

Report on the IM Review 2023

Part 4 Input Methodologies Review 2023 – Draft decision

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Associated documents

Publication date	Reference	Title
13 October 2022	ISBN 978-1-99-101241-8	Part 4 IM Review 2023 Framework paper
14 June 2023	ISBN 978-1-991085-04-7	Part 4 IM Review 2023 - Draft decision - Financing and incentivising efficient expenditure during the energy transition topic paper
14 June 2023	ISBN 978-1-991085-03-0	Part 4 IM Review 2023 - Draft decision - Cost of capital topic paper
14 June 2023	ISBN 978-1-991085-07-8	Part 4 IM Review 2023 - Draft decision - CPPs and In-period adjustments topic paper
14 June 2023	ISBN 978-1-991085-08-5	Part 4 IM Review 2023 - Draft decision - Transpower investment topic paper
14 June 2023	ISBN 978-1-991085-06-1	Part 4 IM Review 2023 - Draft decision - Summary and context paper
14 June 2023	ISBN 978-1-991085-05-4	Part 4 IM Review 2023 - Draft decision - Report on the Input methodologies review 2023 paper
14 June 2023	ISBN 978-1-991085-14-6	[Draft] Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]
14 June 2023	ISBN 978-1-991085-12-2	[Draft] Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]
14 June 2023	ISBN 978-1-991085-13-9	[Draft] Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]
14 June 2023	ISBN 978-1-991085-11-5	[Draft] Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]
21 June 2023	ISBN 978-1-991085-10-8	[Draft] Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]
21 June 2023	ISBN 978-1-991085-09-2	[Draft] Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX]

All above documents can be found on our [website](#).

Commerce Commission
Wellington, New Zealand

Glossary

Acronyms	Definition
the Act	Commerce Act 1986
ACA	Anticipatory Connection Asset
ACAM	Avoidable cost allocation methodology
ACOT	Avoided cost of transmission
AHFU	Asset held for future use
AIAL	Auckland International Airport Limited
BBAR	Building block allowable revenue
CAPM	Capital Asset Pricing Model
CPI	Consumer Price Index
CPP	Customised price-quality path
DGA	Distributed generation allowance
DPP	Default Price-Quality Path
E&D	Enhancements & Development
ELS	Electricity lines services
EV	Economic value
FDC	Finance during construction
FENZ	Fire Emergency New Zealand
FNAR	Forecast net allowable revenue
GAAP	Generally accepted accounting principles
GDB	Gas Distribution Business
GPB	Gas Pipeline Business
GPS	Gas pipeline services
GTB	Gas Transmission Business
HBAU	Highest and best alternative use
HVAC	High Voltage Alternating Current
ID	Information disclosure
IM	Input Methodologies
IPA	Innovation project allowance
IPP	Individual Price-quality Path
IRIS	Incremental rolling incentive scheme
LCC	Large connection contract'
MDL	Maui Development Limited'
MVAU	Market value alternative use

Acronyms	Definition
NGC	Natural Gas Corporation
NIC	New investment contract
ODV	Optimised deprival value
PDF	Portable Document Format
PIE	Portfolio Investment Entities
RAB	Regulatory asset base
RBNZ	Reserve Bank of New Zealand
ROU	Right of use
RTU	Remote terminal unit
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SMAR	Smooth maximum allowable revenue
TAMRP	Tax adjusted market risk premium
TPM	Transmission pricing methodology
VoEUE	Value of expected unserved energy
WAPC	Weighted average price cap

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Chapter 1 Introduction

Purpose of this report

- 1.1 We are reviewing the input methodologies (**IMs**) under Part 4 of the Commerce Act 1986 (**the Act**) for electricity lines services (**ELS**), gas pipeline services (**GPS**), and specified airport services (**IM Review**) against our IM Review decision-making framework (**Framework**).
- 1.2 The purpose of this report is to summarise our draft decisions, from our topic papers on key topic areas for the IM Review¹ and from our wider ‘effectiveness’ review of the IMs,² on:
- 1.2.1 whether each IM policy decision achieves our Framework’s overarching objectives (listed in paragraph 1.4 below); and
- 1.2.2 where we consider changing an IM policy decision would better achieve the framework’s overarching objectives than the status quo, how we propose to change the IMs to provide for this.
- 1.3 Alongside this report, our Summary and context paper, and our topic papers, we have published draft Electricity Distribution Business (**EDB**), Gas Distribution Business (**GDB**), Gas Transmission Business (**GTB**), and specified airport services (**Airports**) IM amendment determinations.³ Under s 52V(2)(b) of the Act, we invite interested persons’ views on our draft IM amendment determinations. We will take account of submissions on these amendment determinations. These documents, with any changes in response to submissions as appropriate, will be finalised and will then give legal effect to our final IM decisions.

¹ Alongside this report and our Summary and Context paper, we have published topic papers that explain our draft decisions on IM policy decisions relevant to the following key topics:

- Financing and incentivising efficient expenditure during the energy transition
- Cost of capital
- CPPs and In-Period Adjustments
- Transpower Investment.

² Commerce Commission [“Part 4 Input Methodologies Review 2023 – Process and Issues Paper” \(20 May 2022\)](#), chapter 9.

³ The Transpower IM amendment determination and the Transpower Capex IM amendment determination will be published on 21 June, one week later than the rest of the draft decisions package. As with the other amendment determinations, a seven-week consultation period will apply for these two amendment determinations.

The IM Review Framework

- 1.4 In identifying which IMs to consider changing, and in reaching decisions on changing the IMs, we only propose to change the IMs if the change appears likely to meet one or more of our framework’s overarching objectives of the IM Review:⁴
- 1.4.1 promoting the Part 4 purpose in section 52A more effectively;
 - 1.4.2 promoting the IM purpose in section 52R more effectively (without detrimentally affecting the promotion of the section 52A purpose); and/or
 - 1.4.3 significantly reducing compliance costs, other regulatory costs or complexity (without detrimentally affecting the promotion of the section 52A purpose).
- 1.5 In testing our draft decisions against the overarching objectives, we have taken into account other considerations, where they were relevant and not inconsistent with promoting the s 52A purpose of Part 4. These included the permissive considerations under s 5ZN of the Climate Change Response Act 2002.⁵
- 1.6 The overarching objectives and other relevant considerations mentioned above are set out in more detail in our IM Review Framework paper.⁶

The role of this report is to summarise our draft decisions on the IM Review

- 1.7 This report summarises our draft decisions on:
- 1.7.1 whether the IM policy decisions made prior to this IM Review (**pre-review IM decisions**)⁷ achieve our Framework’s overarching objectives; and
 - 1.7.2 where we consider changing an IM policy decision would better achieve the Framework’s overarching objectives than the status quo, how we propose to change the IMs to provide for this.

⁴ Commerce Commission “IM Review 2023 - Decision-making Framework paper (13 October 2022)”, para X20.

⁵ Commerce Commission “[Note of clarification – Our Part 4 Input Methodologies Review 2023 Framework paper](#)” (21 December 2022).

⁶ [Commerce Commission “Part 4 Input Methodologies Review 2023: Framework paper” \(13 October 2022\)](#).

⁷ As we discuss further below, we derived the pre-review IM decisions from [the 2016 Report on the IM review](#) and any reasons papers published after that report. The pre-review IM decisions are given effect through the current IM determinations.

