause (3), in accordance with the formula-

**unallocated opening RAB value × revaluation rate.**

- (2) Revaluation is the amount determined, subject to subclause (3), in accordance with the formula-

**opening RAB value × revaluation rate.**

- (3) For the purposes of subclauses (1) and (2), where-

- (a) the asset's **physical asset life** at the end of the **disclosure year** is nil; or
- (b) the asset is a-
  - (i) **disposed asset**; or
  - (ii) **lost asset**,

unallocated revaluation and revaluation are nil.

- (4) ‘Revaluation rate’ means, in respect of a **disclosure year**, the amount determined in accordance with the formula-

$(CPI_4 \div CPI_4^{-4}) - 1$ ,

where-

$CPI_4$  means **CPI** for the quarter that coincides with the end of the **disclosure year**; and

$CPI_4^{-4}$  means **CPI** for the quarter that coincides with the end of the preceding **disclosure year**.

#### 2.2.10 Revaluation treated as income

**Revaluation**, for the purpose of determining profitability, must be treated as income.

#### 2.2.11 Value of commissioned assets

- (1) Value of commissioned asset, in relation to an asset (including an asset in respect of which **capital contributions** were received or a **vested asset**), means the cost of the asset to a **GDB** determined by applying **GAAP** to the asset as on its **commissioning date**, except that, subject to subclause (2), the cost of-

- (a) an intangible asset, unless it is-
  - (i) a **finance lease**; or
  - (ii) an **identifiable non-monetary asset**,

is nil;

- (b) an **easement**, is limited to its market value as on its **commissioning date** as determined by a **valuer**;
- (c) **easement land** is nil;
- (d) a **network spare**-

- (i) which is not required, in light of the historical reliability and number of the assets it is held to replace; or
- (ii) whose cost is not treated wholly as or part of the cost of an asset under **GAAP**,

is nil;

- (e) an asset-
  - (i) acquired from another **regulated supplier**; and
  - (ii) used by that **regulated supplier** in the **supply of regulated goods or services**,

is limited to the unallocated closing RAB value of the asset that would have applied for the other **regulated supplier**, had the asset not been acquired by the **GDB** in the **disclosure year** of the **regulated supplier** when the asset was transferred (as 'unallocated closing RAB value' is defined in the **input methodologies** applying to the **supply of regulated goods or services** by the **regulated supplier**);

- (f) an asset that was previously used by a **GDB** in its **supply of other regulated services** is limited to the unallocated opening RAB value of the asset in relation to those **other regulated services** as on the day before the **commissioning date** (as 'unallocated opening RAB value' is defined in the **input methodologies** applying to the **regulated goods or services supplied** by the **GDB**);
- (g) an asset or a component of a **commissioned** asset acquired in a **related party transaction**, other than an asset to which paragraphs (e) or (f) apply, is the cost specified in subclause 2.2.11(5);
- (h) an asset in respect of which **capital contributions** were received where such contributions do not reduce the cost of the asset when applying **GAAP**, is the cost of the asset by applying **GAAP** reduced by the amount of the **capital contributions**; and
- (i) a **vested asset** in respect of which its fair value is treated as its cost under **GAAP**; and must exclude any amount of the fair value of the asset determined under **GAAP** that exceeds the amount of consideration provided by the **GDB**.

(2) When applying **GAAP** for the purpose of subclause (1), the cost of financing is-

- (a) applicable only in respect of the period commencing on the date the asset becomes a **works under construction** and terminating on its **commissioning date**; and
- (b) calculated using a rate not greater than the **GDB's** weighted average of borrowing costs for each applicable **disclosure year**.

(3) For the purposes of subclause (2)(b), the 'weighted average of borrowing costs' is calculated for a **disclosure year** using principles set out in **GAAP**, where:

- (a) the cost of financing rate is the weighted average of the costs applicable to borrowings in respect of **capex** that are outstanding during the **disclosure year**;

- (b) the total costs applicable to borrowings outstanding, as used in calculating the weighted average, must include costs of borrowings made specifically for the purpose of any particular –
  - (i) **capex projects**; or
  - (ii) **capex programmes**; and
- (c) the amount of borrowing costs capitalised during the **disclosure year** must not exceed the amount of borrowing costs incurred during the **disclosure year**;
- (d) if a **capital contribution** is received by an **GDB**, the relevant asset becomes **works under construction** for the purposes of calculating the cost of financing;
- (e) subject to subclause (i), a **capital contribution** will reduce the cost of **works under construction** for the purpose of the calculation of the finance cost, even if the resulting value of **works under construction** is negative;
- (f) subject to subclause (g), if the value of **works under construction** is negative in accordance with subclause (e), the cost of financing for the period ending on the **commissioning date** will be negative;
- (g) if the cost of financing an asset which is **works under construction** is negative under subclause (f), it will reduce the value of the relevant asset or assets by that negative amount where such a reduction is not otherwise made under **GAAP**;
- (h) for the purpose of subclause (d), **works under construction** includes assets that are forecast to be enhanced or acquired; and
- (i) if the cost of financing is derived as income in relation to **works under construction** and is both-
  - (i) negative; and
  - (ii) included in regulatory income under an **ID determination**,
 it will not reduce the value of the relevant asset or assets where such reduction is not otherwise made under **GAAP**.

(4) For the avoidance of doubt-

- (a) revenue derived in relation to **works under construction** that is not included in regulatory income under an **ID determination** or preceding regulatory information disclosure requirements reduces the cost of an asset by the amount of the revenue where such reduction is not otherwise made under **GAAP**; and
- (b) where expenditure on an asset which forms part of the cost of that asset under **GAAP** is incurred by a **GDB** after that asset was **commissioned**, such expenditure is treated as relating to a separate asset.

- (5) For the purpose of paragraph 2.2.11(1)(g), the cost of a **commissioned** asset, or a component of a **commissioned** asset, acquired in a **related party transaction**, must be set on the basis that—
- (a) the cost of a **commissioned** asset or a component of a **commissioned** asset acquired in the **related party transaction** must be given a value not greater than if that transaction had the terms of an **arm's-length transaction**;
  - (b) an objective and independent measure must be used in determining the terms of an **arm's-length transaction** for the purpose of paragraph (a); and
  - (c) for the purpose of paragraph (a), where a **commissioned** asset or a component of a **commissioned** asset is acquired in the **related party transaction**, the value that qualifies for recognition as the cost of a **commissioned** asset or a component of a **commissioned** asset must not exceed the actual amount charged to the **GDB** by the **related party**.
- (6) For the purpose of subclause (5)(a), a **related party transaction** will be treated as if it had the terms of an **arm's-length transaction** if the **commissioned** asset, or component of the **commissioned** asset, acquired from a **related party** is valued at the cost incurred by the **related party**, provided that this is—
- (a) fair and reasonable to the **GDB**; and
  - (b) substantially the same as the cost that has been incurred or would be incurred by the **related party** in providing the same type of asset to third parties.

#### 2.2.12 Value of found assets

- (1) Found asset means, in relation to a **disclosure year**, an asset—
- (a) other than **easement land**;
  - (b) other than an intangible asset, unless it is—
    - (i) a **finance lease**; or
    - (ii) an **identifiable non-monetary asset**;
  - (c) not having a **commissioning date** in the **disclosure year** in question;
  - (d) the value of which—
    - (i) is not included as an **unallocated opening RAB value** in the **disclosure year** in question nor was so included in any prior **disclosure year** pursuant to clause 2.2.4(1); and
    - (ii) was not included in an **unallocated closing RAB value** in any prior **disclosure year** in accordance with clause 2.2.4(2); and
  - (e) first determined by the **GDB** in the **disclosure year** in question to have a **commissioning date** after the **disclosure year 2009**.
- (2) The value of found asset is—
- (a) the **found asset's** cost calculated consistently with **GAAP**; or
  - (b) where sufficient records do not exist to establish the **found asset's** cost for the purposes of **GAAP**—

- (i) where an asset with an **unallocated opening RAB value** for that **disclosure year** is similar (in terms of asset type and age) to the **found asset**, the **unallocated opening RAB value** of the similar asset; and
- (ii) in all other cases, its market value as determined by a **valuer** as at the date that the asset was first determined to have been **commissioned** in a prior **disclosure year** after the **disclosure year 2009**.

## SUBPART 3 Treatment of taxation

### 2.3.1 Regulatory tax allowance

- (1) Regulatory tax allowance is, where **regulatory net taxable income** is-
  - (a) nil or a positive number, the **tax effect of regulatory net taxable income**; and
  - (b) a negative number, nil.
- (2) Regulatory net taxable income is **regulatory taxable income** less **utilised tax losses**.
- (3) Regulatory taxable income is determined in accordance with the formula-  
**regulatory profit / (loss) before tax + permanent differences + regulatory tax adjustments.**
- (4) Regulatory profit / (loss) before tax means the amount of 'regulatory profit / (loss) before tax' as determined in accordance with an **ID determination**.

### 2.3.2 Tax losses

- (1) Utilised tax losses means opening tax losses, subject to subclause (2).
- (2) For the purpose of subclause (1), utilised tax losses may not exceed **regulatory taxable income**.
- (3) In this clause, 'opening tax losses' in relation to a **disclosure year** that commenced-
  - (a) in 2009, is nil; and
  - (b) after 2009, is closing tax losses for the preceding **disclosure year**.
- (4) For the purpose of subclause (3)(b), 'closing tax losses' means the amount determined in accordance with the following formula, in which each term is an absolute value:  

$$\text{opening tax losses} + \text{current period tax losses} - \text{utilised tax losses}.$$
- (5) For the purpose of subclause (4), 'current period tax losses' is where **regulatory taxable income** is-
  - (a) nil or a positive number, nil; and
  - (b) a negative number, **regulatory taxable income**.

### 2.3.3 Permanent differences

- (1) Permanent differences is the amount determined in accordance with the formula-  

$$\text{positive permanent differences} - \text{negative permanent differences}.$$

- (2) For the purpose of subclause (1), 'positive permanent differences' means, subject to subclause (3) the sum of-
- (a) all amounts of income-
    - (i) treated as taxable were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
    - (ii) not included as amounts of income in determining **regulatory profit / (loss) before tax**; and
  - (b) all amounts of expenditure or loss-
    - (i) included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**; and
    - (ii) not treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**,
- if the difference in treatment of amounts of-
- (c) income under paragraphs (a)(i) and paragraph (a)(ii); or
  - (d) expenditure or loss under paragraph (b)(i) and paragraph (b)(ii),
- is a difference that-
- (e) is not a **reversal** or partial **reversal** of a difference for a prior **disclosure year**; and
  - (f) will not **reverse** in a subsequent **disclosure year**.
- (3) For the purpose of subclause (2), positive permanent differences excludes any amounts that are-
- (a) **amortisation of initial differences in asset values**; or
  - (b) **amortisation of revaluations**.
- (4) For the purpose of subclause (1), 'negative permanent differences' means, subject to subclause (5), the sum of-
- (a) all amounts of income-
    - (i) included as amounts of income in determining **regulatory profit / (loss) before tax**; and
    - (ii) not treated as taxable were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
  - (b) all amounts of expenditure or loss-
    - (i) treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
    - (ii) not included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**,
- if there are differences between the values in-

- (c) paragraphs (a)(i) and paragraph (a)(ii); and
- (d) paragraphs (b)(i) and paragraph (b)(ii),

and such differences-

- (e) are not the **reversal** of a difference in a prior **disclosure year**; and
- (f) will not **reverse** in a subsequent **disclosure year**.

- (5) For the purpose of subclause (4), negative permanent differences excludes any amounts that are-
  - (a) expenditure or loss determined in accordance with the **tax rules** that is-
    - (i) interest; or
    - (ii) incurred in borrowing money; and
  - (b) any-
    - (i) tax losses; or
    - (ii) subvention payment made or received by a **GDB**.

#### 2.3.4 Regulatory tax adjustments

- (1) Regulatory tax adjustments are determined in accordance with the formula-
 

**amortisation of initial differences in asset values + amortisation of revaluations - notional deductible interest.**
- (2) For the purpose of subclause (1), 'notional deductible interest' means the amount determined in accordance with the formula-
 

**$((\text{regulatory investment value} \times \text{leverage} \times \text{cost of debt}) + \text{term credit spread differential allowance}) / \sqrt{1 + \text{cost of debt}}$ .**
- (3) For the purpose of subclause (2), 'regulatory investment value' means the value for 'regulatory investment value' determined in accordance with the **ID determination** applicable to the **disclosure year** and the **regulated good or service** in question.

#### 2.3.5 Amortisation of initial differences in asset values

- (1) Amortisation of initial differences in asset values is, subject to subclause (4), determined in accordance with the formula-
 

*opening unamortised initial differences in asset values ÷ opening weighted average remaining useful life of relevant assets.*
- (2) For the purpose of this clause, 'opening unamortised initial differences in asset values' means, in respect of-
  - (a) the **disclosure year** 2010, initial differences in asset values; and
  - (b) each **disclosure year** thereafter, subject to subclause (4), closing unamortised initial difference in asset values for the preceding **disclosure year**.
- (3) For the purpose of subclause (2)(a), 'initial differences in asset values' means, subject to subclause (4), the sum of **initial RAB values** less the sum of **regulatory tax asset values** on the first day of the **disclosure year** 2010.

- (4) For the purpose of subclause (1), 'opening weighted average remaining useful life of relevant assets' means-

$$q = a - b$$

where:

*a* = the 2010 weighted average **remaining asset life** of assets included in the initial RAB calculated by using **initial RAB values** as weightings

*b* = **disclosure year** less 2010.

- (5) For the purpose of subclauses (1) and (2)-
- (a) no account may be taken of unamortised initial differences in asset values of sold assets from the date of sale; and
  - (b) account must be taken of unamortised initial differences in asset values of acquired assets from the date of acquisition.
- (6) For the purpose of subclause (2)(b), 'closing unamortised initial difference in asset values' is determined in accordance with the formula-

*Opening unamortised initial differences in asset values - amortisation of initial difference in asset values*

#### 2.3.6 Amortisation of revaluations

Amortisation of revaluations is calculated in accordance with the formula-

**total depreciation - adjusted depreciation.**

#### 2.3.7 Deferred tax

- (1) Opening deferred tax means, in respect of-
- (a) the **disclosure year** 2010, nil; and
  - (b) **subject to paragraph (c), in respect of** each **disclosure year** thereafter, closing deferred tax for the preceding **disclosure year**; **and**
  - (c) **in respect of each disclosure year after the disclosure year 2010, for assets for which there is no regulatory tax asset value, the opening deferred tax balance under GAAP for those assets at the date when those assets were first commissioned.**
- (2) For the purpose of subclause (1)(b), 'closing deferred tax' is determined in accordance with the formula-
- opening deferred tax + tax effect of temporary differences - tax effect of amortisation of initial difference in asset values + deferred tax balance relating to assets acquired in the disclosure year in question – deferred tax balance relating to assets disposed of in the disclosure year in question + cost allocation adjustment.**
- (3) For the purpose of subclause (2), 'deferred tax balance relating to assets acquired in the **disclosure year** in question' means the amount of deferred tax associated with the assets acquired by the **GDB** from another **regulated supplier** excluding the **reversal** of temporary adjustments arising as a consequence of the sale, as determined in accordance with **input methodologies** applicable to the **regulated services** that the assets in question were used to **supply**.



- (4) For the avoidance of doubt, the amount referred to in subclause (3) must include proportionate adjustments for-
- (a) the **tax effect of temporary differences**; and
  - (b) the **amortisation of initial differences in asset values**,
- up to the date the assets in question were acquired.
- (5) For the purpose of subclause (2), 'cost allocation adjustment' means the **tax effect** of the dollar value difference between the change in the sum of **regulatory tax asset values** on the last day of the **disclosure year** and the change in the sum of **closing RAB values** as a result only of applying-
- (a) the result of asset allocation ratios to the **tax asset value** in accordance with clause 2.3.9(1); and
  - (b) clause 2.1.1 to the **unallocated closing RAB value**.
- (6) For the purpose of subclause (2), 'deferred tax balance relating to assets disposed of in the **disclosure year** in question' means the amount of deferred tax associated with the assets disposed of by the **GDB** and, where that deferred tax balance is a deferred tax liability, it must have a negative value.

#### 2.3.8 Temporary differences

- (1) Temporary differences is the amount determined in accordance with the formula-
- $$\textit{depreciation temporary differences} + \textit{positive temporary differences} - \textit{negative temporary differences}.$$
- (2) For the purpose of this clause, 'depreciation temporary differences' means **adjusted depreciation** less tax depreciation.
- (3) For the purpose of subclause (2) 'tax depreciation' means the sum of the amounts determined for all assets of a **GDB** by application of the **tax depreciation rules** to the **regulatory tax asset value** of each asset.
- (4) For the purpose of subclause (1), 'positive temporary differences' means the sum of-
- (a) all amounts of income-
    - (i) treated as taxable if the **tax rules** were applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
    - (ii) not included as amounts of income in determining **regulatory profit / (loss) before tax**; and
  - (b) all amounts of expenditure or loss-
    - (i) included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**; and
    - (ii) not treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**,

less any amount that are depreciation temporary differences, if there are differences between the values in-

- (c) paragraphs (a)(i) and (a)(ii); and
- (d) paragraphs (b)(i) and (b)(ii),

and such differences-

- (e) are the **reversal** of a difference in a prior **disclosure year**; or
- (f) will **reverse** in a subsequent **disclosure year**.

(5) For the purpose of subclause (1), 'negative temporary differences' means the sum of-

- (a) all amounts of income-
  - (i) included as amounts of income in determining **regulatory profit / (loss) before tax**; and
  - (ii) not treated as taxable were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
- (b) all amounts of expenditure or loss-
  - (i) treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
  - (ii) not included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**,

less any amount that are depreciation temporary differences, if there are differences between the values in-

- (c) paragraphs (a)(i) and (a)(ii); and
- (d) paragraphs (b)(i) and (b)(ii),

and such differences-

- (e) are the **reversal** of a difference in a prior **disclosure year**; or
- (f) will **reverse** in a subsequent **disclosure year**.

### 2.3.9 Regulatory tax asset value

(1) Regulatory tax asset value, in relation to an asset, means the value determined in accordance with the formula-

**tax asset value** × *result of asset allocation ratio*.

(2) Tax asset value means, in respect of-

- (a) an asset,
  - (i) in the **initial RAB** where, in the **disclosure year 2010**, the sum of **unallocated initial RAB values** is less than the sum of the **adjusted tax values** of all assets in the **initial RAB**;
  - (ii) acquired from a **regulated supplier** who used it to **supply regulated goods or services**; or
  - (iii) acquired or transferred from a **related party**,

the value of the asset determined by applying the **tax depreciation rules** to its notional tax asset value; and

(b) any other asset, its **adjusted tax value**.

(3) 'Notional tax asset value' means, for the purpose of-

(a) subclause (2)(a)(i), **adjusted tax value** of the asset in the **disclosure year** 2010 adjusted to account proportionately for the difference between the-

- (i) sum of the **unallocated initial RAB values**; and
- (ii) sum of the **adjusted tax values**,

of all assets in the **initial RAB**;

(b) subclause (2)(a)(ii), value after applying the **tax depreciation rules** to the tax asset value (as 'tax asset value' is defined in the **input methodologies** applying to the **regulated goods or services** in question) in respect of the **disclosure year** in which the asset was acquired; and

(c) subclause (2)(a)(iii), value in respect of the **disclosure year** in which the asset was acquired or transferred that is-

- (i) consistent with the **tax rules**; and
- (ii) limited to its **value of commissioned asset** or, if relevant **capital contributions** are treated for tax purposes in accordance with section CG 8 of the Income Tax Act 2007 (or subsequent equivalent provisions), limited to the **value of commissioned asset** plus any taxed **capital contributions** applicable to the asset.

(4) For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the **tax rules**-

(a) has a matching asset or group of assets maintained for the purpose of Subpart 2, the value obtained in accordance with the formula-

**opening RAB value** *or sum of opening RAB values, as the case may be*

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**unallocated opening RAB value** *or sum of unallocated opening RAB values, as the case may be,*

applying the formula in respect of the asset or smallest group of assets maintained for the purpose of Subpart 2 that has a matching asset or group of assets maintained under the **tax rules**; and

(b) does not have a matching asset or group of assets maintained for the purpose of Subpart 2, the value of the asset allocated to the **supply of gas distribution services** were clause 2.1.1 to apply to the asset or group of assets.

## SUBPART 4 **Cost of capital**

### 2.4.1 Methodology for estimating the weighted average cost of capital

- (1) The **Commission** will determine a mid-point estimate of vanilla **WACC** for each **disclosure year**-
- (a) in respect of the **regulatory period term**~~5 years~~ commencing on the first day of the **disclosure year** in question;
  - (b) within 1 month of the start of the **disclosure year** in question; and
  - (c) in accordance with the formula-

$$r_d L + r_e(1 - L).$$

- (2) The **Commission** will determine a mid-point estimate of post-tax **WACC** for each **disclosure year**-

- (a) in respect of the **regulatory period term**~~5 years~~ commencing on the first day of the **disclosure year** in question;
- (b) within 1 month of the start of the **disclosure year** in question; and
- (c) in accordance with the formula-

$$r_d (1 - T_c)L + r_e (1 - L).$$

- (3) In this clause-

$L$  is **leverage**;

$r_d$  is the cost of debt and is estimated in accordance with the formula:

$$r_f + p + d;$$

$r_e$  is the cost of equity and is estimated in accordance with the formula:

$$r_f(1 - T_i) + \beta_e TAMRP;$$

$T_c$  is the average corporate tax rate;

$r_f$  is the risk-free rate;

$p$  is the **average debt premium**;

$d$  is the debt issuance costs;

$T_i$  is the average investor tax rate;

$\beta_e$  is the equity beta; and

$TAMRP$  is the tax-adjusted market risk premium.

- (4) For the purpose of this clause-

- (a) the average investor tax rate, the equity beta, the debt issuance costs, the average corporate tax rate applicable to companies and the tax-adjusted market risk premium are the amounts specified in or determined in accordance with clause 2.4.2; and
- (b) the risk-free rate must be estimated in accordance with clause 2.4.3.

### 2.4.2 Fixed WACC parameters

- (1) Leverage is 42%.

- (2) 'Average investor tax rate' is the average of the investor tax rates that, as at the date that the estimation is made, will apply to each of the **disclosure years** in the ~~regulatory period term~~**5-year period** commencing on the first day of the **disclosure year** in question.
- (3) For the purpose of subclause (2), 'investor tax rate' is, for each **disclosure year**, the maximum **prescribed investor rate** applicable at the start of the **disclosure year** to an individual who is-
  - (a) resident in New Zealand; and
  - (b) an investor in a **multi-rate PIE**.
- (4) 'Average corporate tax rate' is the average of the **corporate tax rates** that, as at the date that the estimation is made, will apply during the ~~regulatory period term~~**5-year period** commencing on the first day of the **disclosure year** in question.
- (5) 'Equity beta' is 0.69.
- (6) 'Debt issuance costs' are 0.2%.
- (7) 'Tax-adjusted market risk premium' is ~~7.5%, for a 5-year period commencing on the first day of each disclosure year,~~**7.0%**.

#### 2.4.3 Methodology for estimating risk-free rate

The **Commission** will estimate a risk-free rate-

- (a) for each **disclosure year**; and
  - (b) within 1 month of the start of the **disclosure year** in question,
- by-
- (c) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds, the wholesale market linearly-interpolated bid yield to maturity for a residual period to maturity equal to ~~the regulatory period term~~**5-years** on each **business day** in the 3 months preceding the start of the **disclosure year**;
  - (d) calculating the annualised interpolated bid yield to maturity for each **business day**; and
  - (e) calculating the unweighted arithmetic average of the daily annualised interpolated bid yields to maturity.

#### 2.4.4 Methodology for estimating average debt premium

- (1) The **Commission** will determine an estimate of an amount for the **average debt premium**-
  - (a) for each **disclosure year**; and
  - (b) within 1 month of each **disclosure year**.
- (2) For the purpose of subclause (1), 'average debt premium' means the simple arithmetic average of the five **debt premium** values estimated in accordance with subclauses (4), (5) and (6) for:
  - (a) the current **debt premium reference year**; and
  - (b) the four previous **debt premium reference years**.
- (3) For the purpose of subclause (2)(a), 'current debt premium reference year' refers to the **debt premium reference year** that contains the start of the **disclosure year**.

- (4) For the **debt premium reference year** 2017 or earlier, the following **debt premium** values apply-
- (a) 2013 = 1.90%;
  - (b) 2014 = 2.34%;
  - (c) 2015 = 1.84%;
  - (d) 2016 = 1.66%; and
  - (e) 2017 = 1.54%.
- (5) Debt premium means the spread between-
- (a) the bid yield to maturity on **vanilla NZ\$ denominated bonds** that-
    - (i) are issued by a **GPB** or an **EDB**;
    - (ii) are publicly traded;
    - (iii) have a **qualifying rating** of grade BBB+; and
    - (iv) have a remaining term to maturity of 5 years; and
  - (b) the contemporaneous interpolated bid yield to maturity of notional benchmark New Zealand government New Zealand dollar denominated nominal bonds having a remaining term to maturity of 5 years.
- (6) For the purposes of subclause (2), the amount of the debt premium will be estimated by-
- (a) identifying publicly traded **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer** that are-
    - (i) **investment grade credit rated**; and
    - (ii) of a type described in the paragraphs of subclause (7);
  - (b) in respect of each bond identified in accordance with paragraph (a)-
    - (i) obtaining its wholesale annualised market bid yield to maturity; and
    - (ii) calculating by linear interpolation with respect to maturity, the contemporaneous wholesale market annualised bid yield to maturity for a notional benchmark New Zealand government New Zealand dollar denominated nominal bond with the same remaining term to maturity; and
    - (iii) calculating its contemporaneous interpolated bid to bid spread over notional benchmark New Zealand government New Zealand dollar denominated nominal bonds with the same remaining term to maturity, by deducting the yield calculated in accordance with sub-paragraph (ii) from the yield obtained in accordance with sub-paragraph (i),

for each **business day** in the 12 months preceding the start of the **debt premium reference year**;
  - (c) calculating, for each bond identified in accordance with paragraph (a), the unweighted arithmetic average of the daily spreads identified in accordance with paragraph (b)(iii); and

- (d) subject to subclause (7), estimating, by taking account of the average spreads identified in accordance with paragraph (c), and having regard to the debt premium estimated from applying the **Nelson-Siegel-Svensson approach**, the average spread that would reasonably be expected to apply to a **vanilla NZ\$ denominated bonds** that-
  - (i) is issued by a **GPB** or an **EDB** that is neither 100% owned by the Crown nor a **local authority**;
  - (ii) is publicly traded;
  - (iii) has a **qualifying rating** of grade BBB+; and
  - (iv) has a remaining term to maturity of 5 years.
- (7) For the purpose of subclauses (6)(a) and (6)(d), the **Commission** will have regard, subject to subclause (8), to the spreads observed on the following types of **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer**:
  - (a) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by a **GPB** or an **EDB** that is neither 100% owned by the Crown nor a **local authority**;
  - (b) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by an entity other than a **GPB** or an **EDB** that is neither 100% owned by the Crown nor a **local authority**;
  - (c) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by a **GPB** or an **EDB** that is neither 100% owned by the Crown nor a **local authority**;
  - (d) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by an entity other than a **GPB** or an **EDB** that is neither 100% owned by the Crown nor a **local authority**; and
  - (e) those that are-
    - (i) **investment grade credit rated**; and
    - (ii) issued by an entity that is 100% owned by the Crown or a **local authority**.
- (8) For the purpose of subclause (7)-
  - (a) progressively lesser regard will ordinarily be given to the spreads observed on the bond types in accordance with the order in which the bond types are described in subclause (7);
  - (b) the spread on any bond of the type described in subclause (7) that has a remaining term to maturity of less than 5 years will ordinarily be considered to be the minimum spread that would reasonably be expected

to apply on an equivalently credit-rated bond issued by the same entity with a remaining term to maturity of 5 years; and

- (c) the **Commission** will adjust spreads observed on bonds described under subclauses (7)(b) to (7)(e) to approximate the spread that is likely to have been observed had the bonds in question been of the type described in subclause (7)(a).

- (9) For the purpose of subclause (6)(d), 'Nelson-Siegel-Svensson approach' means a method for modelling yield curves and term structures of interest rates which establishes a relationship between terms to maturity and the **debt premium**, where a curve is generated by changing the parameters of a yield curve's functional form to minimise the squared deviation between estimated and observed values.

#### 2.4.5 Methodology for estimating the WACC range and the 67th percentile of WACC

- (1) The **Commission** will determine a WACC range for each **mid-point estimate of WACC**-
  - (a) for each **disclosure year**; and
  - (b) within 1 month of the start of the **disclosure year** in question.

- (2) For the purpose of subclause (1), 'WACC range' means the values falling between the 25th percentile and 75th percentile, inclusive, of the **mid-point estimate of WACC**.

- (3) For the purpose of subclause (2)-

- (a) the **mid-point estimate of WACC** must be treated as the 50th percentile; and
- (b) the-

- (i) 75th percentile must be determined in accordance with the formula-

**mid-point estimate of WACC** +  $0.674 \times \text{standard error}$ ; and

- (ii) 25th percentile must be determined in accordance with the formula-

**mid-point estimate of WACC** -  $0.674 \times \text{standard error}$ ,

where the **standard error** of the relevant **mid-point estimate of WACC** is 0.0105.

- (4) The **Commission** will, commencing with **disclosure year** 2018, determine a 67th percentile estimate of vanilla **WACC** and a 67<sup>th</sup> percentile estimate of post-tax **WACC** –

- (a) for each **disclosure year**; and
- (b) within 1 month of the start of the **disclosure year** in question.

- (5) For the purpose of subclause (4)-

- (a) the **mid-point estimate of WACC** must be treated as the 50th percentile; and
- (b) the 67th percentile must be determined in accordance with the formula-  
**mid-point estimate of WACC** +  $0.440 \times \text{standard error}$ ,



where the **standard error** of the relevant **mid-point estimate of WACC** is 0.0105.

#### 2.4.6 Publication of estimates

The **Commission** will publish all determinations and estimates that it is required to make by this subpart-

- (a) on its website; and
- (b) no later than 1 month after having made them.

#### 2.4.7 Interpretation of terms relating to term credit spread differential

- (1) Qualifying debt means a line of debt-
  - (a) with an original tenor greater than 5 years; and
  - (b) issued by a **qualifying supplier**.
- (2) Qualifying supplier means a **regulated supplier** whose debt portfolio, as at the date of that supplier's most recently published audited financial statements, has a weighted average original tenor greater than 5 years.

#### 2.4.8 Term credit spread difference

- (1) 'Term credit spread difference' is determined in accordance with the formula-

$$T \times U,$$

where-

- (a) 'T' is the amount determined in accordance with the formula-
$$0.00075 \times (\text{original tenor of the } \mathbf{qualifying\ debt} - 5);$$
  - (b) 'U' is the book value in New Zealand dollars of the **qualifying debt** at its date of issue.
- (2) For the purpose of this clause, where the **qualifying debt** is issued to a **related party**, 'original tenor of the **qualifying debt**' means the-
    - (a) tenor of the **qualifying debt**; or
    - (b) period from the **qualifying debt's** date of issue to the earliest date on which its repayment is or may be required,whichever is the shorter.

#### 2.4.9 Methodology for estimating term credit spread differential

- (1) This clause applies to the determination of the amount of any **term credit spread differential** in respect of a **qualifying debt** for the purpose of disclosure pursuant to an **ID determination** of a-
  - (a) **term credit spread differential allowance**; or
  - (b) **term credit spread differential**.
- (2) Disclosure to which this clause applies may only be made by a **qualifying supplier**.
- (3) Term credit spread differential is the amount determined in accordance with the formula-

$$(A \div B) \times C \times D,$$

where-

- (a) 'A' is the sum of the **term credit spread difference** and debt issuance cost re-adjustment;
  - (b) 'B' is the book value of the **qualifying supplier's** total interest-bearing debt as at the balance date of the supplier's financial statements audited and published in the **disclosure year** in question relate;
  - (c) 'C' is **leverage**; and
  - (d) 'D' is, in relation to the **qualifying supplier**, the average of-
    - (i) the sum of **opening RAB values**; and
    - (ii) the sum of **closing RAB values**.
- (4) For the purpose of subclause (3)(a), 'debt issuance cost re-adjustment' is the amount determined in accordance with the formula-
- $$(0.01 \div \textit{original tenor of the qualifying debt} - 0.002) \times \textit{book value in New Zealand dollars of the qualifying debt at its date of issue},$$
- which amount, for the avoidance of doubt, will be a negative number.

## SUBPART 5 Pricing methodologies

### 2.5.1 Disclosure of pricing methodologies

For the purpose of any requirement in an **ID determination** to disclose-

- (a) an explanation of the extent of consistency of a **GDB's** pricing methodology with the **pricing principles**; or
- (b) reasons for any inconsistency between a **GDB's** pricing methodology with the **pricing principles**.

### 2.5.2 Pricing principles

- (1) Prices are to signal the economic costs of service provision, by-
  - (a) being subsidy free, that is, equal to or greater than incremental costs and less than or equal to standalone costs, except where subsidies arise from compliance with legislation and/or other regulation;
  - (b) having regard, to the extent practicable, to the level of available service capacity; and
  - (c) signalling, to the extent practicable, the effect of additional usage on future investment costs.
- (2) Where prices based on 'efficient' incremental costs would under-recover allowed revenues, the shortfall is made up by prices being set in a manner that has regard to **consumers'** demand responsiveness, to the extent practicable.
- (3) Provided that prices satisfy (1) above, prices are responsive to the requirements and circumstances of **consumers** in order to-
  - (a) discourage uneconomic bypass; and
  - (b) allow negotiation to better reflect the economic value of services and enable **consumers** to make price/quality trade-offs or non-standard arrangements for services.

- (4) Development of prices is transparent, promotes price stability and certainty for **consumers**, and changes to prices have regard to the effect on **consumers**.

## PART 3 INPUT METHODOLOGIES FOR BOTH DEFAULT AND CUSTOMISED PRICE-QUALITY PATHS

### SUBPART 1 Specification of price

#### 3.1.1 Specification and definition of prices

- (1) For the purpose of s 53M(1)(a) of the **Act**, the maximum-
- (a) **price** or **prices** that may be charged; or
  - (b) revenues that may be recovered,
- by a **GDB** will be specified in a **DPP determination** or **CPP determination** as a weighted average price cap applying to that **GDB** for a **regulatory period**, defined in terms of a relationship between **allowable notional revenue** and **notional revenue** whereby-
- (c) **notional revenue** must not exceed **allowable notional revenue**;
  - (d) the same **quantities** are used to determine **notional revenue** and **allowable notional revenue**; and
  - (e) the maximum weighted average price that may be charged during the **regulatory period** will not be affected by the actual **prices** charged by the **GDB** during that period.
- (2) 'Allowable notional revenue' means-
- (a) in respect of the first 12 months of a **regulatory period**, a function of a starting price specified in a **DPP determination** or **CPP determination**; and
  - (b) for each subsequent period of 12 months, a function of-
    - (i) **CPI**;
    - (ii) the X factor applicable to the **GDB**; and
    - (iii) **prices** in the preceding 12 month period multiplied by **quantities** net of the sum of **pass-through costs** and **recoverable costs**.
- (3) 'Notional revenue' means, in respect of a 12 month period, **prices** in that period multiplied by quantities net of-
- (a) the sum of **pass-through costs**; and
  - (b) the sum of **recoverable costs**.
- (4) 'Prices' means-
- (a) individual tariffs, fees or charges; or
  - (b) individual components thereof,
- in nominal terms exclusive of **GST** for the **supply** of a **gas distribution service**.
- (5) In this clause, 'quantities' means the amounts **supplied** (other than forecast) of **gas distribution services** corresponding to the extent practicable to **prices**, expressed in units of GJ, day or other unit applicable to such **supply**.

#### 3.1.2 Pass-through costs

- (1) Subject to subclause (4), a pass-through cost is-

- (a) a cost listed in subclause (2); or
  - (b) subject to subclause (3), a cost, other than one listed in subclause (2), specified by way of a **DPP determination** or **CPP determination**.
- (2) For the purpose of subclause (1)(a), the costs are-
- (a) rates on system fixed assets paid or payable by a **GDB** to a **local authority** under the Local Government (Rating) Act 2002; and
  - (b) **levies** payable-
    - (i) under regulations made under s 53ZE of the **Act**;
    - (ii) under regulations made under the Gas Act 1992;
    - (iii) the Commerce (Levy for Control of Natural Gas Services) Regulations 2005; or
    - (iv) by all members of the Electricity and Gas Complaints Commissioner Scheme by virtue of their membership.
- (3) For the purpose of subclause (1)(b), the cost in question must-
- (a) be-
    - (i) associated with the **supply of gas distribution services**;
    - (ii) outside the control of the **GDB**;
    - (iii) not a **recoverable cost**;
    - (iv) appropriate to be passed through to **consumers**; and
    - (v) one in respect of which provision for its recovery is not made explicitly or implicitly in the **DPP** or, where applicable, **CPP**; and
  - (b) come into effect during a **DPP regulatory period** or, where applicable, **CPP regulatory period**.
- (4) For the purpose of subclause (1), where a cost relates to both **gas distribution services** and other services **supplied** by the **GDB**, only the proportion of the cost attributable to the **supply of gas distribution services** (as determined in accordance with clause 2.1.1), may be a pass-through cost.

### 3.1.3 Recoverable costs

- (1) A recoverable cost is a cost that is-
- (a) claw-back applied by the **Commission** under sections 55F(2), 55F(4) or 53ZB(3) of the **Act**;
  - (b) a standard application fee for a **CPP proposal** under 53Q(2)(c), subject to the proviso specified in subclause (2);
  - (c) a fee notified by the **Commission** as payable by the **GDB** in respect of the **Commission** assessing a **CPP proposal** and determining a **CPP** in accordance with s 53Y of the **Act**, subject to the proviso specified in subclause (2);
  - (d) a fee payable to a **verifier**, subject to the requirement specified in subclause (3);
  - (e) any **auditor's** cost incurred for the purpose of meeting clauses 5.1.4 or 5.6.3, subject to the requirement specified in subclause (3);
  - (f) a fee payable to an **engineer** for the purpose of meeting a requirement of clause 5.5.10(4)(b), subject to the requirement specified in subclause (3);

- (g) an urgent project allowance, as determined by the **Commission** under subclause (4);
- (h) the amount calculated for a **GDB** in accordance with the following formula for each **disclosure year** other than the first ‘m’ years in a **regulatory period** for which the starting prices were determined by the **Commission** in a **DPP determination** or **CPP determination**-

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

where–

- l* is the number of **disclosure years** in the **regulatory period**;
- r* is the 67th percentile for the post-tax **mid-point estimate of WACC** applying to the price-quality path for the **regulatory period**;
- y* is the number of **disclosure years** preceding the **disclosure year** in question in the **regulatory period**; and
- m* is-

- (i) for a **GDB** with a **disclosure year** ending on 30 September or 31 December, the value 1; or
- (ii) for a **GDB** with a **disclosure year** ending on 31 March or 30 June, the value 2; or

- (i) a **catastrophic event allowance**, as specified in a **DPP determination** or **CPP determination**.