- 1.8 For the pre-review IM decisions that we are proposing to change, this report sets out the proposed IM change and provides the rationale for the change (in many cases, by linking to the relevant topic paper which sets out the rationale). This report also explains our reasons for not changing some of the pre-review IM decisions.
- 1.9 The topic papers explain our draft decisions on pre-review IM decisions relevant to the key topics we identified with input from stakeholders.⁸ We generally refer to the relevant topic paper to explain the reasoning for our draft decisions rather than explain the reasoning in detail within this report.⁹
- 1.10 As illustrated by Figure 1 (below), this report also presents draft decisions we have reached on additional matters not covered by the topic papers.¹⁰ These draft decisions arose from our effectiveness review of the IMs, which was based on a review of:¹¹
- 1.10.1 stakeholder submissions on the IM Review; and
 - 1.10.2 relevant reference material, such as the IM determinations, reasons papers and our own knowledge of issues relating to the IMs.

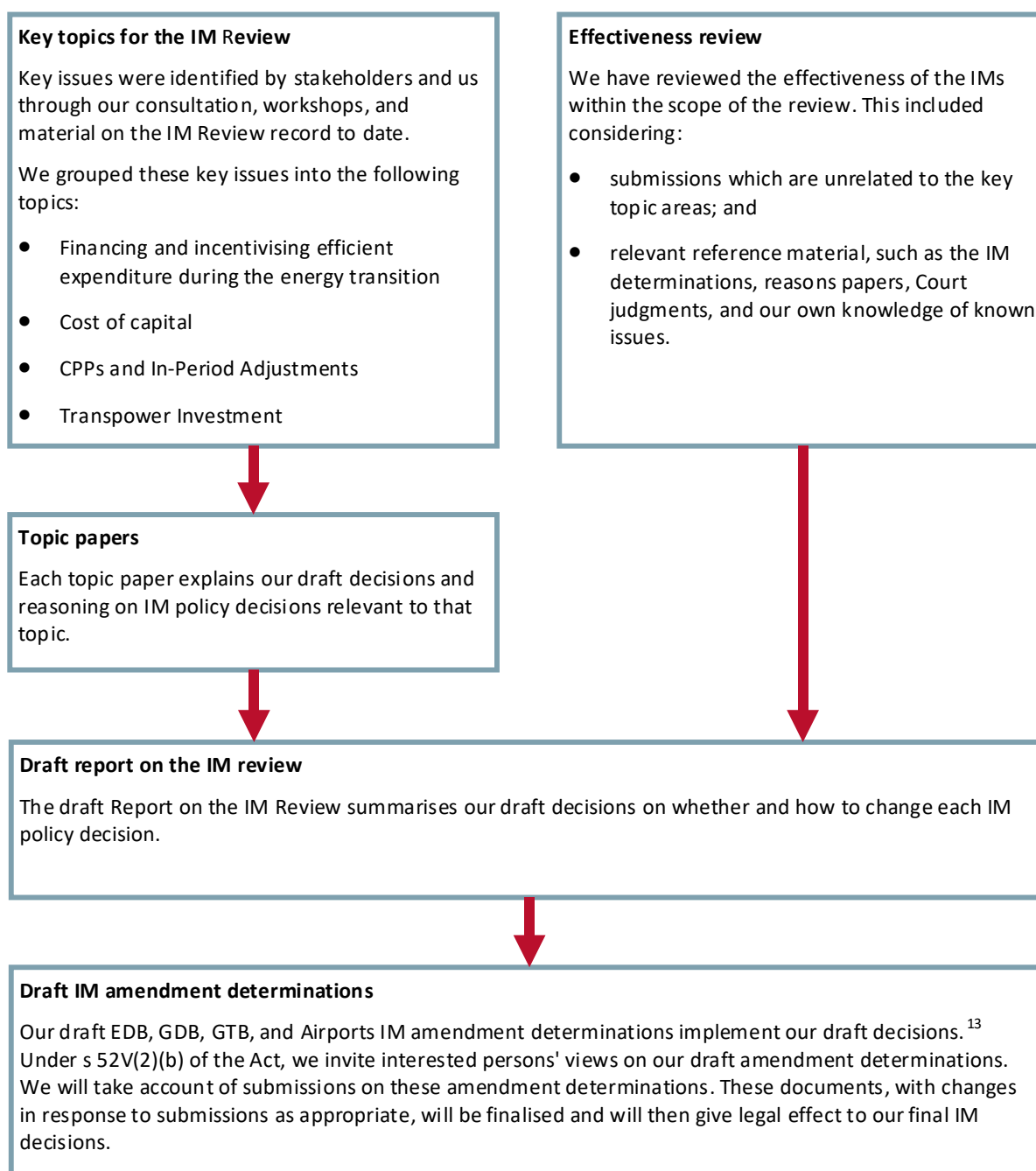
⁸ For example, our [Process and Issues Paper for the IM Review 2023](#) (see para X1) sought stakeholders' input in identifying the key topics and defining the specific problems to be addressed by our review of the IMs.

⁹ With the exception of decisions under the 'effectiveness' review of the pre-review IMs – where the reasoning for these decisions is explained within this report.

¹⁰ Most of the changes in this category are minor. However, we generally provide more explanation for these draft decisions than those that are also discussed in a topic paper.

¹¹ Our 'effectiveness' review process is described in more detail in chapter 9 of our [Process and Issues Paper for the IM Review 2023](#).

Figure 1.1 Our draft decisions package for the IM Review¹²



1.11 Many of the proposed IM changes from our effectiveness review are aimed at clarifying the rules, removing ambiguities, correcting errors, or reducing unnecessary complexity and compliance costs. We consider that, collectively, these changes should better promote the section 52R purpose by increasing certainty about the rules, as well as reducing complexity and compliance costs.

¹² Adapted from Figure 2 in [Commerce Commission "Part 4 Input Methodologies Review 2023: Framework paper" \(13 October 2022\)](#), at para 3.7.

Our draft decision package for the IM Review

- 1.12 This paper forms part of a package of draft decisions papers on the IM Review. Alongside this report, we have published and invite stakeholders' views on:
- 1.12.1 our draft EDB, GDB, GTB, and Airports IM amendment determinations.¹³ We will take account of submissions on these amendment determinations. These documents, with changes in response to submissions as appropriate, will be finalised and will then give legal effect to our final IM decisions;
 - 1.12.2 our draft Summary and Context paper;
 - 1.12.3 our draft Topic papers, which explain our draft IM policy decisions relevant to the following key topics:
 - 1.12.3.1 Financing and incentivising efficient expenditure during the energy transition;
 - 1.12.3.2 Cost of capital;
 - 1.12.3.3 CPPs and in-period adjustments; and
 - 1.12.3.4 Transpower investment.

How this report presents the draft decisions of the IM Review

- 1.13 This report presents the draft decisions of the IM Review for each of the pre-review IM decisions. We consider that this is easier to follow and more useful than presenting the draft decisions on a 'clause by clause' basis.
- 1.14 Presenting our draft decisions of the IM Review by reference to the pre-review IM decisions allows us to illustrate our proposed changes to:
- 1.14.1 the policy intent of a pre-review IM decision; and/or
 - 1.14.2 the way that a pre-review decision is implemented.

¹³ The Transpower IM amendment determination and the Transpower Capex IM amendment determination will be published on 21 June, one week later than the rest of the draft decisions package. As with the other amendment determinations, a seven-week consultation period will apply for these two amendment determinations.