- (2) For the purposes of subclauses (1)(b) and (1)(c), the proviso is that the **CPP proposal** is not discontinued by the **Commission** under s 53S of the **Act**.
- (3) For the purposes of subclauses (1)(d) – (1)(f), the requirement is that the amount that may be recovered in respect of a particular **GDB** must be specified by the **Commission** in a **CPP determination**.
- (4) ‘Urgent project allowance’ means the allowance determined by the **Commission** in a **CPP determination** in respect of additional net costs where these costs-
  - (a) exceed those already provided for in a **DPP determination** or **CPP determination**;
  - (b) will not otherwise be recovered by the **GDB**; and
  - (c) will be prudently incurred by the **GDB** before commencement of the resulting **CPP regulatory period** in responding to an urgent **project** that occurred in the time between the submission of a **CPP proposal** and determination of the resulting **CPP determination** by the **Commission**.
- (5) For the purpose of clause 3.1.3(1)(h), the ‘capex wash-up adjustment’ is an amount equal to the present value of the difference in the series of building blocks allowable revenue before tax for the **DPP regulatory period** or **CPP regulatory period** in question, subject to subclause (6), from adopting–
  - (a) the sum of **value of commissioned assets** for each **disclosure year** that follows the **base year** in the preceding **DPP regulatory period** or **CPP regulatory period**,

instead of–

- (b) the **forecast aggregate value of commissioned assets** determined by the **Commission** in respect of each of those **disclosure years** when determining prices in accordance with a **DPP determination** or **CPP determination**, or an amendment thereof.
- (6) For the purpose of subclause (5)–
  - (a) the present value must be determined by discounting the series of building blocks allowable revenue before tax, using a discount rate equal to the **WACC** applied by the **Commission** in setting prices for the **DPP regulatory period** or **CPP regulatory period** in question, to–
    - (i) where the **capex wash-up adjustment** is applied for a **DPP regulatory period**, the end of the preceding **DPP regulatory period**;
    - (ii) where the **capex wash-up adjustment** is applied for a **CPP regulatory period**, the point in the preceding **DPP regulatory period** where the **CPP regulatory period** began;
  - (b) the series of building blocks allowable revenue before tax for the **DPP regulatory period** are those used to reset starting prices based on the current and projected profitability of each **GDB** and must–
    - (i) be calculated using the same methodology that was applied by the **Commission** in setting starting prices for the **GDB** for the **DPP**, subject to subparagraphs (ii) and (iii);
    - (ii) for the purpose of subparagraph (i), adopt the sum of **depreciation** calculated under Part 2 in respect of each **disclosure year** that follows the **base year** in the preceding **regulatory period** for assets having a **commissioning date** in any of those **disclosure years**; and
    - (iii) for the purpose of subparagraph (i), adopt the same values for all other inputs to the calculation of building blocks allowable revenue before tax;
  - (c) the series of **building blocks allowable revenue before tax** for the **CPP regulatory period** are those used in setting the series of **maximum allowable revenue after tax** in accordance with clause 5.3.4(1) and must–
    - (i) be calculated using the same methodology that was applied by the **Commission** in setting starting prices for the **GDB** for the **CPP**, subject to subparagraphs (ii) and (iii);
    - (ii) for the purpose of subparagraph (i), adopt the sum of **depreciation** calculated under Part 2 in respect of each **disclosure year** that follows the **base year** in the preceding **DPP regulatory period** for assets having a **commissioning date** in any of those **disclosure years**; and

- (iii) for the purpose of subparagraph (i), adopt the same values for all other inputs to the calculation of **building blocks allowable revenue before tax**;
- (d) where the series of building blocks allowable revenue before tax from adopting the sum of **value of commissioned assets** exceed the series of building blocks allowable revenue before tax from using the **forecast aggregate value of commissioned assets**, then the difference is a positive amount of capex wash-up adjustment;
- (e) where the series of building blocks allowable revenue before tax from adopting the sum of **value of commissioned assets** is less than the series of building blocks allowable revenue before tax from using the **forecast aggregate value of commissioned assets**, then the difference is a negative amount of capex wash-up adjustment; and
- (f) where a **CPP** applies in respect of a **disclosure year** during the **DPP regulatory period**, then the amount of capex wash-up adjustment for that **disclosure year** and each subsequent **disclosure year** of the **DPP regulatory period** will be specified by the **Commission** in the relevant **CPP determination**, taking account the partial recovery of the capex wash-up adjustment in prior **disclosure years** of that **DPP regulatory period**.

## SUBPART 2 Amalgamations

### 3.2.1 Treatment of amalgamations

- (1) The **DPPs** of **GDBs** subject to **DPPs** that have **amalgamated** must be aggregated from the start of the **disclosure year** following the **amalgamation**.
- (2) A **DPP** for an amalgamated **GDB** formed from a **GDB** subject to a **DPP** and a **GDB** subject to a **CPP** applies at the end of the existing **CPP**.
- (3) A **DPP** for an amalgamated **GDB** formed from 2 **GDBs** each subject to a **CPP** applies at the end of the existing **CPPs**.
- (4) Nothing in subclauses (2) and (3)-
  - (a) precludes a **CPP** applying to the amalgamated **GDB** at the end of the existing **CPP** or **CPPs**, as the case may be; nor
  - (b) derogates from the application of a **DPP** to **gas distribution services** that are-
    - (i) **supplied** by the amalgamated **GDB**; and
    - (ii) not the subject of a **CPP**,
 pending expiry of any **DPP** or **CPP** applying to the specified services.
- (5) A **CPP** for an amalgamated **GDB** may not apply before 3 **disclosure years** of each **CPP** applying to the **GDBs** from which it was formed have been completed.
- (6) Upon the determination of a **CPP** for an amalgamated **GDB**, the termination date of any **CPP** to which the amalgamated **GDB** is subject, pursuant to subclauses (2) and



- (3), is treated as amended to the day before the day on which the **CPP** for the amalgamated **GDB** will apply.
- (7) Following an **amalgamation**, the **Commission** may not reset starting prices for specified services to take effect during the remainder of the **regulatory period** applicable to the specified services except-
- (a) for the purpose of s 54K; or
  - (b) when making, upon application and in accordance with this clause, a **CPP determination** for the amalgamated **GDB**.
- (8) For the purposes of this clause, 'specified services' means **regulated goods or services supplied** by the amalgamated **GDB** that, at the time of amalgamation, were subject to a **DPP** or a **CPP**.

## PART 4 INPUT METHODOLOGIES FOR DEFAULT PRICE-QUALITY PATHS

### SUBPART 1 Cost allocation

#### 4.1.1 Allocation of operating costs and asset costs

- (1) **Operating expenditure** forecast for a **GDB** must be determined by the **Commission** consistent with the allocation by the **GDB** of **operating costs** to **gas distribution services** for the **base year** in accordance with clause 2.1.1.
- (2) **Capital expenditure** forecast to be the **forecast aggregate value of commissioned assets** will be included in the **aggregate closing RAB for additional assets**, but only to the extent that the **forecast value of commissioned assets** is consistent with the value found after application of clause 2.1.1.

### SUBPART 2 Asset Valuation

#### 4.2.1 RAB values and roll forward

- (1) Total opening RAB value for a **disclosure year** means the sum of-
  - (a) **aggregate opening RAB value for existing assets** calculated under subclause (2); and
  - (b) **aggregate opening RAB value for additional assets** calculated under subclause (4) for those **additional assets** which have a **forecast aggregate value of commissioned assets** determined for a prior **disclosure year** occurring after the **base year**.
- (2) Aggregate opening RAB value for existing assets means, for-
  - (a) the **base year**, the sum of each 'opening RAB value' for all assets calculated in accordance with Part 2 for that **disclosure year**; and
  - (b) each **disclosure year** thereafter, the **aggregate closing RAB value for existing assets** for the preceding **disclosure year**.
- (3) Aggregate closing RAB value for existing assets means, for-
  - (a) the **base year**, the sum of each 'closing RAB value' for all assets calculated in accordance with Part 2 for that **disclosure year**; and
  - (b) each **disclosure year** thereafter, the value determined in accordance with the formula-
$$\text{aggregate opening RAB value for existing assets} - \text{depreciation for existing assets} + \text{revaluation for existing assets} - \text{forecast aggregate value of disposed assets}.$$
- (4) Aggregate opening RAB value for additional assets means the **aggregate closing RAB value for additional assets** for the preceding **disclosure year**.
- (5) Aggregate closing RAB value for additional assets means, for-
  - (a) **additional assets** in respect of the **disclosure year** for which their **forecast aggregate value of commissioned assets** is determined, the **forecast aggregate value of commissioned assets**; and

- (b) **additional assets** for a **disclosure year** following that for which their **forecast aggregate value of commissioned assets** is determined, the value determined for those **additional assets** in accordance with the formula-

**aggregate opening RAB value for additional assets – depreciation for additional assets + revaluation for additional assets.**

#### 4.2.2 Total depreciation

- (1) Total depreciation means the sum of depreciation for **existing assets** and **additional assets** calculated under subclause (2).

- (2) For the purpose of subclause (1), 'depreciation' means, subject to subclause (3), in the case of-

- (a) **existing assets** of the **GDB**, for-

- (i) the **base year**, the sum of all amounts of 'depreciation' determined in accordance with Part 2 for that **disclosure year**; and  
(ii) each **disclosure year** thereafter, the value determined in accordance with the formula-

$[1 \div \textit{remaining asset life for existing assets}] \times \textbf{aggregate opening RAB value for existing assets}$ ; and

- (b) **additional assets** of the **GDB**, the value determined in accordance with the formula-

$[1 \div \textit{remaining asset life for additional assets}] \times \textbf{aggregate opening RAB value for additional assets}$ .

- (3) For the purpose of subclause (2)-

- (a) 'remaining asset life for existing assets' for a **disclosure year** means-

- (i) **unless subclause (3)(a)(ii) applies**, the value determined in accordance with the formula-

**aggregate opening RAB value for existing assets for the base year ÷ total depreciation for the base year,**

less the number of **disclosure years** from the **base year** to the **disclosure year** in question; **or**

- (ii) **if the Commission applies an adjustment factor for the relevant DPP regulatory period**, the value determined in accordance with the formula-

***adjustment factor* × (aggregate opening RAB value for existing assets for the base year ÷ total depreciation for the base year)**

***less the number of disclosure years from the base year to the disclosure year in question; and***

- (b) 'remaining asset life for additional assets' for a **disclosure year** means-

- (i) **unless subclause (3)(b)(ii) applies**, 45 years less the number of **disclosure years** from the **disclosure year** for which the **forecast aggregate value of commissioned assets** for the relevant **additional assets** is determined to the **disclosure year** in question;  
or
- (ii) if the **Commission** applies an adjustment factor for the relevant **DPP regulatory period**, the value determined in accordance with the formula—  
*adjustment factor × 45 years*

*less the number of disclosure years from the disclosure year for which the forecast aggregate value of commissioned assets for the relevant additional assets is determined to the disclosure year in question.*

- (4) The **Commission** may apply an adjustment factor in respect of a **DPP regulatory period** for the purpose of determining the **remaining asset life for existing assets** and the **remaining asset life for additional assets**, provided the **Commission** is satisfied that applying the adjustment factor would better promote the purpose of Part 4 of the **Act**.

#### 4.2.3 Total revaluation

- (1) Total revaluation means the sum of revaluation for **existing assets** and **additional assets** calculated under subclause (2).
- (2) For the purpose of subclause (1), 'revaluation' means, subject to subclause (3), in the case of-
  - (a) **existing assets**, the value determined in accordance with the formula-  
 $(\text{aggregate opening RAB value for existing assets} \times 0.999 - \text{forecast aggregate value of disposed assets}) \times \text{revaluation rate}$ ; and
  - (b) **additional assets**, the value determined in accordance with the formula-  
 $\text{aggregate opening RAB value for additional assets} \times \text{revaluation rate}$ .
- (3) For the purpose of subclause (2), 'revaluation rate' means, in respect of a **disclosure year**, the amount determined in accordance with the formula-  
 $(CPI_4 \div CPI_4^{-4}) - 1$ ,  
where-  
 $CPI_4$  means **forecast CPI for DPP revaluation** for the quarter that coincides with the end of the **disclosure year**; and  
 $CPI_4^{-4}$  means **forecast CPI for DPP revaluation** for the quarter that coincides with the end of the preceding **disclosure year**.
- (4) For the purpose of subclause (3), 'forecast CPI for DPP revaluation' means-

- (a) for a quarter prior to the quarter for which the vanilla **WACC** applicable to the relevant **DPP regulatory period** was determined, **CPI** as per paragraph (a) of the 'CPI' definition and excluding any adjustments made under paragraph (b) of the **CPI** definition arising as a result of an event that occurs after the issue of the Monetary Policy Statement referred to in paragraph (b) below;
- (b) for each later quarter for which a forecast of the change in headline **CPI** has been included in the Monetary Policy Statement last issued by the Reserve Bank of New Zealand prior to the date for which the vanilla **WACC** applicable to the relevant **DPP regulatory period** was determined, the **CPI** last applying under paragraph (a) extended by the forecast change; and
- (c) in respect of later quarters, the forecast last applying under paragraph (b) adjusted such that an equal increment or decrement made to that forecast for each of the following three years results in the forecast for the last of those years being equal to the target midpoint for the change in headline **CPI** set out in the Monetary Policy Statement referred to in paragraph (b).

#### 4.2.4 Revaluation treated as income

**Total revaluation**, for the purpose of determining profitability, must be treated as income.

#### 4.2.5 Forecast aggregate value of commissioned assets

Forecast aggregate value of commissioned assets means the forecast cost of **additional assets** if **GAAP** were to be applied to determine the cost of the assets to the **GDB** in the **disclosure year** in question, and is equal to forecast **capital expenditure** for the relevant **disclosure year** as determined by the **Commission**.

#### 4.2.6 Forecast aggregate value of disposed assets

Forecast aggregate value of disposed assets means the value of assets forecast to be **disposed** of by a **GDB** in the **disclosure year** in question, and is equal to the portion of the forecast **aggregate opening RAB value for existing assets** relating to assets forecast to be **disposed** of for the **disclosure year** in question as determined by the **Commission**.

### SUBPART 3 **Treatment of taxation**

#### 4.3.1 Regulatory tax allowance

(1) Regulatory tax allowance is, where regulatory net taxable income is-

- (a) nil or a positive number, the **tax effect** of regulatory net taxable income; and
- (b) a negative number, nil.

- (2) For the purpose of subclause (1), 'regulatory net taxable income' means, subject to subclause (3), regulatory taxable income less utilised tax losses.
- (3) For the purpose of subclause (2), 'regulatory taxable income' means, subject to subclause (4), the amount determined in accordance with the formula-
 

**regulatory profit / (loss) before tax + regulatory tax adjustments.**
- (4) For the purpose of subclause (3), 'regulatory profit / (loss) before tax' is the amount determined in accordance with the following formula-
 

**allowable revenue before tax + other regulated income – operating expenditure – total depreciation.**

#### 4.3.2 Tax losses

- (1) Utilised tax losses means opening tax losses, subject to subclause (2).
- (2) For the purpose of subclause (1), utilised tax losses may not exceed **regulatory taxable income**.
- (3) In this clause-
  - (a) 'opening tax losses' for a **disclosure year** means closing tax losses for the preceding **disclosure year**; and
  - (b) 'closing tax losses' means, for-
    - (i) the **base year**, the 'closing tax losses' determined in accordance with Part 2 for that **disclosure year**; and
    - (ii) each **disclosure year** thereafter, the amount determined in accordance with the formula, in which each term is an absolute value:
 

**opening tax losses + current period tax losses – utilised tax losses.**
- (4) For the purpose of subclause (3)(b)(ii), 'current period tax losses' is, where **regulatory taxable income** is-
  - (a) nil or a positive number, nil; and
  - (b) a negative number, **regulatory taxable income**.

#### 4.3.3 Regulatory tax adjustments

- (1) Regulatory tax adjustments are determined, subject to subclauses (2) and (3), in accordance with the formula-
 

**amortisation of initial differences in asset values + amortisation of revaluations – notional deductible interest.**
- (2) For the purpose of subclause (1), 'notional deductible interest' means the amount determined in accordance with the formula-
 

**$((\text{opening investment value} \times \text{leverage} \times \text{cost of debt}) + \text{term credit spread differential allowance}) / \sqrt{1 + \text{cost of debt}}$ .**
- (3) For the purpose of subclause 4.3.3(1), 'amortisation of initial differences in asset values' is determined in accordance with Part 2 as of the **base year**.
- (4) For the purpose of subclause (2), 'opening investment value' means the amount obtained in accordance with the formula-

**total opening RAB value + opening deferred tax.**

- (5) For the purpose of subclause (1), 'amortisation of revaluations' in relation to a **GDB** for a **disclosure year** is calculated in accordance with the formula-

**total depreciation – adjusted depreciation.**

#### 4.3.4 Deferred tax

- (1) Opening deferred tax means, for-

- (a) the **base year**, the 'opening deferred tax' determined in accordance with Part 2 for that **disclosure year**; and
- (b) **subject to paragraph (c)** each **disclosure year** thereafter, closing deferred tax for the preceding **disclosure year**; and
- (c) **each disclosure year after the base year referred to in paragraph (a), for assets for which there is no regulatory tax asset value, the opening deferred tax balance under GAAP for those assets at the date when those assets are forecast to be commissioned**

- (2) For the purpose of subclause (1)(b), 'closing deferred tax' is determined in accordance with the formula-

**opening deferred tax + tax effect of depreciation temporary differences – tax effect of amortisation of initial differences in asset values.**

#### 4.3.5 Depreciation temporary differences

- (1) Depreciation temporary differences means, subject to subclause (2), the amount determined in accordance with the formula-

**adjusted depreciation – tax depreciation.**

- (2) For the purpose of subclause (1), 'tax depreciation' for a **disclosure year** means, for-

- (a) the **base year**, the 'tax depreciation' determined in accordance with Part 2 for that **disclosure year**; and
- (b) each **disclosure year** thereafter, subject to subclause (3), determined in accordance with the formula-

*total opening regulatory tax asset value × average DV rate.*

- (3) For the purpose of subclause (2)-

- (a) 'total opening regulatory tax asset value' for a **disclosure year** means, for-
  - (i) the **base year**, the sum of each 'regulatory tax asset value' determined in accordance with Part 2 for that **disclosure year**; and
  - (ii) each **disclosure year** thereafter, the total closing regulatory tax asset value for the preceding **disclosure year**;
- (b) 'average DV rate' is the amount determined in accordance with the formula-

*tax depreciation for the **base year** ÷ total opening regulatory tax asset value for the **base year**; and*

- (c) 'total closing regulatory tax asset value' means the amount determined in accordance with the formula-
- (i) *total opening regulatory tax asset value – tax depreciation + forecast aggregate value of commissioned assets.*

## SUBPART 4 **Cost of capital**

### 4.4.1 Methodology for estimating the weighted average cost of capital

- (1) The **Commission** will determine a mid-point estimate of vanilla **WACC**-
- (a) as of the first **business day** of the month 7 months prior to the start of each **DPP regulatory period**;
- (b) in respect of a **regulatory period term**~~5-year period~~;
- (c) no later than 6 months prior to the start of each **DPP regulatory period**;  
and
- (d) in accordance with the formula-

$$r_d L + r_e(1 - L).$$

- (2) The **Commission** will determine a mid-point estimate of post-tax **WACC**-
- (a) as of the first **business day** of the month 7 months prior to the start of each **DPP regulatory period**;
- (b) in respect of a **regulatory period term**~~5-year period~~;
- (c) no later than 6 months prior to the start of each **DPP regulatory period**;  
and
- (d) in accordance with the formula-

$$r_d (1 - T_c)L + r_e (1 - L).$$

- (3) In this clause-

$L$  is **leverage**;

$r_d$  is the cost of debt and is estimated in accordance with the formula:

$$r_f + p + d;$$

$r_e$  is the cost of equity and is estimated in accordance with the formula:

$$r_f(1 - T_i) + \beta_e TAMRP;$$

$T_c$  is the average corporate tax rate;

$r_f$  is the risk-free rate;

$p$  is the **average debt premium**;

$d$  is the debt issuance costs;

$T_i$  is the average investor tax rate;

$\beta_e$  is the equity beta; and



TAMRP is the tax-adjusted market risk premium.

- (4) For the purpose of this clause-
  - (a) the average investor tax rate, the average corporate tax rate, the equity beta, the debt issuance costs and the tax-adjusted market risk premium are the amounts specified in or determined in accordance with clause 4.4.2; and
  - (b) the risk-free rate must be estimated in accordance with clause 4.4.3.

#### 4.4.2 Fixed WACC parameters

- (1) Leverage is 42%.
- (2) 'Average investor tax rate' is the average of the investor tax rates that, as at the date the estimation is made, will apply to each of the **disclosure years** in the **regulatory period term 5-year period** commencing on the first day of the **DPP regulatory period** in question.
- (3) For the purpose of subclause (2), 'investor tax rate' is, for each **disclosure year**, the maximum **prescribed investor rate** applicable at the start of the **regulatory period** to an individual who is-
  - (a) resident in New Zealand; and
  - (b) an investor in a **multi-rate PIE**.
- (4) The 'average corporate tax rate' is the average of the **corporate tax rates** that, as at the date that the estimation is made, will apply during the **regulatory period term 5-year period** commencing on the first day of the **DPP regulatory period** in question.
- (5) 'Equity beta' is 0.69.
- (6) 'Debt issuance costs' are 0.2%.
- (7) 'Tax-adjusted market risk premium' is ~~7.5%, for a 5-year period commencing on the first day of the DPP regulatory period~~, **7.0%**.

#### 4.4.3 Methodology for estimating risk-free rate

The **Commission** will estimate a risk-free rate-

- (a) as of the first **business day** of the month 7 months prior to the start of each **DPP regulatory period**;
  - (b) in respect of a **regulatory period term 5-year period**; and
  - (c) no later than 6 months prior to the start of each **DPP regulatory period**,
- by-
- (d) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds, the wholesale market linearly interpolated bid yield to maturity for a residual period to maturity equal to ~~the regulatory period term 5-years~~ on each **business day** in the 3 month period of 8 to 10 months prior to the start of the **DPP regulatory period**;
  - (e) calculating the annualised interpolated bid yield to maturity for each **business day**; and
  - (f) calculating the unweighted arithmetic average of the daily annualised interpolated bid yields to maturity.

#### 4.4.4 Methodology for estimating average debt premium

- (1) The **Commission** will determine an estimate of an amount for the **average debt premium**-
  - (a) for each **DPP regulatory period**; and
  - (b) no later than 6 months prior to the start of each **DPP regulatory period**.
- (2) For the purpose of subclause (1), 'average debt premium' means the simple arithmetic average of the five **debt premium** values estimated in accordance with clause 2.4.4(6) for-
  - (a) the current **debt premium reference year**; and
  - (b) the four previous **debt premium reference years**.
- (3) For the **debt premium reference year** 2017 or earlier, the following **debt premium** values apply-
  - (a) 2013 = 1.90%;
  - (b) 2014 = 2.34%;
  - (c) 2015 = 1.84%;
  - (d) 2016 = 1.66%; and
  - (e) 2017 = 1.54%.

#### 4.4.5 Methodology for estimating the 67th percentile of the WACC

- (1) The **Commission** will determine a 67<sup>th</sup> percentile estimate of vanilla **WACC**-
  - (a) for each **DPP regulatory period**; and
  - (b) no later than 6 months prior to the start of each **DPP regulatory period**.
- (2) The **Commission** will determine a 67<sup>th</sup> percentile estimate of post-tax **WACC**-
  - (a) for each **DPP regulatory period**; and
  - (b) no later than 6 months prior to the start of each **DPP regulatory period**.
- (3) For the purposes of subclause (1) or (2)-
  - (a) the 67th percentile must be determined in accordance with the formula-  
**mid-point estimate of WACC + 0.440 × standard error**,  
where the **standard error** of the **mid-point estimate of WACC** is 0.0105;  
and
  - (b) the relevant **mid-point estimate of WACC** in accordance with clause 4.4.1(1) and (2) must be treated as the 50th percentile.

#### 4.4.6 Publication of estimates

The **Commission** will publish all determinations and estimates that it is required to make by this subpart-

- (a) on its website; and
- (b) no later than 1 month after having made them.

#### 4.4.7 Application of cost of capital methodology

- (1) Where the **Commission** takes into account the cost of capital in making a **DPP determination**, the **Commission** will use the **67th percentile estimate of WACC** determined in accordance with clause 4.4.5(1) and most recently published in accordance with clause 4.4.6.
- (2) **Term credit spread differential allowance** for a **disclosure year** and a **GDB** is the maximum of nil and the amount determined in accordance with the formula-

$$a \times b \div c,$$

where-

*a* means the 'term credit spread differential allowance' calculated in accordance with clauses 4.4.8-4.4.10 for the **base year**;

*b* means the **total opening RAB value** for the **disclosure year** in question; and

*c* means the **aggregate opening RAB value for existing assets** for the **base year**.

- (3) Where a **qualifying supplier** discloses a **term credit spread differential allowance** pursuant to an **ID determination**, the **Commission**, for the purpose of assessing the **qualifying supplier's** profitability pursuant to its powers relating to default price-quality regulation in s 53P of the **Act**, will treat such an allowance as an expense in the **disclosure year** in respect of which that allowance was disclosed.

#### 4.4.8 Methodology for estimating term credit spread differential

- (1) Term credit spread differential is the amount determined for a **qualifying supplier** in accordance with the formula-

$$(A \div B) \times C \times D,$$

where-

- (a) 'A' is the sum of the **term credit spread difference** and debt issuance cost re-adjustment;
- (b) 'B' is the book value of the **qualifying supplier's** total interest-bearing debt as at the balance date of the supplier's financial statements audited and published in the **disclosure year** in question relate;
- (c) 'C' is **leverage**; and
- (d) 'D' is, in relation to the **qualifying supplier**, the average of-
  - (i) the sum of **opening RAB values**; and
  - (ii) the sum of **closing RAB values**.

- (2) For the purpose of subclause (1)(a), 'debt issuance cost re-adjustment' is the amount determined in accordance with the formula-

$$(0.01 \div \textit{original tenor of the qualifying debt} - 0.002) \times \textit{book value in New Zealand dollars of the qualifying debt at its date of issue},$$

which amount, for the avoidance of doubt, will be a negative number.

#### 4.4.9 Term credit spread difference

- (1) 'Term credit spread difference' is determined in accordance with the formula-

$$T \times U,$$

where-

- (a) 'T' is the amount determined in accordance with the formula-  
$$0.00075 \times (\text{original tenor of the } \mathbf{qualifying\ debt} - 5);$$
  - (b) 'U' is the book value in New Zealand dollars of the **qualifying debt** at its date of issue.
- (2) For the purpose of this clause, where the **qualifying debt** is issued to a **related party**, 'original tenor of the **qualifying debt**' means the-
- (a) tenor of the **qualifying debt**; or
  - (b) period from the **qualifying debt's** date of issue to the earliest date on which its repayment is or may be required,

whichever is the shorter.

#### 4.4.10 Interpretation of terms relating to term credit spread differential

- (1) 'Qualifying debt' means a line of debt-
- (a) with an original tenor greater than 5 years; and
  - (b) issued by a **qualifying supplier**.
- (2) 'Qualifying supplier' means a **regulated supplier** whose debt portfolio, as at the date of that supplier's most recently published audited financial statements, has a weighted average original tenor greater than 5 years.

### SUBPART 5 **Reconsideration of the default price-quality path**

#### 4.5.1 Catastrophic Event

Catastrophic event means an event-

- (a) beyond the reasonable control of the **GDB**;
- (b) in relation to which expenditure is not explicitly or implicitly provided for in the **DPP**;
- (c) that could not have been reasonably foreseen at the time the **DPP** was determined; and
- (d) in respect of which-
  - (i) action required to rectify its adverse consequences cannot be delayed until a future **regulatory period** without quality standards being breached;
  - (ii) remediation requires either or both of **capital expenditure** or **operating expenditure** during the **regulatory period**;
  - (iii) the full remediation costs are not provided for in the **DPP**; and
  - (iv) in respect of a **GDB** subject to a **DPP**, the cost of remediation net of any insurance or compensatory entitlements has had or will have an impact on the price path over the **disclosure years** of the **DPP** remaining on and after the first date at which a remediation cost is proposed to be or has been incurred, by an amount equivalent to at least 1% of the aggregated **allowable notional revenue** for the

**disclosure years** of the **DPP** in which the cost was or will be incurred.

#### 4.5.2 Change event

Change event means–

- (a) change in a; or
- (b) a new, legislative or regulatory requirement applying to a **GDB** subject to a **DPP** the effect of which–
- (c) must take place during the current **regulatory period**;
- (d) is not explicitly or implicitly provided for in the **DPP**; and either-
- (e) necessitates incurring additional reasonable costs in responding to the change or new requirement that has had or will have an impact on the price path of the **disclosure years** of the **DPP regulatory period** in which the change or new requirement applies of at least 1% of the aggregate amount of the **allowable notional revenue** for the **disclosure years** in which the net costs are or will be incurred; or
- (f) causes an **input methodology** to become incapable of being applied.

#### 4.5.3 Error event

- (1) ‘Error event’ means, subject to subclause (2), a clearly unintended circumstance identified by the **Commission** where the **DPP** was determined or amended based on an error, including where:
  - (a) incorrect data was used in setting the price path or the quality standard; or
  - (b) data was incorrectly applied in setting the price path or quality standards.
- (2) For the purposes of subclause (1), an error relating to-
  - (a) the price path will not constitute an **error event** unless the error has an impact on the price path of an amount equivalent to at least 1% of the aggregate **allowable notional revenue** for the affected **disclosure years** of the **DPP**; and
  - (b) the metrics by which quality standards are specified in the **DPP** will not constitute an **error event** unless it is an error in the value of the metric.

#### 4.5.4 Major transaction

‘Major transaction’ means a transaction, whether contingent or not, where **consumers** are acquired or no longer **supplied** by the **GDB** 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 more than 10% of the **GDB’s opening RAB value** in the **disclosure year** of acquisition;

- (b) has resulted in, or will result in, the disposal of, or an agreement to dispose of, assets of the **GDB** with a value of more than 10% of the **opening RAB value** in the **disclosure year** of disposal;
- (c) has, or is likely to have, the effect of the **GDB** acquiring rights or interests with a value which is equivalent to more than 10% of the **opening RAB value** in the **disclosure year** of acquisition; or
- (d) has, or is likely to have, the effect of the **GDB** incurring obligations or liabilities or contingent liabilities, excluding loans or borrowing costs in respect of assets, with a value which is equivalent to more than 10% of the **opening RAB value** in the **disclosure year** of incurring the obligation.

#### 4.5.4A Capacity Event

'Capacity event' means an event for which a **GDB** demonstrates that –

- (a) the **GDB's network** needs additional capacity to provide **gas distribution services**;
- (b) the additional capacity has the primary driver of meeting established or reasonably anticipated demand for –
  - (i) **customer connection capex**;
  - (ii) **system growth capex**;
  - (iii) **asset relocations capex**;
  - (iv) **asset replacement and renewal capex**; or
  - (v) a combination of **customer connection capex** and **system growth capex**;
- (c) when the **DPP** was determined, the need for the additional capacity –
  - (i) was not sufficiently certain as to timing and was therefore not provided for; or
  - (ii) could not reasonably have been foreseen by a prudent **GDB**; and
- (d) providing the additional capacity –
  - (i) would require First Gas, Powerco, or Vector to incur costs of at least two million dollars, or GasNet to incur costs of at least one hundred thousand dollars of **capex** during the **DPP regulatory period** above any allowance provided for in the **DPP**; and
  - (ii) meets the **expenditure objective**.

#### 4.5.4B Risk event

'Risk event' means an event for which a **GDB** demonstrates that-

- (a) Based on a **probabilistic risk assessment**, one or more of the assets in the **GDB's network** will deteriorate to such an extent that failing to take steps in the **DPP regulatory period** to remedy the deterioration would –

- (i) have a materially adverse effect on the **GDB's** ability to meet its quality standards; or
- (ii) compromise safety for –
  - (A) any person;
  - (B) any equipment; or
  - (C) the network;
- (b) when the **DPP** was determined, the need to remedy the deterioration –
  - (i) was not sufficiently certain as to timing and was therefore not provided for; or
  - (ii) could not reasonably have been foreseen by a prudent **GDB**; and
- (c) taking steps to remedy the deterioration –
  - (i) would require First Gas, Powerco or Vector to incur costs of at least two million dollars, or GasNet to incur costs of at least one hundred thousand dollars of **capex** during the **DPP regulatory period** above any allowance provided for in the **DPP**; and
  - (ii) cannot be delayed until a future **regulatory period** without compromising safety or having a materially adverse effect on the **GDB's** ability to meet its quality standards; and
  - (iii) meets the **expenditure objective**.

#### 4.5.5 When price-quality paths may be reconsidered

- (1) A **DPP** may be reconsidered by the **Commission** if-
  - (a) the **Commission** considers, or the **GDB** applies to the **Commission** and satisfies the **Commission**, that-
    - (i) subject to subclause (2), a **catastrophic event** has occurred;
    - (ii) a **change event** has occurred;
    - (iii) there has been an **error event**;
    - (iv) a **major transaction** has occurred;
    - (v) **false or misleading information** has been provided;
    - (vi) **a capacity event** has occurred; or
    - (vii) **a risk event** has occurred.
- (2) For the purpose of subclause (1)(b)(i), where the costs to rectify the adverse consequences of the **catastrophic event** are fully covered by –
  - (a) the **DPP** (e.g. through an **operational expenditure** allowance for self-insurance); or
  - (b) commercial insurance held by the **GDB**,  
the **Commission** will only reconsider the quality standards of the **DPP**.
- (3) For the purpose of subclause (1)(a)(v), 'false or misleading information' means-
  - (a) false or misleading information relating to the making or amending of a **DPP determination** has been knowingly-

- (i) provided by a **GDB** or its agents to the **Commission**; or
  - (ii) disclosed pursuant to the Gas (Information Disclosure) Regulations 1997 or an **ID determination**; and
- (b) the **Commission** relied on that information in making or amending a **DPP determination**.
- (4) The **Commission** will not reconsider a **GDB's DPP** in respect of a **capacity event** or **risk event**, if the total forecast value of **commissioned** assets attributable to the **capacity event** or **risk event** exceeds three hundred and fifty thousand dollars in the case of GasNet, and ten million dollars for each of Powerco, Vector and First Gas, or the **capacity event** or **risk event** has already been the subject of a reconsideration of the **DPP** by the **Commission**.
- (5) In the case of a **capacity event** or **risk event** the **Commission** may only reconsider the price path.
- (6) In calculating the total forecast value of **commissioned** assets attributable to a **capacity event** or **risk event**, the following must be disregarded:
- (a) **Capital contributions** received by the **GDB** in respect of the **capacity event**; and
  - (b) any amounts included in respect of the **capacity event** or **risk event** in the **GDB's capex** forecast and provided for by the **Commission** when setting the **DPP**.

#### 4.5.6 Amending price-quality path after reconsideration

- (1) Where, after reconsidering a **DPP**, the **Commission** determines that the **DPP** should be amended, the **Commission** may amend either or both of the price path or the quality standards specified in the **DPP determination**, subject to the rest of this clause.
- (2) The **Commission** will not amend the-
- (a) price path more than is reasonably necessary to mitigate the effect of-
    - (i) the **catastrophic event**;
    - (ii) the **change event**;
    - (iii) the **error event**;
    - (iv) the **major transaction**; ~~or~~
    - (v) the provision of **false or misleading information**;
    - (vi) **the capacity event**; or
    - (vii) **the risk event**,
 on **price**;
  - (b) quality standards more than are reasonably necessary to mitigate the effect of-
    - (i) the **catastrophic event**;
    - (ii) the **change event**;
    - (iii) the **error event**;
    - (iv) the **major transaction**; or
    - (v) the provision of **false or misleading information**,



on quality.

- (3) In determining the extent of any amendment to the price path, the **Commission** must take the **expenditure objective** into account.

## SUBPART 6 Treatment of periods that are not 12 month periods

### 4.6.1 Treatment of periods that are not 12 month periods

Where the start or end date of any **disclosure year** is not aligned with the start or end date of a **DPP regulatory period**, the **Commission** may apply the **input methodologies** modified to the extent necessary to allow any allowance, amount, cost, sum or value for that **disclosure year** to be calculated or determined in a way commensurate with the change in the length of the **disclosure year** to a period other than 12 months.

## SUBPART 7 Availability of Information

### 4.7.1 Availability of information

- (1) Where a **GDB** has not disclosed the information necessary to calculate any allowance, amount, cost, sum or value referred to in this Part in accordance with Part 2 for a **base year** or a later **disclosure year**, then the information may instead be determined by the **Commission** using information disclosed by the **GDB** in accordance with an **ID determination**, prior information disclosure requirements or a request for information by the **Commission** under s 53ZD of the **Act**.
- (2) Any information determined in accordance with subclause (1) must be determined in accordance with Part 2 using such assumptions or modifications to the information that are reasonably necessary in light of the nature of the calculation or determination to be made and the information available.

## SUBPART 8 Transitional Provision for Powerco

### 4.8.1 Specification of disclosure year and base year for first DPP regulatory period

For the purpose of a **DPP** determined by the **Commission** for Powerco Limited for the first **DPP regulatory period**, each reference to 'disclosure year' and 'base year' in this Part, including to references to those terms as used in Part 2 for the purposes of this Part, shall be construed as meaning a 12 month period ending on 30 June.

## PART 5 INPUT METHODOLOGIES FOR CUSTOMISED PRICE-QUALITY PATHS

### SUBPART 1 Contents of a CPP application

#### 5.1.1 Applying for a CPP

- (1) A **GDB** seeking a **CPP** in accordance with s 53Q of the **Act** must provide the **Commission** with a **CPP application**.
- (2) **CPP application** means an application containing, in all material respects, the information specified in-
  - (a) this subpart; and
  - (b) Subpart 5.

#### 5.1.2 Evidence of consumer consultation

For the purpose of clause 5.1.1(2)(a), in respect of **consumer** consultation, the specified information is-

- (a) a description as to how the requirements of clause 5.6.1 were met;
- (b) a list of respondents to the consultation required by that clause;
- (c) a description of all issues raised by **consumers** in response to the **CPP applicant's** intended CPP proposal;
- (d) a summary of the arguments raised in respect of each issue described in accordance with paragraph (c); and
- (e) in respect of the issues described in accordance with paragraph (c), an explanation as to whether its **CPP proposal** accommodates the arguments referred to in (d); and
  - (i) if so, how; and
  - (ii) if not, why not.

#### 5.1.3 Verification-related material

- (1) For the purpose of clause 5.1.1(2)(a), in respect of verification, the specified information is-
  - (a) a **verification report**;
  - (b) any information relating to the **CPP proposal**, other than information required to be included in a **CPP proposal** by Subpart 5, provided to the **verifier** by or on behalf of the **CPP applicant**, pursuant to clauses 5.6.2(3)(a)-(c) and 5.6.2(3)(e);

*Examples: instructions as to how to interpret information provided to the **verifier**; details as to the source of the information;*

- (c) any other information relied upon by the **verifier** relating to the **CPP proposal** pursuant to clause 5.6.2(3)(d); and
- (d) subject to subclause (2), a certificate signed by the **verifier** stating that the-
  - (i) relevant parts of the **CPP proposal** were verified; and
  - (ii) **verification report** was prepared in accordance with Schedule G.

- (2) For the purpose of subclause (1)(d), the **CPP applicant** must ensure that the certificate required by that subclause relates to verification of the relevant parts of the **CPP proposal** as submitted to the **Commission**.

#### 5.1.4 Audit and assurance reports

- (1) For the purpose of clause 5.1.1(2)(a), in respect of audit or assurance, the specified information is a report written by an **auditor** and signed by that **auditor** (either in an individual's name or that of a firm) in respect of an audit or assurance engagement undertaken of the matters specified in clause 5.6.3, stating-
  - (a) the work done by the **auditor**;
  - (b) the scope and limitations of the audit or assurance engagement;
  - (c) the existence of any relationships (other than that of **auditor**) which the **auditor** has with, or any interests which the **auditor** has in, the **CPP applicant** or any of its subsidiaries;
  - (d) whether the **auditor** obtained all information and explanations that he or she required to undertake the audit or assurance engagement, and, if not-
    - (i) details of the information and explanations not obtained; and
    - (ii) any reasons provided by the **CPP applicant** for its or their non-provision;
  - (e) the **auditor's** opinion of the matters in respect of which the audit or assurance engagement was undertaken.
- (2) A report in respect of an audit or assurance engagement undertaken other than expressly to meet the requirements of clause 5.6.3 may be considered to comply with subclause (1) to the extent that the report in respect of that other audit or assurance engagement fully or partially meets the requirements of clause 5.6.3.
- (3) The **CPP applicant** must ensure that reports required by this clause relate to the **CPP proposal** as submitted to the **Commission**.
- (4) For the avoidance of doubt, the reports required by this clause need not be-
  - (a) prepared in advance of the **verifier** undertaking verification of the **CPP proposal**; nor
  - (b) provided to the **verifier**.
- (5) If, notwithstanding subclause (4), a report prepared in accordance with this clause is provided to the **verifier**, subclause (3) continues to apply.