- 1.15 We have followed the same format as the 2016 Report on the IM Review (**2016 report**).¹⁴ In this report, each pre-review IM decision is presented as a table throughout the report.
- 1.16 The history of each pre-review IM decision begins when appropriate for each decision – usually from 2016 when the previous IM Review was completed, but sometimes from 2010 when providing the original decision provides more sense in the particular context. For any IM decisions from 2010 to 2016 which are not discussed within this report, please refer to the 2016 report.
- 1.17 Each pre-review IM decision has been assigned a code which is consistent with the corresponding code used in the 2016 report. For example, ‘CA01’ refers to cost allocation decision number “1” to aid readers. These codes are also used in the topic papers to refer to the pre-review IM decisions.
- 1.18 In addition to the codes that have been referenced in the 2016 report, we are proposing eight new IM decisions (CA13, CA14, AV56, IR11, IR12, IR13, IR14, TC69). These new IM decisions relate to new aspects of matters already covered by the existing IMs – for example, extending existing rules applying to one sector to cover new sectors. They do not create IMs for new matters.¹⁵
- 1.19 The pre-review IM decisions, and eight new IM decisions, are presented in the following categories:
- 1.19.1 cost allocation (coded as ‘CA’);
 - 1.19.2 asset valuation (coded as ‘AV’);
 - 1.19.3 treatment of taxation (coded as ‘TX’);
 - 1.19.4 cost of capital (coded as ‘CC’);
 - 1.19.5 gas pricing methodologies (coded as ‘GP’);
 - 1.19.6 specification of price (coded as ‘SP’);
 - 1.19.7 customised price-quality path (**CPP**) requirements (coded as ‘CP’);¹⁶

¹⁴ [Commerce Commission “Input methodologies review decisions – Report on the IM review” \(20 December 2016\)](#).

¹⁵ [Commerce Commission “Part 4 Input Methodologies Review 2023: Framework paper” \(13 October 2022\)](#), at [2.65-2.74].

¹⁶ We have divided some of the customised price-quality path (‘CP’) decisions into sub-decisions. An example of a sub-decision would be CP01.1.

- 1.19.8 reconsideration of the price-quality path (coded as 'RP');¹⁷
- 1.19.9 amalgamations (coded as 'AM');
- 1.19.10 incremental rolling incentive scheme (**IRIS**) (coded as 'IR');
- 1.19.11 Transpower investment (coded as 'TC'); and
- 1.19.12 other regulatory rules and processes (coded as 'RR').

Structure of this report

- 1.20 Following this introductory chapter, this report is split into three parts and is supported by two attachments.

Part 1 – IM decisions that we are proposing to change

- 1.21 Part 1 lists those pre-review IM decisions that we are proposing to change (either at a policy level or in terms of the implementation of the decision) as part of the IM Review.
- 1.22 For each pre-review IM decision that we are proposing to change, Part 1 of this report:
 - 1.22.1 states the pre-review IM decision;
 - 1.22.2 explains the proposed change (our draft decision); and
 - 1.22.3 explains the reasons for the proposed change, which for changes relating to key topic areas references the relevant topic paper setting out those reasons.

Part 2 – IM decisions that we are not proposing to change

- 1.23 Part 2 lists the pre-review IM decisions that in light of our framework, submissions on the IM Review, and all other relevant information before us, we considered changing; but for the reasons stated in Part 2 (which may be done through a link to the relevant topic paper), we have proposed not to change.

¹⁷ We have divided most of the reconsideration of price-quality path ('RP') decisions into sub-decisions. An example of a sub-decision would be RP01.1.

Part 3 – IM decisions that we are not proposing to change, and found no reason to consider changing

- 1.24 Part 3 lists those pre-review IM decisions that in light of our framework, submissions on the IM Review, and all other relevant information before us, we found no reason to consider changing, at this stage;¹⁸ and therefore have decided not to change.

Attachments

- 1.25 The attachments to this report cover detailed draft decisions to the IMs that sit outside the topics covered by the topic papers. These are:
- 1.25.1 Attachment A – proposed changes to the valuation of assets acquired from related parties or regulated suppliers; and
 - 1.25.2 Attachment B – proposed changes to deal with effectiveness issues in the EDB IRIS capex wash-up and the ‘initial RAB’ wash-up mechanism.

How you can provide your views

Process and timeline for making submissions

- 1.26 Submissions on our draft decisions and their implementation in our draft IM amendment determinations are due by 5pm on 19 July 2023.¹⁹ We will then invite cross-submissions by 5pm on 9 August 2023.²⁰ Cross-submissions should only focus on matters raised in submissions. We strongly discourage stakeholders from raising new matters via cross-submissions.
- 1.27 Submissions and cross-submissions can be made to the Input Methodologies Review 2023 mailbox (IM.Review@comcom.govt.nz). Please clearly indicate in your email subject line and submission which of our draft decisions your submission relates to.
- 1.28 We request that submitters clearly confirm in their submission and covering email that the submission can be published on our website and does not include confidential information. If your submission does include confidential information we set out our process below.

¹⁸ That is not to say there have never been any issues raised in respect of the pre-review IM decisions listed in Part 3 of this report. Minor issues have been raised in the past that are relevant to some of the pre-review IM decisions listed in Part 3; but nonetheless, when we carried out our effectiveness review, we considered that these issues were sufficiently immaterial to lead us to consider changing the IMs.

¹⁹ Ibid.

²⁰ Ibid.

Confidentiality

- 1.29 The protection of confidential information is something the Commission takes seriously. If you need to include commercially sensitive or confidential information in your submission or cross-submission, you must provide us with both a confidential and non-confidential/public version of your submission that are clearly identified. We intend to publish the non-confidential/public version of all submissions we receive on our website. This also applies to cross-submissions.
- 1.30 You are responsible for ensuring that commercially sensitive or confidential information is not included in a public version of a submission or cross-submission that you provide to us.
- 1.31 All submissions and cross-submissions we receive, including any parts of them that we do not publish, can be requested under the Official Information Act 1982. This means we would be required to release material that we do not publish unless good reason existed under the Official Information Act 1982 to withhold it. We would normally consult with the party that provided the information before we disclose it to a requester.

Part 1: IM decisions that we are proposing to change

Chapter 2 Introduction to Part 1

- 2.1 This Part lists the pre-review IM decisions that we are proposing to change (either at a policy level, or in terms of the implementation of the decision) as part of the IM Review.
- 2.2 For each pre-review IM decision that we are proposing to change, Part 1:
 - 2.2.1 states the pre-review IM decision;
 - 2.2.2 states the draft decision; and
 - 2.2.3 explains why we have proposed making the change (which may be done through a link to the relevant topic paper).
- 2.3 This Part is structured according to the categories of pre-review IM decisions described in Chapter 1 of this report.
- 2.4 Attachment A of this report sets out proposed changes to the valuation of assets acquired from related parties or regulated suppliers.
- 2.5 Attachment B of this report sets out changes to deal with effectiveness issues in the EDB IRIS capex wash-up and the 'initial RAB' wash-up mechanism.

Chapter 3 Cost allocation decisions that we are proposing to change

Pre-review cost allocation IM decision CA02

Decision CA02 Allocating not directly attributable cost	<p>Original 2010 decision</p> <p>EDBs and GPBs [ie, GDBs and GTBs] must apply one of three complementary approaches to allocate costs that are 'not directly attributable' between each type of regulated service, and between the regulated and unregulated services (in aggregate) they provide:</p> <ul style="list-style-type: none"> • the accounting-based allocation approach (ABAA) • the optional variation to the accounting-based approach (OVABAA) • ACAM <p>See section 3.3, Appendix B, sections B4 to B6 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p> <p>2016 amendment</p> <p>EDBs and GPBs [ie, GDBs and GTBs] must apply one of two complementary approaches to allocate costs that are 'not directly attributable' between each type of regulated service, and between the regulated and unregulated services (in aggregate) they provide:</p> <ul style="list-style-type: none"> • ABAA • OVABAA <p>See paragraphs 112-139 of 2016 topic paper 3: The future impact of emerging technologies in the energy sector: Input methodologies review decisions: Topic paper 3: The future impact of emerging technologies in the energy sector (20 December 2016).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Draft decision

- 3.1 Our draft decision is to make a minor implementation change to CA02 to clarify that asset and cost allocators are used to 'proportionally' allocate values.²¹

Why we are proposing this change

We consider that this change better promotes s 52R by clarifying the use of asset and cost allocators.

²¹ This drafting is also reflected in the proposed changes to Transpower's cost allocation IM, discussed at IM decision CA07.

Pre-review cost allocation IM decision CA04

<p>Decision CA04</p> <p>ABAA causal relationship approach and proxy allocators</p>	<p>Original 2010 decision</p> <p>Under ABAA, where possible, cost and asset allocators used to allocate costs to regulated activities must be based on current 'causal relationships'.</p> <p>Where this is not possible, proxy allocators must be used instead.</p> <p>See section 3.3 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment</p> <p>We decided to strengthen the wording of the relevant IM determinations to ensure that regulated suppliers that use proxy allocators will explain:</p> <ul style="list-style-type: none"> • why they have used a proxy rather than a causal allocator • why they have used a particular quantifiable measure as the proxy allocator <p>See paragraphs 140-155 of 2016 topic paper 3: The future impact of emerging technologies in the energy sector: Input methodologies review decisions: Topic paper 3: The future impact of emerging technologies in the energy sector (20 December 2016).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Draft decision

3.2 Our draft decision is to make an implementation change to IM decision CA04 to require that any proxy allocator must be (a) consistent with similar measures (both within a disclosure year and from year to year); and (b) reasonable.

Why we are proposing this change

3.3 In respect of both proxy asset allocators and proxy cost allocators, the Fibre IM requires that these are (among other things):²²

3.3.1 consistent with similar measures (both within a disclosure year and from year to year); and

3.3.2 objectively justifiable and demonstrably reasonable.

²² Commerce Commission [Fibre Input Methodologies Determination 2020](#) [2020] NZCC 21, clause 1.1.4(2).
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- 3.4 In contrast, the current EDB, GDB and GTB IMs do not contain any such consistency or reasonableness requirement.²³
- 3.5 There is a risk that regulated suppliers may overinflate their costs/assets using unreasonable proxy allocators which could, for example, be based on weak or no evidence.
- 3.6 Therefore, we consider that adding consistency and reasonableness requirements for proxy allocators better promotes the Part 4 purpose by:²⁴
- 3.6.1 incentivising regulated suppliers to improve efficiency; and
 - 3.6.2 limiting regulated suppliers from extracting excessive profits through overinflating cost and asset values.

Proposed implementation of this change

- 3.7 While we have been guided by the reasonableness requirement in the Fibre IM, we propose requiring that proxy allocators are “reasonable” rather than “objectively justifiable and demonstrably reasonable”.
- 3.8 In our view, this drafting is clearer and still enables us to consider the same factors as in the fibre context. For example, we consider that regulated suppliers may still be required to provide evidence as to the reasonableness of a proxy allocator.
- 3.9 To support our analysis of whether the ‘reasonableness’ requirement has been met for a given proxy cost or asset allocator, we will consider factors such as:²⁵
- 3.9.1 whether the proposed allocation promotes the Part 4 purpose;
 - 3.9.2 whether the allocator type meets the definition of a proxy cost allocator or proxy asset allocator;
 - 3.9.3 whether the allocation is being undertaken at a reasonable level of aggregation – whether costs or assets that have been grouped together have sufficiently similar characteristics to be treated in common;
 - 3.9.4 whether the underlying data and assumptions are robust; and

²³ Commerce Commission “[Electricity Distribution Services Input Methodologies Determination 2012](#)” (20 May 2020), clauses 2.1.3(4)-(5), 5.4.9(5)-(6); “[Gas Distribution Services Input Methodologies Determinations 2012](#)” (9 September 2022) and “[Gas Transmission Services Input Methodologies Determination 2012](#)” (9 September 2022), clauses 2.1.3(4)-(5), 5.5.7(5)-(6); and “[Airport Services Input Methodologies Determination 2010](#)”, clause 2.2(4)-(5).

²⁴ Commerce Act 1986, s 52A(b) and (d).

²⁵ These factors are consistent with those applied in the Fibre context. See Commerce Commission “[Chorus’ initial regulatory asset base as at 1 January 2022 – draft decisions](#)” (19 August 2021), para 2.62.

- 3.9.5 whether there is a readily available alternative allocator which better meets these criteria above, such that it would be unreasonable to prefer the proposed allocator.

Pre-review cost allocation IM decision CA05

<p>Decision CA05</p> <p>Definition of causal relationships</p>	<p>Current IM decision</p> <p>'Causal relationships' are defined in relation to:</p> <ul style="list-style-type: none"> • asset values, as a circumstance in which a factor influences the utilisation of an asset during the 18 month period terminating on the last day of the disclosure year in respect of which the allocation is carried out; and • operating costs, as a circumstance in which a cost driver leads to an operating cost being incurred during the 18 month period terminating on the last day of the disclosure year in respect of which the allocation is carried out. <p>See Appendix B, section B4 of 2010 EDB-GPB IM reasons paper:</p> <p>Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>Airports – see Appendix B of 2010 Airports IM reasons paper:</p> <p>Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB/Airports</p>

Draft decision

- 3.10 Our draft decision is to make editorial refinements for IM decision CA05 as follows:²⁶

- 3.10.1 replace 'proportion of a quantifiable measure' with 'ratio' in the definitions of 'asset allocator', 'cost allocator', 'proxy asset allocator', and 'proxy cost allocator' in the EDB, GDB, GTB and Airports IMs; and
- 3.10.2 remove the reference to 'quantifiable measure' from the requirements of how proxy cost and asset allocators are used in in the EDB, GDB, GTB and Airports IMs.²⁷

²⁶ These refinements also reflected in the proposed changes to Transpower's cost allocation IM, discussed at IM decision CA07.

²⁷ Commerce Commission "[Electricity Distribution Services Input Methodologies Determination 2012](#)" (20 May 2020)", clauses 2.1.3(4)-(5) and 5.4.9(5)-(6); "[Gas Distribution Services Input Methodologies Determinations 2012](#)" (9 September 2022) and "[Gas Transmission Services Input Methodologies Determination 2012](#)" (9 September 2022), clauses 2.1.3(4)-(5) and 5.5.7(5)-(6); and "[Airport Services Input Methodologies Determination 2010](#)", clause 2.2(4)-(5).

Why we are proposing this change

- 3.11 The proposed drafting improvements are intended to reduce regulatory complexity by simplifying and clarifying the drafting of the IMs.