#### 5.1.5 Certification

- (1) For the purpose of clause 5.1.1(2)(a), in respect of certification, the specified information is the certificates recording the certifications specified in clause 5.6.4.
- (2) For the avoidance of doubt, one physical **document** may contain more than one of the certifications specified in clause 5.6.4.

#### 5.1.6 Modification or exemption of CPP application requirements

- (1) The **Commission** may approve a modification to, or exemption from, any requirement set out in—
  - (a) this subpart;
  - (b) Subpart 5;

- (c) Subpart 6; or
  - (d) schedules relating to subparts identified in paragraphs (a) to (c) above.
- (2) A modification or exemption may be approved where, in the **Commission's** opinion, the modification or exemption will not detract, to an extent that is more than minor, from—
- (a) the **Commission's** evaluation of the **CPP proposal**;
  - (b) the **Commission's** determination of a **CPP**; and
  - (c) the ability of interested persons to consider and provide their views on the **CPP proposal**.
- (3) When considering whether a modification or exemption is likely to detract, to an extent that is more than minor, from the processes listed in subclauses (2)(a)-(c), the **Commission** may have regard to the size of the supplier's business.
- (4) A modification or exemption will only apply for the purposes of assessing compliance of a **CPP application** under s 53S(1) of the **Act**—
- (a) if the **Commission** has previously approved a request by a **CPP applicant** for the modification or exemption in accordance with clause 5.1.7;
  - (b) in respect of the **CPP applicant** and the **CPP application** identified in the **Commission's** approval; and
  - (c) if the **CPP applicant** elects to apply the modification or exemption by:
    - (i) meeting all conditions and requirements specified in the approval that relates to the modification or exemption; and
    - (ii) providing the relevant information specified in clause 5.1.8 as part of its **CPP application**.

#### 5.1.7 Process for obtaining a modification or exemption

- (1) At any time prior to providing the **Commission** with a **CPP application**, a **CPP applicant** may request modifications or exemptions to the requirements listed in clause 5.1.6(1) as alternatives to those requirements.
- (2) A request by a **CPP applicant** must—
- (a) be in writing;
  - (b) include the following information:
    - (i) the **CPP applicant's** name and contact details;
    - (ii) a brief description of the key features of its intended **CPP proposal**;
    - (iii) the date that the **CPP applicant** intends to submit the **CPP application** for which a modification or exemption is sought;
    - (iv) a list of the specific modifications or exemptions sought;
    - (v) an explanation of why the **CPP applicant** considers the requirements in clause 5.1.6(2) are met;
    - (vi) evidence in support of the explanation provided under subparagraph (v); and
    - (vii) identification of any information that is commercially sensitive.
- (3) Subparagraph (2)(b)(vi) may be satisfied by submitting a certificate, signed by a senior manager of the **CPP applicant**, setting out the factual basis on which he or she believes the requirements in subclause 5.1.6(2) are met.

- (4) In considering whether to approve a request for modification or exemptions, the **Commission** may seek, and have regard to—
- (a) views of interested persons within any time frames and processes set by the **Commission**; and
  - (b) views of any person the **Commission** considers has expertise on a relevant matter.
- (5) As soon as reasonably practicable after receipt of a request for modifications or exemptions the **Commission** will, by notice in writing, advise the **CPP applicant** as to whether:
- (a) any of the modifications or exemptions are approved; and
  - (b) the approval of any modification or exemption is subject to conditions or requirements that must be met by the **CPP applicant**.

#### 5.1.8 Information on modification or exemption of information requirements

Where a **CPP applicant** elects to apply a modification or exemption approved by the **Commission** in accordance with clause 5.1.7, it must include as part of its **CPP application**—

- (a) a copy of the **Commission**'s approval;
- (b) a list of the approved modifications or exemptions which the **CPP applicant** has elected to apply in its **CPP application**;
- (c) evidence that any conditions or requirements of the approval have been met; and
- (d) an indication, at the relevant locations within the document or documents comprising the **CPP application**, as to where the modifications or exemptions have been applied.

## SUBPART 2 **Commission assessment of a customised price-quality path proposal**

### 5.2.1 Evaluation criteria

The **Commission** will use the following evaluation criteria to assess each **CPP proposal**:

- (a) whether the **CPP proposal** is consistent with the **input methodologies** specified in Part 5;
- (b) the extent to which a **CPP** in accordance with the **CPP proposal** would promote the purpose of Part 4 of the **Act**;
- (c) whether data, analysis, and assumptions underpinning the **CPP proposal** are fit for the purpose of the **Commission** determining a **CPP** under s 53V, including consideration as to the accuracy and reliability of data and the reasonableness of assumptions and other matters of judgement;
- (d) whether proposed **capital expenditure** and **operating expenditure** meet the **expenditure objective**; and
- (e) the extent to which-

- (i) the **CPP applicant** has consulted with **consumers** on its **CPP proposal**; and
- (ii) the **CPP proposal** is supported by **consumers**, where relevant.

### SUBPART 3 Determination of customised price-quality paths

#### SECTION 1 Determination of annual allowable revenues

##### 5.3.1 Annual allowable revenues

- (1) Amounts for-
  - (a) controllable opex for the **CPP regulatory period**;
  - (b) **building blocks allowable revenue before tax** for the **next period**;
  - (c) **building blocks allowable revenue after tax** for the **next period**;
  - (d) **maximum allowable revenue before tax** for the **CPP regulatory period**;
  - and
  - (e) **maximum allowable revenue after tax** for the **CPP regulatory period**,
 will be determined.

##### 5.3.2 Building blocks allowable revenue before tax

- (1) Building blocks allowable revenue before tax for each **disclosure year** of the **next period** is determined in accordance with the formula-
 
$$\begin{aligned} & (\text{regulatory investment value} \times \text{cost of capital} + \text{total value of commissioned} \\ & \text{assets} \times (TF_{VCA} - 1) + \text{term credit spread differential allowance} \times TF - \text{total} \\ & \text{revaluation}) \div (TF_{rev} - \text{corporate tax rate} \times TF) \\ & + (\text{total depreciation} \times (1 - \text{corporate tax rate} \times TF) \\ & + \text{forecast operating expenditure} \times TF \times (1 - \text{corporate tax rate}) \\ & - \text{other regulated income} \times TF \times (1 - \text{corporate tax rate}) \\ & + (\text{closing deferred tax} - \text{opening deferred tax}) \times (TF - 1) \\ & + (\text{permanent differences} + \text{regulatory tax adjustments} - \text{utilised tax losses}) \times \\ & \text{corporate tax rate} \times TF) \div (TF_{rev} - \text{corporate tax rate} \times TF). \end{aligned}$$
- (2) 'Regulatory investment value' means the amount obtained in accordance with the formula-
 
$$\text{total opening RAB value} + \text{opening deferred tax}.$$
- (3) For the purpose of subclause (1), 'total value of commissioned assets' means, in relation to a **disclosure year**, the sum of **closing RAB values** for all **commissioned assets** calculated in accordance with clause 5.3.6(3)(b).
- (4) For the purpose of subclause (1) –
  - (a) 'TF' is determined in accordance with the formula-
 
$$(1 + \text{cost of capital})^{182/365};$$
  - (b) 'TF<sub>rev</sub>' is determined in accordance with the formula-
 
$$(1 + \text{cost of capital})^{148/365};$$

- (c) 'TF<sub>VCA</sub>' is determined in accordance with the formula-  

$$PV_{VCA} \times (1 + \text{cost of capital}) \div \text{total value of commissioned assets};$$
 and
  - (d) 'PV<sub>VCA</sub>' means the sum of the present value of **closing RAB values** for **commissioned** assets calculated in accordance with clause 5.3.6(3)(b), where each present value is determined by discounting each **closing RAB value** by the *cost of capital* from the relevant **commissioning date** to the commencement of the relevant **disclosure year**.
- (5) For the purpose of this clause, 'cost of capital' has the meaning specified in clause 5.3.22.
  - (6) 'Forecast operating expenditure' means, in relation to a **CPP proposal**-
    - (a) 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
    - (b) undergoing assessment by the **Commission**, the amount of **operating expenditure** determined for the relevant **disclosure year** by the **Commission** after assessment of the amount in paragraph (a) against the **expenditure objective**.
  - (7) 'Other regulated income' means income associated with the **supply of gas distribution services** other than-
    - (a) through **prices**;
    - (b) investment-related income;
    - (c) **capital contributions**; or
    - (d) **vested assets**.
  - (8) For the purpose of this clause, all values and amounts are expressed in nominal terms unless otherwise specified.

### 5.3.3 Building blocks allowable revenue after tax

- (1) 'Building blocks allowable revenue after tax' is **building blocks allowable revenue before tax** less **forecast regulatory tax allowance**.
- (2) For the purpose of this clause, all values and amounts are expressed in nominal terms.

### 5.3.4 Price path

- (1) The present value of the series of values of maximum allowable revenues after tax must equal the present value of the series of **building blocks allowable revenue after tax** adjusted for the present value of any claw-back for the **CPP regulatory period**, where present values are determined in accordance with subclause (3).
- (2) In subclause (1)-
  - (a) the reference to claw-back is a reference to claw-back determined by the **Commission** pursuant to s 53V(2)(b), in the case of a **CPP determination** made-
    - (i) in response to a **CPP proposal** made in accordance with provisions in a **DPP determination** relating to the submission of **CPP proposals** in response to a **catastrophic event**; or

- (ii) as a result of a reconsideration of the price-quality path in accordance with clause 5.7.7(1) and an amendment made to the price-quality path after reconsideration under clause 5.7.8(1); and
  - (b) each reference to a series of values is a reference to the value determined in respect of each **disclosure year** of the **CPP regulatory period**.
- (3) For the purpose of subclause (1), the present value of each series must be determined using the cost of capital as specified in clause 5.3.22.
- (4) For the avoidance of doubt, claw-back in subclause (1) refers to the amount determined in respect of the period between the date of the **catastrophic event** and the date the **CPP determination** will come into effect.
- (5) The maximum allowable revenue before tax for the first **disclosure year** of the **CPP regulatory period** is the amount of maximum allowable revenue before tax in the first **disclosure year** of the **CPP regulatory period** required for subclause (1) to be satisfied.
- (6) The maximum allowable revenue before tax for each **disclosure year** of the **CPP regulatory period** except the first must equal-
  - $MAR_{y-1} \times (1 + \Delta CPI) \times (1 - X) \times (1 + \Delta Q)$ ,
  - where-
  - $MAR_{y-1}$  is the **maximum allowable revenue before tax** in the preceding **disclosure year**;
  - $\Delta CPI$  is the **CPP inflation rate**;
  - X is the X factor for the **GDB**, being the same value in each year of the **CPP regulatory period**; and
  - $\Delta Q$  is the forecast weighted average growth in quantities (in percentage terms) from the preceding **disclosure year** to the current **disclosure year**.
- (7) The forecast weighted average growth in quantities (in percentage terms) for each **disclosure year** must be weighted by taking into account-
  - (a) the relative growth in demand for each **demand group**; and
  - (b) the relative proportion of fixed and variable components in **prices** charged to either or both of-
    - (i) retailers; and
    - (ii) **consumers**.
- (8) Maximum allowable revenue after tax is **maximum allowable revenue before tax** less forecast regulatory tax allowance.
- (9) For the purpose of subclause (8), 'forecast regulatory tax allowance' means-
  - (a) where **opening tax losses** are nil in every **disclosure year** of the **next period, forecast regulatory tax allowance**; and
  - (b) in all other cases, the amount calculated in accordance with clause 5.3.13 with the modification that the reference in clause 5.3.13(4) to 'building blocks allowable revenue before tax' is substituted with '**maximum allowable revenue before tax**'.



- (10) 'CPP inflation rate' means the amount determined in accordance with the formula-
- $$[(CPI_1 + CPI_2 + CPI_3 + CPI_4) \div (CPI_1^{-4} + CPI_2^{-4} + CPI_3^{-4} + CPI_4^{-4})] - 1,$$
- where-
- $CPI_n$  means **forecast CPI** for the nth quarter of the **disclosure year** in question; and
- $CPI_n^{-4}$  means **forecast CPI** for the equivalent quarter in the preceding **disclosure year**.
- (11) For the purpose of this subpart, 'forecast CPI' means-
- (a) for a quarter prior to the quarter for which the vanilla **WACC** applicable to the relevant **DPP** or **CPP regulatory period** was determined, **CPI** as per paragraph (a) of the 'CPI' definition and excluding any adjustments made under paragraph (b) of the 'CPI' definition arising as a result of an event that occurs after the issue of the Monetary Policy Statement referred to in paragraph (b) below;
  - (b) for each later quarter for which a forecast of the change in headline **CPI** has been included in the Monetary Policy Statement last issued by the Reserve Bank of New Zealand prior to the date for which the vanilla **WACC** applicable to the relevant **DPP** or **CPP regulatory period** was determined, the **CPI** last applying under paragraph (a) extended by the forecast change; and
  - (c) in respect of later quarters, the forecast last applying under paragraph (b) adjusted such that an equal increment or decrement made to that forecast for each of the following three years results in the forecast for the last of those years being equal to the target midpoint for the change in headline **CPI** set out in the Monetary Policy Statement referred to in paragraph (b).

## SECTION 2 Cost allocation and asset valuation

### 5.3.5 Allocating forecast values of operating costs not directly attributable

- (1) Forecasts of **operating costs** forecast in each **disclosure year** of the **next period** must, in the case of an **operating cost** for which disclosure pursuant to an **ID determination** has-
  - (a) been made for the last **disclosure year** of the **current period**, be consistent with the **operating cost** allocated to **gas distribution services** in that disclosure; and
  - (b) not been so made, be consistent with an allocation of **operating costs** to **gas distribution services** carried out in respect of the most recent disclosure made for the **current period** in accordance with clause 2.1.1.
- (2) Where a sale of the assets used to **supply gas distribution services** and either or both-
  - (a) an **other regulated service**; and

- (b) an **unregulated service**,
- is
- (c) completed between the start of the **assessment period** and the time the **CPP application** is made; or
- (d) **highly probable**,

**operating costs** attributable to **gas distribution services**, in respect of each **operating cost** not **directly attributable** affected by the sale, is determined as the value allocated to **gas distribution services** as a result of applying clause 2.1.1 in respect of the last **disclosure year** of the **assessment period**.

### 5.3.6 RAB roll forward

- (1) The opening RAB value of an asset in relation to-
  - (a) the **disclosure year** 2010, is the **initial RAB value**; and
  - (b) a **disclosure year** thereafter, is, where the **disclosure year**-
    - (i) follows a **disclosure year** in respect of which disclosure pursuant to an **ID determination** relating to that asset has been made, that asset's disclosed **closing RAB value**;
    - (ii) is the first **disclosure year** of the **next period** for which disclosure pursuant to an **ID determination** relating to that asset for the preceding **disclosure year** has not been made, determined in accordance with subclause (2); or
    - (iii) is any other **disclosure year**, the **closing RAB value** for the preceding **disclosure year**.
- (2) For the purpose of subclause (1)(b)(ii), the opening RAB value of an asset to which this subclause applies is determined as the value allocated to **gas distribution services** as a result of applying clause 2.1.1 to its **unallocated closing RAB value** for the preceding **disclosure year**.
- (3) Closing RAB value means, subject to subclause (4), for an asset-
  - (a) with an **opening RAB value**, the value determined in accordance with the formula-
 
$$\text{opening RAB value} - \text{depreciation} + \text{revaluation};$$
 and
  - (b) having or forecast to have a **commissioning date** in that **disclosure year**, where the asset-
    - (i) has been **commissioned** by the date the **CPP application** is made, its **value of commissioned asset**; or
    - (ii) has not been **commissioned** by the date the **CPP application** is made, its **forecast value of commissioned asset**,
 but only to the extent that the value would be included in the closing RAB value consistent with application of clause 2.1.1; or
  - (c) that is or is forecast to be a **disposed asset**, nil.
- (4) For the purpose of subclause (3), where a sale of the assets used to **supply gas distribution services** and either or both-

- (a) an **other regulated service**; and
- (b) an **unregulated service**,

is-

- (c) completed between the start of the **assessment period** and the time the **CPP application** is made; or
- (d) **highly probable**,

closing RAB value in respect of each asset not **directly attributable** affected by the sale is determined as the value allocated to **gas distribution services** as a result of applying clause 2.1.1 in respect of its **unallocated closing RAB value** of the last **disclosure year** of the **assessment period**.

- (5) The unallocated opening RAB value of any asset in relation to-
  - (a) the **disclosure year** 2010, is the **unallocated initial RAB value**;
  - (b) a **disclosure year** thereafter, is, where the **disclosure year**-
    - (i) follows a **disclosure year** in respect of which disclosure pursuant to an **ID determination** relating to that asset has been made, that asset's disclosed **unallocated closing RAB value**; and
    - (ii) is any other **disclosure year**, its **unallocated closing RAB value** in the preceding **disclosure year**.
- (6) Unallocated closing RAB value means, in relation to-
  - (a) an asset that is or is forecast to be a **disposed asset**, nil;
  - (b) any other asset with an **unallocated opening RAB value**, the value determined in accordance with the formula-
 
$$\text{unallocated opening RAB value} - \text{unallocated depreciation} + \text{unallocated revaluation};$$
 and
  - (c) any other asset-
    - (i) that has a **commissioning date** between the commencement of the **disclosure year** in which the **CPP application** is made and the application's submission, its **value of commissioned asset**; or
    - (ii) forecast to have a **commissioning date** thereafter, its **forecast value of commissioned asset**.
- (7) The total opening RAB value in relation to-
  - (a) the **disclosure year** 2010, is the sum of all **initial RAB values**; and
  - (b) any **disclosure year** thereafter, is the total closing RAB value in the preceding **disclosure year**.
- (8) For the purpose of clause (7), 'total closing RAB value' means, in relation to a **disclosure year**, the sum of **closing RAB values** for all assets.

### 5.3.7 Depreciation

- (1) Unallocated depreciation, in the case of an asset with an **unallocated opening RAB value**, is determined, subject to subclause (3) and clauses 5.3.8 and 5.3.9, in accordance with the formula-

$[1 \div \text{remaining asset life}] \times \text{unallocated opening RAB value.}$

- (2) Depreciation, in the case of an an asset with an **opening RAB value**, is determined, subject to subclause (3) and clause 5.3.8, in accordance with the formula-

$[1 \div \text{remaining asset life}] \times \text{opening RAB value.}$

- (3) For the purpose of subclauses (1) and (2)-
- (a) unallocated depreciation and depreciation are nil in the case of-
    - (i) **land**; and
    - (ii) an **easement** other than a **fixed life easement**; and
    - (iii) **network spare** in respect of the period before which depreciation for the **network spare** in question commences under **GAAP**; and
  - (b) in all other cases, where the asset's **physical asset life** at the end of the **disclosure year** is nil-
    - (i) unallocated depreciation is the asset's **unallocated opening RAB value**; and
    - (ii) depreciation is the asset's **opening RAB value**.

#### 5.3.8 Depreciation - alternative depreciation method

- (1) Depreciation and, subject to clause 5.3.9, unallocated depreciation may be determined in respect of a **CPP regulatory period** using an **alternative depreciation method**, provided the **Commission** is satisfied that the result of applying the **alternative depreciation method** would better promote the purpose of Part 4 than the result of applying the **standard depreciation method**.
- (2) For the avoidance of doubt, subclause (1) does not apply to the determination of depreciation or unallocated depreciation in the **assessment period**.

#### 5.3.9 Unallocated depreciation constraint

For the purpose of clauses 5.3.7 and 5.3.8, the sum of **unallocated depreciation** of an asset calculated over its **asset life** may not exceed the sum of-

- (a) all **unallocated revaluations** applying to that asset in all **disclosure years**; and
- (b) in the case of an asset-
  - (i) in the **initial RAB**, its **unallocated initial RAB value**; and
  - (ii) not in the **initial RAB**, its **value of commissioned asset** or **forecast value of commissioned asset**, as the case may be.

#### 5.3.10 Revaluation

- (1) Unallocated revaluation, subject to subclause (3), is determined in accordance with the formula-
- unallocated opening RAB value × revaluation rate.**
- (2) Revaluation, subject to subclause (3), is determined in accordance with the formula-
- opening RAB value × revaluation rate.**
- (3) For the purposes of subclauses (1) and (2), where-

- (a) the asset's **physical asset life** at the end of the **disclosure year** in question is nil; or
- (b) the asset is a-
  - (i) **disposed asset**; or
  - (ii) **lost asset**,

unallocated revaluation and revaluation are nil.

- (4) Revaluation rate means, in respect of a **disclosure year**, the amount determined in accordance with the formula-

$$(CPI_4 \div CPI_4^{-4}) - 1,$$

where-

$CPI_4$  means **forecast CPI for CPP revaluation** for the quarter that coincides with the end of the **disclosure year**; and

$CPI_4^{-4}$  means **forecast CPI for CPP revaluation** for the quarter that coincides with the end of the preceding **disclosure year**.

- (5) Forecast CPI for CPP revaluation means, for the purpose of subclause (4), when calculating the **revaluation rate**-
  - (a) in the **CPP regulatory period** and up to the end of the **DPP regulatory period**, as for **forecast CPI for DPP revaluation** in accordance with clause 4.2.3(4)(a); and
  - (b) for each later quarter for which a forecast of the change in headline **CPI** has been included in the Monetary Policy Statement last issued by the Reserve Bank of New Zealand prior to the date for which the vanilla **WACC** applicable to the relevant **DPP regulatory period** was determined, the **CPI** last applying under paragraph (a) extended by the forecast change; and
  - (c) in respect of later quarters, the forecast last applying under paragraph (b), adjusted such that an equal increment or decrement made to that forecast for each of the following three years results in the forecast for the last of those years being equal to the target midpoint for the change in headline **CPI** set out in the Monetary Policy Statement referred to in paragraph (b).

#### 5.3.11 Forecast value of commissioned assets

- (1) 'Forecast value of commissioned asset', in relation to an asset for which **capital expenditure** is included in forecast capital expenditure (including an asset in respect of which **capital contributions** are or are forecast to be received, or a **vested asset**), means the forecast cost of the asset to a **GDB** determined by applying **GAAP** to the asset as on its forecast **commissioning date**, except that, subject to subclauses (2) and (3), the cost of-
  - (a) an intangible asset, unless it is-

- (i) a **finance lease**; or
- (ii) an **identifiable non-monetary asset**,

is nil;

- (b) an **easement**, is limited to its forecast market value as on its forecast **commissioning date** as determined by a **valuer**;
- (c) **easement land** is nil;
- (d) a **network spare-**
  - (i) which is not required, in light of the historical reliability and number of the assets it is held to replace; or
  - (ii) whose cost is not treated as the cost of an asset under **GAAP**, whether wholly or in part,

is nil;

- (e) an asset-
  - (i) to be acquired from another **regulated supplier**; and
  - (ii) used by that **regulated supplier** in the **supply of regulated goods or services**,

is limited to its value determined in accordance with **input methodologies** applicable to the **services supplied** by that other **regulated supplier** as on the forecast **commissioning date**;

- (f) an asset that was previously used by a **GDB** in its **supply of other regulated services** is limited to its value determined in accordance with **input methodologies** applicable to those **other regulated services** as on the day before the forecast **commissioning date**;
- (g) an asset or assets, or components of assets, forecast to be acquired in a **related party transaction**, and forecast to be **commissioned** during any **disclosure year** of the **CPP regulatory period** other than assets to which paragraphs (e) or (f) apply, is the forecast cost specified in subclause (7);
- (h) an asset in respect of which **capital contributions** are or are forecast to be received where such contributions are not taken into account when applying **GAAP**, is the cost of the asset by applying **GAAP** reduced by the amount of the **capital contributions**; and
- (i) a **vested asset** in respect of which its fair value is or would be treated as its cost under **GAAP**, must exclude any amount of the fair value of the asset determined under **GAAP** that exceeds the amount of consideration provided or forecast to be provided by the **GDB**.

- (2) For the purpose of subclause (1), where an **asset** forecast to be **commissioned** is forecast to be used to **supply** either or both an **other regulated service** and an **unregulated service**, its **regulated service asset value** borne by **regulated services**, in aggregate-

- (a) may not exceed the total value of the asset that would be allocated to **regulated services**, in aggregate, using **ACAM**; and
- (b) must be based only on forecast changes in the **GDB's business** of supplying **gas distribution services**.

- (3) When applying **GAAP** for the purposes of subclause (1), the cost of financing is-
- (a) applicable only in respect of the period commencing on the date the asset becomes or is forecast to become a **works under construction** and terminating on its **commissioning date** or forecast **commissioning date**, as the case may be; and
  - (b) calculated using a rate not greater than the **GDB's** forecast weighted average of borrowing costs for each applicable **disclosure year**.

- (4) For the purposes of subclause (3)(b), the 'forecast weighted average of borrowing costs' is calculated for a **disclosure year** using principles set out in **GAAP**, taking into account:

- (a) the cost of financing rate is the forecast weighted average of the costs applicable to borrowings in respect of **capex** that are forecast to be outstanding during the **disclosure year**;
- (b) the total costs applicable to borrowings outstanding as used in calculating the weighted average must include costs of borrowings made or forecast to be made specifically for the purpose of any particular –
  - (i) **capex projects**; or
  - (ii) **capex programmes**; and
- (c) the amount of borrowing costs forecast to be capitalised during the **disclosure year** must not exceed the amount of borrowing costs forecast to be incurred during the **disclosure year**;
- (d) where a **capital contribution** is received by a **GDB**, the relevant asset will become **works under construction** for the purposes of calculating the cost of financing;
- (e) subject to subclause (i), a **capital contribution** will reduce the cost of **works under construction** for the purpose of the calculation of the finance cost, even if the resulting value of **works under construction** is negative;
- (f) subject to subclause (g), where the value of **works under construction** will be negative in accordance with subclause (e), the cost of financing for the period ending on the forecast **commissioning date** will be negative;
- (g) where the cost of financing an asset which is **works under construction** is negative under subclause (f), it will reduce the forecast value of the relevant asset or assets by that negative amount where such a reduction is not otherwise made under **GAAP**;
- (h) for the purpose of subclause (d), **works under construction** includes assets that are forecast to be enhanced or acquired; and
- (i) where the cost of financing is forecast to be derived as income in relation to **works under construction** and is-
  - (i) negative; and
  - (ii) included in regulatory income under an **ID determination**,

it will not reduce the forecast value of the relevant asset or assets where such reduction would not otherwise be made under **GAAP**.

- (5) For the avoidance of doubt-

- (a) revenue derived or forecast to be derived in relation to **works under construction** that is not included in regulatory income under an **ID determination** reduces the cost of an asset by the amount of the revenue where such reduction is not otherwise made under **GAAP**; and
  - (b) where expenditure on an asset which forms or is forecast to form part of the cost of that asset under **GAAP** is incurred or forecast to be incurred by an **GDB** after that asset is **commissioned** or forecast to be **commissioned**, such expenditure is treated as relating to a separate asset.
- (6) In this clause, 'forecast capital expenditure' means, in relation to a **CPP proposal**-
- (a) that has not been assessed by the **Commission**, the amount of **capital expenditure** for the relevant **disclosure year** of the **next period** included by the **CPP applicant** in its **capex forecast**; and
  - (b) undergoing assessment by the **Commission**, the amount of **capital expenditure** determined for the relevant **disclosure year** of the **next period** by the **Commission** after assessment of the amount in paragraph (a) against the **expenditure objective**.
- (7) For the purpose of paragraph 5.3.11(1)(g), the forecast cost of any **commissioned** assets, or components of assets, forecast to be acquired in a **related party transaction**, must be set on the basis that-
- (a) the forecast cost of a **commissioned** asset or a component of a **commissioned** asset forecast to be acquired in the **related party transaction** must be given a value not greater than if that transaction had the terms of an **arm's-length transaction**;
  - (b) an objective and independent measure must be used in determining the terms of an **arm's-length transaction** for the purpose of paragraph (a); and
  - (c) for the purpose of paragraph (a), where a forecast **commissioned** asset or a component of a **commissioned** asset is forecast to be acquired in the **related party transaction**, the forecast value that will qualify for recognition as the forecast cost of a **commissioned** asset or a component of a **commissioned** asset must not exceed the forecast amount expected to be charged to the **GDB** by the **related party**.
- (8) For the purpose of subclause (7)(a), a **related party transaction** will be treated as if it had the terms of an **arm's-length transaction** if the **commissioned** asset, or component of the **commissioned** asset, forecast to be acquired from a **related party** is valued at the forecast cost expected to be incurred by the **related party**, provided that this would-
- (a) be fair and reasonable to the **GDB**; and
  - (b) be substantially the same as any such forecast cost expected to be incurred by the **related party** in providing the same type of asset to third parties.

#### 5.3.12 Works under construction

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



- (a) the first **disclosure year** of the **next period** 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".
- (3) 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-
- (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
  - (b) 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 5.5.9(b)(ii).

### **SECTION 3 Treatment of taxation**

#### 5.3.13 Forecast regulatory tax allowance

- (1) Forecast regulatory tax allowance 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.
- (2) Regulatory net taxable income means forecast **regulatory taxable income** less **utilised tax losses**.
- (3) Regulatory taxable income is determined in accordance with the formula-
- regulatory profit / (loss) before tax + permanent differences + regulatory tax adjustments.**
- (4) Regulatory profit / (loss) before tax means the value determined in accordance with the formula-
- building blocks allowable revenue before tax + other regulated income - operating expenditure - total depreciation.**

#### 5.3.14 Tax losses

- (1) Utilised tax losses means **opening tax losses**, subject to subclause (2).
- (2) For the purpose of subclause (1), **utilised tax losses** may not exceed **regulatory taxable income**.
- (3) Opening tax losses in relation to-
  - (a) the first **disclosure year** of the **next period**, is nil, subject to subclause (3); and
  - (b) subsequent **disclosure years** of the **next period**, is closing tax losses for the preceding **disclosure year**.
- (4) For the purpose of subclause (3)(a), if the **Commission** is satisfied that a **GDB** will incur forecast tax losses, opening tax losses is the amount of losses in respect of which the **Commission** is satisfied.
- (5) For the purpose of subclause (3)(b), 'closing tax losses' means the amount determined in accordance with the following formula, in which each term is an absolute value:  
$$\text{opening tax losses} + \text{current period tax losses} - \text{utilised tax losses}.$$
- (6) In this clause, 'current period tax losses' is where **regulatory taxable income** is-
  - (a) nil or a positive number, nil; and
  - (b) a negative number, **regulatory taxable income**.

#### 5.3.15 Permanent differences

- (1) Permanent differences is the amount determined in accordance with the formula-  
$$\text{positive permanent differences} - \text{negative permanent differences}.$$
- (2) For the purpose of subclause (1), 'positive permanent differences' means, subject to subclause (3), the sum of-
  - (a) all amounts of income-
    - (i) treated as taxable were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
    - (ii) not included as amounts of income in determining **regulatory profit / (loss) before tax**; and
  - (b) all amounts of expenditure or loss-
    - (i) included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**; and
    - (ii) not treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**,if the difference in treatment of amounts of-
  - (c) income under paragraph (a)(i) and paragraph (a)(ii); or
  - (d) expenditure or loss under paragraph (b)(i) and paragraph (b)(ii),is a difference that is not-

- (e) a **reversal** or partial **reversal** of a difference for a prior **disclosure year**;  
and
  - (f) forecast to **reverse** in a subsequent **disclosure year**.
- (3) For the purpose of subclause (2), positive permanent differences excludes amounts that are-
- (a) **amortisation of initial differences in asset values**; or
  - (b) **amortisation of revaluations**.
- (4) For the purpose of subclause (1), 'negative permanent differences' means, subject to subclause (5), the sum of-
- (a) all amounts of income-
    - (i) included as amounts of income in determining **regulatory profit / (loss) before tax**; and
    - (ii) not treated as taxable were the **tax rules** applied to determine income tax payable in respect of the **GDB's** supply of **gas distribution services**; and
  - (b) all amounts of expenditure or loss-
    - (i) treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's** supply of **gas distribution services**; and
    - (ii) not included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**,
- if there are differences between the values in-
- (c) paragraph (a)(i) and paragraph (a)(ii); and
  - (d) paragraph (b)(i) and paragraph (b)(ii),
- and such differences are not-
- (e) the **reversal** of a difference in a prior **disclosure year**; and
  - (f) forecast to **reverse** in a subsequent **disclosure year**.
- (5) For the purpose of subclause (4), negative permanent differences excludes any amounts that are-
- (a) expenditure or loss determined in accordance with the **tax rules** that is-
    - (i) interest; or
    - (ii) forecast to be incurred in borrowing money; and
  - (b) any-
    - (i) tax losses; and
    - (ii) subvention payment made or received by a **GDB**.

#### 5.3.16 Regulatory tax adjustments

- (1) Regulatory tax adjustments are determined in accordance with the formula-
- amortisation of initial differences in asset values + amortisation of revaluations - notional deductible interest.**

- (2) For the purpose of subclause (1), 'notional deductible interest' means the amount determined in accordance with the formula-
- $$\frac{(((\text{regulatory investment value} + \text{RAB proportionate investment}) \times \text{leverage} \times \text{cost of debt}) + \text{term credit spread differential allowance})}{\sqrt{1 + \text{cost of debt}}}$$
- (3) For the purpose of subclause (2), 'RAB proportionate investment' means the sum of the *proportionate value* of each asset forecast to be **commissioned** less the sum of the *proportionate value* of each **disposed asset**.
- (4) For the purpose of subclause (3), 'proportionate value' means for-
- an asset forecast to be **commissioned**, its **forecast value of commissioned asset** multiplied by the proportion of that **disclosure year** in question from the forecast **commissioning date** to the end of that **disclosure year** out of the whole **disclosure year**; and
  - a **disposed asset**, its **opening RAB value** multiplied by the proportion of that **disclosure year** from the date of sale or transfer to the end of that **disclosure year** out of the whole **disclosure year**.

#### 5.3.17 Amortisation of initial differences in asset values

- (1) Amortisation of initial differences in asset values is, subject to subclause (4), determined in accordance with the formula-
- $$\frac{\text{opening unamortised initial differences in asset values}}{\text{opening weighted average remaining useful life of relevant assets}}$$
- (2) For the purpose of this clause, 'opening unamortised initial differences in asset values' means, in respect of-
- the **disclosure year** 2010, initial differences in asset values; and
  - each **disclosure year** thereafter, subject to subclause (4), closing unamortised initial difference in asset values for the preceding **disclosure year**.
- (3) For the purpose of subclause (2)(a), 'initial differences in asset values' means, subject to subclause (4), the sum of **initial RAB values** less the sum of **regulatory tax asset values** on the first day of the **disclosure year** 2010.
- (4) For the purpose of subclause (1), 'opening weighted average remaining useful life of relevant assets' means-
- $$q = a - b$$
- where:
- a* = the 2010 weighted average **remaining asset life** of assets included in the initial RAB calculated by using **initial RAB values** as weightings
  - b* = **disclosure year** less 2010.
- (5) For the purpose of subclauses (1) and (2)-
- no account may be taken of unamortised initial differences in asset values of sold assets from the date of sale; and
  - account must be taken of unamortised initial differences in asset values of acquired assets from the date of acquisition.
- (6) For the purpose of subclause (2)(b), 'closing unamortised initial difference in asset values' is determined in accordance with the formula-

*Opening unamortised initial differences in asset values - amortisation of initial difference in asset values*

5.3.18 Amortisation of revaluations

Amortisation of revaluations is calculated in accordance with the formula-  
**total depreciation - adjusted depreciation.**

5.3.19 Deferred tax

- (1) Opening deferred tax means, in respect of-
  - (a) the **disclosure year** 2010, nil; and
  - (b) subject to paragraph (c) in respect of each **disclosure year** thereafter, closing deferred tax for the preceding **disclosure year**; and
  - (c) in respect of each **disclosure year** after the **disclosure year 2010**, for assets for which there is no **regulatory tax asset value**, the opening deferred tax balance under **GAAP** for those assets at the date when those assets were first commissioned.
- (2) For the purpose of subclause (1)(b), 'closing deferred tax' is determined in accordance with the formula-

**opening deferred tax + tax effect of temporary differences - tax effect of amortisation of initial difference in asset values + deferred tax balance relating to assets acquired in the disclosure year in question – deferred tax balance relating to assets disposed of in the disclosure year in question + cost allocation adjustment.**
- (3) For the purpose of subclause (2), 'deferred tax balance relating to assets acquired in the **disclosure year** in question' means the amount of deferred tax associated with the assets acquired by the **GDB** from another **regulated supplier**, excluding the **reversal** of temporary adjustments arising as a consequence of the sale, as determined in accordance with **input methodologies** applicable to the **regulated services** that the assets in question were used to **supply**.
- (4) For the avoidance of doubt, the amount referred to in subclause (3) must include proportionate adjustments for-
  - (a) the **tax effect of temporary differences**; and
  - (b) the **amortisation of initial differences in asset values**,up to the date the assets in question were acquired.
- (5) For the purpose of subclause (2), 'cost allocation adjustment' means the **tax effect** of the dollar value difference between the change in the sum of **regulatory tax asset values** on the last day of the **disclosure year** and the change in the sum of **closing RAB values** as a result only of applying-
  - (a) the result of asset allocation ratios to the **tax asset value** in accordance with clause 5.3.21(1); and
  - (b) clause 2.1.1 to the **unallocated closing RAB value**, where either or both clauses 5.3.6(1)(b)(ii) and 5.3.6(3) apply.

- (6) For the purpose of subclause (2), 'deferred tax balance relating to assets disposed of in the **disclosure year** in question' means the amount of deferred tax associated with the assets disposed of by the **GDB** and, where that deferred tax balance is a deferred tax liability, it must have a negative value.

#### 5.3.20 Temporary differences

- (1) Temporary differences is the amount determined in accordance with the formula-  
*depreciation temporary differences + positive temporary differences - negative temporary differences.*
- (2) For the purpose of this clause, 'depreciation temporary differences' is **adjusted depreciation** less tax depreciation.
- (3) For the purpose of subclause (2) 'tax depreciation' is the sum of the amounts determined for all assets by application of the **tax depreciation rules** to the **regulatory tax asset value** of each asset.
- (4) For the purpose of subclause (1), 'positive temporary differences' means the sum of-
- (a) all amounts of income-
    - (i) treated as taxable if the **tax rules** were applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
    - (ii) not included as amounts of income in determining **regulatory profit / (loss) before tax**; and
  - (b) all amounts of expenditure or loss-
    - (i) included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**; and
    - (ii) not treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**,
- less any amount that is depreciation temporary differences, if there are differences between the values in-
- (c) paragraph (a)(i) and paragraph (a)(ii); and
  - (d) paragraph (b)(i) and paragraph (b)(ii),
- and such differences-
- (e) are the **reversal** of a difference in a prior **disclosure year**; or
  - (f) are forecast to **reverse** in a subsequent **disclosure year**.
- (5) For the purpose of subclause (1), 'negative temporary differences' means the sum of-
- (a) all amounts of income-
    - (i) included as amounts of income in determining **regulatory profit / (loss) before tax**; and
    - (ii) not treated as taxable were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and

- (b) all amounts of expenditure or loss-
  - (i) treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
  - (ii) not included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**,

less any amount that is depreciation temporary differences, if there are differences between the values in-

- (c) paragraph (a)(i) and paragraph (a)(ii); and
- (d) paragraph (b)(i) and paragraph (b)(ii),

and such differences-

- (e) are the **reversal** of a difference in a prior **disclosure year**; or
- (f) are forecast to **reverse** in a subsequent **disclosure year**.

### 5.3.21 Regulatory tax asset value

- (1) 'Regulatory tax asset value', in relation to an asset, means the value determined in accordance with the formula-

**tax asset value** × *result of asset allocation ratio*.

- (2) 'Tax asset value' means, in respect of

- (a) an asset-
  - (i) in the **initial RAB** where, in the **disclosure year 2010**, the sum of **unallocated initial RAB values** is less than the sum of the **adjusted tax values** of all assets in the **initial RAB**;
  - (ii) acquired from a **regulated supplier** who used it to **supply regulated goods or services**; or
  - (iii) acquired or transferred from a **related party**,

the value of the asset determined by applying the **tax depreciation rules** to its notional tax asset value; and

- (b) any other asset, its forecast **adjusted tax value**.

- (3) 'Notional tax asset value' means, for the purpose of-

- (a) subclause (2)(a)(i), **adjusted tax value** of the asset in the **disclosure year 2010** adjusted to account proportionately for the difference between the-
  - (i) sum of the **unallocated initial RAB values**; and
  - (ii) sum of the **adjusted tax values**,

of all assets in the **initial RAB**;

- (b) subclause (2)(a)(ii), value after applying the **tax depreciation rules** to the tax asset value (as 'tax asset value' is defined in the **input methodologies** applying to the **regulated goods or services** in question) in respect of the **disclosure year** in which the asset was acquired; and
- (c) subclause (2)(a)(iii), value in respect of the **disclosure year** in which the asset was acquired or transferred that is-

- (i) consistent with the **tax rules**; and
  - (ii) limited to its **value of commissioned asset** or, if relevant **capital contributions** are treated for tax purposes in accordance with section CG 8 of the Income Tax Act 2007 (or subsequent equivalent provisions), limited to the **value of commissioned asset** plus any taxed **capital contributions** applicable to the asset.
- (4) For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the **tax rules**-
- (a) has a matching asset or group of assets maintained for the purpose of Part 2 Subpart 2, the value obtained in accordance with the formula-
 
$$\frac{\text{opening RAB value or sum of opening RAB values, as the case may be}}{\text{unallocated opening RAB value or sum of unallocated opening RAB values, as the case may be,}}$$
 applying the formula in respect of the asset or smallest group of assets maintained for the purpose of Part 2 Subpart 2 that has a matching asset or group of assets maintained under the **tax rules**; and
  - (b) does not have a matching asset or group of assets maintained for the purpose of Part 2 Subpart 2, the value of the asset allocated to the **supply of gas distribution services** were clause 2.1.1 to apply to the asset or group of assets.

#### SECTION 4 Cost of capital

##### 5.3.22 Methodology for estimating the weighted average cost of capital

- (1) Where the **Commission** takes into account the cost of capital in making a **CPP determination**, the **Commission** will use the **67th percentile estimate of WACC** that was used for the **DPP** applying at the start of the **CPP regulatory period** in accordance with clause 4.4.7(1).
- (2) Where there has been a **WACC change**, the cost of capital for the **CPP** is the **DPP WACC** referenced in clause 5.7.7(4)(a), which has effect in the remaining years of the **CPP regulatory period**.

#### SECTION 5 Alternative methodologies with equivalent effect

##### 5.3.23 Alternative methodologies with equivalent effect

- (1) A **CPP applicant**, in making a **CPP application**, may apply an alternative methodology to that specified for—
  - (a) cost allocation and asset valuation in Section 2;
  - (b) treatment of taxation in Section 3;
  - (c) the estimation of **term credit spread differentials** in Section 4; or
  - (d) pricing methodologies in Subpart 4.



- (2) The **Commission**, in evaluating a **CPP proposal** and in determining a **CPP** for a **GDB**, may apply the alternative methodology elected by the **CPP applicant**.
- (3) An alternative methodology applied by either a **GDB** or the **Commission** in accordance with this clause must:
  - (a) produce an equivalent effect within the **CPP regulatory period** to the methodology that would otherwise apply; and
  - (b) not detract from the promotion of the purpose of Part 4 of the **Act**.

## SUBPART 4 Pricing methodologies

### 5.4.1 Determination of pricing methodology

- (1) The **Commission** will determine a pricing methodology for a **GDB** in a **CPP determination** if the **Commission**, in its most recent summary and analysis made pursuant to s 53B(2)(b) of the **Act** prior to submission of the **CPP application**, has identified that the **GDB** in question would be required to submit its pricing methodology for approval were it to apply for a **CPP**.
- (2) Any pricing methodology so determined-
  - (a) must be-
    - (i) consistent with the **pricing principles**; or
    - (ii) a **transitional pricing methodology**; and
  - (b) must be specified in a **CPP determination**.
- (3) Transitional pricing methodology means-
  - (a) a pricing methodology inconsistent with the **pricing principles** for a term no longer than the **CPP regulatory period**; and
  - (b) a plan providing for the **GDB** to transition to a pricing methodology consistent with the **pricing principles** in a reasonable period.

### 5.4.2 Pricing methodology information during the CPP regulatory period

- (1) This clause applies to **GDBs** in respect of whom a pricing methodology has been specified in a **CPP determination**.
- (2) In each **disclosure year** of a **CPP regulatory period** save the last, a **GDB** must, by the date specified in the applicable **CPP determination**-
  - (a) provide the **Commission** with the same type of information as is required by clause 5.5.31, modified in that the relevant period to which the information relates is the start of the next **disclosure year** of the **CPP regulatory period** to the end of the **CPP regulatory period**; and
  - (b) state whether or not the information so provided reveals the proposed use of a pricing methodology different to the pricing methodology specified in its **CPP determination**;
  - (c) describe and give reasons for any such differences; and
  - (d) explain whether, and if so how, the proposed changes better meet the purpose of Part 4.

### 5.4.3 Amendments to a pricing methodology

(1) Subject to subclause (2), after considering the most recent information provided in accordance with clause 5.4.2, the **Commission** may only-

- (a) amend the pricing methodology specified in the relevant **CPP determination**; or
- (b) substitute a new pricing methodology for that specified in the relevant **CPP determination**,

otherwise than in accordance with the information provided by the **GDB** where the **Commission** considers that the information reveals the proposed use of a pricing methodology materially different to that specified in the relevant **CPP determination**.

(2) For the purpose of subclause (1), any amended or substituted pricing methodology must be-

- (a) consistent with the **pricing principles**; or
- (b) a **transitional pricing methodology**.

(3) The **Commission** will not make any amendment or substitution permitted by this clause more than once in any **disclosure year** of the **CPP regulatory period**.

## SUBPART 5 **Information required in a CPP proposal**

### SECTION 1 **General matters**

#### 5.5.1 Application of this Subpart

(1) Subject to subclause (2), a **CPP proposal** must contain, in all material respects, the information specified in this subpart.

(2) For the purpose of subclause (1), Section 9 only applies to a **GDB** if the **Commission**, in its most recent summary and analysis made pursuant to s 53B(2)(b) of the **Act** prior to submission of the **CPP application**, has identified that the **GDB** in question would be required to submit a pricing methodology for approval were it to apply for a **CPP**.

#### 5.5.2 Reasons for the proposal

A **CPP proposal** must contain a-

- (a) detailed description of the **CPP applicant's** rationale for seeking a **CPP**; and
- (b) summary of the key evidence in the proposal supporting that rationale.

#### 5.5.3 Duration of regulatory period

Where a **CPP applicant** seeks a **CPP** of 3 years' or 4 years' duration-

- (a) the duration of the **CPP** sought must be stated in the **CPP proposal**; and
- (b) the **CPP proposal** must contain an explanation as to why that duration better meets the purpose of Part 4 of the **Act** than 5 years.

### SECTION 2 **Price path information**

#### 5.5.4 Interpretation

(1) In this section, the meanings of defined terms that are values or amounts to be determined by the **Commission** when making a **CPP determination** are modified to

mean the values or amounts proposed by the **CPP applicant**, subject to any other provision to the contrary.

- (2) Any values and amounts used by a **CPP applicant** to determine the quantum of allowances, amounts, sums or values required by this section must be consistent with other information provided in accordance with this part.

#### 5.5.5 Proposed building blocks allowable revenue

- (1) A **CPP proposal** must contain amounts for-
  - (a) **building blocks allowable revenue before tax** for each **disclosure year** of the **next period**; and
  - (b) **building blocks allowable revenue after tax** for each **disclosure year** of the **next period**.
- (2) Subject to subclause (5), a **CPP proposal** must contain all data, information, calculations and assumptions used to determine the amounts required by subclause (1), including but not limited to-
  - (a) forecasts of-
    - (i) **regulatory investment value**;
    - (ii) *total value of commissioned assets* determined in accordance with clause 5.3.2(3);
    - (iii) **total depreciation**;
    - (iv) **total revaluation**;
    - (v) **regulatory tax allowance**; and
    - (vi) **other regulated income**;
  - (b) all data, information, calculations and assumptions used to derive amounts or forecasts of  $TF_{VCA}$ ,  $PV_{VCA}$ ,  $TF$ , and  $TF_{rev}$  determined in accordance with clause 5.3.2(4);
  - (c) all data, information, calculations and assumptions used to derive the forecasts of **other regulated income** provided pursuant to paragraph (a);
  - (d) **forecast operating expenditure**; and
  - (e) any proposed **term credit spread differential allowance**.
- (3) A **CPP proposal** must contain the following information:
  - (a) actual **other regulated income** for each **disclosure year** of the **current period**; and
  - (b) data, calculations and assumptions demonstrating how the forecast of **other regulated income** provided pursuant to subclause (2)(a)(vi) is consistent with information provided in accordance with paragraph (a).
- (4) All calculations, values and amounts required by this clause must be presented in a spreadsheet format which -
  - (a) clearly demonstrates how **building blocks allowable revenue before tax** and **building blocks allowable revenue after tax** for each **disclosure year** of the **next period** have been derived using the formulae specified in clauses 5.3.2 and 5.3.3; and

- (b) where data has been computed or derived from other values on the spreadsheet through the use of formulae, makes the underlying formulae accessible.
- (5) Where the information specified in subclause (2) is included in a **CPP proposal** in a spreadsheet format-
- (a) the information must be cross-referenced in the text of the **CPP proposal** document; and
  - (b) the spreadsheet(s) must-
    - (i) provide cross-references to any **CPP** information requirement **input methodology** that the spreadsheet satisfies;
    - (ii) use terms and labels, consistent with the terminology in the **input methodologies**;
    - (iii) identify and explain the source inputs, and outputs, of each spreadsheet;
    - (iv) produce all of the intermediate outputs, as set out in Part 5, Subpart 3 and Part 5, Subpart 5; and
    - (v) demonstrate links and interdependencies between source inputs, intermediate calculations and outputs.

#### 5.5.6 Maximum Allowable Revenues

- (1) A **CPP proposal** must contain amounts for-
- (a) **maximum allowable revenue before tax** for each **disclosure year** of the **CPP regulatory period**; and
  - (b) **maximum allowable revenue after tax** for each **disclosure year** of the **CPP regulatory period**.
- (2) For the purpose of subclauses (1)(a) and (1)(b), the **CPP applicant** must-
- (a) apply an X factor; and
  - (b) state the value of the X factor.
- (3) For the purpose of subclause (2) the X factor is that defined in the **CPP applicant's DPP determination**, subject to subclause (4).
- (4) For the purpose of subclause (3), a different X factor or factors may be used, provided that the **CPP proposal** contains an explanation and supporting evidence as to why that would better meet the purpose of Part 4 of the **Act**.
- (5) A **CPP proposal** must contain all data, calculations and assumptions used to derive the forecast weighted average growth in quantities in accordance with clause 5.3.4(7), including-
- (a) a description of each **demand group**;
  - (b) the rationale for the selection of **demand groups**;
  - (c) the forecast growth in demand for each **demand group**;
  - (d) the basis for the forecast growth in demand for each **demand group**;
  - (e) evidence that the forecast growth in demand for each **demand group** is consistent with all other relevant demand forecasts included in the **CPP proposal**;

- (f) the basis for the assumptions used concerning the relative proportion of fixed and variable components in the **prices** charged to each **demand group** selected in paragraph (a);
  - (g) reconciliation between the assumptions referred to in paragraph (f) and the calculation of **notional revenue** made pursuant to any requirement pursuant to s 53N of the Act (whether that requirement is contained in a **DPP determination** or **CPP determination** or otherwise) relating to compliance with the price-quality path; and
  - (h) the basis for each weighting term.
- (6) All calculations and values required by this clause must be presented in a spreadsheet format which clearly demonstrates how **maximum allowable revenue before tax** and **maximum allowable revenue after tax** for each **disclosure year** of the **CPP regulatory period** have been derived from **building blocks allowable revenue after tax** and the variables in clause 5.5.5.
- (7) For the purpose of subclause (6), the spreadsheet must be provided in a format that-
- (a) shows clearly how the values required by subclause (1) were derived in accordance with the formulae specified in clauses 5.3.2 to 5.3.4; and
  - (b) where data has been computed or derived from other values on the spreadsheet through the use of formulae, makes the underlying formulae accessible.

### SECTION 3 Cost allocation information

#### 5.5.7 Cost allocation information

- (1) Where a **CPP applicant**-
- (a) makes allocations of **operating costs** not **directly attributable** pursuant to clause 5.3.5(1); or
  - (b) determines **opening RAB values** pursuant to clause 5.3.6(1)(b)(ii),
- the **CPP proposal** must contain the information specified in subclause (2).
- (2) For the purpose of subclause (1), the information is-
- (a) that specified in the applicable tables in Schedule B, subject to subclause (4) which tables comprise-
    - (i) *Table 1: Allocation of asset values;*
    - (ii) *Table 2: Report supporting allocations of asset values (non-public);*
    - (iii) *Table 3: Allocation of operating costs;*
    - (iv) *Table 4: Report supporting allocation of operating costs (non-public);* and
    - (v) *Table 5: Rationale for selecting proxy allocator.*
- (3) Subject to subclause (7), in respect of-
- (a) **operating costs** not **directly attributable** allocated to **gas distribution services** in accordance with clause 5.3.5(2); or
  - (b) **closing RAB values** determined in accordance with clause 5.3.6(4),
- the **CPP proposal** must contain the information specified in Schedule C, subject to subclause (4), which tables comprise-

- (c) *Table 1: Revised allocation of regulated asset values;*
  - (d) *Table 2: Report supporting revised allocations of asset values (non-public);*
  - (e) *Table 3: Revised allocation of operating costs;*
  - (f) *Table 4: Report supporting revised allocation of operating costs (non-public); and*
  - (g) *Table 5: Rationale for selecting proxy allocator.*
- (4) For the purpose of this clause-
- (a) the information specified in the tables of the schedules referred to must be provided on spreadsheets;
  - (b) where data has been computed or derived from other values on the spreadsheet through the use of formulae, all underlying formulae must be accessible
  - (c) the information specified in Table 2 and Table 4 of Schedule B and Table 2 and Table 4 of Schedule C may be provided by way of non-public disclosure to the **Commission**; and
  - (d) the information in Schedule B must be provided-
    - (i) for the **disclosure year** prior to submitting the **CPP proposal** if it has not been disclosed in accordance with an **ID determination**; and
    - (ii) for the **next period** where a value in units in an **allocator metric** has been changed by at least 5% from the value used in the **disclosure year** referred to in (i).
- (5) Where the **CPP applicant** has used a **proxy cost allocator** to provide the information specified in subclauses (2) or (3), the **CPP applicant** must explain in the **CPP proposal**, for each **proxy cost allocator** used-
- (a) why a **causal relationship** cannot be established; and
  - (b) the rationale for the quantifiable measure used for that **proxy cost allocator**.
- (6) Where the **CPP applicant** has used a **proxy asset allocator** to provide the information specified in subclauses (2) or (3), the **CPP applicant** must explain in the **CPP proposal**, for each **proxy asset allocator** used-
- (a) why a **causal relationship** cannot be established; and
  - (b) the rationale for the quantifiable measure used for that **proxy asset allocator**.
- (7) The information in Schedule C is not required where the value of the assets to be sold as specified in clause 5.3.6(4) is less than 5% of the **unallocated closing RAB value** for the last **disclosure year** of the **assessment period**.

#### 5.5.8 Certification requirements

- (1) Where any **arm's-length deduction** was applied for the purpose of this Section, the **CPP proposal** must contain certification by no fewer than 2 of the **GDB's directors** in

the following terms, where words in bold bear the meanings specified in this determination:

"I, [insert name], **director** of [insert name of Supplier of services regulated under Part 4 of the Commerce Act] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information [information required by clause 5.5.7(2)] for the purpose of the supplier's **CPP proposal**, it was appropriate to make the **arm's-length deductions** the amount and nature of which are detailed in the tables below, **namely**:

Table 4 of Schedule B / Table 5 of Schedule B / Table 3 of Schedule C / Table 4 of Schedule C [delete as appropriate]."

- (2) Where, in relation to **regulated service asset values**, **OVABAA** was applied for the purpose of this clause in accordance with Subpart 3 Section 2, the **CPP proposal** must contain certification by no fewer than 2 of the **GDB's directors** in respect of its application in the following terms, where words in bold bear the meanings specified in this determination:

"I, [insert name], **director** of [insert name of Supplier of services regulated under Part 4 of the Commerce Act] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information (being information required by clause 5.5.7(2)) for the purpose of the supplier's **CPP proposal**-

- (a) the attached information is accurate;
- (b) the **OVABAA** was applicable in accordance with clause 2.1.2; and
- (c) the following **unregulated services** would be **unduly deterred** had adjustments to allocations of **regulated service asset values** ( in accordance with clause 2.1.4) not been made: [list relevant **unregulated services**]."

- (3) Where, in relation to **operating costs** provided in a **CPP proposal** in accordance with subclause 5.5.6(1) and Schedule C, the **OVABAA** was applied, the **CPP proposal** must contain certification by no fewer than 2 of the **GDB's directors** in respect of application of the **OVABAA** in the following terms:

"I, [insert name], **director** of [insert name of Supplier of services regulated under Part 4 of the Commerce Act] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information (being information required by clause 5.5.7(2)) for the purpose of the supplier's **CPP proposal**-

- (a) the attached information is accurate;
- (b) the **OVABAA** was applicable in accordance with clause 2.1.2; and
- (c) the following **unregulated services** would be **unduly deterred** had adjustments to allocations of **operating costs** ( in accordance with clause 2.1.4) not been made: [list relevant **unregulated services**]."

#### **SECTION 4 Asset valuation information**

##### 5.5.9 RAB roll forward information

For each **disclosure year**, after the last disclosure made under an **ID determination**, until the last **disclosure year** of the **next period**, provide values, in accordance with Subpart 3 Section 2, for the-

- (a) **total opening RAB value**; and
- (b) sum of each of the following things:
  - (i) **forecast value of commissioned assets**; and
  - (ii) **closing RAB values**.

#### 5.5.10 Depreciation information

- (1) In respect of each **disclosure year** of the **CPP regulatory period**, the **CPP applicant** must provide the information specified in this clause.
- (2) The sum of **depreciation** for each type of asset-
  - (a) for which the proposed method of determining depreciation is the **standard depreciation method**; and
  - (b) for which the proposed method of determining depreciation is something other than the **standard depreciation method**.
- (3) For each asset or type of asset to which subclause (2)(b) applies-
  - (a) a description of the type of asset;
  - (b) a description of the proposed depreciation method;
  - (c) where the proposed **asset life** is different to the **physical asset life**, the proposed **asset life** for the type of asset;
  - (d) where the proposed **asset life** for the type of asset is different to the **physical asset life**, the proposed **remaining asset life** for the type of asset;
  - (e) forecast **depreciation** over the **asset life** for the type of asset, including details of all assumptions made;
  - (f) forecast **depreciation** over the **asset life** for the type of asset determined in accordance with the **standard depreciation method**;
  - (g) evidence to demonstrate that the proposed depreciation method including, where applicable, any proposed **asset life** different to the **physical asset life**, better meets the purpose of Part 4 of the **Act** than the **standard depreciation method**; and
  - (h) a description of any consultation undertaken with **consumers** on the proposed depreciation method, including-
    - (i) the extent of any **consumer** disagreement; and
    - (ii) the **GDB's** view in response.
- (4) For each asset or type of asset for which a different **physical asset life** to the **standard physical asset life** is proposed-
  - (a) a description of the assets or types of asset;
  - (b) to which clauses 2.2.8(1)(c) and 2.2.8(1)(h)(v) apply, an **engineer's** report addressing the suitability of the proposed **physical asset life**; and
  - (c) any other evidence to demonstrate that the requirements of clause 2.2.8 in respect of the particular type of asset are met.

#### 5.5.11 Revaluation information

- (1) For each **disclosure year**, after the last disclosure made under an **ID determination**, until the last **disclosure year** of the **next period**, provide the following:
  - (a) sum of **opening RAB values**;



- (b) **forecast CPI for CPP revaluation** for the last quarter of the **disclosure year**;
- (c) **forecast CPI for CPP revaluation** for the last quarter of the preceding **disclosure year**; and
- (d) **revaluation rate**.

5.5.12 Commissioned assets information

- (1) For each **disclosure year**, after the last disclosure made under an **ID determination**, until the last **disclosure year** of the **next period**, provide the-
  - (a) sum of **value of commissioned assets**; and
  - (b) sum of **forecast value of commissioned assets**,
 in respect of each of the following groups of assets:
  - (c) assets-
    - (i) acquired or intended to be acquired from a **related party**; or
    - (ii) transferred from a part of the **GDB** that supplies **unregulated services**;
  - (d) assets-
    - (i) acquired or intended to be acquired from another **regulated supplier** and used by that **regulated supplier** in the **supply of regulated services**; or
    - (ii) transferred or intended to be transferred from a part of the **GDB** that supplies **other regulated services**;
  - (e) **network spares**; and
  - (f) all other assets having a **commissioning date** or forecast to have a **commissioning date** in that period.
- (2) In respect of each value provided in accordance with subclause (1), provide-
  - (a) all data, information, calculations and assumptions used to derive it from relevant data provided in the **capex forecast**; and
  - (b) where **capital contributions** are taken into account in any value disclosed pursuant to subclause (1)-
    - (i) the amount of such **capital contributions**, with respect to asset types and quantities; and
    - (ii) policies relevant to such **capital contributions**.
- (3) In respect of each asset to which subclause (1)(c) applies, provide-
  - (a) the name of the relevant **person** or other part of the **GDB**, as the case may be; and
  - (b) where the acquisition was or is intended to be from a **related party**, a description of the relationship between the **GDB** and that **person**.
- (4) In respect of the likely vendor of each asset to which subclause (1)(d) applies, provide-
  - (a) the name of the vendor;
  - (b) a description of each asset likely to be acquired from that vendor; and

- (c) the forecast **closing RAB value** of each asset in the vendor's regulatory asset base for the **disclosure year** in which the acquisition is intended.

#### 5.5.13 Asset disposals information

- (1) For each **disclosure year**, after the last disclosure made under an **ID determination**, until the last **disclosure year** of the **next period**, in respect of each of the following groups of assets:
  - (a) assets likely to be-
    - (i) sold to a **related party**; or
    - (ii) transferred to another part of the **GDB**; and
  - (b) all other **disposed assets**,provide the-
  - (c) sum of **unallocated opening RAB values**; and
  - (d) sum of **opening RAB values**.
- (2) In respect of each asset to which the values provided pursuant to subclause (1) relate, provide-
  - (a) the name of the relevant **person** or other part of the **GDB**, as the case may be; and
  - (b) where the disposal is proposed to be to a **related party**, a description of the relationship between the **GDB** and that **person**.

#### 5.5.14 Works under construction information

For each **disclosure year**, after the last disclosure made under an **ID determination**, until the last **disclosure year** of the **next period**, provide-

- (a) **opening works under construction**;
- (b) sum of **capital expenditure**;
- (c) sum of **value of commissioned assets** but only to the extent that values are included in **closing RAB values** disclosed pursuant to an **ID determination**;
- (d) sum of **forecast value of commissioned assets** but only to the extent that values are included in the sum of **closing RAB values** provided pursuant to clause 5.5.9(b)(ii); and
- (e) sum of **closing works under construction**.

### SECTION 5 Tax information

#### 5.5.15 Interpretation

In this section, a term that is not emboldened but is defined for the purpose of a specific clause in Subpart 3 Section 3 bears the same meaning as it does in the clause of Subpart 3 Section 3 in which it is defined.

#### 5.5.16 Period in respect of which information to be provided

A **CPP proposal** must contain, the information specified in this section for each **disclosure year**, after the last disclosure made under an **ID determination**, until the last **disclosure year** of the **next period**, in accordance with Subpart 3 Section 3.

5.5.17 Regulatory tax allowance information

- (1) **forecast regulatory tax allowance** and particulars of how it was calculated
- (2) **other regulated income**
- (3) notional deductible interest and the **cost of debt** assumptions relied upon in its calculation

5.5.18 Tax losses information

- (1) amount of **opening tax losses** (if any) and particulars of how it was calculated
- (2) information describing the nature and amounts of significant items giving rise to any **opening tax losses**
- (3) information demonstrating that any **opening tax losses** arose from the **supply of gas distribution services**

5.5.19 Permanent differences information

- (1) sum of *positive permanent differences*
- (2) sum of *negative permanent differences*
- (3) amounts and nature of items used to determine-
  - (a) *positive permanent differences*; and
  - (b) *negative permanent differences*

5.5.20 Amortisation of initial differences in asset values information

- (1) opening unamortised balance of the initial differences in asset values by **asset category**
- (2) amortisation in respect of the **disclosure year**
- (3) average weighted remaining useful life of the assets relevant to calculation of the initial **regulatory tax asset value**

5.5.21 Amortisation of revaluations information

- (1) unamortised balance of **revaluations** to date
- (2) **adjusted depreciation**
- (3) average weighted remaining useful life of the assets used to determine the **amortisation of revaluations**
- (4) particulars of how the average weighted remaining useful life was calculated

5.5.22 Deferred tax information

- (1) **opening deferred tax**
- (2) analysis of **temporary differences** and other adjustments by nature that give rise to **opening deferred tax value**
- (3) closing deferred tax
- (4) reconciliation of **opening deferred tax** to closing deferred tax by nature of temporary differences and other adjustments

5.5.23 Temporary differences information

- (1) description of the methodology and depreciation rates by **asset category** used to determine the forecast tax depreciation
- (2) amounts and nature of other forecast **temporary differences**
- (3) particulars of the calculation of the **tax effect of temporary differences** showing tax rates used

#### 5.5.24 Regulatory tax asset value information

- (1) sum of **tax asset values** at the start of the **disclosure year**
- (2) sum of **tax asset values** by **asset category** at the start of the **disclosure year**
- (3) sum of **regulatory tax asset values** at the start of the **disclosure year**
- (4) sum of **regulatory tax asset values** by **asset category** at the start of the **disclosure year**
- (5) weighted average remaining tax life of assets and tax depreciation methodology employed, by **asset category**
- (6) particulars of the calculation used to derive the **regulatory tax asset values** at the start of the **disclosure year** from the tax asset values at the start of the **disclosure year**
- (7) sum of **regulatory tax asset values** at the end of the **disclosure year**
- (8) reconciliation between the sum of **regulatory tax asset values** at the start of the **disclosure year** and the sum of **regulatory tax asset values** at the end of the **disclosure year**, by **asset category**, showing the values of capital additions, disposals, tax depreciation and other asset adjustments including cost allocation adjustments

### SECTION 6 Cost of capital information

#### 5.5.25 Information regarding WACC and TCSD allowance

- (1) A **CPP proposal** must identify the **67th percentile estimate of WACC** used for the purpose of clause 5.5.5(1).
- (2) For the purpose of subclause (1), the identified **67th percentile estimate of WACC** is the applicable cost of capital specified in clause 5.3.22.
- (3) Where a **term credit spread differential allowance** is proposed, a **CPP proposal** must contain all data, information, calculations, and assumptions used to determine any proposed **term credit spread differential**.

### SECTION 7 Expenditure information

#### 5.5.26 Capex, opex, demand and network qualitative information

The information specified in Schedule D must be-

- (a) contained in a **CPP proposal**; and
- (b) provided in accordance with the requirements of that schedule.

#### 5.5.27 Capex, opex, demand and network quantitative information

- (1) A **CPP proposal** must contain the information specified in the **regulatory templates** and that information must be-
  - (a) in spreadsheet format whereby each item of data is linked between all cells to which it is relevant, irrespective of whether such cells are on the same or different tabs; and
  - (b) provided in accordance with the instructions specified in clause 5.5.28.
- (2) 'Regulatory templates' means the tables included in Schedule E named-
  - (a) *Table 1: Top 5*;
  - (b) *Table 2: Capex Summary*;
  - (c) *Table 3: Opex Summary*;
  - (d) *Table 4: Capex Project Programme*;

- (e) *Table 5: Opex Project Programme;*
  - (f) *Table 6: Overheads;* and
  - (g) *Table 7: Unit rate escalators.*
- (3) Where data provided in accordance with subclause (1) has been computed or derived from other amounts or values on the spreadsheet through the use of formulae, the underlying formulae for the cells containing the data must be accessible.
- (4) For the purpose of subclause (1), terms used in the **regulatory templates** must be interpreted in the same way as those terms are defined for the purpose of Schedule D.

#### 5.5.28 Instructions for completion of the regulatory templates

- (1) Provide the information specified in *Table 4: Capex Project Programme* and *Table 5: Opex Project Programme* of the **regulatory templates** for each **project** and for each **programme**.
- (2) For the purpose of specifying the relevant **capex category** or **opex category** in accordance with subclause (1), where expenditure within each **project** or **programme** is relevant to more than one **capex category** or **opex category**-
- (a) select the **capex category** or **opex category** that is most relevant based on the nature of the expenditure; or
  - (b) redefine the **project** or **programme** into two or more new **projects** or **programmes** and reallocate the expenditure so as to resolve the overlap.
- (3) For the purpose of specifying the relevant **service category** in accordance with subclause (1), where expenditure within each **project** or **programme** is relevant to more than one **service category**-
- (a) select the **service category** that is most relevant based on the nature of the expenditure; or
  - (b) redefine the **project** or **programme** into two or more new **projects** or **programmes** and reallocate the expenditure so as to resolve the overlap.
- (4) For the purpose of subclause (1), the total Project/Programme amounts provided in the Asset Category sub-table must reconcile to the total Project/Programme amounts provided in the Project Costs by Source sub-table.
- (5) Provide the information specified in *Table 6: Overheads* of the **regulatory templates** in respect of **general management, administration and overheads opex**.
- (6) Provide the information specified in *Table 7: Unit rate escalators* of the **regulatory templates** for each unit rate for which an escalator has been applied.
- (7) Provide the information in the format specified in *Table 1: Top 5* of the **regulatory templates**, by extending the table as necessary,
- (a) for all **projects** or **programmes** that form part of the **CPP proposal**; and
  - (b) by using the information provided in accordance with subclause (1).
- (8) Provide the information specified in *Table 2: Capex Summary* and *Table 3: Opex Summary* of the **regulatory templates** using the information provided in accordance with subclause (1).

## SECTION 8 Information relevant to prices

### 5.5.29 Information on proposed new pass-through costs

A **CPP proposal** must contain details of any cost not specified in clause 3.1.2(2) that is sought to be specified as a new pass-through cost in accordance with clause 3.1.2(1)(b), including information on-

- (a) how the cost is likely to arise;
- (b) who the cost would be payable to;
- (c) how the cost would be calculated;
- (d) any good or service the **GDB** would receive in exchange; and
- (e) how the cost meets the criteria specified in clause 3.1.2(3).

### 5.5.30 Information on proposed recoverable costs relating to costs of making CPP application

Where a **CPP applicant** seeks specification in the **CPP determination** of a **recoverable cost** to which clause 3.1.3(1)(d), 3.1.3(1)(e), or 3.1.3(1)(f) applies, it must provide, in relation to each **auditor, verifier** or **engineer** who was engaged to provide an opinion on some aspect of the **CPP proposal** in accordance with a requirement of this Part-

- (a) any **document** making a public or limited circulation request for proposals to carry out the work;
- (b) the terms of reference for the work;
- (c) invoices for services undertaken in respect of the work; and
- (d) receipts for payment by the **CPP applicant**.

## SECTION 9 Pricing methodology information

### 5.5.31 What pricing methodology information must be submitted

- (1) The **CPP proposal** must contain the same type of information as is required under an **ID determination** in respect of pricing methodologies, subject to subclauses (2) and (3).
- (2) For the purpose of subclause (1), information in respect of pricing methodologies of the type sought by the **ID determination** is required in respect of the **CPP regulatory period** only.
- (3) Where, pursuant to subclause (1), a **CPP applicant** proposes a **transitional pricing methodology**, the **CPP applicant** must also provide-
  - (a) justification for proposing a **transitional pricing methodology** rather than a pricing methodology consistent with the **pricing principles**;
  - (b) the duration of the intended transitional period;
  - (c) an explanation as to why the proposed duration of the transitional period is reasonable;
  - (d) a plan demonstrating how the **GDB** intends to transition to a pricing methodology consistent with the **pricing principles** by the end of the transitional period; and
  - (e) an explanation as to why that plan is reasonable.

## SECTION 10 Information relevant to alternative methodologies

### 5.5.32 Demonstration that alternative methodologies have equivalent effect

- (1) Where a **CPP applicant** applies alternative methodologies in accordance with clause 5.3.23, it must provide:
  - (a) a list and description of each alternative methodology applied;
  - (b) an indication, at the relevant locations within the **CPP application**, as to where the alternative methodologies have been applied;
  - (c) reasons why each of the alternative methodologies have been applied; and
  - (d) evidence demonstrating that each alternative methodology complies with clause 5.3.23(3).
- (2) Paragraph (1)(d) may be satisfied by submitting a certificate signed by an senior manager of the **CPP applicant** setting out the factual basis on which he or she believes each alternative methodology complies with clause 5.3.23(3).

## SUBPART 6 Consumer consultation, verification, audit and certification

### 5.6.1 Consumer consultation

- (1) By no later than 40 **working days** prior to submission of the **CPP proposal**, the **CPP applicant** must have adequately notified its **consumers**-
  - (a) that it intends to make a **CPP proposal**;
  - (b) of the expected effect on the revenue and quality of its **gas distribution services** were the **Commission** to determine a **CPP** entirely in accordance with the intended **CPP proposal**;
  - (c) of the price versus quality trade-offs made in the expenditure alternatives considered in the intended **CPP proposal**, where these are directly associated with the rationale for seeking the **CPP proposal**, which are required to be disclosed under clause 5.5.2;
  - (d) where clause 5.5.31 applies, of the expected effect of the **CPP** on each pipeline charge, were the **Commission** to determine a **CPP** entirely in accordance with the intended **CPP proposal**;
  - (e) where and how further information in respect of the intended **CPP proposal** may be obtained;
  - (f) of the process for making submissions to the **GDB** in respect of the intended **CPP proposal**; and
  - (g) of their opportunity to participate in the consultation process required of the **Commission** by s 53T of the **Act** after any **CPP proposal** is received and considered compliant by the **Commission**.
- (2) For the purpose of subclause (1)(e), where further information is available in hard copy only, the applicant must have ensured that any further information was readily available for inspection at the stated location.
- (3) For the purpose of subclause (1), the **CPP applicant** must-
  - (a) provide all relevant information;

- (b) provide information in a manner that promotes **consumer** engagement;
- (c) make best endeavours to express information clearly, including by use of plain language and the avoidance of jargon; and
- (d) provide **consumers** with (or notified them where to obtain) the information through a medium or media appropriate to the natures of the **consumer** base.

*Examples:*

- (i) *by placing the information on the **GDB's** website;*
- (ii) *by providing the information to groups or organisations that represent the **consumers'** relevant interests;*
- (iii) *by including the information in **consumers'** or gas retailers' bills; and/or*
- (iv) *by placing advertisements in local newspapers.*

#### 5.6.2 Verification

- (1) A **CPP proposal** must be verified by a **verifier**.
- (2) The **verifier** must be engaged in accordance with 0.
- (3) The **CPP applicant** must provide the **verifier** with-
  - (a) the materials-
    - (i) required by the **verifier** to verify the **CPP proposal** in accordance with the terms of his, her or its engagement and Schedule Adivision 1f1; and
    - (ii) that it intends to submit to the **Commission** as a **CPP proposal**;
  - (b) subject to paragraph (c), the materials referred to in paragraph (a) prior to the **verifier** commencing verification in accordance with Schedule Adivision 1f1;
  - (c) upon the **verifier's** request, the information described in clause D7(2), D7(5), D12(2) and D12(3) pertaining to **identified programmes** after the **verifier** has notified the **CPP applicant** of its selection of **identified programmes**;
  - (d) any information requested by the **verifier** pursuant to the **verifier's** right to ask for such information pursuant to his, her or its deed of engagement, as specified in clause F6(2)(d); and
  - (e) in advance of the **verifier's** selection of **identified programmes**, summary information on the forecast **projects** and **programmes**, in the format specified in *Table 1: Top 5* of the **regulatory templates**.

#### 5.6.3 Audit and assurance

- (1) A **CPP application** must include a report by an **auditor** that states whether or not:
  - (a) as far as appears from an examination of them, proper records to enable the compilation of information required by Subpart 5 have been kept by the **CPP applicant**;
  - (b) in the case of actual financial information relating to the **current period**, that information has been prepared in all material respects in accordance



with the input methodologies set out in this determination, and that it has been audited in accordance with applicable auditing standards issued by the External Reporting Board in accordance with its functions under the Financial Reporting Act 2013 or any equivalent standards that replace these standards;

- (c) in the case of forecast financial information relating to the **next period**, that information has been compiled in all material respects in accordance with the input methodologies set out in this determination, and that it has been examined in accordance with applicable assurance engagement standards issued by the External Reporting Board in accordance with its functions under the Financial Reporting Act 2013, or any equivalent standards that replace these standards or other appropriate standards;
  - (d) in the case of quantitative historical information provided in spreadsheets, the information is properly compiled on the basis of the relevant underlying source information; and
  - (e) in the case of quantitative forecast information provided in spreadsheets, the information is properly compiled on the basis of relevant and reasonable disclosed assumptions.
- (2) For the avoidance of doubt, the **auditor** must provide an opinion as to whether-
- (a) in respect of **operating costs not directly attributable**, the **opex forecast** was provided by the **CPP applicant** as specified in clause 5.3.5; and
  - (b) in respect of **regulated service asset values not directly attributable**, the **forecast value of commissioned assets** were provided by the **CPP applicant** in accordance with clause 5.3.6(3)(b) and as specified in clause 5.3.11(2)(b).

#### 5.6.4 Certification

- (1) In the case of all information of a quantitative nature, other than forecast information, provided in accordance with this Part, no fewer than 2 **directors** of the **CPP applicant** must certify in writing his or her belief that-
- (a) the information was derived and is provided in accordance with the relevant requirements; and
  - (b) it properly represents the results of financial or non-financial operations as the case may be.
- (2) In the case of all information of a qualitative nature, other than forecast information, provided in accordance with this Part, no fewer than 2 **directors** of the **CPP applicant** must certify in writing his or her belief that-
- (a) the information is provided in accordance with the relevant requirements; and
  - (b) it properly represents the events that occurred during the **current period**.
- (3) In the case of all forecast information provided in accordance with this Part, no fewer than 2 **directors** of the **CPP applicant** must certify in writing his or her belief that-
- (a) the information was derived and is provided in accordance with the relevant requirements; and

- (b) the assumptions made are reasonable.
- (4) No fewer than 2 **directors** of the **CPP applicant** must certify in writing-
- (a) that, to the best of his or her knowledge, the **verifier** was engaged by the **CPP applicant** in accordance with Schedule F;
  - (b) that, to the best of his or her knowledge, the **CPP applicant** provided the **verifier** with all the information specified in Part 5, including its schedules, relevant to Schedule F;
  - (c) that, to the best of his or her knowledge, the information described in clause 5.6.2(3)(e) was provided to the **verifier** in advance of the **verifier's** selection of **identified programmes**;
  - (d) a description of any information not provided to the **verifier** following the **verifier's** request;
  - (e) reasons, which, in his or her opinion, justified any non-provision of such information;
  - (f) that, to the best of his or her knowledge, the-
    - (i) matters the **auditor** was engaged to audit included the matters specified in clause 5.6.3; and
    - (ii) **auditor** was instructed to report on at least the matters described in clause 5.1.4; and
  - (g) that the-
    - (i) audit report provided pursuant to clause 5.1.4;
    - (ii) **verification report**; and
    - (iii) other certifications required by this clause,
 all relate to the same **CPP proposal**.
- (5) Where-
- (a) a **director** has certified a matter of opinion in accordance with this clause; and
  - (b) his or her opinion has changed before the **Commission's** determination of the **CPP** in question,
- that **director** must notify the **Commission** as soon as reasonably practicable.
- (6) Where-
- (a) a **director** has certified a matter of fact in accordance with this clause; and
  - (b) before the **Commission's** determination of the **CPP** in question he or she-
    - (i) becomes aware that the fact is untrue; or
    - (ii) has significant cause to doubt the accuracy of that fact,
 that **director** must notify the **Commission** as soon as reasonably practicable.
- (7) For the avoidance of doubt, the certifications required by the different subclauses of this clause may be made by the same or different **directors**.