Pre-review cost allocation IM decision CA07

<p>Decision CA07</p> <p>No cost allocation for common costs – Transpower</p>	<p>Current IM decision</p> <p>Transpower is not required to adjust the total costs associated with supplying electricity transmission services to take into account any costs that might be common to regulated and unregulated services.</p> <p>See section 3.3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

- 3.12 Our draft decision is to change IM decision CA07 to require Transpower to apply ABAA to adjust the total costs associated with supplying regulated services to take into account costs that are common to regulated and unregulated services.
- 3.13 We are proposing a cost-based trigger, such that the above cost allocation requirement only applies once Transpower’s common costs (costs not directly attributable) exceed 2% of its costs or asset values associated with regulated services.

Why we are proposing this change

- 3.14 Our reasons for proposing this change are discussed in Chapter 10 of the Transpower topic paper.

Pre-review cost allocation IM decision CA11

<p>Decision CA11</p> <p>Allocating not directly attributable cost</p>	<p>Current IM decision</p> <p>Airports must apply ABAA to allocate costs that are ‘not directly attributable’ between each of the three regulated activities, and between regulated and unregulated activities that they undertake.</p> <p>See section 3.3 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

Draft decision

- 3.15 Our draft decision is to make a minor implementation change to IM decision CA11 to clarify that asset and cost allocators are used to ‘proportionally’ allocate values.

Why we are proposing this change

- 3.16 We consider that this change better promotes s 52R by clarifying the use of asset and cost allocators.

Pre-review cost allocation IM decision CA12

<p>Decision CA12</p> <p>Causal relationship approach and proxy allocators – Airports</p>	<p>Original 2010 decision</p> <p>Where possible, cost and asset allocators used to allocate costs to regulated activities must be based on current ‘causal relationships’.</p> <p>Where this is not possible, proxy allocators must be used instead.</p> <p>See section 3.3; Appendix B of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision</p> <p>We decided to strengthen the wording of the Airports IMs to ensure that regulated suppliers that use proxy allocators justify:</p> <ul style="list-style-type: none"> • why they have used a proxy rather than a causal allocator • why they have used the particular quantifiable measure as the proxy allocator(s) <p>We decided to allow airports to also use proxy allocators when applying ABAA for cost allocation and asset allocation if it is impractical to use a causal relationship, and not just if a causal relationship cannot be established.</p> <p>See paragraphs 140-155 of Topic paper 3: The future impact of emerging technologies in the energy sector (20 December 2016).</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

Draft decision

- 3.17 Our draft decision is to make an implementation change to IM decision CA12 to require that any proxy allocator must be (a) consistent with similar measures (both within a disclosure year and from year to year); and (b) reasonable.

Why we are proposing this change

- 3.18 Our reasons for this change are discussed above for IM decision CA04.

New cost allocation IM decision CA13

Decision CA13 Costs associated with large connection contracts – EDBs	No pre-review IM decision because this is a new decision.
This decision applies to the following sectors:	EDBs

Draft decision

- 3.19 Our draft decision is to make a new IM decision CA13, which introduces a 'large connection contract' (LCC) mechanism in the EDB IM that allows connection assets created under LCCs to be nil-valued, and therefore excluded from the RAB, where certain conditions around workable competition and the size of the connection are met.
- 3.20 In addition to the connection assets being excluded from the RAB, EDBs are to exclude any:
- 3.20.1 forecast capex for the connection assets funded under an LCC from any capex forecasts used to determine the EDB's Default Price-Quality Path (DPP);
 - 3.20.2 costs associated with the connection assets which are funded under the LCC from the EDB's total operating costs;
 - 3.20.3 income associated with the connection assets which are funded under the LCC from the EDB's other regulated income; and
 - 3.20.4 all revenue received from LCCs from the EDB's actual revenue.

Why we are proposing this new IM decision

- 3.21 Our reasons for proposing this change are discussed in the CPP and In-Period Adjustment Mechanisms Topic Paper.

New cost allocation IM decision CA14

Decision CA14 Exclusions from operating costs	No pre-review IM decision because this is a new decision.
This decision applies to the following sectors:	EDB/GDB/GTB/Airports/Transpower

Draft decision

- 3.22 Our draft decision is to make a new IM decision CA14, under which we propose to amend the definition of operating costs:
- 3.22.1 for GDBs, GTBs and Airports, to exclude pecuniary penalties;²⁸
 - 3.22.2 for all sectors, to exclude the costs of appeals under sections 52Z, 91 and 97 of the Commerce Act; and
 - 3.22.3 for airports, to remove the erroneous reference to pass-through costs and recoverable costs in the list of exclusions.

Why we are proposing this new IM decision

Pecuniary penalties

- 3.23 Currently, regulated providers in the gas pipeline and airports sectors may be able to pass on the cost of any pecuniary penalties to their consumers via regulatory opex.
- 3.24 Our draft decision to exclude pecuniary penalties from operating costs in the GDB, GTB and Airports IMs is intended to:
- 3.24.1 better promote the Part 4 purpose – specifically s 52A(1)(d) – by limiting suppliers from earning excess profits that reflect recovery from consumers of penalties intended to penalise the company itself; and
 - 3.24.2 better promote the IM purpose in s 52R, by removing ambiguity about the treatment of these costs.

Limits on excess profits

- 3.25 As we stated when amending the EDB IM:²⁹

pecuniary penalties and fines are intended to penalise distributors for conduct contravening standards that apply to them. We do not consider that there is a sound policy argument for these costs to be shared with consumers.

It was never our intention that pecuniary penalties and fines would be included as operating costs and therefore built into the revenue allowances which suppliers can recover from consumers. Such treatment would be inconsistent with the long-term interests of consumers.

²⁸ No change to the EDB and Transpower IMs is required because we already excluded pecuniary penalties from operating costs prior to the 2020 DPP and IPP resets.

²⁹ Commerce Commission “[Amendments to electricity distribution services input methodologies determination – Reasons paper](#)” (26 November 2019), 3.139-3.140 and 3.142.3. Note the mechanism by which penalties would be passed on differs, as there is no IRIS mechanism for GDBs and GTBs, and Airports are not subject to price-quality regulation.

...

we consider that penalties, whether imposed under the Act or otherwise, are not efficient costs. Penalties and fines are under management control and therefore it is appropriate that distributors bear 100% of these costs.

- 3.26 The same argument applies to price-quality regulation for GDBs and GTBs. A similar argument applies when assessing both historic and forecast profitability under ID for Airports.
- 3.27 Additionally, where the penalties involved are imposed for a breach of Part 4 (such as for failing to meet quality standards), the ability to pass them on to consumers undermines the effectiveness of the Part 4 regime.

Promoting certainty

- 3.28 The current treatment of pecuniary penalties is ambiguous. Clarifying their exclusion will improve certainty for suppliers and end users.
- 3.29 When proposing an amendment for pecuniary penalties for EDBs, we stated that we already considered penalties were implicitly excluded from opex:

While we consider the current definition does not allow such costs to be passed through to consumers (via a DPP or CPP reset and via the IRIS), the exclusion is implicit, and so making this explicit through a proposed IM amendment better promotes the IM purpose in s 52R of the Act.

- 3.30 However, based on information obtained during the EDB DPP3 reset process, some suppliers were including the cost of penalties in opex.