## SUBPART 7 **Catastrophic events and reconsideration of a customised price-quality path**

### 5.7.1 Catastrophic event

Catastrophic event means an event-

- (a) beyond the reasonable control of the **GDB**;
- (b) in relation to which expenditure-
  - (i) was neither sought in a **CPP proposal**; nor
  - (ii) is explicitly or implicitly provided for in the **DPP** or **CPP**,as the case may be;
- (c) that could not have been reasonably foreseen at the time the **CPP** or **DPP** was determined; and
- (d) in respect of which-
  - (i) action required to rectify its adverse consequences cannot be delayed until a future **regulatory period** without quality standards being breached;
  - (ii) remediation requires either or both of **capital expenditure** or **operating expenditure** during the **regulatory period**;
  - (iii) the full remediation costs are not provided for in the **DPP** or **CPP**; and
  - (iv) the cost of remediation net of any insurance or compensatory entitlements has had or will have an impact on the price path over the **disclosure years** of the **CPP** remaining on and after the first date at which a remediation cost is proposed to be or has been incurred by an amount equivalent to at least 1% of the aggregated **allowable notional revenue** for the **disclosure years** of the **CPP** in which the cost was or will be incurred.

### 5.7.2 Change event

Change event means-

- (a) change in a; or
- (b) a new,  
legislative or regulatory requirement applying to a **GDB** subject to a **CPP** the effect of which-
  - (c) must take place during the current **regulatory period**;
  - (d) is not explicitly or implicitly provided for in the **CPP**; and either-
  - (e) necessitates incurring additional reasonable costs in responding to the change or new requirement that has had or will have an impact on the price path of the **disclosure years** of the **CPP regulatory period** in which the change or new requirement applies of at least 1% of the aggregate amount of the **allowable notional revenue** for the **disclosure years** in which the net costs are or will be incurred; or
  - (f) causes an **input methodology** to become incapable of being applied .

### 5.7.3 Error event

- (1) 'Error event' means, subject to subclause (2), a clearly unintended circumstance identified by the **Commission** where the **CPP** was determined or amended based on an error, including where:
  - (a) incorrect data was used in setting the price path or the quality standard;  
or
  - (b) data was incorrectly applied in setting the price path or quality standards.
- (2) For the purposes of subclause (1), an error relating to-
  - (a) the price path will not constitute an **error event** unless the error has an impact on the price path of an amount equivalent to at least 1% of the aggregate **allowable notional revenue** for the affected **disclosure years** of the **CPP**; and
  - (b) the metrics by which quality standards are specified in the **CPP** will not constitute an **error event** unless it is an error in the value of the metric.

### 5.7.4 Major transaction

'Major transaction' means a transaction, whether contingent or not, where **consumers** are acquired or no longer **supplied** by the **GDB** 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 more than 10% of the **GDB's opening RAB value** in the **disclosure year** of acquisition;
- (b) has resulted in, or will result in, the disposal of, or an agreement to dispose of, assets of the **GDB** with a value of more than 10% of the **opening RAB value** in the **disclosure year** of disposal;
- (c) has, or is likely to have, the effect of the **GDB** acquiring rights or interests with a value which is equivalent to more than 10% of the **opening RAB value** in the **disclosure year** of acquisition; or
- (d) has, or is likely to have, the effect of the **GDB** incurring obligations or liabilities or contingent liabilities, excluding loans or borrowing costs in respect of assets, with a value which is equivalent to more than 10% of the **opening RAB value** in the **disclosure year** of incurring the obligation.

### 5.7.5 Contingent projects

- (1) A contingent project is a project that has been listed as a 'contingent project' with an associated **trigger event** in a **CPP determination**.
- (2) For the purpose of subclause (1), a **project** may only be so listed if it is a **project**-
  - (a) that the **Commission** considers-
    - (i) is reasonably required of a **GDB**; and
    - (ii) is one whose associated assets are likely to be **commissioned**,

- during the **CPP regulatory period**;
  - (b) for which a commencement date cannot be forecast with an appropriate degree of specificity by comparison with other proposed projects; and
  - (c) in respect of which the **Commission** considers that its required **capex** and **opex**-
    - (i) as disclosed in a **CPP proposal** exceeds 10% of the value of the **GDB's** annual revenue in the most recently completed **disclosure year** in respect of an **ID determination**; and
    - (ii) would be likely, when forecast with reasonable certainty, to meet the **expenditure objective**.
- (3) 'Trigger event' means, subject to subclause (4), a condition or event that would reasonably cause a **GDB** to incur forecast **opex** or forecast **capex** of the nature and extent required by an associated **contingent project**.
- (4) For the purpose of subclause (3), the condition or event must-
  - (a) not be within the control of the **GDB**;
  - (b) be capable of being-
    - (i) specifically defined; and
    - (ii) objectively verified as having occurred; and
  - (c) be something the occurrence of which the **Commission** considers is probable during the **CPP regulatory period**.
- (5) For the avoidance of doubt, the **Commission** has discretion as to-
  - (a) whether to list a project that satisfies subclause (2) as a **contingent project** in a **CPP determination**; and
  - (b) the selection and description of **trigger events**.

#### 5.7.6 Unforeseen projects

- (1) 'Unforeseen project' means a **project** or **programme**, subject to subclause (2), that, in respect of the services supplied by the **GDB** in question at the time that **GDB** submitted its **CPP proposal**, would have been unforeseeable to a prudent **GDB**.
- (2) For the purpose of subclause (1), the total **capex forecast** and **opex forecast** of the **projects** or **programmes** proposed to the **Commission** pursuant to clause 5.7.7(8) must exceed 10% of the value of the **GDB's** annual revenue in the most recently completed **disclosure year** in respect of an **ID determination**.

#### 5.7.7 When price-quality paths may be reconsidered

- (1) A **CPP** may be reconsidered if-
  - (a) the **Commission** considers; or
  - (b) the **GDB** in question satisfies the **Commission**, upon application, that subclauses (2), or (5) applies.
- (2) This subclause applies if-
  - (a) subject to subclause (3), a **catastrophic event** has occurred;
  - (b) a **change event** has occurred;
  - (c) there has been an **error event**;

- (d) a **major transaction** has occurred; or
  - (e) there has been a **WACC change**.
- (3) For the purpose of subclause (2)(a), where the costs to rectify the adverse consequences of the **catastrophic event** are fully covered by-
- (a) the **CPP** (e.g. through an **operational expenditure** allowance for self-insurance); or
  - (b) commercial insurance held by the **GDB**,
- the **Commission** will only reconsider the quality standards of the **CPP**.
- (4) For the purpose of subclause (2)(e), a 'WACC change' occurs when-
- (a) a **67<sup>th</sup> percentile estimate of WACC** has been determined for a new **DPP regulatory period**; and
  - (b) the new **DPP regulatory period** commences within the current **CPP regulatory period**.
- (5) This subclause applies if-
- (a) false or misleading information relating to the making or amending of a **CPP determination** has been knowingly-
    - (i) provided by a **GDB**, any of its agents or a **verifier** to the **Commission**; or
    - (ii) disclosed pursuant to the Gas (Information Disclosure) Regulations 1997 or an **ID determination**, as the case may be; and
  - (b) the **Commission** relied on that information in making or amending a **CPP determination**.
- (6) The price-quality path may be reconsidered by the **Commission** if a **GDB** satisfies it, upon application, that-
- (a) a **trigger event** has occurred and the information set out in subclause (7) has been provided to the **Commission**; or
  - (b) an **unforeseen project**-
    - (i) has commenced and the information set out in subclause (8) has been provided to the **Commission**; or
    - (ii) is **committed** during the current **CPP regulatory period** and the information set out in subclause (8) has been provided to the **Commission**.
- (7) The **Commission** need not consider an application under subclause (6)(a) unless the **GDB** has provided it with-
- (a) a written statement from no fewer than 2 of the **GDB's directors** certifying-
    - (i) that the **trigger event** has occurred;
    - (ii) full particulars of the occurrence; and
    - (iii) the date or dates on which it occurred;

- (b) detailed cost information relating to proposed expenditure on the **contingent project** for its duration; and
  - (c) any other information of relevance to the **contingent project** required by the **Commission**.
- (8) The **Commission** need not consider an application under subclause (6)(b) unless the **GDB** has provided it with-
- (a) information demonstrating that the **project** or **programme** is an **unforeseen project**;
  - (b) detailed cost information relating to proposed expenditure on the **unforeseen project** for its duration; and
  - (c) any other information of relevance to the **unforeseen project** required by the **Commission**.

#### 5.7.8 Amending price-quality path after reconsideration

- (1) Where, after reconsidering a **CPP**, the **Commission** determines that the **CPP** should be amended, the **Commission** may amend either or both of the price path or the quality standards specified in the **CPP determination**, subject subclause (3).
- (2) In determining the extent of any amendment to the price path, the **Commission** must take into account the **expenditure objective**.
- (3) The **Commission** must not amend the-
- (a) price path more than is reasonably necessary to take account of the change in costs net of any insurance or compensatory entitlements; and
  - (b) quality standards more than are reasonably necessary to mitigate the effect of
    - (i) the **catastrophic event**;
    - (ii) the **change event**;
    - (iii) the **error event**;
    - (iv) the **major transaction**;
    - (v) the provision of **false or misleading information**;
    - (vi) the **contingent project**;
    - (vii) the **unforeseen project**; or
    - (viii) the **WACC change**,
- as the case may be.
- (4) Where the **Commission's** reconsideration of the price-quality path was-
- (a) triggered by a **catastrophic event**, in determining the extent of the amendment to the price-quality path, the **Commission** will consider the extent to which a **GDB** has demonstrated that it has reviewed its **capital expenditure** and **operating expenditure** plans for the remainder of the **regulatory period** and made such substitutions as is possible without adversely affecting its ability to meet its quality standards;
  - (b) pursuant to the occurrence of an **unforeseen project**-
    - (i) the **Commission** need not amend the **CPP** unless the amount of required **capex** and **opex** determined by the **Commission** exceeds

- 10% of the value of the **GDB's** annual revenue in the relevant **disclosure year** for the purpose of clause 5.7.6(2);
- (ii) any such amendment may not take effect until the **disclosure year** in which assets constructed as part of the relevant **unforeseen project** are forecast to be **commissioned**; and
  - (c) pursuant to the occurrence of a **trigger event**, any amendment to the **CPP** may not take effect until the **disclosure year** in which assets constructed as part of the relevant **contingent project** are forecast to be **commissioned**.
- (5) Where the **Commission's** reconsideration of the price-quality path was triggered by a **WACC change**, the **Commission** will for the remaining years of the **CPP regulatory period** after the **WACC change**:
- (a) determine the series of **maximum allowable revenue after tax** in accordance with clause 5.3.4(1); and
  - (b) for the purpose of (a), use-
    - (i) the **building blocks allowable revenue before tax** calculated in accordance with clause 5.3.2(1);
    - (ii) the revised **WACC** in clause 5.3.22(2), including where the **WACC** is used for present value calculations, and for timing factors in clause 5.3.2(4);
    - (iii) the **forecast CPI for DPP revaluation** for the new **DPP regulatory period** referred to in clause 5.7.7(4)(b), to calculate a revised **revaluation rate** in accordance with the method in clause 5.3.10(4);
    - (iv) the **cost of debt** for the new **DPP regulatory period** referred to in clause 5.7.7(4)(b), to calculate a revised notional deductible interest as specified in clause 5.3.16(2);
    - (v) subject to (ii) to (iv), the same input values as applied by the **Commission** in initially determining the **CPP** for all other input values in the calculation of **building blocks allowable revenue before tax**; and
    - (vi) a revised forecast **regulatory taxable income** to apply the changes in **building blocks allowable revenue before tax** resulting from (i) to (iii) in a revised **forecast regulatory tax allowance**.



## SCHEDULE A     STANDARD PHYSICAL ASSET LIVES

### Standard Physical Asset Lives for GDBs

ASSET DESCRIPTIONS	UNIT	NOTES	STANDARD PHYSICAL ASSET LIFE (YEARS)
<b>HP PIPELINES</b> – various diameters	m	(a)	80
<b>IP PIPELINES</b> (suburban, standard ground conditions, trenched construction) – 50mm to 300mm	m	(b)	70
<b>MP PIPELINES</b> (suburban, standard ground conditions) – 32mm to 200 mm	m	(c), (d)	60
<b>IP SERVICES</b>			
32 mm (suburban, standard ground conditions)	m		70
Mains connection, riser and valve	No.		70
<b>MP SERVICES</b>			
20 mm (suburban, standard ground conditions)	m		60
Mains connection, riser and valve	No.		60
<b>STATIONS</b>			
Site Development and Buildings			50
<b>METERS</b> (cubic metres / hour)			
0 to 25	No.		25
25 to 60	No.		15
Other station equipment: regulators; valves, pipework and fittings; instrumentation and RTUs; electrical fittings	No.		35
<b>VALVES</b>			
		(e)	
HP Pipeline Valves (includes Pits and Covers)	No.		80
IP Pipeline Valves (includes Pits and Covers)	No.		70
MP Pipeline Valves (includes Pits and Covers)	No.		60
<b>SCADA / CONTROL SYSTEMS</b>			
SCADA Master Station; telecommunications systems	No.		10
<b>SPECIAL CROSSINGS</b>	No	(f)	
<b>SPARES</b>		(g)	
<b>Notes:</b>			
(a) 'HP' means high pressure pipelines with operating pressures above 20 barg.			
(b) 'IP' means intermediate pressure pipelines with operating pressures between 7 and 20 barg.			
(c) 'MP' means medium pressure pipelines with operating pressures up to 7 barg.			
(d) For MP pipelines of PE construction installed prior to 1985, the maximum asset life should be 50 years.			
(e) Asset lives for valves should correspond to the associated pipeline.			

- (f) Asset lives for special crossings should correspond to the type of pipeline for which the crossing is constructed. Where more than one type uses a single crossing, the asset type with the longest standard life should be used as reference.
- (g) Spares should be given the same asset lives as the network assets they support.

## SCHEDULE B COST ALLOCATION INFORMATION

**Table 1: Allocation of asset values**

Table 1: Allocation of asset values		Value allocated (\$000s) Gas distribution services
<b>Main pipe</b>		
	Directly attributable	-
	Not directly attributable	-
	<b>Total attributable to regulated service</b>	-
<b>Service pipe</b>		
	Directly attributable	-
	Not directly attributable	-
	<b>Total attributable to regulated service</b>	-
<b>Stations</b>		
	Directly attributable	-
	Not directly attributable	-
	<b>Total attributable to regulated service</b>	-
<b>Line valve</b>		
	Directly attributable	-
	Not directly attributable	-
	<b>Total attributable to regulated service</b>	-
<b>Special crossings</b>		
	Directly attributable	-
	Not directly attributable	-
	<b>Total attributable to regulated service</b>	-
<b>Other network assets</b>		
	Directly attributable	-
	Not directly attributable	-
	<b>Total attributable to regulated service</b>	-
<b>Non-network assets</b>		
	Directly attributable	-
	Not directly attributable	-
	<b>Total attributable to regulated service</b>	-
	<b>Regulated service asset value directly attributable</b>	-
	<b>Regulated service asset value not directly attributable</b>	-
	<b>Total closing RAB value</b>	-

**Table 2: Report supporting allocations of asset values (non-public)**

Table 2: Report supporting allocations of asset values (non-public)										
Line Item*	Allocation methodology type	Allocator	Allocator type	Allocator Metric (%)		Value allocated (\$000)				OVABAA allocation increase (\$000)
				Gas distribution services	Non-gas distribution services	Arm's length deduction	Gas distribution services	Non-gas distribution services	Total	
<b>Main pipe</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							-
Insert asset description	e.g. ABAA	Allocator 2	Select one							-
Insert asset description	e.g. ABAA	Allocator 3	Select one							-
Insert asset description	e.g. ABAA	Allocator 4	Select one							-
Subtotal not directly attributable						-	-	-	-	-
<b>Service pipe</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							-
Insert asset description	e.g. ABAA	Allocator 2	Select one							-
Insert asset description	e.g. ABAA	Allocator 3	Select one							-
Insert asset description	e.g. ABAA	Allocator 4	Select one							-
Subtotal not directly attributable						-	-	-	-	-
<b>Stations</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							-
Insert asset description	e.g. ABAA	Allocator 2	Select one							-
Insert asset description	e.g. ABAA	Allocator 3	Select one							-
Insert asset description	e.g. ABAA	Allocator 4	Select one							-
Subtotal not directly attributable						-	-	-	-	-
<b>Line valve</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							-
Insert asset description	e.g. ABAA	Allocator 2	Select one							-
Insert asset description	e.g. ABAA	Allocator 3	Select one							-
Insert asset description	e.g. ABAA	Allocator 4	Select one							-
Subtotal not directly attributable						-	-	-	-	-
<b>Special crossings</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							-
Insert asset description	e.g. ABAA	Allocator 2	Select one							-
Insert asset description	e.g. ABAA	Allocator 3	Select one							-
Insert asset description	e.g. ABAA	Allocator 4	Select one							-
Subtotal not directly attributable						-	-	-	-	-
<b>Other network assets</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							-
Insert asset description	e.g. ABAA	Allocator 2	Select one							-
Insert asset description	e.g. ABAA	Allocator 3	Select one							-
Insert asset description	e.g. ABAA	Allocator 4	Select one							-
Subtotal not directly attributable						-	-	-	-	-
<b>Non-network assets</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							-
Insert asset description	e.g. ABAA	Allocator 2	Select one							-
Insert asset description	e.g. ABAA	Allocator 3	Select one							-
Insert asset description	e.g. ABAA	Allocator 4	Select one							-
Subtotal not directly attributable						-	-	-	-	-
Total regulated service asset value not directory attributable						-	-	-	-	-

\* Include additional rows if needed

**Table 3: Allocation of operating costs**

	Value allocated (\$000s)				OVABAA allocation increase (\$000s)
	Arm's length deduction	Gas distribution services	Non-gas distribution services	Total	
<b>Service interruptions, incidents and emergencies</b>					
Directly attributable					
Not directly attributable				-	
<b>Total attributable to regulated service</b>		-			
<b>Routine and corrective maintenance and inspection</b>					
Directly attributable					
Not directly attributable				-	
<b>Total attributable to regulated service</b>		-			
<b>Asset replacement and renewal</b>					
Directly attributable					
Not directly attributable				-	
<b>Total attributable to regulated service</b>		-			
<b>System operations and network support</b>					
Directly attributable					
Not directly attributable				-	
<b>Total attributable to regulated service</b>		-			
<b>Business support</b>					
Directly attributable					
Not directly attributable				-	
<b>Total attributable to regulated service</b>		-			
<b>Operating costs directly attributable</b>		-			
<b>Operating costs not directly attributable</b>	-	-	-	-	-
<b>Operating expenditure</b>		-			

**Table 4: Report supporting allocation of operating costs (non-public)**

**Table 4: Report supporting allocation of operating costs (non-public)**

Allocation methodology type	Cost allocator	Allocator type	Allocator Metric (%)		Value allocated (\$000)				OVABAA allocation increase (\$000)	
			Gas distribution services	Non-gas distribution services	Arm's length deduction	Gas distribution services	Non-gas distribution services	Total		
<b>Service interruptions, incidents and emergencies</b>										
Insert cost description	e.g. ABAA	Allocator 1	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 2	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 3	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 4	[Select one]							-
<b>Not directly attributable</b>						-	-	-	-	-
<b>Routine and corrective maintenance and inspection</b>										
Insert cost description	e.g. ABAA	Allocator 1	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 2	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 3	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 4	[Select one]							-
<b>Not directly attributable</b>						-	-	-	-	-
<b>Asset replacement and renewal</b>										
Insert cost description	e.g. ABAA	Allocator 1	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 2	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 3	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 4	[Select one]							-
<b>Not directly attributable</b>						-	-	-	-	-
<b>System operations and network support</b>										
Insert cost description	e.g. ABAA	Allocator 1	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 2	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 3	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 4	[Select one]							-
<b>Not directly attributable</b>						-	-	-	-	-
<b>Business support</b>										
Insert cost description	e.g. ABAA	Allocator 1	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 2	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 3	[Select one]							-
Insert cost description	e.g. ABAA	Allocator 4	[Select one]							-
<b>Not directly attributable</b>						-	-	-	-	-
<b>Operating costs not directly attributable</b>						-	-	-	-	-



## SCHEDULE C COST ALLOCATION INFORMATION

**Table 1: Revised allocation of regulated asset values**

	Value allocated (\$000s) Gas distribution services	Revised value allocated (\$000s) Gas distribution services
<b>Main pipe</b>		
Directly attributable	[ ]	[ ]
Not directly attributable	[ ]	[ ]
<b>Total attributable to regulated service</b>	[ ]	[ ]
<b>Service pipe</b>		
Directly attributable	[ ]	[ ]
Not directly attributable	[ ]	[ ]
<b>Total attributable to regulated service</b>	[ ]	[ ]
<b>Stations</b>		
Directly attributable	[ ]	[ ]
Not directly attributable	[ ]	[ ]
<b>Total attributable to regulated service</b>	[ ]	[ ]
<b>Line valve</b>		
Directly attributable	[ ]	[ ]
Not directly attributable	[ ]	[ ]
<b>Total attributable to regulated service</b>	[ ]	[ ]
<b>Special crossings</b>		
Directly attributable	[ ]	[ ]
Not directly attributable	[ ]	[ ]
<b>Total attributable to regulated service</b>	[ ]	[ ]
<b>Other network assets</b>		
Directly attributable	[ ]	[ ]
Not directly attributable	[ ]	[ ]
<b>Total attributable to regulated service</b>	[ ]	[ ]
<b>Non-network assets</b>		
Directly attributable	[ ]	[ ]
Not directly attributable	[ ]	[ ]
<b>Total attributable to regulated service</b>	[ ]	[ ]
<b>Regulated service asset value directly attributable</b>	[ ]	[ ]
<b>Regulated service asset value not directly attributable</b>	[ ]	[ ]
<b>Total closing RAB value</b>	[ ]	[ ]



**Table 2: Report supporting revised allocations of asset values (non-public)**

Table 2: Report supporting revised allocations of asset values (non-public)										
	Previous allocation					Revised allocation				
	Allocation methodology type	Allocator	Allocator type	Allocator Metric (%)		Allocation methodology type	Allocator	Allocator type	Allocator Metric (%)	
				Gas distribution services	Non-gas distribution services				Gas distribution services	Non-gas distribution services
<b>Main pipe</b>	Insert asset description	e.g. ABAA	Allocator 1	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 2	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 3	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 4	[Select one]						
	Subtotal not directly attributable									
<b>Service pipe</b>	Insert asset description	e.g. ABAA	Allocator 1	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 2	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 3	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 4	[Select one]						
	Subtotal not directly attributable									
<b>Stations</b>	Insert asset description	e.g. ABAA	Allocator 1	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 2	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 3	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 4	[Select one]						
	Subtotal not directly attributable									
<b>Line valve</b>	Insert asset description	e.g. ABAA	Allocator 1	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 2	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 3	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 4	[Select one]						
	Subtotal not directly attributable									
<b>Special crossings</b>	Insert asset description	e.g. ABAA	Allocator 1	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 2	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 3	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 4	[Select one]						
	Subtotal not directly attributable									
<b>Other network assets</b>	Insert asset description	e.g. ABAA	Allocator 1	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 2	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 3	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 4	[Select one]						
	Subtotal not directly attributable									
<b>Non-network assets</b>	Insert asset description	e.g. ABAA	Allocator 1	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 2	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 3	[Select one]						
	Insert asset description	e.g. ABAA	Allocator 4	[Select one]						
	Subtotal not directly attributable									
	Total regulated service asset value not directory attributable									

\* include additional rows if needed

**Table 3: Revised allocation of operating costs**

**Table 3: Revised allocation of operating costs**

	Value allocated (\$000s)					Revised value allocated (\$000s)				
	Arm's length deduction	Gas distribution services	Non-gas distribution services	Total	OVABAA allocation increase (\$000s)	Arm's length deduction	Gas distribution services	Non-gas distribution services	Total	OVABAA allocation increase (\$000s)
<b>Service interruptions, incidents and emergencies</b>										
Directly attributable										
Not directly attributable										
<b>Total attributable to regulated service</b>		-					-			
<b>Routine and corrective maintenance and inspection</b>										
Directly attributable										
Not directly attributable										
<b>Total attributable to regulated service</b>		-					-			
<b>Asset replacement and renewal</b>										
Directly attributable										
Not directly attributable										
<b>Total attributable to regulated service</b>		-					-			
<b>System operations and network support</b>										
Directly attributable										
Not directly attributable										
<b>Total attributable to regulated service</b>		-					-			
<b>Business support</b>										
Directly attributable										
Not directly attributable										
<b>Total attributable to regulated service</b>		-					-			
<b>Operating costs directly attributable</b>		-					-			
<b>Operating costs not directly attributable</b>	-	-	-	-	-	-	-	-	-	-
<b>Operating expenditure</b>		-					-			

**Table 4: Report supporting revised allocation of operating costs (non-public)**

**Table 4: Report supporting revised allocation of operating costs (non-public)**

	Previous allocation					Revised allocation				
	Allocation methodology type	Cost allocator	Allocator type	Allocator Metric (%)		Allocation methodology type	Cost allocator	Allocator type	Allocator Metric (%)	
				Gas distribution services	Non-gas distribution services				Gas distribution services	Non-gas distribution services
<b>Service interruptions, incidents and emergencies</b>										
Insert cost description	e.g. ABAA	Allocator 1				e.g. ABAA	Allocator 1			
Insert cost description	e.g. ABAA	Allocator 2				e.g. ABAA	Allocator 2			
Insert cost description	e.g. ABAA	Allocator 3				e.g. ABAA	Allocator 3			
Insert cost description	e.g. ABAA	Allocator 4				e.g. ABAA	Allocator 4			
Not directly attributable					-					-
<b>Routine and corrective maintenance and inspection</b>										
Insert cost description	e.g. ABAA	Allocator 1				e.g. ABAA	Allocator 1			
Insert cost description	e.g. ABAA	Allocator 2				e.g. ABAA	Allocator 2			
Insert cost description	e.g. ABAA	Allocator 3				e.g. ABAA	Allocator 3			
Insert cost description	e.g. ABAA	Allocator 4				e.g. ABAA	Allocator 4			
Not directly attributable					-					-
<b>Asset replacement and renewal</b>										
Insert cost description	e.g. ABAA	Allocator 1				e.g. ABAA	Allocator 1			
Insert cost description	e.g. ABAA	Allocator 2				e.g. ABAA	Allocator 2			
Insert cost description	e.g. ABAA	Allocator 3				e.g. ABAA	Allocator 3			
Insert cost description	e.g. ABAA	Allocator 4				e.g. ABAA	Allocator 4			
Not directly attributable					-					-
<b>System operations and network support</b>										
Insert cost description	e.g. ABAA	Allocator 1				e.g. ABAA	Allocator 1			
Insert cost description	e.g. ABAA	Allocator 2				e.g. ABAA	Allocator 2			
Insert cost description	e.g. ABAA	Allocator 3				e.g. ABAA	Allocator 3			
Insert cost description	e.g. ABAA	Allocator 4				e.g. ABAA	Allocator 4			
Not directly attributable					-					-
<b>Business support</b>										
Insert cost description	e.g. ABAA	Allocator 1				e.g. ABAA	Allocator 1			
Insert cost description	e.g. ABAA	Allocator 2				e.g. ABAA	Allocator 2			
Insert cost description	e.g. ABAA	Allocator 3				e.g. ABAA	Allocator 3			
Insert cost description	e.g. ABAA	Allocator 4				e.g. ABAA	Allocator 4			
Not directly attributable					-					-
<b>Operating costs not directly attributable</b>					-					-



## SCHEDULE D      CAPITAL AND OPERATING EXPENDITURE INFORMATION

### D1 Interpretation

In this Subpart, words in bold type bear the following meanings:

**actual capex** means the **capex** incurred during the **current period**;

**actual opex** means the **opex** incurred during the **current period**;

**asset category** means one of the following asset types:

- (a) distribution pipelines, including
  - (i) mains operating at intermediate, medium and low pressure; and
  - (ii) services;
- (b) stations, including:
  - (i) gate stations;
  - (ii) pressure reducing stations;and in respect of each station:
  - (iii) **land**;
  - (iv) site development and buildings;
  - (v) regulators;
  - (vi) valves, pipework and **fittings**;
  - (vii) instrumentation and RTUs; and
  - (viii) electrical **fittings**;
- (c) valves, meaning valves other than those located at stations;
- (d) SCADA / Control systems, including:
- (e) master stations;
- (f) telecommunications systems;
- (g) **network spares**; and
- (h) other;

**asset management plan** means any asset management plan required by an **ID determination**;

**asset relocations capex** means **capex** principally incurred in relocating assets where the relocation does not result in the assets having service potentials materially different to their service potentials in their original location;

**asset replacement and renewal capex** means **capex** predominantly associated with-

- (a) the progressive physical deterioration of the condition of **network** assets or their immediate surrounds; or
- (b) expenditure arising as a result of the obsolescence of **network** assets;

**base year** means historical 12 month period;

**base year approach** means forecasting data regarding the **supply of gas distribution services** in the future based on data obtained in a **base year**;

**capex category** means one of the categories in the following list which comprises, for the purpose of a **CPP proposal**, a classification of the types of **capex** that **GDBs** make when providing **gas distribution services to consumers** and **capex categories** means all of the following categories:

- (a) **customer connection capex**;
  - (b) **system growth capex**;
  - (c) **reliability, safety and environment capex**;
  - (d) **asset replacement and renewal capex**;
  - (e) **asset relocations capex**; and
  - (f) **non-system fixed assets capex**;

**connection point** means a physical connection point on the **network** with another pipeline or **consumer**, at which gas is imported into or exported from the **network**;

**customer connection capex** means **capex** predominantly associated with the establishment of new **connection points of consumers** to the **network**, or alterations to existing **connection points** where the expenditure relates to connection assets and/or parts of the **network** for which the expenditure is recoverable in total, or in part, by a **capital contribution**;

**deliverability** means the extent to which the activities to which the **capex forecast** and **opex forecast** relate are likely to be undertaken by the **GDB** during the **next period** with reference to the **GDB's** ability to-

- (a) source and secure physical resources (such as appropriately skilled personnel and materials) and planning consents from external authorities; and
  - (b) prioritise, manage and undertake the work involved, including the ability to implement any planned step change from historical levels of investment and workload;

**document** means correspondence, notices, circulars, memoranda, minutes, reports, **policies**, contracts or agreements in the possession or control of the **GDB**, whether in electronic or paper format;

**fault and emergency maintenance opex** means **opex** principally incurred in responding (by way of undertaking remedial work) to an unplanned instantaneous event that impairs the normal operation of **network** assets but does not include expenditure on work to prevent or mitigate the impact such an event would have should it occur;

**general management, administration and overheads opex** means **opex** that is principally incurred on administration or which is not directly incurred in the physical operation and maintenance of the **network**, including expenditure on-

- (a) accounting;

- (b) corporate management;
  - (c) finance;
  - (d) human resources;
  - (e) information technology;
  - (f) insurance paid to an insurer;
  - (g) legal;
  - (h) occupational health and safety;
  - (i) procurement;
  - (j) property; and
  - (k) regulation;

**key assumptions** means-

- (a) any significant assumption made by a **GDB** in the preparation of its proposal, clearly identified in a manner that makes its significance to the proposal understandable to the **Commission**, including-
  - (i) forecasts of peak demand;
  - (ii) forecasts of weighted average remaining life of assets;
  - (iii) forecasts of gas consumption;
  - (iv) forecasts of material movements in gas consumption within the **network**;
  - (v) forecasts of **consumer** numbers;
  - (vi) forecasts of pipeline length;
  - (vii) labour unit rates applied to key items of plant and equipment;
  - (viii) materials unit rates applied to key items of plant and equipment;
  - (ix) labour escalators as required by clause D18(2); and
  - (x) materials escalators as required by clause D18(2); and
- (b) a description of the-
  - (i) basis on which those assumptions were prepared; and
  - (ii) the principal sources of information from which those assumptions were derived;

**non-system fixed assets capex** means **capex** incurred in relation to assets not directly related to the **network** used in the **supply of gas distribution services**, including in relation to-

- (a) information and technology systems;
- (b) asset management systems;
  - (c) office buildings, depots and workshops;
  - (d) office furniture and equipment;
  - (e) motor vehicles; and
  - (f) tools, plant, and machinery;

**obligation** means a legally enforceable duty owed by a **GDB**, whether arising under legislation, at common law or in contract, but excludes a contractual obligation commencing after this determination takes effect;

**opex** means **operating expenditure**;

**opex category** means one of the categories in the following list which comprises, for the purpose of a **CPP proposal**, a classification of the types of **opex** that **GDBs** make when providing **gas distribution services** to **consumers**, and **opex categories** means all of the following categories:

- (a) **general management, administration and overheads opex**;
- (b) **system management and operations opex**;
- (c) **routine and preventative maintenance opex**;
- (d) **refurbishment and renewal maintenance opex**;
- (e) **fault and emergency maintenance opex**; and
- (f) **other opex**;

**other opex** means **opex** that is not captured by the other **opex categories**;

**planning standards** means **policies** adopted by the **GDB** which relate to the planning of the **network** and the forecasting of **capex** and **opex** for that purpose, including in relation to-

- (a) long term **network** development;
- (b) **network** maintenance; and
- (c) system operations;

**policies** means documented and **director** or management-approved short-term and long-term policies, procedures, strategies, guidelines, plans and approaches including those relating to-

- (a) (a) asset management;
- (b) asset security;
- (c) augmentation and planning;
- (d) business cases, including cost-benefit analyses;
- (e) **capex** (e.g. **capex** approval and replacement);
- (f) condition monitoring and replacement;
- (g) corporate governance;
- (h) disaster recovery;
- (i) energy supply and **consumer** growth forecasting;
- (j) gas odorisation;
- (k) information technology;
- (l) internal reviews;
- (m) investment decision making and evaluation;
- (n) **land** and **easement** acquisition;
- (o) **network spares**;
- (p) prioritisation and options analysis;
- (q) procurement;
- (r) project management;
- (s) regulatory compliance;
- (t) risk management and assessment; or
- (u) self insurance;



**refurbishment and renewal maintenance opex** means **opex** that is predominantly associated with the replacement, refurbishment or renewal of items that are asset components ;

**reliability, safety and environment capex** means **capex** predominantly associated with-

- (a) the improvement of reliability or service standards;
  - (b) maintaining or improving the safety of the **network** for **consumers**, employees and the public; or
  - (c) activities to-
    - (i) meet new or enhanced legislative requirements; or
    - (ii) achieve enhancements,relating to the environment;

**routine and preventative maintenance opex** means **opex** that is predominantly associated with planned work and-

- (a) includes-
  - (i) fault rectification work that is undertaken at a time or date subsequent to any initial fault response and restoration activities;
  - (ii) routine inspection;
  - (iii) testing; and
  - (iv) **easement** inspection; and
- (b) excludes expenditure on initial fault or emergency maintenance;

**service category** means one of the categories in the following list which comprises, for the purpose of a **CPP proposal**, a classification of the **services** that the **CPP applicant** provides to its **consumers**, and **service categories** means all of the following categories:

- (a) provide and operate **network** infrastructure between **connection points** and deliver gas through the **network**;
- (b) provide connection **services**, including changes of **connection point** capacity and/or reliability;
- (c) provide for rearrangement of **network** assets at third party request; and
  - (d) provide an additional service (or services if necessary) to those listed in paragraphs (a) to (c), specified by the **CPP applicant**;

**service level** means the magnitude of a **service measure**;

**service measure** means an objectively measurable characteristic or feature of a **service category**;

**system fixed assets** means all fixed assets owned, provided, maintained, or operated by a **GDB** that are directly related to the **network** and used, or intended to be used, for the **supply** of **gas distribution services**;

**system growth capex** means **capex** principally incurred in implementing a change in demand on the **network** assets, and includes expenditure that is not recoverable (in total or in part) from the **consumer supplied** at the point of connection to the **network** who is the source of the change in demand; and

**system management and operations opex** means **opex** that is predominantly associated with the management and operation of the **network** including-

- (a) system operations;
- (b) system studies and planning;
- (c) design;
- (d) gas odourisation testing;
- (e) **network** record keeping; and
- (f) standards and manuals.

## **D2 Instructions relating to provision of information**

- (1) A **CPP proposal** must-
  - (a) assemble all information that this Schedule requires in a section of the **CPP proposal** entitled “Capex/Opex/Demand Qualitative Information”; and
  - (b) contain a table that, in respect of each clause of this schedule-
    - (i) provides a reference to the place where, in the Capex/Opex/Demand Qualitative Information section of the **CPP proposal**, a response is provided; and
    - (ii) gives the title and page reference to any separate **document** identified in response, including in the case where the **document** in question is provided in the **CPP proposal**.
- (2) Where information provided in accordance with these requirements differs from the most recent information provided by the **GDB** to the **Commission** in accordance with any obligation under Part 4 of the **Act**, a **CPP proposal** must-
  - (i) identify the differences; and
  - (ii) give reasons for such differences.
- (3) Where information required by this Schedule is omitted from a **CPP proposal**, the **CPP proposal** must contain an explanation for each such omission.
- (4) A **CPP applicant** may, without provision of additional information, reproduce information from its most recently published **asset management plan** in response to a requirement of this Schedule, subject to subclause (5).
- (5) For the purpose of subclause (4), reproduction of such material is only permitted where the relevant section of the **asset management plan** clearly and succinctly provides the required information, without the need for analysis or interpretation on the part of the **verifier** or the **Commission**.
- (6) For the avoidance of doubt-

- (a) the 'Summary of intended CPP proposal' provided to the **Commission** in accordance with clause F5 will not include detailed information described in clauses D7(2), D7(5), D12(2) and D12(3) in relation to **identified programmes**; and
- (b) such information-
  - (i) need only be provided to the **verifier** upon the **verifier's** request; and
  - (ii) where provided under (i), must be included in the **CPP proposal** as provided to the **Commission** in the **CPP application**.

### D3 Qualitative Information

- (1) Provide-
  - (a) all **policies** relied upon in whole or in part in preparing the response to-
    - (i) this schedule and
    - (ii) any other requirement of Subpart 5 Section 7 of Part 5; and
  - (b) where the rationale is not already included in the **policies** themselves, the rationale for the **policies** provided in accordance with paragraph (a), including any consultants' reports relied upon in preparing the **policies**.
- (2) Identify all consultants' reports commissioned for the purpose of preparing the **capex forecast** or **opex forecast**.
- (3) Where information from the **CPP applicant's** most recently published **asset management plan** has been included in the **CPP proposal** in response to a requirement of this clause, provide an index of explicit references to the sections and paragraphs of the **asset management plan** relied upon.