Costs of appeals against determinations

- 3.31 Currently, regulated suppliers in all sectors can pass on the cost of any appeals against the IMs or other determinations to their consumers via the regulatory opex.
- 3.32 Our draft decision to exclude the cost of appeals under sections 52Z, 91 and 97 of the Commerce Act:
- 3.32.1 better promotes the Part 4 purpose – specifically s 52A(1)(d) – by ensuring profits do not reflect double recovery of cost associated with appeals;
 - 3.32.2 ensures consistency with our risk allocation principle;
 - 3.32.3 better promotes the IM purpose in s 52R, by removing ambiguity about the treatment of these costs; and
 - 3.32.4 complies with the intent of s 52T(1)(c)(i) of the Act.

Limits on excess profits

- 3.33 Costs of appeals against the IMs and other determinations are currently captured within the IM definition of “operating costs” (the unallocated term) and “operating expenses” (the allocated term). As noted above for pecuniary penalties, this means some or all of the costs of an appeal will, in practice, be recovered from consumers (depending on the sector and timing of the cost during a regulatory period) or present in our assessment of profitability.
- 3.34 Where an appeal is successful, a regulated party may be entitled to an award of costs.³⁰ For consistency, we have also proposed amending the definition of ‘other regulated income’ to specifically exclude awards of costs, so that regulated suppliers do not have to offset that income from regulated revenue.³¹

Risk allocation

- 3.35 We do not consider it appropriate to allocate the risk of the success or failure of appeals against determinations to consumers. The current IMs have the effect of doing this. Where a consumer or other unregulated stakeholder considers it necessary to appeal against an IM decision, they must do so at their own cost. Without this amendment, regulated suppliers wishing to do the same would also do so largely at consumers’ cost.
- 3.36 We consider this outcome inconsistent with the principle of allocating risks to parties best placed to control them, and counter to Parliament’s intent as expressed in s 52T(1)(c)(i) (discussed further below).

Promoting certainty

- 3.37 Clarifying the regulatory treatment of appeal costs provides certainty to regulated parties about how such costs will be treated in the future.
- 3.38 When setting the 2013-2017 DPPs for GDBs and GTBs, and the 2015-2020 DPP for EDBs, we made one-off ‘step change’ adjustments to remove appeal costs (in respect of the 2011-2013 merits appeal) that were included in the opex base years (2012 and 2013 respectively).³²

³⁰ We note that under the ‘asymmetric cost rule’ developed in *Commerce Commission v Southern Cross Medical Care Society* [2004] 1 NZLR 491 (CA) and *Air New Zealand Ltd v Commerce Commission* [2007] 2 NZLR 494 (CA), the Commission will not generally be liable for costs in the event of an appeal. However, in every case the Court has an inherent jurisdiction to award costs as it sees fit.

³¹ This draft decision is discussed below at IM decision SP01.

³² Commerce Commission “[Setting Default Price-Quality Paths for Suppliers of Gas Pipeline Services](#)” (28 February 2013), paras C10-C13; Commerce Commission “[Low cost forecasting approaches – Final decision – EDB DPP 2015 to 2020](#)” (28 November 2014), paras 3.14, 3.46-3.48, B14-B17.

- 3.39 Step changes to operating expenditure are by nature, ad hoc. They depend on the Commission exercising its discretion at each reset or for a given piece of profitability analysis. Given the statutory requirement discussed below, we consider that a long-term solution in the IMs provides greater certainty than the status quo.

Consistency with other statutory requirements

- 3.40 This change is also intended to comply with the intent of s 52T of the Act. In setting out the matters that must be covered by input methodologies, s 52T states (underlined for emphasis):³³

- (1) The input methodologies relating to particular goods or services must include, to the extent applicable to the type of regulation under consideration, —

...

- (c) regulatory processes and rules, such as—

- (i) the specification and definition of prices, including identifying any costs that can be passed through to prices (which may not include the legal costs of any appeals against input methodology determinations under this Part or of any appeals under section 91 or section 97) ...

- 3.41 The explicit requirement of this provision is that we may not include appeal costs as a “cost that can be passed through to prices”. The mechanisms within the IMs we have used to give effect to s 52T(1)(c)(i) are pass-through and recoverable costs. We have not explicitly included appeal costs as a pass-through or recoverable cost.

- 3.42 Our approach to setting opex allowances for price-quality paths (where either a ‘base year’ is used (for GDBs and GTBs) or under the IRIS mechanism (for EDBs)) means that in effect, those costs will be borne partly by consumers. This is inconsistent with the intent of the section.

Removal of references to pass-through costs and recoverable costs in Airports IM

- 3.43 The definition of operating costs in the Airports IM excludes pass-through costs and recoverable costs. This is an error as there is no concept of pass-through costs and recoverable costs in the Airports IM.

- 3.44 The removal of these references reduces the complexity of the Airports IM and promotes greater certainty as to the scope of operating costs.

³³ Commerce Act 1986, s 52T(1)(c)(i).

Chapter 4 Asset valuation decisions that we are proposing to change

Pre-review asset valuation IM decision AV05

<p>Decision AV05</p> <p>Finance leases and intangible assets</p>	<p>Original 2010 decision</p> <p>EDBs and GPBs may include in their regulatory asset base (RAB) values finance leases and intangible assets provided that they are identifiable non-monetary assets that are not goodwill, consistent with the meanings under generally accepted accounting principles (GAAP).</p> <p>EDBs and GPBs must establish the value of permitted intangible assets added to the RAB value after the last day of the disclosure year 2009 using the cost model for recognition under GAAP.</p> <p>See section E3, Appendix E of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision</p> <p>We amended the EDB 'value of commissioned asset' to clarify that a finance lease excludes the value of any assets to the extent that annual lease charges are instead included as a recoverable cost.</p> <p>See chapter 4, paragraphs 60-66 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016)</p> <p>2019 amendment to this decision (1)</p> <p>We decided to generally accept alignment with NZ IFRS 16 for price-quality and ID regulation purposes except in relation to costs that are pass-through costs and recoverable costs. This means that allowable revenue and returns on investment under ID will be calculated using capitalised 'right of use' asset values.</p> <p>See Chapter 4 (Summary of our final decisions) in: Treatment of operating leases: Final decisions paper (13 November 2019).</p> <p>2019 amendment to this decision (2)</p> <p>We decided to retain the 45-year standard life assumption but allow a capex wash-up of any differences between the 45-year standard life and the GAAP lives for right of use assets to deal with any non-recovery of depreciation as a result of applying the standard 45-year life assumption.</p> <p>2019 amendment to this decision (3)</p> <p>We decided to amend the IMs so that operating leases continue to be treated as opex for IRIS purposes.</p> <p>2022 amendment to this decision</p> <p>We made amendments such that:</p> <ul style="list-style-type: none"> • a GAAP-base life can be assigned to depreciate right of use assets by GDBs and the GTB; and • GDBs adopt opening GAAP deferred tax balances for right of use assets and other assets that do not have a corresponding regulatory tax asset value when calculating tax allowances for ID, DPP and CPP purposes.
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	<p>These amendments accepted alignment with NZ IFRS 16 for gas price quality (PQ) and gas ID purposes, and were consistent with the IM amendments made for EDBs and Transpower.</p> <p>See paragraphs 3.58-3.72 of Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths: Reasons paper (30 May 2022).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Draft decision

- 4.1 Our draft decision is to make a minor editorial refinement to IM decision AV05 to amend the definition of “identifiable non-monetary asset” in the EDB IMs.

Why we are proposing this change

- 4.2 We made the same change to the definition of “identifiable monetary asset” in the GTB and GDB IMs as part of amendments for DPP3.³⁴
- 4.3 This change is intended to create cross-sector consistency and improve the readability of the definition, which reduces complexity.

Pre-review asset valuation IM decision AV12

<p>Decision AV12</p> <p>Assets purchased from regulated supplier</p>	<p>Original 2010 decision</p> <p>Where an EDB or GPB purchases an asset from another regulated supplier, it must add the asset to its RAB value at the asset’s equivalent value in the RAB of the seller.</p> <p>Where an EDB or GPB purchases an asset from a related party (that does not supply services that are regulated under Part 4), it must add the asset to its RAB at depreciated historic cost where documentation is available to support this.</p> <p>Where sufficient records do not exist to establish depreciated historic cost, it must use the asset’s market value as verified by an independent valuer. For this purpose, a related party includes both:</p> <ul style="list-style-type: none"> • business units of the same EDB and GPB that supply services other than electricity transmission services; and • a party that under GAAP is considered a related party (including any party that has conducted business either directly or indirectly with the supplier in the current financial year). <p>See section E8, Appendix E of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
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³⁴ Commerce Commission “[Gas Distribution Services Input Methodologies Amendment Determination \(No.2\) 2022](#)” [2022] NZCC [15] and “[Gas Transmission Services Input Methodologies Amendment Determination \(No.2\) 2022](#)” [2022] NZCC [16].

	<p>2012 amendment to this decision</p> <p>In 2012, we amended the treatment of asset valuations in related party transactions in the ID and CPP IMs applicable to EDBs, GDBs and GTBs by:</p> <ul style="list-style-type: none"> • modifying the treatment of asset acquisitions by EDBs, GDBs and GTBs from related parties • amending the treatment of related party asset acquisitions to provide additional methods for suppliers to establish that these transactions reflect 'arm's-length' equivalent values. These amendments provided greater flexibility for suppliers to address individual circumstances, while continuing to ensure that the arm's-length nature of the transactions is supported by objective criteria. <p>See: Electricity and Gas Input Methodologies Determination Amendments (No.1) 2012: Reasons Paper (29 June 2012)</p> <p>2016 amendment to this decision</p> <p>We made three implementation changes to this decision. We made changes to the IMs to:</p> <ul style="list-style-type: none"> • correct a drafting error to change the EDB, GDB and GTB IM determinations to replace all references to 'related company' in the IM determinations with the term 'related party'; • clarify clause 2.2.11(1) to now reference the 'unallocated closing RAB value' of the transfer or for the purpose of setting the value; and • amend the IMs so the value of an asset is adjusted for depreciation and revaluation applying in the year of transfer. <p>See chapter 4, paragraphs 79-87 of 2016 Report on the IM Review:</p> <p>2017 amendment</p> <p>We have updated the definitions of arm's length transaction, related party, and related party transaction in the IMs.</p> <p>See table 4.3 of 2017 Final decision and determinations guidance on the related party transactions IM Review:</p> <p>Input methodologies review – related party transactions: Final decision and determinations guidance (21 December 2017)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Draft decision

- 4.4 Our draft decision is to make changes to IM decision AV12 to:
- 4.4.1 ensure it is clear that GAAP applies on an arm's-length basis to the valuation of assets acquired, or forecast to be acquired, in related party transactions;
- 4.4.2 require that the value of a commissioned asset that, before its commissioning date, was acquired from another regulated supplier as works under construction, is limited to the sum of:

- 4.4.2.1 the costs of the other regulated supplier in constructing those works; and
- 4.4.2.2 any additional costs of the regulated supplier in constructing the asset (excluding any amount paid to the other regulated supplier); and
- 4.4.3 remove the reference to “limited to” in cl 2.2.11(1)(e) of the EDB and Gas Pipeline Business (**GPB**) IMs, such that assets acquired from another regulated supplier and used by the regulated supplier in the supply of regulated goods and services must always be valued at the unallocated closing RAB value of the asset.

Why we are proposing this change

- 4.5 Our reasons for proposing these changes are discussed in Attachment A of this report.

Pre-review asset valuation IM decision AV16

<p>Decision AV16</p> <p>Straight line depreciation applies</p>	<p>Current IM decision</p> <p>EDBs and GPBs must depreciate assets in their RAB using straight line depreciation. Regulated suppliers subject to default/customised price-quality regulation may apply to use an alternative depreciation approach under a CPP.</p> <p>Total (unallocated) depreciation over the lifetime of the asset must not exceed the value at which the asset is first recognised in the RAB under Part 4 (after adjusting for the effects of revaluations).</p> <p>Regulated suppliers may not depreciate land and easements (other than fixed life easements).</p> <p>See section E10, Appendix E of 2010 IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Draft decision

- 4.6 Our draft decision is to change IM decision AV16 to require EDBs and GPBs, when forecasting depreciation for a DPP period, to depreciate existing assets using the weighted average value of the remaining asset life for those assets for each year of the DPP period.

Why we are proposing this change

- 4.7 The current method for calculating the depreciation allowance of existing assets overcompensates regulated suppliers for any existing assets that become fully depreciated during the regulatory period.

- 4.8 The current method for calculating the depreciation of all existing assets is set out in clause 4.2.2(2)(a) of the EDB, GDB, and GTB IMs.
- 4.8.1 This method simply assumes the remaining life of the total asset base is the weighted average life of the total assets as at the base year. Depreciation is calculated by simply rolling the base year remaining life forward by one year for each year of the forecast period without regard to predictable future changes that will alter the remaining life (e.g., that some assets are about to become fully depreciated).
- 4.8.2 While this approach is straightforward, it continues to compensate regulated suppliers, and consumers continue to pay, for the annual depreciation of any assets that become fully depreciated during the DPP period.
- 4.9 We are only concerned with this issue in relation to depreciation for existing assets. For additional assets (those added during the DPP period), any variance between forecast depreciation and actual depreciation is washed up in a future period.
- 4.10 The proposed change is intended to require regulated suppliers to ‘forecast’ the value of depreciation for each individual existing asset for each of the disclosure years in the DPP period, which is then used as the forecast for each disclosure year. The specific calculation, asset by asset, of future depreciation will avoid the overstatement of future depreciation that occurs with the current method.
- 4.11 This proposal better promotes the Part 4 purpose as it seeks to limit suppliers’ ability to extract excessive profits. The current depreciation method for existing assets allows for excessive compensation through the DPP depreciation allowance whenever some assets become fully depreciated during the DPP period. This proposal limits the size and likelihood of any overcompensation through the depreciation allowance.

Alternatives considered

- 4.12 We considered a number of options, but most notably we considered addressing the issue of overcompensation via a wash-up.
- 4.13 While a wash-up also better promotes the Part 4 purpose as described above, our proposed approach better promotes certainty for suppliers and consumers.
- 4.14 Our proposed approach captures the impact of assets becoming fully depreciated within the DPP period. A wash-up will only retrospectively address the impact of assets becoming fully depreciated and the size of the wash-up will vary for each DPP period, leading to greater uncertainty.