### D4 Categorisation of services

For each **service category** relevant to the **gas distribution services** provided by the **GDB**, provide-

- (a) a description of the **GDB's** services that fall within it, including-
  - (i) its key service features and specifications;
  - (ii) the identity of the intended **consumers** of the services;
  - (iii) the processes used to determine the features and specifications of each service; and
  - (iv) any material changes to the services proposed for the **next period**;
- (b) the **service measures**, including a description as to how these have been defined, relating to-
  - (i) categories of **consumers**;
  - (ii) asset performance, asset efficiency and effectiveness;
  - (iii) efficiency of the **GDB's business** activities; and
  - (iv) the **GDB's** obligations;

- (c) a corresponding target **service level** for each **service measure**;
- (d) a description as to how each target **service level**-
  - (i) was determined, including a description of any **consumer** consultation used to specify it; and
  - (ii) relates to the **GDB's** relevant **policies**;
- (e) a comparison and evaluation of each actual service level achieved for each **disclosure year** in the **current period** against each relevant target service level for each relevant **service measure**, including explanations for all significant variances and, for each significant variance, an explanation of the action being taken or proposed to improve performance; and
- (f) details of all proposed changes to the target **service levels** for each **service measure**, including-
  - (i) the rationale for all proposed changes with reference to relevant **consumer** demands and the **GDB's obligations**; and
  - (ii) a description of how the proposed changes were taken into account in preparing the **CPP proposal**.

## D5 Network asset information

- (1) Provide details of the **GDB's** existing **network** assets including-
  - (a) a high-level description of the distribution area that includes-
    - (i) identification of the distribution area(s) covered;
    - (ii) identification of large **consumers** that have a significant impact on **network** operations or asset management priorities;
    - (iii) a description of the demand characteristics for different parts of the **network**; and
    - (iv) the peak demand and total quantity of gas delivered in each **disclosure year** of the **current period**, broken down by geographically non-contiguous network, if any;
  - (b) a description of the existing **network** configuration, including-
    - (i) identification of gate stations;
    - (ii) existing **supply** capacity and current peak demand of each gate station;
    - (iii) a description of the **network** fed from the gate stations, including identification and capacity of pressure reducing stations and operating pressure of the individual sections of the **network**; and
    - (iv) an overview of secondary assets such as SCADA and telecommunications systems;
  - (c) a description of the existing **network** assets by **asset category**, including-
    - (i) pressure levels;
    - (ii) a description and quantity of assets;
    - (iii) age profiles;

- (iv) a discussion of the condition of the assets, further broken down as appropriate, including historic failure rates; and
  - (v) identification of any relevant systemic issues that may lead to the need to prematurely replace assets or parts of assets;
- (d) the sum of **regulated service asset values** by **asset category** consistent with those most disclosed by the **GDB** prior to making the **CPP application** in respect of the most recently completed **disclosure year** pursuant to the Gas (Information Disclosure) Regulations 1997 or an **ID determination**; and
  - (e) at the **GDB's** option, a sum of **regulated service asset values** by any **asset category** sub-category (as 'sub-category' is defined by the **GDB**).
- (2) For the purpose of subclause (1)-
- (a) where information is based on estimates, this must be explicitly stated; and
  - (b) quantities of assets must be presented in a way that clearly describes the size of the regulatory asset base, but need not include detailed lists or schedules as would be included in a complete asset register or inventory.

## **D6 Demand and consumer number forecasts**

- (1) For each **key assumption** relating to maximum demand, gas **supplied** or **consumer** numbers-
- (a) explain how it was relied upon in the **CPP proposal**;
  - (b) provide-
    - (i) an outline of the treatment of any **consumer** demands directly connected to the **network**, uncertain demands and significant demands transferred, or expected to be transferred, between different parts of the **network**.
    - (ii) assumptions of **consumer** numbers in total and by the **consumer** categories used by the **GDB**;
    - (iii) assumptions of energy volumes **supplied** to **consumers** by each category referred to in sub-paragraph (ii); and
    - (iv) assumptions relating to average **consumer** energy usage by each category referred to in sub-paragraph (ii).
- (2) For each **key assumption** that is a demand forecast-
- (a) describe the methodology used to prepare it (to at least gas station level), including-
    - (i) any sensitivity analysis undertaken; and
    - (ii) the models used (including each model's key inputs and assumptions);
  - (b) describe and explain it in respect of each **disclosure year** in the **next period** by reference to each **demand group**; and
  - (c) explain the extent to which the forecasting methodology used is consistent with-

- (i) and has taken into account historical observations; and
- (ii) the methodology used to derive the forecast quantities as required by clause 5.3.4(7).

## D7 Capital expenditure

- (1) For each **capex category** included in the **capex forecast**-
  - (a) provide an overall description including the aims and objectives of the **capex category**;
  - (b) provide an explanation as to its **deliverability**, with reference to factors likely to affect the **capex category** as a whole; and
  - (c) identify all relevant documents, **policies** and consultant's reports that were taken into account in preparing the **capex forecast**.
  
- (2) For each **identified programme** included in the **capex forecast**-
  - (a) provide an overall description including the aims and objectives of the **identified programme**;
  - (b) provide an explanation as to its **deliverability**, with reference to factors likely to specifically affect that **identified programme**;
  - (c) provide details of all contingency factors provided for, including how they were calculated and what uncertainties they account for;
  - (d) state-
    - (i) each relevant **key assumption**;
    - (ii) each relevant **obligation**; and
    - (iii) any step change and its effect on the **capex forecast** for the **identified programme**;
  - (e) explain all departures from any conclusions and recommendations contained in each consultant's report identified in accordance with subclause (1)(c); and
  - (f) explain the methodology used to generate the **capex forecast** for the **identified programme**, including but not limited to details regarding-
    - (i) any cost benchmarking undertaken by or for the **GDB**;
    - (ii) internal historical cost trends (for specific **asset categories**) relied upon;
    - (iii) material changes to work backlogs;
    - (iv) all **network** alternative projects and/or programmes considered;
    - (v) all cost-benefit analyses undertaken;
    - (vi) all contingency factors provided for, including how they were calculated and what uncertainties they account for; and
    - (vii) any step change from historical costs in any cost component included in the **identified programme** and its effect on the **capex forecast**.
  
- (3) For each **policy** identified in response to subclause subclause (1)(c), explain-
  - (a) how it was taken into account and complied with; and

- (b) how relevant **planning standards** have been incorporated.
- (4) For each **key assumption** identified in accordance with subclause (2)(d)(i)-
  - (a) provide the method and information used to develop the assumption; and
  - (b) explain how the assumption has been applied and its effect on the **capex forecast**.
- (5) Where any **identified programme**, other than a **project** or **programme** to be undertaken for the foreseeable future, is forecast to terminate after the end of the **next period**, in addition to the information required by subclause (2), provide any additional information relevant to **capex forecast** to the end of the **identified programme**.
- (6) For each **project** and **programme** (other than **identified programmes**) included in the **capex forecast**-
  - (a) explain-
    - (i) how each relevant **policy** identified in response to subclause (1)(c) was taken into account and complied with; and
    - (ii) how the relevant **planning standards** have been incorporated; and
  - (b) provide details of all contingency factors provided for, including how they were calculated and what uncertainties they account for.

## D8 System growth capital expenditure information

For **system growth capex**, provide-

- (a) a description of the relevant **planning standards** and relevant **key assumptions**;
- (b) a description of the prioritisation methodology adopted for system growth **projects** and **programmes**;
- (c) details of the specific **network** locations where constraints are expected due to forecast demand increases;
- (d) relevant **policies** for purchasing **land** and **easements** for future use;
- (e) where rationale is not already included in the **policy** documents, rationale for the **policies** provided in accordance with paragraphs (a) and (d);
- (f) an analysis of the **network** development options available;
- (g) details of the planning decisions made to meet each relevant target **service level**; and
- (h) a description and identification of the system growth **programme** including-
  - (i) actions to be taken, including clear linkages to the forecast expenditures in each of the associated **projects** and **programmes**;
  - (ii) a detailed description of each **project** in the **capex forecast** that has commenced or is **committed**; and

- (iii) a description of each **project** that is not **committed** but is planned to commence in the **next period**, the information being provided to be commensurate with the **project's** current status in the planning process.

#### **D9 Asset replacement and renewal capital expenditure information**

- (1) For **asset replacement and renewal capex** provide-
  - (a) a description of the relevant **policies** and **key assumptions relating** to the circumstances in which **capex** should be incurred based on-
    - (i) the age or reliability profile of an asset by comparison with the condition of an asset and vice versa; and
    - (ii) replacement of an asset rather than renewing it and vice versa;
  - (b) where rationale is not already included in the **policy** documents, the rationale for the **policies** and **key assumptions** provided in accordance with paragraph (a);
  - (c) any asset replacement models developed by or for the **GDB** to determine **asset replacement and renewal capex**, including-
    - (i) all supporting documentation for the models used; and
    - (ii) any other relevant considerations; and
  - (d) a description and identification of replacement and renewal **programmes** or actions to be taken for each **asset category**.
- (2) Explain whether and how the matters provided and identified in accordance with subclause (1)-
  - (a) were taken into account in the **capex forecast**; and
  - (b) affected forecast **asset replacement and renewal capex** by comparison with the equivalent **actual capex** incurred.
- (3) Explain how any proposed system growth associated with the replacement of assets before the end of their **asset life** has been taken into account in the **asset replacement and renewal capex** for the **next period**.

#### **D10 Reliability, safety and environment capital expenditure information**

For **reliability, safety and environment capex**-

- (a) describe the implications (including timing) of complying with any-
  - (i) new **obligation**; or
  - (ii) substantive amendment to any current such **obligation** that is reasonably anticipated to occur during the **next period**,



concerned with safety or environmental protection relevant to the **supply of gas distribution services** by the **GDB**;

- (b) explain how these new obligations or substantive amendments to **obligations** have been taken into account in the **CPP proposal**;
- (c) describe-
  - (i) the relevant risk management **policies**;
  - (ii) risk assessments and risk mitigation or risk prevention measures employed during the **current period**, including those pursuant to or in response to an **obligation** or a step change to an **obligation**; and
  - (iii) all risk mitigation measures identified and proposed to be deployed in the **next period**, including methods, details and conclusions of risk assessments and details of emergency response and contingency plans; and
- (d) where rationale is not already included in the **policy** documents provide the rationale for the **policies** provided in accordance with paragraph (c).

#### **D11 Non-system fixed assets capital expenditure information**

For **non-system fixed assets capex** in the **capex forecast** provide the rationale for the expenditure in the largest two of the following expenditure categories by dollar value:

- (a) asset management systems;
- (b) information and technology systems;
- (c) motor vehicles;
- (d) office buildings, depots and workshops;
- (e) office furniture and equipment; and
- (f) tools, plant and machinery.

#### **D12 Operating and maintenance expenditure**

- (1) For each **opex category** included in the **opex forecast**-
  - (a) provide an overall description including the aims and objectives of the **opex category**;
  - (b) provide an explanation as to its **deliverability**, with reference to factors likely to affect the **opex category** as a whole; and
  - (c) identify all relevant documents, **policies** and consultants' reports that were taken into account in preparing the **opex forecast**.
- (2) For each **identified programme** included in the **opex forecast**-
  - (a) provide-
    - (i) an overall description including the aims and objectives of the **identified programme**;
    - (ii) an explanation as to its **deliverability**, with reference to factors likely to affect that **identified programme** specifically; and

- (iii) details of all contingency factors provided for, including how they were calculated and what uncertainties they account for;
  - (b) identify-
    - (i) each relevant **key assumption**;
    - (ii) each relevant **obligation**; and
    - (iii) any step change and its effect on the **opex forecast** for the **identified programme**; and
  - (c) explain-
    - (i) whether a **base year approach** was used in forecasting, and if so, identify the **base year** used and, if it is not a year in the **current period** (for which data will have been provided), provide the relevant data from that **base year**;
    - (ii) all departures from any conclusions and recommendations contained in each consultant's report identified in accordance with subclause (1)(c); and
    - (iii) the methodology used to generate the **opex forecast** for the **identified programme**.
- (3) For the purpose of subclause (2)(c)(iii), such methodology must include, as a minimum, details regarding-
  - (a) any cost benchmarking undertaken by or for the **GDB**;
  - (b) internal historical cost trends (for specific asset categories) relied upon;
  - (c) descriptions of inspections, tests and condition monitoring carried out and the intervals at which they were done;
  - (d) material changes to work backlogs;
  - (e) alternative **programmes** considered;
  - (f) all cost-benefit analyses undertaken;
  - (g) all contingency factors provided for, including how they were calculated and the uncertainties they account for;
  - (h) any step change from historical costs in any cost component included in the **identified programme** and its effect on the **opex forecast**; and
  - (i) how the **service measures** identified in accordance with clause D4(b) were taken into account.
- (4) For each relevant **policy** identified in response to subclause (1)(c), explain-
  - (a) how it was taken into account and complied with; and
  - (b) how the relevant **planning standards** were incorporated in it.
- (5) For each **key assumption** identified in accordance with subclause (2)(b)(i), explain-
  - (a) the method and information used to develop the assumption; and
  - (b) how the assumption has been applied and its effect on the **opex forecast**.

### **D13 General management, administration and overheads operating expenditure category**

- (1) For the **general management, administration and overheads opex category**-
  - (a) identify-
    - (i) each relevant **key assumption**;
    - (ii) each relevant **obligation**; and
    - (iii) any step change and its effect on the **opex forecast** for this category; and
  - (b) explain-
    - (i) whether a **base year approach** was used in forecasting, and if so, identify the **base year** used and, if it is not a year in the **current period** (for which data is required to be provided in a **CPP proposal**), provide the relevant data from that **base year**;
    - (ii) all departures from any conclusions and recommendations contained in each consultant's report identified in accordance with clause D12(1)(c); and
    - (iii) the methodology used to generate the **opex forecast** for this category.
- (2) For the purpose of subclause (1)(b)(iii), such methodology must include, as a minimum, details regarding-
  - (a) any cost benchmarking undertaken by or for the **GDB**;
  - (b) internal historical cost trends relied upon;
  - (c) all contingency factors provided for, including how they were calculated and the uncertainties they account for; and
  - (d) the effect of any step change on the costs in the **general management, administration and overheads opex category**.
- (3) For each relevant **policy** identified in the response to clause D12(1)(c) explain how it was taken into account and complied with.
- (4) For each **key assumption** identified in accordance with subclause (1)(a)(i), explain-
  - (a) the method and information used to develop the assumption; and
  - (b) how the assumption has been applied and its effect on the **opex forecast** for this **opex category**.

### **D14 Operating expenditure projects and programmes**

For each **project** and **programme** (other than **identified programmes**) included in the **opex forecast**-

- (a) explain how each of the relevant **policies** identified in the response to clause D12(1)(c) was taken into account and complied with;
- (b) explain how the relevant **planning standards** have been incorporated; and
- (c) provide details of all contingency factors provided for, including how they were calculated and what uncertainties they account for.

## D15 Self-insurance

- (1) For any proposed self-insurance allowance-
  - (a) provide-
    - (i) a description of the uncertainties covered by the allowance;
    - (ii) the methodology used to calculate the self-insurance risk premium (e.g. probability multiplied by consequence);
    - (iii) a report on the calculation of each self-insurance risk premium from an actuary who is qualified to provide such advice; and
    - (iv) any quotes obtained from external insurers; and
  - (b) explain why compensation should be provided for the uncertainty.
- (2) In respect of each quote provided in accordance with subclause (1)(a)(iv)-
  - (a) state-
    - (i) the amount insured for which the quote related (if not included in the quote itself);
    - (ii) the annual premium payable or paid by the **GDB**;
    - (iii) the size of any deductible;
    - (iv) the terms and conditions of the insurance; and
    - (v) why it is not considered suitable.
- (3) Explain whether and, if so, how the costs of remediating the effects of each uncertainty for which the allowance is sought may be recovered through any other mechanism.

## D16 Controllable opex

For each **disclosure year** of the **next period** provide-

- (a) a description of the types of **opex** comprised in the forecast for controllable opex; and
- (b) justification for why the **opex** referred to in paragraph (a) should be determined as controllable opex, including a description of how the **GDB** is able to control the amount of **opex** over the **CPP regulatory period**.

## D17 Related parties

- (1) Identify and describe all **related parties** in respect of whom costs are disclosed in accordance with the **regulatory templates**.
- (2) For each **person** to whom subclause (1) applies identify each **project** or **programme** with which he, she or it is associated.
- (3) For each **person** to whom subclause (1) applies, describe, in respect of each relevant **project** and **programme** the-
  - (a) nature of the **services** undertaken by that **person**; and
  - (b) the date and term of the contract in respect of that **service**.

- (4) For each **service** identified in accordance with subclause (3)(a)-
- (a) provide a description of the tendering process used to procure the **service**;
  - (b) identify all relevant documents used to tender for its provision, including but not limited to requests for tender and tender submissions; and
  - (c) explain-
    - (i) why that **service** is outsourced instead of being undertaken by the **GDB** itself;
    - (ii) whether the **services** procured are provided under a discrete contract or provided as part of a broader operational contract (or similar);
    - (iii) whether the **service** was procured on a genuinely competitive basis and if not, why not; and
    - (iv) whether the **service** (or any component thereof) was sub-contracted to another provider.
- (5) For each contract identified in accordance with subclause (3)(b), identify methodologies, consultants' reports, or assumptions used to determine components of the costs included in the contract price.

#### **D18 Unit costs and expenditure escalators**

- (1) For each **key assumption** that is a unit rate-
- (a) identify-
    - (i) source material from which it was derived;
    - (ii) the date it was developed; and
    - (iii) the historical unit rates adopted for key items of plant and equipment for the **capex forecast** and the **opex forecast**; and
  - (b) explain-
    - (i) how it was developed with reference to the responses to paragraph (a); and
    - (ii) whether, and if so an explanation as to why, its quantum is reasonable.
- (2) For each **key assumption** that is a labour or materials escalator-
- (a) provide the class of labour and materials to which each escalator relates;
  - (b) provide-
    - (i) the **base year** and the labour and materials unit rates for that year;
    - (ii) the escalator used in percentage terms for each year from the **base year** to the end of the **next period**;
    - (iii) the quantum of the labour costs in the **capex forecast** and the **opex forecast** which is the result of application of the labour escalator;
    - (iv) the quantum of the materials costs in the **capex forecast** and the **opex forecast** which is the result of application of the materials escalator; and

- (v) confirmation of whether the escalator used is expressed in real or nominal terms and, if real, the indexation assumptions used; and
- (c) explain-
  - (i) the methodology underlying the calculation of each escalator, including sources, data conversions and the use of any assumptions, including lags;
  - (ii) the weightings given to each escalator and how these weightings were developed, including any assumptions;
  - (iii) whether the same expenditure escalators have been used in the **capex forecast** and **opex forecast**;
  - (iv) where the response to sub-paragraph (iii) is no, why different expenditure escalators were applied, using supporting evidence; and
  - (v) whether, in applying the relevant labour or material escalator, additional contingency factors have been applied and, if so, what uncertainties they account for and how they were calculated.

#### **D19 Contingent project information**

- (1) For each proposed **contingent project**-
  - (a) provide-
    - (i) an overall description including the aims and objectives of the **project**;
    - (ii) a completed **regulatory template** for **capex forecast** and **opex forecast** using the best available information to hand; and
    - (iii) information as to how the **project** satisfies the criteria specified in clause 5.7.5(2);
  - (b) propose a **trigger event** and explain how the event meets the requirements of clause 5.7.5(3);
  - (c) provide-
    - (i) all relevant documents (including **policies** and consultants' reports) that were taken into account in preparing the **capex forecast** and **opex forecast** for the **contingent project**, including those that relate to its **deliverability**;
    - (ii) each relevant **key assumption**; and
    - (iii) each relevant **obligation**;
  - (d) explain-
    - (i) all departures from any conclusions and recommendations contained in each consultant's report identified in accordance with paragraph (c)(i); and
    - (ii) the methodology used to generate the **capex forecast** and **opex forecast** for the proposed **contingent project**;
  - (e) explain for each **policy** identified in response to paragraph (c)(i)-

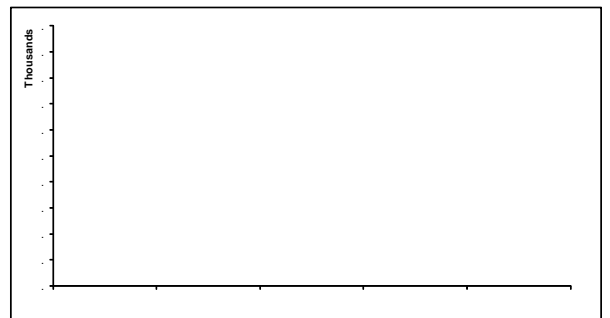
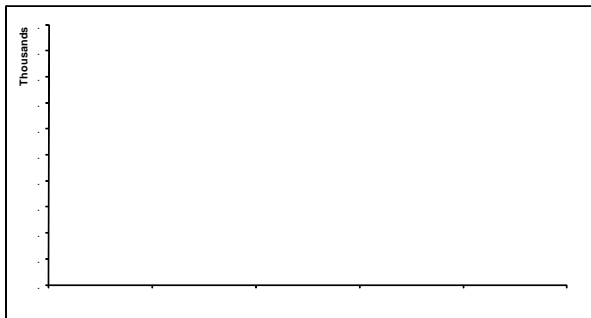
- (i) how it was taken into account and complied with; and
    - (ii) how the relevant planning standards were incorporated; and
  - (f) describe for each **key assumption** identified in accordance with paragraph (c)(ii)-
    - (i) the method and information used to develop the assumption; and
    - (ii) how it has been applied and its effect on the **capex** and **opex**.
- (2) Where any proposed **contingent project** is likely to terminate after the end of the **next period**, in addition to the information required by subclause (1), provide any additional information relevant to forecast **capex** and forecast **opex** to the end of the **contingent project**.

# SCHEDULE E      CAPITAL AND OPERATING EXPENDITURE - REGULATORY TEMPLATES

**Table 1: Top 5**

Top Five Capex Projects		
Rank	Project name	\$000
1		
2		
3		
4		
5		

Top Five Opex Projects		
Rank	Project name	\$000
1		
2		
3		
4		
5		





**Table 2: Capex Summary**

Service Categories	Related Capex Categories	Assessment Period		Regulatory Period					Total
		Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5	
(a) Provide and operate network infrastructure between connection points and deliver gas through the network	Customer Connection	-	-	-	-	-	-	-	-
	System Growth	-	-	-	-	-	-	-	-
	Reliability, Safety and Environment	-	-	-	-	-	-	-	-
	Asset Replacement and Renewal	-	-	-	-	-	-	-	-
	Asset Relocations	-	-	-	-	-	-	-	-
	Non-System Fixed Assets	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
(b) Provide connection services, including changes of connection point capacity and/or reliability	Customer Connection	-	-	-	-	-	-	-	-
	System Growth	-	-	-	-	-	-	-	-
	Reliability, Safety and Environment	-	-	-	-	-	-	-	-
	Asset Replacement and Renewal	-	-	-	-	-	-	-	-
	Asset Relocations	-	-	-	-	-	-	-	-
	Non-System Fixed Assets	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
(c) Provide for rearrangement of network assets at 3rd party request	Customer Connection	-	-	-	-	-	-	-	-
	System Growth	-	-	-	-	-	-	-	-
	Reliability, Safety and Environment	-	-	-	-	-	-	-	-
	Asset Replacement and Renewal	-	-	-	-	-	-	-	-
	Asset Relocations	-	-	-	-	-	-	-	-
	Non-System Fixed Assets	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
(d) Optionally, provide an additional service (or services if necessary) to those listed in (a) – (c), specified by the CPP applicant	Customer Connection	-	-	-	-	-	-	-	-
	System Growth	-	-	-	-	-	-	-	-
	Reliability, Safety and Environment	-	-	-	-	-	-	-	-
	Asset Replacement and Renewal	-	-	-	-	-	-	-	-
	Asset Relocations	-	-	-	-	-	-	-	-
	Non-System Fixed Assets	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
Total Capex		-	-	-	-	-	-	-	-

**Table 3: Opex Summary**

**Table 3(a):**

		<b>Total Opex</b>								
<b>Service Categories</b>	<b>Related Opex Categories</b>	<b>Assessment Period</b>		<b>Regulatory Period</b>					<b>Total</b>	
		<b>Year 1</b>	<b>Year 2</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>		
<b>(a) Provide and operate network infrastructure between connection points and deliver gas through the network</b>	System Management and Operations	-	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-
	<b>Subtotal</b>	-	-	-	-	-	-	-	-	-
<b>(b) Provide connection services, including changes of connection point capacity and/or reliability</b>	System Management and Operations	-	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-
	<b>Subtotal</b>	-	-	-	-	-	-	-	-	-
<b>(c) Provide for rearrangement of network assets at 3rd party request</b>	System Management and Operations	-	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-
	<b>Subtotal</b>	-	-	-	-	-	-	-	-	-
<b>(d) Optionally, provide an additional service (or services if necessary) to those listed in (a) – (c), specified by the CPP applicant</b>	System Management and Operations	-	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-
	<b>Subtotal</b>	-	-	-	-	-	-	-	-	-
<b>General Management, Administration and Overheads</b>		-	-	-	-	-	-	-	-	-
<b>Total Opex</b>		-	-	-	-	-	-	-	-	-

**Table 3(b):**

Controllable Opex									
Service Categories	Related Opex Categories	Assessment Period		Regulatory Period					Total
		Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5	
(a) Provide and operate network infrastructure between connection points and deliver gas through the network	System Management and Operations	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
(b) Provide connection services, including changes of connection point capacity and/or reliability	System Management and Operations	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
(c) Provide for rearrangement of network assets at 3rd party request	System Management and Operations	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
(d) Optionally, provide an additional service (or services if necessary) to those listed in (a) – (c), specified by the CPP applicant	System Management and Operations	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
General Management, Administration and Overheads		-	-	-	-	-	-	-	-
Total - Controllable Opex		-	-	-	-	-	-	-	-

Table 3(c):

All other Opex									
Service Categories	Related Opex Categories	Assessment Period		Regulatory Period					Total
		Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5	
(a) Provide and operate network infrastructure between connection points and deliver gas through the network	System Management and Operations	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
(b) Provide connection services, including changes of connection point capacity and/or reliability	System Management and Operations	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
(c) Provide for rearrangement of network assets at 3rd party request	System Management and Operations	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
(d) Optionally, provide an additional service (or services if necessary) to those listed in (a) – (c), specified by the CPP applicant	System Management and Operations	-	-	-	-	-	-	-	-
	Routine and Preventative Maintenance	-	-	-	-	-	-	-	-
	Refurbishment and Renewal Maintenance	-	-	-	-	-	-	-	-
	Fault and Emergency Maintenance	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-
	Subtotal	-	-	-	-	-	-	-	-
General Management, Administration and Overheads		-	-	-	-	-	-	-	-
Total - All Other Opex		-	-	-	-	-	-	-	-

**Table 4: Capex Project Programme**

INPUT METHODOLOGIES QUANTITATIVE INFORMATION TEMPLATE - GAS DISTRIBUTION	
<b>Project/Programme Name<sup>1</sup></b>	
<b>Project/Programme Description</b>	
<b>Policy reference</b>	
<b>Service Category</b>	Select one
<b>Capex Category</b>	Select one

Denotes a user  
input cell

Asset Category	Asset Type <sup>2</sup>	Current Period					Assessment Period		Regulatory Period					Total	
		Year - 4	Year - 3	Year - 2	Year - 1	Year 0	Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5		
Distribution pipelines	Mains - Intermediate Pressure														\$ -
	Mains - Medium Pressure														\$ -
	Mains - Low Pressure														\$ -
	Services														\$ -
	<b>Subtotal</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Stations	Gate Stations														\$ -
	Pressure Reducing Stations														\$ -
	<b>Subtotal</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Valves															\$ -
															\$ -
	<b>Subtotal</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SCADA / Control Systems	Master Stations														\$ -
	Telecommunications systems														\$ -
	<b>Subtotal</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Network spares															\$ -
															\$ -
	<b>Subtotal</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other															\$ -
															\$ -
	<b>Subtotal</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Project/Programme</b>		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<sup>1</sup> A copy of this form must be completed for each additional project/programme

<sup>2</sup> Breakdown may be replaced with asset types in use by the applicant and expanded to include other asset types

Denotes a user  
input cell

Project costs by source	Current Period					Assessment Period		Regulatory Period				
	Year - 4	Year - 3	Year - 2	Year - 1	Year 0	Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5
GDB												
Related party												
Other sources												
<b>Total Project/Programme</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**Table 5: Opex Project Programme**

INPUT METHODOLOGIES QUANTITATIVE INFORMATION TEMPLATE - GAS DISTRIBUTION	
Project/Programme Name <sup>1</sup>	
Project/Programme Description	
Policy reference	
Service Category	Select one
Opex Category	Select one

Denotes a user input cell

Asset Category	Asset Type <sup>2</sup>	Current Period					Assessment Period		Regulatory Period					Total	
		Year - 4	Year - 3	Year - 2	Year - 1	Year 0	Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5		
Distribution pipelines	Mains - Intermediate Pressure														\$ -
	Mains - Medium Pressure														\$ -
	Mains - Low Pressure														\$ -
	Services														\$ -
	Subtotal: Controllable opex														\$ -
	Subtotal: All other opex														\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Stations	Gate Stations														\$ -
	Pressure Reducing Stations														\$ -
	Subtotal: Controllable opex														\$ -
	Subtotal: All other opex														\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Valves															\$ -
															\$ -
	Subtotal: Controllable opex														\$ -
	Subtotal: All other opex														\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SCADA / Control Systems	Master Stations														\$ -
	Telecommunications systems														\$ -
	Subtotal: Controllable opex														\$ -
	Subtotal: All other opex														\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Network spares															\$ -
															\$ -
	Subtotal: Controllable opex														\$ -
	Subtotal: All other opex														\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other															\$ -
															\$ -
	Subtotal: Controllable opex														\$ -
	Subtotal: All other opex														\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Subtotal: Controllable opex	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Subtotal: All other opex	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Total Project/Programme	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<sup>1</sup> A copy of this form must be completed for each additional project/programme  
<sup>2</sup> Breakdown may be replaced with asset types in use by the applicant and expanded to include other asset types

Denotes a user input cell

Project costs by source	Current Period					Assessment Period		Regulatory Period				
	Year - 4	Year - 3	Year - 2	Year - 1	Year 0	Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5
GDB												
Related party												
Other sources												
Total Project/Programme	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**Table 6: Overheads**

INPUT METHODOLOGIES QUANTITATIVE INFORMATION TEMPLATE												Denotes a user input cell			
Opex Category	General Management, Administration and Overheads														
Expenditure Type <sup>1</sup>		Current Period					Assessment Period		Regulatory Period					Total	
		Year - 4	Year - 3	Year - 2	Year - 1	Year 0	Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5		
Corporate management	Controllable opex														\$ -
	All other opex														\$ -
	<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Human resources	Controllable opex														\$ -
	All other opex														\$ -
	<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounting	Controllable opex														\$ -
	All other opex														\$ -
	<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Finance	Controllable opex														\$ -
	All other opex														\$ -
	<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Information technology	Controllable opex														\$ -
	All other opex														\$ -
	<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Procurement	Controllable opex														\$ -
	All other opex														\$ -
	<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property	Controllable opex														\$ -
	All other opex														\$ -
	<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Legal	Controllable opex														\$ -
	All other opex														\$ -
	<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Regulation	Controllable opex														\$ -
	All other opex														\$ -
	<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Occupational health and safety	Controllable opex														\$ -
	All other opex														\$ -
	<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Insurance paid to an insurer	Controllable opex														\$ -
	All other opex														\$ -
	<b>Total</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total: Controllable opex</b>		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total: All other opex</b>		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Opex Category</b>		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<sup>1</sup> Breakdown may be replaced with expenditure types in use by the applicant but within the definition of the opex category for general management, administration and overheads

**Table 7: Unit Rate Escalators**

INPUT METHODOLOGIES UNIT COST ESCALATOR TEMPLATE	
<b>Escalator Name</b>	[Name]
<b>Escalator Description<sup>1</sup></b>	[Description]
<b>Key Assumption Reference</b>	[Reference]
<b>Assessment Period Year 1</b>	[Year ended]
<b>Base Year</b>	[Year ended]
<b>Unit Rate in Base Year</b>	
<b>No. Years Applicable (after base year)</b>	

**Denotes a user input cell**

Unit Cost Item	Current Period				Assessment Period		Regulatory Period				
	Year - 4	Year - 3	Year - 2	Year - 1	Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5
[Name]											
Yearly escalators (% over previous year)											
Unit Rate											
Volume											
Quantum of costs											

<sup>1</sup> A copy of this form must be completed for each additional escalator applied

## SCHEDULE F      ENGAGEMENT OF A VERIFIER

### F1      Proposing a verifier

Before submitting a **CPP proposal**, a **CPP applicant** must, by notice in writing to the **Commission**-

- (a) propose a **person** (or a selection of **persons** for the **Commission** to choose from) to act as a **verifier**; and
- (b) provide the information specified in clauses F2 and F3 in respect of each proposed verifier.

### F2      Independence

- (1) Reasons why the **CPP applicant** considers that each proposed verifier is **independent**.
- (2) A written statement signed by the proposed verifier-
  - (a) confirming that-
    - (i) his, her or its involvement in the formulation of the **CPP proposal** has not extended and will not extend beyond acting in accordance with Schedule G;
    - (ii) he, she or it has not acted and will not act as an **auditor** pursuant to clause 5.6.3 in respect of the **CPP proposal**; and
    - (iii) he, she or it has no direct or indirect pecuniary or other interest in the success or failure of the **CPP proposal**, including any entitlement to a success fee, contingency fee, or remuneration other than a fee for providing a **verification report**; and
  - (b) explaining the extent of any-
    - (i) ongoing role he, she or it has as **auditor** of, or advisor to, the **CPP applicant**, (on matters unrelated to the **CPP proposal**) including any advisory activities which the **verifier** may expect to undertake for the **CPP applicant** during the **next period** in relation to the **CPP applicant's capex** and **opex** and the existing or expected basis of remuneration for such activities; and
    - (ii) prior or existing relationship (whether professional or otherwise) that he, she or it has had with the **CPP applicant** during the **current period** in relation to the **CPP applicant's capex** and **opex** and the basis of remuneration for such activities.

### F3      Qualifications and experience

- (1) Reasons why the **CPP applicant** considers that each proposed verifier is sufficiently qualified and experienced to assess and report on the **CPP proposal** in accordance with the tasks and duties specified in Schedule G.



- (2) A written statement signed by each proposed verifier explaining the nature and extent of his, her or its qualifications and experience relevant to assessing and reporting on the **CPP proposal** in accordance with the tasks and duties specified in Schedule G.

#### **F4 Commission's assessment**

- (1) The **Commission** must notify the **CPP applicant** no later than **10 working days** after receiving a notification in accordance with clause F1 as to whether it approves the proposed verifier.
- (2) If the **Commission** does not approve a proposed verifier-
  - (a) it must provide reasons for this decision; and
  - (b) the **CPP applicant** may propose an alternative verifier in accordance with clause F1.
- (3) If the **Commission** approves a proposed verifier, the **CPP applicant** may engage that person, as soon as practicable, in accordance with clause F6.
- (4) The **Commission's** approval of a proposed verifier remains valid until the **Commission** has completed its assessment of the **CPP proposal**.

#### **F5 Summary of intended CPP proposal**

- (1) Before the **verifier** enters into a deed with the **Commission** as described in clause F6, the **CPP applicant** must provide the **Commission** with a high-level summary of the intended **CPP proposal** ('Summary of intended CPP proposal'), including-
  - (a) a high-level description of its rationale for seeking a **CPP** and a brief explanation of the key **projects** or **programmes** that are linked to this rationale;
  - (b) when it proposes the intended **CPP proposal** to take effect as a **CPP**;
  - (c) its estimated **capex** forecast and estimated **opex** forecast for the intended **CPP proposal**;
  - (d) the indicative impact on **prices** and quality standards of the intended **CPP proposal**;
  - (e) how it intends to consult **consumers** on the intended **CPP proposal**; and
  - (f) any other information it considers would assist the **Commission's** planning for the **Commission's** assessment of the intended **CPP proposal**.
- (2) With the agreement of the **Commission**, the requirements in subclause (1) may be satisfied by way of the record of a workshop with the **Commission**.

#### **F6 Engaging the verifier**

- (1) If the **Commission** approves a proposed verifier, the approved **person** may not undertake any service in relation to the **CPP applicant's CPP proposal** unless it has entered into a deed with the **Commission**.
- (2) For the purpose of subclause (1), terms of the deed must-

- (a) require the **CPP applicant** to-
    - (i) provide the **verifier** with the information specified in and in accordance with clause 5.6.2(3); and
    - (ii) pay any fee charged by the **verifier** for verifying the relevant parts of the **CPP proposal** in accordance with his, her or its engagement and F1;
  - (b) impose an overriding duty on the **verifier** to assist the **Commission** as an **independent** expert on relevant matters within the **verifier's** area of technical expertise, with particular reference to aspects of **capex, opex** and service quality of the **CPP applicant's** business;
  - (c) require the **verifier** to-
    - (i) verify the relevant parts of the **CPP proposal** in accordance with the terms of his, her or its engagement and F1;
    - (ii) notify the **CPP applicant** of the **verifier's** selection of **identified programmes**;
    - (iii) prepare a draft verification report in accordance with F1 and provide it to the **CPP applicant**;
    - (iv) prepare a **verification report** in accordance with F1 that takes account of any modifications to the information originally provided to the **verifier** in light of the **CPP applicant's** consideration of the draft verification report;
    - (v) provide, upon request by the **CPP applicant**, a certificate as described in clause 5.1.3(1)(d); and
    - (vi) be available to answer any questions posed by the **Commission** on the **verification report**, in person, by telephone or in writing, as reasonably required by the **Commission**;
  - (d) enable the **verifier** to request, for the purpose of carrying out his, her or its duties specified in paragraph (c), provision by the **CPP applicant** of-
    - (i) information required by Schedule D to be identified (but not provided) in a **CPP proposal**;
    - (ii) the information specified in subclause (3); and
  - (e) include a communication protocol in accordance with subclause (5).
- (3) The information specified for the purpose of subclause (2)(d)(ii) is any other information relevant-
- (i) for the purpose of subclause (2)(c)(i);
  - (ii) to **gas distribution services**;
  - (iii) to any other **regulated service** relevant to the **CPP proposal**; and
  - (iv) to any **unregulated service** relevant to the **CPP proposal**,
- that the **verifier** considers is relevant to verification.
- (4) For the avoidance of doubt-

- (a) the deed may contain such other terms that-
    - (i) the parties agree are necessary for **business** efficacy; and
    - (ii) are not inconsistent with Schedule F or this Schedule; and
  - (b) a **CPP applicant** is not required to submit its **CPP proposal** to the **Commission** following completion or its receipt of the **verification report**.
- (5) For the purpose of subclause (2)(e), the communication protocol must, as a minimum, require that-
- (a) the **Commission** will not, prior to the submission of a **CPP proposal**, view any material that forms part of or supports an intended **CPP proposal** unless the **CPP applicant**-
    - (i) makes the material available to **consumers**; or
    - (ii) provides the material to the **Commission**, including an updated 'Summary of intended CPP proposal' as required under subclause (5)(c);
  - (b) the **verifier** must keep records of all communication between it and the **CPP applicant** where the records include substantive information relied on by the **verifier** in its **verification report**; and
  - (c) after entering into the deed, but not later than when the **verifier** provides a draft verification report to the **CPP applicant**, the **CPP applicant** must provide the **Commission** with an updated 'Summary of intended CPP Proposal' as described in clause F5 if it has-
    - (i) changed its rationale for seeking a **CPP** as described in clause F5(1)(a); or
    - (ii) changed its proposed time for taking effect as described in clause F5(1)(b).
- (6) When completing an updated 'Summary of intended CPP Proposal' as described in subclause (5)(c), the **CPP applicant** must clearly identify any changes from its previously provided 'Summary of intended CPP Proposal'.

## SCHEDULE G      **TERMS OF REFERENCE FOR VERIFIERS**

### **G1 Interpretation**

- (1) Words in bold in this schedule that are defined in another schedule bear the same meanings as specified in that other schedule.
- (2) Any requirement to provide an opinion, report on or consider a particular matter must be construed as-
  - (a) requiring consideration only of the material identified by the requirement in question; and
  - (b) a requirement to provide the opinion or report on the matter in the **verification report**.

### **G2 Verifier's role, purpose and obligations**

The **verifier's** role, purpose and obligations include-

- (a) engaging with the **CPP applicant** in an **independent** manner in accordance with this Terms of Reference;
- (b) assessing the extent to which the **CPP applicant's policies** allow the **CPP applicant** to meet the **expenditure objective**;
- (c) assessing the extent to which the **CPP applicant's policies** have been implemented;
- (d) prior to the **Commission's** assessment of the **CPP proposal**, assessing whether the **CPP applicant** has provided the **verifier** with the information specified in clause 5.6.2(3);
- (e) prior to the **Commission's** assessment of the **CPP proposal**, providing an opinion to the **CPP applicant** on whether the **CPP applicant's capex forecasts, opex forecasts** and **key assumptions** meet the **expenditure objective**;
- (f) prior to the **Commission's** assessment of the **CPP proposal**, assessing the extent to which the **CPP applicant** is able to deliver its **capex forecast** and **opex forecast** during the **CPP regulatory period**;
- (g) prior to the **Commission's** assessment of the **CPP proposal**, providing an opinion on the extent and effectiveness of the **CPP applicant's** consultation with its **consumers**; and
- (h) providing a list of the key issues which it considers the **Commission** should focus on when assessing the **CPP proposal**.

### **G3 Service categories, measures and levels**

The **verifier** must review, assess and report on-

- (a) whether the **CPP applicant's service category** definitions appropriately describe all activities undertaken for the purpose of supplying the **regulated services** as demanded by and provided to **consumers**;
- (b) whether the reason for any new **service category** is explained;

- (c) whether the **CPP applicant** has proposed **service measures** relevant to a complete range of key service attributes that are meaningful and important to **consumers**;
- (d) whether the **CPP applicant** has undertaken an appropriate process to determine the **service measures** and **service levels**, such as consultation with relevant **consumers**;
- (e) whether any step change in any **service level** is explained and justified; and
- (f) the extent and effectiveness of a **CPP applicant's** consultation with its **consumers**, as specified in clause 5.6.1.

#### **G4 Selection of identified programmes**

- (1) For the purposes of the reviews required under clauses G5(1)(d) and G6(1)(g), the **verifier** must select no more than 20 **projects** or **programmes** to be 'identified programmes'.
- (2) In determining which, and how many, **projects** or **programmes** to select as **identified programmes**, the **verifier** must consider–
  - (a) the long term interests of **consumers**;
  - (b) the **Commission's** ability to effectively review whether the **CPP applicant's capex forecast** and **opex forecast** are consistent with the **expenditure objective**;
  - (c) the **CPP applicant's** rationale for seeking a **CPP**;
  - (d) its ability to provide an opinion on whether the **capex forecast** information in the intended **CPP proposal** has been prepared in accordance with the **policies** and **planning standards**-
    - (i) in aggregate; and
    - (ii) for each of the **capex categories**;
  - (e) Its ability to provide an opinion on whether the **opex forecast** information in the intended **CPP proposal** has been prepared in accordance with the **policies** and **planning standards**-
    - (i) in aggregate; and
    - (ii) for each of the **opex categories**; and
  - (f) the materiality of the **programmes** or **projects** to the **CPP proposal**, the **capex forecast** and the **opex forecast**.
- (3) The **identified programmes** selected in accordance with subclause (1) must address-
  - (a) a key risk that the **CPP applicant** is exposed to;
  - (b) a key driver of the need to submit a **CPP proposal**;
  - (c) an **obligation** that has a significant impact in the context of the **CPP applicant's overall business**; or
  - (d) a new **service category** or a step change in a **service level** within an existing **service category**;

- (4) The **verifier** must-
- (a) notify the **CPP applicant** of its selected **projects** or **programmes**; and
  - (b) not change its selection after such notification.

**G5 Capex forecast**

- (1) The **verifier** must-
- (a) provide an opinion as to whether the-
    - (i) **policies**;
    - (ii) **planning standards**; and
    - (iii) **key assumptions**,relied upon by the **CPP applicant** in determining the **capex forecast** are of the nature and quality required for that **capex forecast** to meet the **expenditure objective**;
  - (b) provide an opinion as to whether the **capex forecast** has been prepared in accordance with the **policies** and **planning standards** at both the aggregate system level and for each of the **capex categories**;
  - (c) provide an opinion on the reasonableness of the **key assumptions** relevant to **capex** relied upon the **CPP applicant** including-
    - (i) the method and information used to develop them;
    - (ii) how they were applied; and
    - (iii) their effect or impact on the **capex forecast** by comparison to their effect or impact on **actual capex**;
  - (d) report conclusions of a detailed review of **identified programmes** that are **capex projects** or **capex programmes** including, but not limited to assessment of-
    - (i) whether relevant **policies** and **planning standards** were applied appropriately;
    - (ii) whether **policies** regarding the need for, and prioritisation of, the **project** or **programme** are reasonable and have been applied appropriately;
    - (iii) the process undertaken by the **CPP applicant** to determine the reasonableness and cost-effectiveness of the chosen solution, including the use of cost-benefit analyses to target efficient solutions;
    - (iv) the approach used to prioritise **capex projects** over time including the application of that approach for the **next period**;
    - (v) the **project** capital costing methodology and formulation, including unit rate sources, the method used to test the efficiency of unit rates and the level of contingencies included for **projects**;
    - (vi) the impact on other cost categories including the relationship with **opex**;
    - (vii) links with other **projects**;

- (viii) cost control and delivery performance for **actual capex**;
  - (ix) the efficiency of the proposed approach to procurement; and
  - (x) whether it should be included as a **contingent project** or part of a **contingent project**;
- (e) provide an opinion as to overall **deliverability** of work covered by the **capex categories** in the **next period**; and
  - (f) provide an opinion as to the reasonableness and adequacy of any asset replacement models used to prepare the **capex forecast** including an assessment of-
    - (i) the inputs used within the model; and
    - (ii) the methods the **CPP applicant** used to check the reasonableness of the forecasts and related expenditure.
- (2) Based on its analysis under this clause the **verifier** must provide its opinion on whether the applicant's forecast of total **capex** meets the **expenditure objective** and, if not identify-
- (a) whether the provision of further information is required to enable assessment against the **expenditure objective** to be undertaken and, if so, the type of information required;
  - (b) which of the **CPP applicant's forecast capex programmes** for each **capex category** might warrant further assessment by the **Commission**; and
  - (c) what type of assessment would be the most effective.

## **G6 Opex forecast**

- (1) The **verifier** must-
- (a) provide an opinion as to whether the-
    - (i) **policies**,
    - (ii) **planning standards**; and
    - (iii) **key assumptions**,
 relied upon by the **CPP applicant** in determining the **opex forecast** are of the nature and quality required for that **opex forecast** to meet the **expenditure objective**;
  - (b) provide an opinion as to whether the **opex forecast** has been prepared in accordance with the **policies** and **planning standards**, at both the aggregate system level and for each of the **opex categories**;
  - (c) provide an opinion on the reasonableness of the **key assumptions** relevant to **opex** relied upon by the **CPP applicant** including-
    - (i) the method and information used to develop them;
    - (ii) how they have been applied; and
    - (iii) their effect or impact on the **opex forecast** by comparison to their effect or impact on **actual opex**;

- (d) review, assess and report on any other **opex** drivers not covered by the **key assumptions** that have led to an increase in the **opex forecast** including whether the quantum of such an increase is required to meet the **expenditure objective**;
- (e) provide an opinion as to the reasonableness of the methodology used in forecasting **opex** (such as cost benchmarking or internal historic cost trending), including the relationship between the **opex forecast** and **capex forecast**;
- (f) provide an opinion as to the reasonableness of any **opex** reduction initiatives undertaken or planned during the **current period** or the **next period**;
- (g) report conclusions of a detailed review of **identified programmes** that are **opex projects** or **opex programmes** including, but not limited to, an assessment of-
  - (i) whether relevant **policies** and **planning standards** were applied appropriately;
  - (ii) whether **policies** regarding the need for, and prioritisation of, the **project** or **programme** are reasonable and have been applied appropriately;
  - (iii) the process undertaken by the **CPP applicant** to determine the reasonableness and cost-effectiveness of the chosen solution, including the use of cost-benefit analyses to target efficient solutions;
  - (iv) the approach used to prioritise **opex projects** over time including the application of that approach for the **next period**;
  - (v) the **project operating cost** methodology and formulation, including unit rate sources, the method used to test the efficiency of unit rates and the level of contingencies included for **projects**;
  - (vi) the impact on other cost categories including the relationship with **capex**;
  - (vii) links with other **projects**;
  - (viii) cost control and delivery performance for **actual opex**;
  - (ix) the efficiency of the proposed approach to procurement; and
  - (x) whether it should be included as a **contingent project** or part of a **contingent project**;
- (h) provide an opinion as to overall deliverability of work covered by the **opex categories** in the **next period**; and
- (i) provide an opinion as to the reasonableness and adequacy of any **opex** models used to prepare the **opex forecast** including an assessment of-
  - (i) the inputs used within the model; and
  - (ii) any methods the **CPP applicant** used to check the reasonableness of the forecasts and related expenditure.



- (2) Based on analysis in accordance with this clause, the **verifier** must provide an opinion on whether the **CPP applicant's** forecast of total **opex** meets the **expenditure objective** and, if not, identify-
  - (a) whether the provision of further information is required to enable assessment against the **expenditure objective** to be undertaken and, if so, the type of information required;
  - (b) which of the **CPP applicant's** forecast **opex programmes** for each **opex category** might warrant further assessment by the **Commission**; and
  - (c) what type of assessment would be the most effective.

#### **G7 Capital contributions**

The **verifier** must provide an opinion as to whether the forecast of **capital contributions**-

- (a) is reasonable; and
- (b) consistent with other aspects of the **CPP proposal**, in particular-
  - (i) the **capex forecast**; and
  - (ii) forecast demand data provided in accordance with clause D6.

#### **G8 Demand forecasts**

- (1) The **verifier** must provide an opinion as to whether-
  - (a) the **key assumptions**, key input data and forecasting methods used in determining demand forecasts were reasonable; and
  - (b) it was appropriate to use the demand forecasts resulting from these methods and assumptions to determine the-
    - (i) **capex forecast**; and
    - (ii) **opex forecast**.
- (2) In respect of data, calculations and assumptions used to derive the forecast weighted average growth in quantities (as required by clause 5.3.4), the **verifier** must provide an opinion as to whether, in relation to each **demand group**-
  - (a) the-
    - (i) rationale for its selection;
    - (ii) basis for the forecast growth in demand;
    - (iii) basis for the assumptions used concerning the relative proportion of fixed and variable components in the **prices** charged; and
    - (iv) basis for each weighting term,is reasonable;
  - (b) the forecast growth in demand is consistent with all other demand forecasts included in the **CPP proposal**; and
  - (c) the assumptions referred to in paragraph (a)(iii) are consistent with the calculation of **notional revenue** in the most recent annual compliance statement made by the supplier in accordance with a **DPP determination**.

## G9 Assessment techniques

(1) When-

- (a) undertaking analysis and reviews of information; and
- (b) considering the matters,

required by this Schedule, the **verifier** must use some or all of the following assessment techniques:

- (c) process benchmarking;
- (d) process or functional modelling;
- (e) unit rate benchmarking;
- (f) trending or time-series analysis;
- (g) high level governance and process reviews;
- (h) internal benchmarking of forecast costs against costs in the **current period**;
- (i) **capex category** and **opex category** benchmarking;
- (j) **project** and **programme** sampling; and
- (k) critiques or **independent** development of-
  - (i) demand forecasts;
  - (ii) labour unit cost forecasts;
  - (iii) materials forecasts;
  - (iv) plant forecasts; and
  - (v) equipment unit cost forecasts.

(2) The **verifier** must explain why particular techniques listed in subclause (1) were applied and others were not applied.

(3) Where, for the purpose of applying any of the techniques listed in subclause (1), the **verifier** uses information that is not provided to it by the **CPP applicant**, the **verifier** must, in respect of that information-

- (a) describe in the draft verification report its nature and source and the reason for wishing to rely on it;
- (b) subject to subclause (4), provide it to the **CPP applicant**;
- (c) when finalising the **verification report**, take into account any comments made about it by the **CPP applicant** in response to the draft verification report; and
- (d) where, notwithstanding paragraph (c), the **verifier** continues to rely on it, describe in the **verification report**-
  - (i) the nature and source of the information relied upon and the reason for relying on it; and
  - (ii) the **CPP applicant's** concerns in respect thereof.

(4) Subclause (3)(b) does not apply if the **verifier's** terms of use of the information prevent such disclosure.

## G10 Contingent projects

- (1) For each proposed **contingent project**, the **verifier** must provide an opinion as to whether that **project** satisfies the following criteria:
  - (a) it is-
    - (i) reasonably required of a **GDB** in meeting the **expenditure objective**; and
    - (ii) one that associated assets are likely to be **commissioned**,  
during the **CPP regulatory period**;
  - (b) a commencement date cannot be forecast with an appropriate degree of specificity by comparison with other proposed **projects**;
  - (c) the total of **capex forecast** and **opex forecast** in relation to the **project**-
    - (i) as disclosed in the **CPP proposal** exceeds 10% of the value of the **CPP applicant's** annual revenue in the most recently completed **disclosure year** in respect of an **ID determination**;
    - (ii) is reasonable in dollar terms; and
    - (iii) would be likely, when forecast with reasonable certainty, to meet the **expenditure objective**.
- (2) For each proposed **trigger event**, the **verifier** must provide an opinion as to whether it meets the requirements of clause 5.7.5(3).

## G11 Completeness of CPP proposal

A **verification report** must-

- (a) list the information in, and relating to, the **CPP proposal** provided by the **CPP applicant** to the **verifier**, that was relied upon by the **verifier** in fulfilling its obligations under Schedule G;
- (b) state each type of information in respect of which this schedule requires the **verifier's** consideration or opinion that the **verifier** considers has been omitted from the **CPP proposal**, including information that is incomplete or insufficient, and the relevant requirement in Part 5, Subpart 5 to provide the information in question;
- (c) where information is identified as insufficient in accordance with paragraph (b), state the nature of additional information the **verifier** considers that the **CPP proposal** requires to fulfil the information requirement in question;
- (d) state the extent to which the omission, incompleteness or insufficiency of information has impaired the **verifier's** judgement as to whether the **capex forecast** and **opex forecast** for the **next period** meets the **expenditure objective**; and
- (e) explain why the **verifier** has selected the **identified programmes** in accordance with clause G4(1).

## G12 Overview of key issues and additional information requirements

Based on its assessment, the **verifier** must, in the **verification report**-

- (a) provide a list of the key issues that it considers the **Commission** should focus on when undertaking its own assessment of the information to which the assessment related;
- (b) specify information identified in the **CPP proposal** that, were it to be provided, would assist the **Commission's** assessment of the **CPP proposal**;  
and
- (c) identify any other information it reasonably believes would-
  - (i) be held by the **CPP applicant**; and
  - (ii) assist the **Commission's** assessment of the **CPP proposal**.



## APPENDIX PART 1: APPENDICES GENERAL PROVISIONS

*In the 2017 GDB IM consolidated determination, as our 2016 amendments in relation to default price-quality paths had not yet applied, we included appendices which captured the pre-2016 IM review input methodologies that continued to apply until the transition to the post-2016 IM review requirements. In clause 6.1.1(3) of our 2017 GDB IM consolidated determination we included pre-2016 IM review definitions which continued to apply until the transition to the post-2016 IM review requirements.*

*As our 2016 input methodology amendments in relation to default price-quality paths (other than those to Part 4, Subpart 1) apply for a DPP in force from 1 October 2017, we have removed Appendix Part 3A and Appendix Part 3B, Subparts 2-8, from this consolidated determination and removed references to Part 3 and Part 4 in any definitions which continue to apply until the transition to our 2016 amendments is complete.*

### 6.1.1 Appendices interpretation

- (1) Bolded terms not defined in the Appendices must use the applicable definitions in clause 1.1.4(2) of this determination.
- (2) All previous references to Part 3 have been excluded and are marked as square brackets in these Appendices, as Part 3, including any applicable definitions in clause 1.1.4(2), applies for-
  - (a) a **DPP** in force from 1 October 2017; and
  - (b) a **CPP application** made on or after 23 December 2016.
- (3) All previous references to Part 4, Subparts 2-8, have been excluded and are marked as square brackets in these Appendices, as Part 4, Subparts 2-8, including any applicable definitions in clause 1.1.4(2), applies for a **DPP** in force, or which will be in force, from 1 October 2017.
- (4) All previous references to Part 5 have been excluded and are marked as square brackets in these Appendices, as Part 5, including any applicable definitions in clause 1.1.4(2), applies for a **CPP application** made on or after 23 December 2016.
- (5) In Appendix Part 2 and Appendix Part 3 the words or phrases in bold type bear the following meaning:

**67th percentile estimate of WACC**

means, estimate, made in accordance with, for the purpose of-

- (a) Part 2, clause 2.4.7(5)(b), of the 67th percentile for the post-tax **mid-point estimate of WACC**;
- (b) []; and
- (c) [];

<b>75th percentile estimate of WACC</b>	means, estimate, made in accordance with, for the purpose of Part 2, clause 2.4.7(3)(b)(i), of the 75th percentile for the post-tax <b>mid-point estimate of WACC</b> ;
<b>ACAM</b>	means avoidable cost allocation methodology, as described in clause 2.1.4;
<b>capital contributions</b>	means, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, money or the monetary value of other consideration charged to or received from <b>consumers</b> or other parties for the purposes of asset construction or enhancement;</li> <li>(b) []; and</li> <li>(c) [];</li> </ul>
<b>cost of debt</b>	means the amount specified for $r_d$ in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.1(4);</li> <li>(b) []; and</li> <li>(c) [];</li> </ul>
<b>cost of executing an interest rate swap</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.9(3); and</li> <li>(b) [];</li> </ul>
<b>CPI</b>	means- <ul style="list-style-type: none"> <li>(a) subject to paragraph (c), in respect of the December 2010 quarter and subsequent quarters, the consumer price index stipulated in the 'All Groups Index SE9A' as published by Statistics New Zealand;</li> <li>(b) subject to paragraph (c) in respect of each quarter prior to the December 2010 quarter, the same index as described in paragraph (a) multiplied by 1.02; and</li> <li>(c) in respect of quarters prior to any quarter in which the rate of <b>GST</b> is amended after this determination</li> </ul>

	comes into force, the same index as described in paragraph (a), multiplied by the Reserve Bank of New Zealand's forecast change in that index (expressed as a decimal) arising from the amendment;
<b>debt premium</b>	has the meaning specified in and is the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.4;</li> <li>(b) []; and</li> <li>(c) [];</li> </ul>
<b>operating cost</b>	means a cost incurred by the <b>GDB</b> in question relating to the <b>supply</b> of- <ul style="list-style-type: none"> <li>(a) <b>regulated services</b> alone; or</li> <li>(b) <b>regulated services</b> and one or more <b>unregulated service</b>, and excludes- <ul style="list-style-type: none"> <li>(c) a cost that is treated as a cost of an asset by <b>GAAP</b>;</li> <li>(d) amounts that are depreciation, tax, subvention payments, revaluations or an interest expense, in accordance with their meanings under <b>GAAP</b>;</li> <li>(e) <b>pass-through costs</b>; and</li> <li>(f) <b>recoverable costs</b>;</li> </ul> </li> </ul>
<b>OVABAA</b>	means the optional variation to accounting-based allocation approach, as described in clause 2.1.5;
<b>OVABAA allocation increase</b>	means, in respect of either or both- <ul style="list-style-type: none"> <li>(a) <b>operating costs</b>; and</li> <li>(b) <b>regulated service asset values</b>,</li> </ul> not <b>directly attributable</b> , as the case may be, allocated to <b>gas distribution services</b> , the dollar difference between the amount determined pursuant to the last application of clause 2.1.5(7)(c) and the application of



	clause 2.1.5(2)(a) or 2.1.5(3)(a), as the case may be;
<b>qualifying debt</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.9(1); and</li> <li>(b) [];</li> </ul>
<b>qualifying supplier</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.9(2); and</li> <li>(b) [];</li> </ul>
<b>term credit spread difference</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.10; and</li> <li>(b) [];</li> </ul>
<b>term credit spread differential</b>	is the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.11(3); and</li> <li>(b) [];</li> </ul>

## APPENDIX PART 2: 2016 TRANSITION PROVISIONS IN RESPECT OF INFORMATION DISCLOSURE

*Appendix Part 2 applies for information disclosure until the commencement of disclosure year 2019.*

*Note that clauses retain their original numbering.*

### SUBPART 1 **Cost allocation**

#### 2.1.1 Cost allocation process

(1) Any-

- (a) **operating costs**; and
- (b) **regulated service asset values**,

that are **directly attributable** to **gas distribution services supplied** by the **GDB** must be allocated to **gas distribution services**.

(2) Any-

- (a) **operating costs**; and
- (b) **regulated service asset values**,

that are **directly attributable** to any **other regulated service supplied** by the **GDB** must be allocated to the **other regulated service** to which they are **directly attributable**.

(3) Any **operating costs** and **regulated service asset values** that are not allocated in accordance with subclauses (1) and (2) must be allocated to **gas distribution services** and **other regulated services** using, at the supplier's election-

- (a) **ABAA**; or
- (b) subject to clause 2.1.2, another **allocation methodology type**.

#### 2.1.2 Allocation approaches

(1) For the purpose of clause 2.1.1(3)(b), whether the supplier may elect to use **ACAM** or **OVABAA** to allocate-

- (a) **operating costs**; and
- (b) **regulated service asset values**,

not **directly attributable**, must be determined in accordance with this clause.

(2) Where, in respect of a **disclosure year**, revenues received by a **GDB** from the **supply** of all **unregulated services** by that **GDB** are-

- (a) less than 20% of revenues received from the **supply** of all **regulated services supplied** by the **GDB**, subclause (3) applies; and
- (b) in all other cases, subclause (4) applies.

- (3) Where this subclause applies-
- (a) **operating costs**; and
  - (b) **regulated service asset values**,
- not **directly attributable** may be allocated to **regulated services**, in aggregate, using **ACAM**.
- (4) Where this subclause applies-
- (a) where, in a **disclosure year**, **operating costs** not **directly attributable** less any **arm's-length deduction** are less than 15% of **operating costs**, **ACAM** may be applied to the allocation of **operating costs** not **directly attributable**;
  - (b) where, in a **disclosure year**, the total value of **regulated service asset values** not **directly attributable** less any **arm's-length deduction** is less than 10% of the aggregated unallocated closing RAB value, **ACAM** may be applied to the allocation of **regulated service asset values** not **directly attributable**; and
  - (c) in all other cases, **ABAA** or **OVABAA**, at the supplier's election, may be applied to the allocation of either or both-
    - (i) **operating costs** not **directly attributable**; or
    - (ii) **regulated service asset values** not **directly attributable**,
 as the case may be.
- (5) For the purpose of subclause (4)(b), 'aggregated unallocated closing RAB value' means the sum of, in respect of assets used to **supply**-
- (a) **gas distribution services**, **unallocated closing RAB values**; and
  - (b) any **other regulated service**, unallocated closing RAB values as determined in accordance with **input methodologies** applicable to that **other regulated service**;

### 2.1.3 Accounting-based allocation approach (ABAA)

- (1) **Cost allocators** must be used to allocate **operating costs** not **directly attributable**, less any **arm's-length deduction**, to-
- (a) **gas distribution services**; and
  - (b) **other regulated services**.
- (2) **Asset allocators** must be used to allocate **regulated service asset values** not **directly attributable**, less any **arm's-length deduction**, to-
- (a) **gas distribution services**; and
  - (b) **other regulated services**.

### 2.1.4 Avoidable cost allocation methodology (ACAM)

- (1) In respect of-
- (a) **operating costs**; and
  - (b) **regulated service asset values**,

not **directly attributable**, less any **arm's-length deduction**, an assessment must be made as to the proportion of each that would be non-avoidable were the **GDB** not to **supply unregulated services**.

- (2) The amounts of non-avoidable-
- (a) **operating costs**; or
  - (b) **regulated service asset values**,
- not **directly attributable**, determined in accordance with subclause (1), must be allocated to **regulated services** in aggregate.
- (3) Where the **GDB** supplies **other regulated services**, the amounts allocated in accordance with subclause (2) must be allocated to each **regulated service supplied** by the **GDB** using the **ABAA**.

#### 2.1.5 Optional variation to accounting-based allocation approach (OVABAA)

- (1) This clause applies to the allocation of-
- (a) only **operating costs** not **directly attributable**;
  - (b) only **regulated service asset values** not **directly attributable**; or
  - (c) **operating costs** not **directly attributable** and **regulated service asset values** not **directly attributable**,
- as elected in accordance with clause 2.1.2(4)(c).
- (2) **Operating costs** not **directly attributable** less any **arm's-length deduction** must be initially allocated to-
- (a) **gas distribution services**;
  - (b) **other regulated services**; and
  - (c) each **unregulated service**,
- using **cost allocators**.
- (3) **Regulated service asset values** not **directly attributable** less any **arm's-length deduction** must be initially allocated to-
- (a) **gas distribution services**;
  - (b) **other regulated services**; and
  - (c) each **unregulated service**,
- using **asset allocators**.
- (4) Where, after application of-
- (a) Subclause (2)(c);
  - (b) Subclause (3)(c); or
  - (c) Subclauses (2)(c) and (3)(c),
- an **unregulated service** would-
- (d) be **unduly deterred**, subclause (5) applies; and

- (e) not be **unduly deterred**, the allocation of either or both of-
  - (i) **operating costs** not **directly attributable**; and
  - (ii) **regulated service asset values** not **directly attributable**

as the case may be, must remain as carried out in accordance with either or both of subclauses (2)(c) and (3)(c), as the case may be.

- (5) Where this subclause applies, any-

- (a) **operating costs**; and
- (b) **regulated service asset values**,

not **directly attributable** that were allocated to an **unregulated service** in accordance with either or both of subclauses (2)(c) and (3)(c), as the case may be, may be reduced to the amount at which the **unregulated service** would no longer be **unduly deterred**.

- (6) For the avoidance of doubt, the adjusted amounts determined in accordance with subclause (5) must be treated as the share of either or both, as the case may be, of-

- (a) **operating costs**; and
- (b) **regulated service asset values**,

not **directly attributable** to be borne by the **unregulated service** in question.

- (7) The adjusted amounts determined in accordance with subclause (5) must be deducted from either or both the-

- (a) **operating costs** not **directly attributable**; and
- (b) **regulated service asset values** not **directly attributable**,

as the case may be, to which subclause (2) or (3) applied after any **arm's-length deduction** was made, and the remaining costs or values reallocated between-

- (c) **gas distribution services**;
- (d) **other regulated services**; and
- (e) each remaining **unregulated service**,

in accordance with subclauses (2) and (3), as the case may be.

- (8) Where, after application of subclause (7), the-

- (a) **operating costs**; and
- (b) **regulated service asset values**,

not **directly attributable** allocated to another **unregulated service unduly deter** that **unregulated service**, the process in subclauses (5) and (7) may be repeated subject to the modifications specified in subclause (9).

- (9) When re-applying-

- (a) subclause (5) to another **unregulated service**, the starting values of-
  - (i) **operating costs**; and
  - (ii) **regulated service asset values**,

not **directly attributable** allocated to that **unregulated service** must be the values obtained in relation to that **unregulated service** as a result of the previous application of subclause (7); and

- (b) subclause (7), for "to which subclause (2) or (3) applied after any **arm's-length deduction** was made", substitute "to which this subclause previously applied".
- (10) Subclauses (5) and (7) may be re-applied sequentially in respect of each **unregulated service** which is **unduly deterred** until any remaining **regulated service asset values** or **operating costs** or both are of such quantum that their allocation to the remaining **unregulated services** does not result in any of those **services** being **unduly deterred**.
- (11) For the avoidance of doubt, the reallocation undertaken in accordance with subclause (7) is carried out by grossing up allocation percentages used to make allocations to **gas distribution services, other regulated services** and each remaining **unregulated service** based on the same **cost allocators** or **asset allocators**, as the case may be, used under subclauses (2) and (3), to take into account the omission of the allocation percentages for the **unregulated service** to which allocation has already been made under subclause (5).

#### 2.1.6 Allocation constraints

- (1) For the avoidance of doubt, all allocations of-
  - (a) **operating costs**; and
  - (b) **regulated service asset values**,not **directly attributable** to **other regulated services supplied** by the **GDB** must be consistent with allocations made in accordance with **input methodologies** relating to cost allocation applying to those **other regulated services**.
- (2) Where the **OVABAA** is applied to both **operating costs** not **directly attributable** and **regulated service asset values** not **directly attributable**, the combined amount of such costs and values that is re-allocated in accordance with clause 2.1.5(5) must not exceed the amount required to ensure that the **unregulated service** is not **unduly deterred**.
- (3) For the avoidance of doubt, after application of this subpart, notwithstanding anything else that may suggest otherwise, each **unregulated service** must bear at least the total-
  - (a) **operating costs**; and
  - (b) value of assets,**directly attributable** to that **unregulated service**.
- (4) Notwithstanding anything else in this Subpart, the maximum value of-
  - (a) **operating costs** that may be allocated to **gas distribution services** and **other regulated services**, in aggregate, must not exceed the total value of **operating costs**; and

- (b) **regulated service asset values** that may be allocated to **gas distribution services** and **other regulated services**, in aggregate, must not exceed the total **regulated service asset values**,

that would be allocated to **gas distribution services** and **other regulated services**, in aggregate, using **ACAM**.

## SUBPART 2 **Asset valuation**

### 2.2.1 Asset adjustment process for setting initial RAB

- (1) Asset adjustment process means the process of assets-
  - (a) being designated as one of the following asset types:
    - (i) 'excluded';
    - (ii) 'included'; or
    - (iii) 'value modified';
  - (b) of 'value modified' type being assigned a **modified value**; and
  - (c) of 'included' type being assigned an **included value**.
- (2) Subject to subclauses (3) to (6), under the asset adjustment process, a **GDB** may elect to undertake none, some or all of the following things:
  - (a) modify the value of an asset owned by NGC Holdings Limited or a subsidiary company thereof, which asset is treated as of 'value modified' type;
  - (b) designate an asset, except one of those described in subclause (4), used by a **GDB to supply gas distribution services**, as of 'included' type; and
  - (c) correct the following types of errors found in a **GDB's** asset register, where the error relates to **2009 disclosed assets**:
    - (i) assets omitted in error, which assets are designated as of 'included' type;
    - (ii) assets included in error, which assets are designated as of 'excluded' type; and
    - (iii) assets allocated to the incorrect asset category, or given an estimation of quantity, age, category or location now known to be incorrect, which assets are designated as of 'value modified' type;
- (3) The modified value of an asset to which subclause (2)(a) is applied is determined by adjusting its value-
  - (a) in respect of an asset to which subclause (2)(b) or (2)(c) was applied and valued pursuant to subclause (5) or (6), as the case may be; or
  - (b) where neither subclause (2)(b) nor (2)(c) was applied, included in 'Non-Current Assets' in the **2009 disclosure financial statements**,

to the value it would have had as of 30 June 2009 had it been revalued to take account of changes in the consumer price index since 1 July 2005 consistent with

the method used by the **Commission** in its 'Gas Control Model' for the purpose of authorising the supply of **controlled services**.

- (4) For the purpose of subclause (2)(b), the assets are-
- (a) **2009 authorisation assets;**
  - (b) assets that were eligible to be **2009 authorisation assets;**
  - (c) **2009 disclosed assets;**
  - (d) assets that were eligible to be **2009 disclosed assets;**
  - (e) **easement land;** and
  - (f) intangible assets, unless they are-
    - (i) **finance leases;** or
    - (ii) **identifiable non-monetary assets.**
- (5) The included value of an asset to which subclause (2)(b) is applied is-
- (a) its depreciated historic cost determined by applying **GAAP** as of 30 June 2009; or
  - (b) where sufficient records do not exist to establish this cost, its depreciated carrying value in the general purpose financial statements of the **GDB**.
- (6) The included value or modified value, as the case may be, of an asset to which subclause (2)(c) is applied is determined by-
- (a) taking its value, subject to subclause (7), that resulted, or for an omitted asset, would have resulted, from application of the Gas (Information Disclosure) Regulations 1997, as of the date-
    - (i) the asset was first **commissioned;** or
    - (ii) that fixed assets were most recently revalued, other than for the sole purpose of accounting for inflation, under the Gas (Information Disclosure) Regulations 1997,whichever is the later;
  - (b) implementing the corrections or modifications required to account for the matters specified in subclause (2)(c) as the case may be; and
  - (c) adjusting that value to the value as of 30 June 2009 by taking account of-
    - (i) **unallocated depreciation** in accordance with the **standard depreciation method**, where the total asset life used for the purpose of that method is the total asset life used for the purpose of the **2009 disclosure financial statements;** and
    - (ii) revaluation to account for consumer price index changes using a method consistent with that used to account for such revaluation in the **2009 disclosure financial statements.**
- (7) Where subclause (6)(a)(ii) applies, the value must be obtained using the revaluation methodology that was applied, or would have been applied, in respect of that asset as of the date in question.



## 2.2.2 Composition of initial RAB

Initial RAB means-

- (a) **2009 authorisation assets;**
- (b) **2009 disclosed assets;**
- (c) **included assets;** and
- (d) in respect of Powerco Limited, assets first **commissioned** in the period beginning on 1 July 2009 and ending on 30 September 2009,

less-

- (e) **excluded assets;**
- (f) intangible assets, unless they are-
  - (i) **finance leases;** or
  - (ii) **identifiable non-monetary assets;**
- (g) **works under construction;** and
- (h) in respect of Powerco Limited, **disposed assets** for the period beginning on 1 July 2009 and ending on 30 September 2009.

## 2.2.3 Initial RAB values for assets

(1) Subject to subclauses (2) and (3), the unallocated initial RAB value of-

- (a) an **included asset** or **value modified asset**, is its **included value** or **modified value**, as the case may be; and
- (b) any other asset included in **2009 authorisation assets** and described in-
  - (i) paragraph (a) of the definition of 2009 authorisation assets, is its value specified in the **2005 authorisation valuation**; and
  - (ii) paragraph (b) of the definition of 2009 authorisation assets, is its cost determined by applying **GAAP** to the asset as on its **commissioning date**,

adjusted as of 30 June 2009 by taking account of-

- (iii) depreciation; and
- (iv) changes in the consumer price index;

since 1 July 2005 consistent with the method used by the **Commission** in its 'Gas Control Model' for the purpose of authorising the supply of **controlled services**;

- (c) any other asset included in **2009 disclosed assets**, is its value included in the 'Non-Current Assets' category in the **2009 disclosure financial statements**; and
- (d) in respect of Powerco Limited, an asset first **commissioned** in the period beginning on 1 July 2009 and ending on 30 September 2009, is its **value of commissioned asset**.

(2) For the purpose of subclause (1), where an asset is used by a **GDB** in the **supply** of-

- (a) one or more **regulated service**; or
- (b) one or more **regulated service** and one or more **unregulated service**,

where at least one of those **regulated services** is a **gas distribution service**, the unallocated initial RAB value is the value of the asset had no allocation of asset value relevant to regulatory disclosures been undertaken.

- (3) For the purpose of subclause (1), the value established as the unallocated initial RAB value in respect of Powerco Limited must include an adjustment for the three month period beginning on 1 July 2009 and ending on 30 September 2009 by taking account of-
  - (a) **unallocated depreciation** applicable to that period in accordance with the **standard depreciation method**, using a remaining asset life consistent with the **2009 disclosure financial statements** or the **Commission's** 'Gas Control Model' for the purpose of authorising the supply of **controlled services** as the case may be; and
  - (b) revaluation applicable to that period to account for consumer price index changes using a method consistent with that used in the **2009 disclosure financial statements** or by the **Commission** in its 'Gas Control Model' for the purpose of authorising the supply of **controlled services** as the case may be.
- (4) The initial RAB value of an asset is determined as the value allocated to **gas distribution services** as a result of-
  - (a) adopting its **unallocated initial RAB value**; and
  - (b) applying clause 2.1.1 to it as of-
    - (i) in respect of Powerco Limited, 30 September 2009; and
    - (ii) in respect of other **GDBs**, 30 June 2009.

#### 2.2.4 RAB roll forward

- (1) Unallocated opening RAB value in respect of an asset in relation to-
  - (a) the **disclosure year** 2010, is its **unallocated initial RAB value**; and
  - (b) a **disclosure year** thereafter is its **unallocated closing RAB value** in the preceding **disclosure year**.
- (2) Unallocated closing RAB value means, in the case of-
  - (a) a **found asset**, its **value of found asset**;
  - (b) a **disposed asset**, nil;
  - (c) a **lost asset**, nil;
  - (d) any other asset with an **unallocated opening RAB value**, the value determined in accordance with the formula-  
**unallocated opening RAB value - unallocated depreciation + unallocated revaluation**; and
  - (e) any other asset having a **commissioning date** in the **disclosure year** in question, its **value of commissioned asset**.

- (3) Opening RAB value, in respect of an asset, is, for-
- (a) the **disclosure year** 2010, its **initial RAB value**; and
  - (b) a **disclosure year** thereafter, its **closing RAB value** in the preceding **disclosure year**.
- (4) Closing RAB value, in respect of an asset is determined as the value allocated to **gas distribution services** as a result of-
- (a) adopting its **unallocated closing RAB value**; and
  - (b) applying clause 2.1.1 to it.

#### 2.2.5 Depreciation

- (1) Unallocated depreciation, in the case of an asset with an **unallocated opening RAB value**, is determined, subject to subclause (3) and clauses 2.2.6 and 2.2.7, in accordance with the formula-

$$[1 \div \text{remaining asset life}] \times \text{unallocated opening RAB value.}$$

- (2) Depreciation, in the case of an asset with an **opening RAB value**, is determined, subject to subclause (3) and clause 2.2.6, in accordance with the formula-

$$[1 \div \text{remaining asset life}] \times \text{opening RAB value.}$$

- (3) For the purposes of subclauses (1) and (2)-

- (a) unallocated depreciation and depreciation are nil in the case of-
  - (i) **land**;
  - (ii) an **easement** other than a **fixed life easement**; and
  - (iii) a **network spare** in respect of the period before which depreciation for the **network spare** in question commences under **GAAP**; and
- (b) in all other cases, where the asset's **physical asset life** at the end of the **disclosure year** is nil-
  - (i) unallocated depreciation is the asset's **unallocated opening RAB value**; and
  - (ii) depreciation is the asset's **opening RAB value**.

#### 2.2.6 Depreciation - alternative method

Where, under a **CPP**, in accordance with clause 5.3.8, an **alternative depreciation method** is applied to an asset, unallocated depreciation and depreciation for that asset, in respect of each **disclosure year** of the **CPP regulatory period**, are determined in accordance with that **alternative depreciation method**, subject to, in the case of unallocated depreciation, clause 2.2.7.

#### 2.2.7 Unallocated depreciation constraint

For the purpose of clause 2.2.5, the sum of **unallocated depreciation** of an asset calculated over its **asset life** may not exceed the sum of-

- (a) all **unallocated revaluations** applying to that asset in all **disclosure years**;  
and
- (b) in the case of an asset-
  - (i) in the **initial RAB**, its **unallocated initial RAB value**; or
  - (ii) not in the **initial RAB**, its **value of commissioned asset** or **value of found asset**.

2.2.8 Physical asset life

- (1) Physical asset life means, subject to subclauses (2) and (4), in the case of-
- (a) a **fixed life easement**, the fixed duration or fixed period (as the case may be) referred to in the definition of **fixed life easement**;
  - (b) an extended life asset or a refurbished asset, its physical service life potential as determined by the **GDB**;
  - (c) a reduced life asset, its physical service life potential determined by an **engineer**, subject to subclause (3);
  - (d) a **found asset** for which a similar asset exists as described in subclause 2.2.12(2)(b)(i), the **asset life** applying to the similar asset;
  - (e) an asset not referred to in paragraphs (a) – (d)-
    - (i) in the **initial RAB** and an **included asset**; or
    - (ii) not in the **initial RAB**,
 and-
    - (iii) having a **standard physical asset life**, its **standard physical asset life**;
    - (iv) not having a **standard physical asset life**, the asset life applying to an asset with an **unallocated opening RAB value** that is similar in terms of asset type; and
    - (v) in all other cases, the physical service life potential determined by an **engineer**, subject to subclause (3);
  - (f) an asset (other than a composite asset) not referred to in paragraphs (a) – (e), its remaining physical service life potential as on 30 June 2009 as determined in accordance with the method used to determine an allowance for depreciation, in the case of a-
    - (i) **2009 authorisation asset**, in the 'Gas Control Model' used by the **Commission** for the purpose of authorising the supply of **controlled services**; and
    - (ii) **2009 disclosed asset**, for the purpose of the **2009 disclosure financial statements**;
  - (g) a composite asset, the average asset life of the assets comprising it determined in accordance with paragraphs (a)–(f), with the modification that each such asset life must be weighted with respect to the proportion of its respective **opening RAB value** to the sum of the **opening RAB values** of the

components in the earliest **disclosure year** in which all component assets were held by the **GDB**.

- (2) For the purpose of subclause (1), physical asset life means, in the case of a dedicated asset which is not expected to be used by the **GDB** to provide **gas distribution services** beyond the term of the fixed term agreement relating to the asset between the **GDB** and the **consumer**, at the **GDB's** election, the term of that agreement instead of the physical asset life that would otherwise apply under that subclause.
- (3) For the purpose of subclauses (1)(b) and (1)(e)(v), a determination made in accordance with this clause by an **engineer** of physical service life potential-
  - (a) in relation to an asset with an **unallocated opening RAB value** is deemed applicable to all assets of similar asset type for which there is a requirement in this clause for an **engineer's** determination of physical service life potential; and
  - (b) must be evidenced by a report written by the **engineer** in question that includes an acknowledgement by the **engineer** that the report may be publicly disclosed by a **GDB** pursuant to an **ID determination**.
- (4) In the case of a **GDB** subject to a **CPP**, the physical asset life at the start of a **CPP regulatory period** of an asset that would, in accordance with subclause (1), become fully depreciated during that **regulatory period**, is equal to the duration of the **CPP regulatory period**.
- (5) In this clause-
  - (a) 'dedicated asset' means an asset operated for the benefit of a particular **consumer** pursuant to a fixed term agreement for the **supply of gas distribution services** between the **GDB** in question and that **consumer**;
  - (b) 'extended life asset' means an asset whose physical service life potential is greater than its **standard physical asset life**;
  - (c) 'refurbished asset' means an asset on which work (other than maintenance) has been carried out resulting in an extension to its physical service life potential;
  - (d) 'reduced life asset' means an asset determined by the **GDB** to have a physical service life potential shorter than its **standard physical asset life**;
  - (e) 'composite asset' means a configuration of two or more assets that is not capable of operation in the absence of any of those assets.

#### 2.2.9 Revaluation

- (1) Unallocated revaluation is the amount determined, subject to subclause (3), in accordance with the formula-  
**unallocated opening RAB value × revaluation rate.**
- (2) Revaluation is the amount determined, subject to subclause (3), in accordance with the formula-  
**opening RAB value × revaluation rate.**

- (3) For the purposes of subclauses (1) and (2), where-
- (a) the asset's **physical asset life** at the end of the **disclosure year** is nil; or
  - (b) the asset is a
    - (i) **disposed asset**; or
    - (ii) **lost asset**,

unallocated revaluation and revaluation are nil.

- (4) Revaluation rate means, in respect of a **disclosure year**, the amount determined in accordance with the formula-

$$(CPI_4 \div CPI_4^{-4}) - 1,$$

where-

$CPI_4$  means **CPI** for the quarter that coincides with the end of the **disclosure year**;  
and

$CPI_4^{-4}$  means **CPI** for the quarter that coincides with the end of the preceding **disclosure year**.

#### 2.2.10 Revaluation treated as income

**Revaluation**, for the purpose of determining profitability, must be treated as income.

#### 2.2.11 Value of commissioned assets

- (1) Value of commissioned asset, in relation to an asset (including an asset in respect of which **capital contributions** were received or a **vested asset**), is the cost of the asset to a **GDB** determined by applying **GAAP** to the asset as on its **commissioning date**, except that, subject to subclause (2), the cost of-

- (a) an intangible asset, unless it is-
  - (i) a **finance lease**; or
  - (ii) an **identifiable non-monetary asset**,is nil;
- (b) an **easement**, is limited to its market value as on its **commissioning date** as determined by a **valuer**;
- (c) **easement land** is nil;
- (d) a **network spare**-
  - (i) which is not required, in light of the historical reliability and number of the assets it is held to replace; or
  - (ii) whose cost is not treated wholly as or part of the cost of an asset under **GAAP**,is nil;

- (e) an asset-
  - (i) acquired from another **regulated supplier**; and

- (ii) used by that **regulated supplier** in the **supply of regulated goods or services**,

is limited to the unallocated opening RAB value of the asset for the **regulated supplier** as on the the day before the **commissioning date** (as 'unallocated opening RAB value' is defined in the **input methodologies** applying to the **regulated goods or services supplied** by the **regulated supplier**);

- (f) an asset that was previously used by a **GDB** in its **supply of other regulated services** is limited to the unallocated opening RAB value of the asset in relation to those **other regulated services** as on the day before the **commissioning date** (as 'unallocated opening RAB value' is defined in the **input methodologies** applying to the **regulated goods or services supplied** by the **GDB**);
- (g) an asset acquired from a **related party**, other than an asset to which paragraphs (e) or (f) apply, determined in accordance with subclause 2.2.11(5);
- (h) an asset in respect of which **capital contributions** were received where such contributions do not reduce the cost of the asset when applying **GAAP**, is the cost of the asset by applying **GAAP** reduced by the amount of the **capital contributions**; and
- (i) a **vested asset** in respect of which its fair value is treated as its cost under **GAAP**; and must exclude any amount of the fair value of the asset determined under **GAAP** that exceeds the amount of consideration provided by the **GDB**.

(2) When applying **GAAP** for the purpose of subclause (1), the cost of financing is-

- (a) applicable only in respect of the period commencing on the date the asset becomes a **works under construction** and terminating on its **commissioning date**; and
- (b) calculated using, subject to subclause (3), a rate no greater than-
- (c) for each **disclosure year** prior to **disclosure year 2018**, the **75th percentile estimate of WACC**; and
- (d) for **disclosure year 2018** and each **disclosure year** thereafter, the **67th percentile estimate of WACC**,
- (e) published pursuant to clause 2.4.8 applying in respect of the relevant date for its calculation under **GAAP**.

(3) For the purpose of subclause (2)(b)-

- (a) where no **WACC** in respect of the relevant date has been published pursuant to clause 2.4.8, the rate is calculated using a rate no greater than the **GDB's** estimate of its post-tax **WACC** as at the relevant date for its calculation under **GAAP**; and
- (b) where an asset has not been **commissioned** within the period to which the **75th percentile estimate of WACC** or **67th percentile estimate of WACC**, as

applicable, referred to in subclause (2)(b) applied, the cost of financing in each **disclosure year** after that period is calculated using a rate no greater than—

- (i) for each part of that later period that is in a **disclosure year** prior to **disclosure year 2018**, the **75th percentile estimate of WACC** applying to that later period; and
- (ii) for each part of that later period that is in **disclosure year 2018** or a **disclosure year** thereafter, the **67th percentile estimate of WACC** applying to that later period.

(4) For the avoidance of doubt—

- (a) revenue derived in relation to **works under construction** that is not included in regulatory income under an **ID determination** or preceding regulatory information disclosure requirements reduces the cost of an asset by the amount of the revenue where such reduction is not otherwise made under **GAAP**; and
- (b) where expenditure on an asset which forms part of the cost of that asset under **GAAP** is incurred by a **GDB** after that asset was **commissioned**, such expenditure is treated as relating to a separate asset.

(5) For the purpose of paragraph 2.2.11(1)(g), the cost of a **commissioned** asset, or component of a **commissioned** asset, acquired from a **related party** must be one of the following—

- (a) the price paid by the **GDB** for the asset, where the cost of all assets acquired from the **related party** first **commissioned** in that **disclosure year** is less than—
  - (i) one percent of the sum of **opening RAB values** for the **GDB** for that **disclosure year**, or
  - (ii) 20% of the cost of all assets first **commissioned** by the **GDB** in that **disclosure year**;
- (b) the price paid by the **GDB** for the asset, where—
  - (i) at least 50% of the **related party's** sales of assets are to third parties, and third parties may purchase the same or substantially similar assets from the **related party** on substantially the same terms and conditions, including price; or
  - (ii) that price is substantially the same as the price paid for substantially similar assets (including any adjustments for inflation using CPI or other appropriate input price index) in the preceding 3 **disclosure years** from a party other than a **related party**;
- (c) the price paid by the **GDB** to the **related party** following a competitive tender process, provided that—



- (i) the price is no more than 5% higher than the price of the lowest conforming tender received;
  - (ii) all relevant information material to consideration of a proposal was provided to third parties, or made available upon request;
  - (iii) at least one other qualifying proposal was received; and
  - (iv) the **GDB** retains for a period of 7 years following the closing date of tender proposals a record of the tender and tender process, including request for information and/or proposal, the criteria used for the assessment of proposals, reasons for acceptance or rejection of proposals, and all proposals and requests for information on the tender for the purposes of making proposals;
- (d) its depreciated historic cost on the day before the acquisition by the **GDB** determined in accordance with **GAAP**;
  - (e) its inventory value on the day before the acquisition by the **GDB** determined in accordance with **GAAP**;
  - (f) its market value as at its **commissioning date** as determined by a **valuer**;
  - (g) its directly attributable cost as would be incurred by the group to which the **GDB** and **related party** are a part, determined in accordance with **GAAP**, as if the consolidated group was the **GDB**;
  - (h) the price paid by the **GDB** for the asset, provided—
    - (i) the price cannot otherwise be determined under paragraphs (a) – (g), and
    - (ii) no fewer than 2 **directors** of the **GDB** provide a written certification that they are satisfied that the price of any assets determined in accordance with this paragraph reflect the price or prices for those assets that would be received in an arm’s-length transaction; or
  - (i) nil.

#### 2.2.12 Value of found assets

(1) Found asset means, in relation to a **disclosure year**, an asset-

- (a) other than **easement land**;
- (b) other than an intangible asset, unless it is-
  - (i) a **finance lease**; or
  - (ii) an **identifiable non-monetary asset**;
- (c) not having a **commissioning date** in the **disclosure year** in question;
- (d) the value of which-
  - (i) is not included as an **unallocated opening RAB value** in the **disclosure year** in question nor was so included in any prior **disclosure year** pursuant to clause 2.2.4(1); and
  - (ii) was not included in an **unallocated closing RAB value** in any prior **disclosure year** in accordance with clause 2.2.4(2); and

- (e) first determined by the **GDB** in the **disclosure year** in question to have a **commissioning date** after the **disclosure year 2009**.
- (2) The value of found asset is-
- (a) the **found asset's** cost calculated consistently with **GAAP**; or
  - (b) where sufficient records do not exist to establish the **found asset's** cost for the purposes of **GAAP**-
    - (i) where an asset with an **unallocated opening RAB value** for that **disclosure year** is similar (in terms of asset type and age) to the **found asset**, the **unallocated opening RAB value** of the similar asset; and
    - (ii) in all other cases, its market value as determined by a **valuer** as at the date that the asset was first determined to have been **commissioned** in a prior **disclosure year** after the **disclosure year 2009**.

### SUBPART 3 Treatment of taxation

#### 2.3.1 Regulatory tax allowance

- (1) Regulatory tax allowance is, where **regulatory net taxable income** is-
  - (a) nil or a positive number, the **tax effect of regulatory net taxable income**; and
  - (b) a negative number, nil.
- (2) Regulatory net taxable income is **regulatory taxable income** less **utilised tax losses**.
- (3) Regulatory taxable income is determined in accordance with the formula-
 

**regulatory profit / (loss) before tax + permanent differences + regulatory tax adjustments.**
- (4) Regulatory profit / (loss) before tax means the amount of 'regulatory profit / (loss) before tax' as determined in accordance with an **ID determination**.

#### 2.3.2 Tax losses

- (1) Utilised tax losses means opening tax losses, subject to subclause (2).
- (2) For the purpose of subclause (1), utilised tax losses may not exceed **regulatory taxable income**.
- (3) In this clause, 'opening tax losses' in relation to a **disclosure year** that commenced-
  - (a) in 2009, is nil; and
  - (b) after 2009, is closing tax losses for the preceding **disclosure year**.
- (4) For the purpose of subclause (3)(b), 'closing tax losses' means the amount determined in accordance with the following formula, in which each term is an absolute value:
 

opening tax losses + *current period tax losses* – **utilised tax losses**.
- (5) For the purpose of subclause (4), 'current period tax losses' is where **regulatory taxable income** is-

- (a) nil or a positive number, nil; and
- (b) a negative number, **regulatory taxable income**.

### 2.3.3 Permanent differences

- (1) Permanent differences is the amount determined in accordance with the formula-  
*positive permanent differences - negative permanent differences*.
- (2) For the purpose of subclause (1), 'positive permanent differences' means, subject to subclause (3) the sum of-
  - (a) all amounts of income-
    - (i) treated as taxable were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**;  
and
    - (ii) not included as amounts of income in determining **regulatory profit / (loss) before tax**; and
  - (b) all amounts of expenditure or loss-
    - (i) included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**; and
    - (ii) not treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**,if the difference in treatment of amounts of-
  - (c) income under paragraphs (a)(i) and paragraph (a)(ii); or
  - (d) expenditure or loss under paragraph (b)(i) and paragraph (b)(ii),is a difference that-
  - (e) is not a **reversal** or partial **reversal** of a difference for a prior **disclosure year**;  
and
  - (f) will not **reverse** in a subsequent **disclosure year**.
- (3) For the purpose of subclause (2), positive permanent differences excludes any amounts that are-
  - (a) **amortisation of initial differences in asset values**; or
  - (b) **amortisation of revaluations**.
- (4) For the purpose of subclause (1), 'negative permanent differences' means, subject to subclause (5), the sum of-
  - (a) all amounts of income-
    - (i) included as amounts of income in determining **regulatory profit / (loss) before tax**; and

- (ii) not treated as taxable were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
- (b) all amounts of expenditure or loss-
  - (i) treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
  - (ii) not included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**,
 if there are differences between the values in-
  - (c) paragraphs (a)(i) and paragraph (a)(ii); and
  - (d) paragraphs (b)(i) and paragraph (b)(ii),
 and such differences-
  - (e) are not the **reversal** of a difference in a prior **disclosure year**; and
  - (f) will not **reverse** in a subsequent **disclosure year**.
- (5) For the purpose of subclause (4), negative permanent differences excludes any amounts that are-
  - (a) expenditure or loss determined in accordance with the **tax rules** that is-
    - (i) interest; or
    - (ii) incurred in borrowing money; and
  - (b) any-
    - (i) tax losses; or
    - (ii) subvention payment made or received by a **GDB**.

#### 2.3.4 Regulatory tax adjustments

- (1) Regulatory tax adjustments are determined in accordance with the formula-  
**amortisation of initial differences in asset values + amortisation of revaluations - notional deductible interest.**
- (2) For the purpose of subclause (1), 'notional deductible interest' means the amount determined in accordance with the formula-  

$$((\text{regulatory investment value} \times \text{leverage} \times \text{cost of debt}) + \text{term credit spread differential allowance}) / \sqrt{1 + \text{cost of debt}}$$
- (3) For the purpose of subclause (2), 'regulatory investment value' means the value for 'regulatory investment value' determined in accordance with the **ID determination** applicable to the **disclosure year** and the **regulated good or service** in question.

### 2.3.5 Amortisation of initial differences in asset values

- (1) Amortisation of initial differences in asset values is, subject to subclause (4), determined in accordance with the formula-

*opening unamortised initial differences in asset values ÷ weighted average remaining useful life of relevant assets.*

- (2) For the purpose of this clause, 'opening unamortised initial differences in asset values' means, in respect of-

- (a) the **disclosure year** 2010, initial differences in asset values; and
- (b) each **disclosure year** thereafter, subject to subclause (4), closing unamortised initial difference in asset values for the preceding **disclosure year**.

- (3) For the purpose of subclause (2)(a), 'initial differences in asset values' means, subject to subclause (4), the sum of **initial RAB values** less the sum of **regulatory tax asset values** on the first day of the **disclosure year** 2010.

- (4) For the purpose of subclauses (1) and (2)-

- (a) no account may be taken of unamortised initial differences in asset values of sold assets from the date of sale; and
- (b) account must be taken of unamortised initial differences in asset values of acquired assets from the date of acquisition.

- (5) For the purpose of subclause (2)(b), 'closing unamortised initial difference in asset values' is determined in accordance with the formula-

*Opening unamortised initial differences in asset values - **amortisation of initial difference in asset values***

### 2.3.6 Amortisation of revaluations

Amortisation of revaluations is calculated in accordance with the formula-

**total depreciation - adjusted depreciation.**

### 2.3.7 Deferred tax

- (1) Opening deferred tax means, in respect of-

- (a) the **disclosure year** 2010, nil; and
- (b) each **disclosure year** thereafter, closing deferred tax for the preceding **disclosure year**.

- (2) For the purpose of subclause (1)(b), 'closing deferred tax' is determined in accordance with the formula-

**opening deferred tax + tax effect of temporary differences - tax effect of amortisation of initial difference in asset values + deferred tax balance relating to assets acquired in the disclosure year in question + cost allocation adjustment.**

- (3) For the purpose of subclause (2), 'deferred tax balance relating to assets acquired in the **disclosure year** in question' means the amount of deferred tax associated with the assets acquired by the **GDB** from another **regulated supplier** excluding the **reversal** of temporary adjustments arising as a consequence of the sale, as determined in accordance with **input methodologies** applicable to the **regulated services** that the assets in question were used to **supply**.
- (4) For the avoidance of doubt, the amount referred to in subclause (3) must include proportionate adjustments for-
- (a) the **tax effect of temporary differences**; and
  - (b) the **amortisation of initial differences in asset values**,
- up to the date the assets in question were acquired.
- (5) For the purpose of subclause (2), 'cost allocation adjustment' means the **tax effect** of the dollar value difference between the change in the sum of **regulatory tax asset values** on the last day of the **disclosure year** and the change in the sum of **closing RAB values** as a result only of applying-
- (a) the result of asset allocation ratios to the **tax asset value** in accordance with clause 2.3.9(1); and
  - (b) clause 2.1.1 to the **unallocated closing RAB value**.

#### 2.3.8 Temporary differences

- (1) Temporary differences is the amount determined in accordance with the formula-
- depreciation temporary differences + positive temporary differences - negative temporary differences.*
- (2) For the purpose of this clause, 'depreciation temporary differences' means **adjusted depreciation** less tax depreciation.
- (3) For the purpose of subclause (2) 'tax depreciation' means the sum of the amounts determined for all assets of a **GDB** by application of the **tax depreciation rules** to the **regulatory tax asset value** of each asset.
- (4) For the purpose of subclause (1), 'positive temporary differences' means the sum of-
- (a) all amounts of income-
    - (i) treated as taxable if the **tax rules** were applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
    - (ii) not included as amounts of income in determining **regulatory profit / (loss) before tax**; and
  - (b) all amounts of expenditure or loss-
    - (i) included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**; and

- (ii) not treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**,

less any amount that are depreciation temporary differences, if there are differences between the values in-

- (c) paragraphs (a)(i) and (a)(ii); and
- (d) paragraphs (b)(i) and (b)(ii),

and such differences-

- (e) are the **reversal** of a difference in a prior **disclosure year**; or
- (f) will **reverse** in a subsequent **disclosure year**.

(5) For the purpose of subclause (1), 'negative temporary differences' means the sum of-

(a) all amounts of income-

- (i) included as amounts of income in determining **regulatory profit / (loss) before tax**; and
- (ii) not treated as taxable were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and

(b) all amounts of expenditure or loss-

- (i) treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **GDB's supply of gas distribution services**; and
- (ii) not included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**,

less any amount that are depreciation temporary differences, if there are differences between the values in-

- (c) paragraphs (a)(i) and (a)(ii); and
- (d) paragraphs (b)(i) and (b)(ii),

and such differences-

- (e) are the **reversal** of a difference in a prior **disclosure year**; or
- (f) will **reverse** in a subsequent **disclosure year**.

### 2.3.9 Regulatory tax asset value

(1) Regulatory tax asset value, in relation to an asset, means the value determined in accordance with the formula-

**tax asset value** × *result of asset allocation ratio*.

(2) Tax asset value means, in respect of-

- (a) an asset,

- (i) in the **initial RAB** where, in the **disclosure year** 2010, the sum of **unallocated initial RAB values** is less than the sum of the **adjusted tax values** of all assets in the **initial RAB**;
- (ii) acquired from a **regulated supplier** who used it to **supply regulated goods or services**; or
- (iii) acquired or transferred from a **related party**,

the value of the asset determined by applying the **tax depreciation rules** to its notional tax asset value; and

- (b) any other asset, its **adjusted tax value**.

(3) 'Notional tax asset value' means, for the purpose of-

- (a) subclause (2)(a)(i), **adjusted tax value** of the asset in the **disclosure year** 2010 adjusted to account proportionately for the difference between the-

- (i) sum of the **unallocated initial RAB values**; and
- (ii) sum of the **adjusted tax values**,

of all assets in the **initial RAB**;

- (b) subclause (2)(a)(ii), value after applying the **tax depreciation rules** to the tax asset value (as 'tax asset value' is defined in the **input methodologies** applying to the **regulated goods or services** in question) in respect of the **disclosure year** in which the asset was acquired; and
- (c) subclause (2)(a)(iii), value in respect of the **disclosure year** in which the asset was acquired or transferred that is-
  - (i) consistent with the **tax rules**; and
  - (ii) limited to its **value of commissioned asset**.

(4) For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the **tax rules**-

- (a) has a matching asset or group of assets maintained for the purpose of Subpart 2, the value obtained in accordance with the formula-

**opening RAB value or sum of opening RAB values, as the case may be**

÷

**unallocated opening RAB value or sum of unallocated opening RAB values, as the case may be,**

applying the formula in respect of the asset or smallest group of assets maintained for the purpose of Subpart 2 that has a matching asset or group of assets maintained under the **tax rules**; and

- (b) does not have a matching asset or group of assets maintained for the purpose of Subpart 2, the value of the asset allocated to the **supply of gas distribution services** were clause 2.1.1 to apply to the asset or group of assets.



## SUBPART 4 **Cost of capital**

### 2.4.1 Methodology for estimating the weighted average cost of capital

- (1) The **Commission** will determine a mid-point estimate of vanilla **WACC** for the **disclosure year** 2011 and each **disclosure year** thereafter-
  - (a) in respect of the 5 years commencing on the first day of the **disclosure year** in question;
  - (b) subject to subclause (3), within 1 month of the start of the **disclosure year** in question; and
  - (c) in accordance with the formula-
$$r_d L + r_e(1 - L).$$
- (2) The **Commission** will determine a mid-point estimate of post-tax **WACC** for the **disclosure year** 2011 and each **disclosure year** thereafter-
  - (a) in respect of the 5 years commencing on the first day of the **disclosure year** in question;
  - (b) subject to subclause (3), within 1 month of the start of the **disclosure year** in question; and
  - (c) in accordance with the formula-
$$r_d (1 - T_c)L + r_e (1 - L).$$
- (3) The **Commission** will estimate or determine, as the case may be, the amounts or values-
  - (a) to which this subclause applies; and
  - (b) in respect of the **disclosure year** 2011,as soon as practicable after this determination comes into force.
- (4) In this clause-
  - $L$  is **leverage**;
  - $r_d$  is the cost of debt and is estimated in accordance with the formula  $r_f + p + d$ ;
  - $r_e$  is the cost of equity and is estimated in accordance with the formula  $r_f(1 - T_i) + \beta_e TAMRP$ ;
  - $T_c$  is the average corporate tax rate;
  - $r_f$  is the risk-free rate;
  - $p$  is the **debt premium**;
  - $d$  is the debt issuance costs;
  - $T_i$  is the average investor tax rate;
  - $\beta_e$  is the equity beta; and
  - $TAMRP$  is the tax-adjusted market risk premium.
- (5) For the purpose of this clause-

- (a) the average investor tax rate, the equity beta, the debt issuance costs, the average corporate tax rate applicable to companies and the tax-adjusted market risk premium are the amounts specified in or determined in accordance with clause 2.4.2; and
- (b) the risk-free rate must be estimated in accordance with clause 2.4.3.

#### 2.4.2 Fixed WACC parameters

- (1) Leverage is 44%.
- (2) The average investor tax rate is the average of the investor tax rates that, as at the date that the estimation is made, will apply to each of the **disclosure years** in the 5 years commencing on the first day of the **disclosure year** in question.
- (3) For the purpose of subclause (2), 'investor tax rate' is-
  - (a) for the **disclosure year** 2011, 28.5%; and
  - (b) for a **disclosure year** thereafter, the maximum **prescribed investor rate** applicable at the start of that **disclosure year** to an individual who is-
    - (c) resident in New Zealand; and
    - (d) an investor in a **multi-rate PIE**.
- (4) The average corporate tax rate is the average of the **corporate tax rates** that, as at the date that the estimation is made, will apply during the 5 years period commencing on the first day of the **disclosure year** in question.
- (5) The equity beta is 0.79.
- (6) The debt issuance costs are 0.35%.
- (7) 'Tax-adjusted market risk premium' is for a 5 year period commencing on the first day of each **disclosure year**, 7.0%.
  - (a) the **disclosure year** 2011, 7.1%; and
  - (b) each **disclosure year** thereafter, 7.0%.

#### 2.4.3 Methodology for estimating risk-free rate

The **Commission** will estimate a risk-free rate-

- (a) for each **disclosure year**; and
- (b) subject to clause 2.4.1(3), within 1 month of the start of the **disclosure year** in question,

by-

- (c) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds, the wholesale market linearly-interpolated bid yield to maturity for a residual period to maturity equal to 5 years on each **business day** in the month preceding the start of the **disclosure year**;
- (d) calculating the annualised interpolated bid yield to maturity for each **business day**; and
- (e) calculating the un-weighted arithmetic average of the daily annualised interpolated bid yields to maturity.

#### 2.4.4 Methodology for estimating debt premium

- (1) Debt premium means the spread between-
  - (a) the bid yield to maturity on **vanilla NZ\$ denominated bonds** that-
    - (i) are issued by a **GPB** or an **EDB**;
    - (ii) are publicly traded;
    - (iii) have a **qualifying rating** of grade BBB+; and
    - (iv) have a remaining term to maturity of 5 years; and
  - (b) the contemporaneous interpolated bid yield to maturity of notional benchmark New Zealand government New Zealand dollar denominated nominal bonds having a remaining term to maturity of 5 years.
- (2) The **Commission** will estimate an amount for the debt premium-
  - (a) for each **disclosure year**; and
  - (b) subject to clause 2.4.1(3), within 1 month of the start of each **disclosure year**.
- (3) The amount of the debt premium will be estimated for each **disclosure year** by-
  - (a) identifying publicly traded **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer** that are-
    - (i) **investment grade credit rated**; and
    - (ii) of a type described in the paragraphs of subclause (4);
  - (b) in respect of each bond identified in accordance with paragraph (a)-
    - (i) obtaining its wholesale annualised market bid yield to maturity; and
    - (ii) calculating by linear interpolation with respect to maturity, the contemporaneous wholesale market annualised bid yield to maturity for a notional benchmark New Zealand government New Zealand dollar denominated nominal bond with the same remaining term to maturity; and
    - (iii) calculating its contemporaneous interpolated bid to bid spread over notional benchmark New Zealand government New Zealand dollar denominated nominal bonds with the same remaining term to maturity, by deducting the yield calculated in accordance with subparagraph (ii) from the yield obtained in accordance with subparagraph (i),  
for each **business day** in the month preceding the start of the **disclosure year**;
  - (c) calculating, for each bond identified in accordance with paragraph (a), the un-weighted arithmetic average of the daily spreads identified in accordance with paragraph (b)(iii); and
  - (d) subject to subclause (4), estimating, by taking account of the average spreads identified in accordance with paragraph (c), the average spread that

would reasonably be expected to apply to a **vanilla NZ\$ denominated bonds** that-

- (i) is issued by a **GPB** or an **EDB** that is neither majority owned by the Crown nor a **local authority**;
- (ii) is publicly traded;
- (iii) has a **qualifying rating** of grade BBB+; and
- (iv) has a remaining term to maturity of 5 years.

(4) For the purpose of subclause (3)(d), the **Commission** will have regard, subject to subclause (5), to the spreads observed on the following types of **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer**:

(a) those that-

- (i) have a **qualifying rating** of grade BBB+; and
- (ii) are issued by a **GPB** or an **EDB** that is neither majority owned by the Crown nor a **local authority**;

(b) those that-

- (i) have a **qualifying rating** of grade BBB+; and
- (ii) are issued by an entity other than a **GPB** or an **EDB** that is neither majority owned by the Crown nor a **local authority**;

(c) those that-

- (i) have a **qualifying rating** of a grade different to BBB+; and
- (ii) are issued by a **GPB** or an **EDB** that is neither majority owned by the Crown nor a **local authority**;

(d) those that-

- (i) have a **qualifying rating** of a grade different to BBB+; and
- (ii) are issued by an entity other than a **GPB** or an **EDB** that is neither majority owned by the Crown nor a **local authority**; and

(e) those that are-

- (i) **investment grade credit rated**; and
- (ii) issued by an entity that is majority owned by the Crown or a **local authority**.

(5) For the purpose of subclause (4)-

- (a) progressively lesser regard will ordinarily be given to the spreads observed on the bond types described in subclause (4) in accordance with the order in which the bond types are described;
- (b) the spread on any bond of the type described in subclause (4) that has a remaining term to maturity of less than 5 years will ordinarily be considered to be the minimum spread that would reasonably be expected to apply on

an equivalently credit-rated bond issued by the same entity with a remaining term to maturity of 5 years; and

- (6) the **Commission** will adjust spreads observed on bonds described under subclauses (4)(b) to (4)(e) to approximate the spread that is likely to have been observed had the bonds in question been of the type described in subclause (4)(a).

#### 2.4.5 Standard error of debt premium

- (1) The **Commission** will estimate an amount for a **standard error** of a **debt premium**-
- (a) subject to clause 2.4.1(3), within 1 month of the start of the **disclosure year** in question; and
  - (b) as either-
    - (i) the result of the formula specified in subclause (2); or
    - (ii) 0.0015,
 whichever is the greater.

- (2) For the purpose of subclause (1)(b)(i), the formula is-

$$\sqrt{\frac{1}{N-1} \sum_{i=1}^N (p_i - \bar{p})^2}$$

where-

$N$  is the number of **qualifying issuers** issuing bonds of the type described in the subparagraphs of clause 2.4.4(3)(d);

$p_i$  is each **qualifying issuer's** arithmetic average spread for its bonds of the type described in the subparagraphs of clause 2.4.4(3)(d); and

$\bar{p}$  is the **debt premium**,

provided that for the purposes of determining  $N$  and  $p_i$ , no regard may be had to any bonds of the types described in clauses 2.4.4(4)(b) to 2.4.4(4)(e).

#### 2.4.6 Methodology for estimating the WACC standard error

- (1) The **Commission** will determine an amount for a **standard error** of a **mid-point estimate of WACC**-
- (a) subject to clause 2.4.1(3), within 1 month of the start of the **disclosure year** in question; and
  - (b) in accordance with this clause.
- (2) The **standard error** for a mid-point estimate of vanilla **WACC** determined in accordance with clause 2.4.1(1) will be determined in accordance with the formula-

$$\sqrt{0.000048 + 0.0196E^2 (TAM\hat{R}P) + 0.1936 \text{var}(\hat{p})}$$

- (3) The **standard error** for a mid-point estimate of post-tax **WACC** determined in accordance with clause 2.4.1(2) will be determined in accordance with the formula-

$$\sqrt{0.000048 + 0.0196E^2(TAMRP) + (1 - T_c)^2(0.1936\text{var}(\hat{p}))}$$

- (4) In this clause-

- (a)  $E^2(TAMRP)$  is the square of the tax-adjusted market risk premium determined in accordance with clause 2.4.2(7);
- (b)  $\text{var}(\hat{p})$  is the square of the **standard error** of the **debt premium** determined in accordance with clause 2.4.5; and
- (c)  $T_c$  is the average corporate tax rate determined in accordance with clause 2.4.2(4).

2.4.7 Methodology for estimating the WACC range and the 67th percentile of the WACC

- (1) The **Commission** will determine a WACC range for each **mid-point estimate of WACC**-
- (a) for each **disclosure year**; and
  - (b) subject to clause 2.4.1(3), within 1 month of the start of the **disclosure year** in question.
- (2) For the purpose of subclause (1), 'WACC range' means the values falling between the 25th percentile and 75th percentile inclusive of the **mid-point estimate of WACC**.
- (3) For the purpose of subclause (2)-
- (a) the **mid-point estimate of WACC** must be treated as the 50th percentile; and
  - (b) the-
    - (i) 75th percentile must be determined in accordance with the formula-  
**mid-point estimate of WACC + 0.674 × standard error**; and
    - (ii) 25th percentile must be determined in accordance with the formula-  
**mid-point estimate of WACC - 0.674 × standard error**,
 where 'standard error' means the **standard error** of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 2.4.6(2) or 2.4.6(3), as the case may be.
- (4) The **Commission** will, commencing with **disclosure year** 2018, determine a 67th percentile estimate of vanilla **WACC** and post-tax **WACC** –
- (a) for each **disclosure year**; and
  - (b) within 1 month of the start of the **disclosure year** in question.
- (5) For the purpose of subclause (4)-

- (a) the **mid-point estimate of WACC** must be treated as the 50th percentile; and
- (b) the 67th percentile must be determined in accordance with the formula-  
**mid-point estimate of WACC** + 0.440 x standard error,

where 'standard error' means the **standard error** of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 2.4.6(2) or 2.4.6(3), as the case may be.

#### 2.4.8 Publication of estimates

The **Commission** will publish all determinations and estimates that it is required to make by this subpart-

- (a) on its website; and
- (b) no later than 1 month after having made them.

#### 2.4.9 Interpretation of terms relating to term credit spread differential

(1) Qualifying debt means a line of debt-

- (a) with an original tenor greater than 5 years; and
- (b) issued by a **qualifying supplier**.

(2) Qualifying supplier means a **regulated supplier** whose debt portfolio, as at the date of that supplier's most recently published audited financial statements, has a weighted average original tenor greater than 5 years.

(3) Cost of executing an interest rate swap means the amount determined in accordance with the formula-

$$A \times B,$$

where-

- (a) 'A' is the amount that is half of the New Zealand dollar wholesale bid and offer spread for a vanilla interest rate swap determined at the time of pricing the **qualifying debt** (which, for the avoidance of doubt, is expressed in terms of basis points per annum); and
- (b) 'B' is the book value in New Zealand dollars of the **qualifying debt** at its date of issue.

#### 2.4.10 Term credit spread difference

(1) Term credit spread difference is determined in accordance with the formula-

$$T \times U,$$

where-

- (a) 'T' is the amount determined in accordance with the formula-

$$(V - W) - (X - Y);$$

except that where that amount is-

- (i) less than 0.0015, T is 0.0015; and

- (ii) more than 0.006, T is 0.006; and
  - (b) 'U' is the book value in New Zealand dollars of the **qualifying debt** at its date of issue.
- (2) For the purpose of subclause (1)-
- (a) 'V' is the yield shown on the Bloomberg New Zealand 'A' fair value curve for a bond with a tenor equal to, or closest to, the original tenor of the **qualifying debt**;
  - (b) 'W' is the New Zealand swap rate quoted by Bloomberg for a tenor equal to the original tenor of the **qualifying debt**;
  - (c) 'X' is the yield shown on the Bloomberg New Zealand 'A' fair value curve for a bond with a tenor of 5 years;
  - (d) 'Y' is the New Zealand swap rate quoted by Bloomberg for a tenor of 5 years; and
  - (e) V, W, X and Y are determined as at the same time on the same pricing date of the **qualifying debt**.
- (3) For the purpose of this clause, where the **qualifying debt** is issued to a **related party**, 'original tenor of the **qualifying debt**' means the-
- (a) tenor of the **qualifying debt**; or
  - (b) period from the **qualifying debt's** date of issue to the earliest date on which its repayment is or may be required,
- whichever is the shorter.

#### 2.4.11 Methodology for estimating term credit spread differential

- (1) This clause applies to the determination of the amount of any **term credit spread differential** in respect of a **qualifying debt** for the purpose of disclosure pursuant to an **ID determination** of a-
- (a) **term credit spread differential allowance**; or
  - (b) **term credit spread differential**.
- (2) Disclosure to which this clause applies may only be made by a **qualifying supplier**.
- (3) Term credit spread differential is the amount determined in accordance with the formula-

$$(A \div B) \times C \times D,$$

where-

- (a) 'A' is the sum of the-
  - (i) **term credit spread difference**;
  - (ii) **cost of executing an interest rate swap**; and
  - (iii) debt issuance cost re-adjustment;



- (b) 'B' is the book value of the **qualifying supplier's** total interest-bearing debt as at the date to which the supplier's financial statements audited and published in the **disclosure year** in question relate;
  - (c) 'C' is **leverage**; and
  - (d) 'D' is, in relation to the **qualifying supplier**, the average of-
    - (i) the sum of **opening RAB values**; and
    - (ii) the sum of **closing RAB values**.
- (4) For the purpose of subclause (3)(a)(iii), 'debt issuance cost re-adjustment' is the amount determined in accordance with the formula-
- $$(0.0175 \div \textit{original tenor of the qualifying debt} - 0.0035) \times \textit{book value in New Zealand dollars of the qualifying debt at its date of issue},$$
- which amount, for the avoidance of doubt, will be a negative number.

## SUBPART 5 Pricing methodologies

### 2.5.1 Disclosure of pricing methodologies

For the purpose of any requirement in an **ID determination** to disclose-

- (a) an explanation of the extent of consistency of a **GDB's** pricing methodology with the **pricing principles**; or
- (b) reasons for any inconsistency between a **GDB's** pricing methodology with the **pricing principles**,

'pricing principles' means the **pricing principles**.

### 2.5.2 Pricing principles

- (1) Prices are to signal the economic costs of service provision, by-
  - (a) being subsidy free, that is, equal to or greater than incremental costs and less than or equal to standalone costs, except where subsidies arise from compliance with legislation and/or other regulation;
  - (b) having regard, to the extent practicable, to the level of available service capacity; and
  - (c) signalling, to the extent practicable, the effect of additional usage on future investment costs.
- (2) Where prices based on 'efficient' incremental costs would under-recover allowed revenues, the shortfall is made up by prices being set in a manner that has regard to **consumers'** demand responsiveness, to the extent practicable.
- (3) Provided that prices satisfy (1) above, prices are responsive to the requirements and circumstances of **consumers** in order to-
  - (a) discourage uneconomic bypass; and

- (b) allow negotiation to better reflect the economic value of services and enable **consumers** to make price/quality trade-offs or non-standard arrangements for services.
- (4) Development of prices is transparent, promotes price stability and certainty for **consumers**, and changes to prices have regard to the effect on **consumers**.

## APPENDIX PART 3B: 2016 TRANSITION PROVISIONS IN RESPECT OF DEFAULT PRICE-QUALITY PATHS

*Appendix Part 3B applies cost allocation for DPPs in force, or that were in force, until 30 September 2022.*

*Note that this clause retains its original numbering.*

### SUBPART 1 **Cost allocation**

#### 4.1.1 Allocation of operating costs and asset costs

- (1) **Operating expenditure** forecast for a **GDB** must be determined by the **Commission** consistent with the allocation by the **GDB** of **operating costs** to **gas distribution services** for the **base year** in accordance with clause 2.1.1.
- (2) **Capital expenditure** forecast to be the **forecast aggregate value of commissioned assets** will be included in the **aggregate closing RAB for additional assets**, but only to the extent that the **forecast value of commissioned assets** is consistent with the value found after application of clause 2.1.1.