Pre-review asset valuation IM decision AV17

<p>Decision AV17</p> <p>Standard asset lives apply – with listed exceptions</p>	<p>Original 2010 decision</p> <p>EDBs and GPBs must use the standard asset lives in Schedule A of the IM Determination, with the following exceptions:</p> <ul style="list-style-type: none"> • EDBs and GPBs must depreciate fixed life easements over the expected term of the easement; • For dedicated assets, EDBs and GPBs may assign an asset life equal to the life of the supporting customer contract; • EDBs and GPBs may extend asset lives beyond those provided in the list of standard physical asset lives, and set asset lives for refurbished assets, without an independent engineer's report; • EDBs and GPBs may reduce an asset life, provided the reduced asset life is supported by an independent engineer's report; • EDBs and GDBs must determine when to commence depreciating network spares consistent with GAAP; • Where EDBs and GPBs add a found asset to the RAB, and where an EDB's or GPB's RAB already contains a similar asset, the asset life of the found asset should be the asset life applying to the similar asset. <p>For assets commissioned in the future that are not covered by the list of standard physical asset lives, regulated suppliers must establish physical asset lives as follows:</p> <ul style="list-style-type: none"> • where an asset of the same type is already in the RAB, using the same asset life as assigned to the existing asset; or • otherwise, by setting an asset life for the asset supported by an independent engineer's report. <p>For assets in the initial RAB value, the physical asset life will be the asset's existing remaining life as at the balance date for each EDB's or GPB's 2009 disclosures.</p> <p>Where an asset comprises a number of components with differing lives (a 'composite asset'), EDBs and GPBs must calculate the total asset life for the composite asset as a weighted average of the lives of those components. For the purpose of CPP proposals, no system fixed assets should be forecast to be written off during a regulatory period. All such assets in service at the start of a CPP regulatory period are deemed to have a physical asset life equal to the duration of the CPP period.</p> <p>See section E10, Appendix E of 2010 EDP-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision</p> <p>We amended this decision as it applies to EDBs, but not to GDBs or GTBs. We decided to enable an EDB subject to a DPP, at the time the DPP is reset, to propose a factor by which to adjust the weighted average remaining asset life for its existing assets. An EDB that proposes a factor must justify why it requires this adjustment and cannot apply for a factor lower than 0.85. We will then review this proposal, giving consideration to its impact on pricing. The change may be applied by us as a one-off adjustment for any EDB that proposes the change.</p>
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	<p>See chapter 4, paragraphs 93-118 of 2016 Report on the IM Review:</p> <p>2018 amendment to this decision (1)</p> <p>We amended the date for when EDBs may propose an adjustment factor from 'prior commencement of the 'base year' to 'not later than 13 months prior to the commencement of the next DPP regulatory period'. We made this change to allow EDBs more time to consult with interested parties on a potential adjustment factor. See paragraphs 2.3-2.7 of Amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation: Reasons paper (8 November 2018).</p> <p>2018 amendment to this decision (2)</p> <p>We amended the IM determination by specifying that the adjustment factor for a disclosure year after the base year, but before the start of the next DPP regulatory period, is '1'. We made this implementation change to clarify our policy intent from the 2016 IM review, that any adjustment to the remaining asset lives for existing assets will only apply as a one-off adjustment at the time the DPP is reset, not in a disclosure year prior to the reset.</p> <p>We also clarified that the adjustment factor made at the time a DPP is reset will apply for each disclosure year of the applicable new DPP regulatory period.</p> <p>See paragraphs 2.8-2.16 of Amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation: Reasons paper (8 November 2018).</p> <p>2022 amendment to this decision</p> <p>We amended the GPB IMs by introducing a mechanism which enables us to adjust asset lives for GPBs if we are satisfied that doing so would better reflect their economic lives and better promote the purpose of Part 4.</p> <p>We considered that the likely declining demand for gas pipelines services meant we can no longer assume the remaining economic lives of the gas pipeline assets will match their remaining physical lives. Further, the amendment allows for future adjustments of asset lives to be adjusted as forecasts of demand change.</p> <p>See paragraphs 3.11-3.57 of Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths: Reasons paper (30 May 2022).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Draft decision

- 4.15 Our draft decision is to change IM decision AV17 to add an additional line item for 'instrumentation and remote terminal unit (RTU) assets' to Schedule A of the GTB and GDB IMs, with a standard asset life of 15 years.

Why we are proposing this change

- 4.16 Currently, grouping together instrumentation and RTU assets with "Other station equipment" for the purposes of standard asset lives misrepresents the economic life of these assets.

- 4.17 We consider that the 35-year life is unduly long for this type of asset, and that this impacts interested persons' ability to assess whether sufficient investment is being made in the gas network (by analysing how many RTUs are beyond their expected life).
- 4.18 The proposed change better promotes the purpose of ID regulation under s 53B of the Commerce Act, allowing interested persons to assess whether the investment limb of the Part 4 purpose is being met without detrimentally affecting the s 52A purpose.

Pre-review asset valuation IM decision AV25

<p>Decision AV25</p> <p>Finance leases and intangible assets – Transpower</p>	<p>Original 2010 decision</p> <p>Transpower may include in its RAB value finance leases and intangible assets, provided that they are identifiable non-monetary assets that are not goodwill, consistent with the meanings under GAAP. Transpower must establish the value of permitted intangible assets added to the RAB value after 30 June 2011 using the cost model for recognition under GAAP. Transpower may not include operating leases in its RAB value.</p> <p>See section 4.4, paragraphs 4.4.49-4.4.57, 4.4.64-4.4.67 of 2010 IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2019 amendment to this decision (1)</p> <p>We decided to generally accept alignment with NZ IFRS 16 for price-quality and ID regulation purposes except in relation to costs that are pass-through costs and recoverable costs. This means that allowable revenue and returns on investment under ID will be calculated using capitalised 'right of use' asset values.</p> <p>See Chapter 4: Summary of our final decisions, of Treatment of operating leases: Final decisions paper (13 November 2019).</p> <p>2019 amendment to this decision (2)</p> <p>We decided to retain the 45-year standard life assumption but allow a capex wash-up of any differences between the 45-year standard life and the GAAP lives for right of use assets to deal with any non-recovery of depreciation as a result of applying the standard 45-year life assumption.</p> <p>See Chapter 4: Summary of our final decisions, of Treatment of operating leases: Final decisions paper (13 November 2019).</p> <p>2019 amendment to this decision (3)</p> <p>We decided to amend the IMs so that operating leases continue to be treated as opex for IRIS purposes.</p> <p>See Chapter 4: Summary of our final decisions, of Treatment of operating leases: Final decisions paper (13 November 2019).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

- 4.19 Our draft decision is to make a minor editorial refinement to IM decision AV05 by amending the definition of “identifiable non-monetary asset” in the Transpower IM.

Why we are proposing this change

- 4.20 We made the same change to the definition of “identifiable monetary asset” in the GTB and GDB IMs as part of amendments for DPP3.³⁵
- 4.21 This change is intended to create cross-sector consistency and improve the readability of the definition, which reduces complexity.

Pre-review asset valuation IM decision AV32

<p>Decision AV32</p> <p>Purchase of assets from regulated supplier or related party – Transpower</p>	<p>Original 2010 decision</p> <p>Where Transpower purchases an asset from another regulated supplier, it must add the asset to its RAB value at the asset's equivalent value in the RAB of the seller.</p> <p>Where Transpower purchases an asset from a related party (provided the related party is not itself a regulated supplier), it must add the asset to its RAB value at depreciated historic cost where documentation is available to support this.</p> <p>Where sufficient records do not exist to establish depreciated historic cost, Transpower must use the asset's market value as verified by an independent valuer. For this purpose, a related party includes both:</p> <ul style="list-style-type: none"> • business units of Transpower that supply services other than electricity transmission services; and • a party that under GAAP is considered a related party (including any party that has conducted business either directly or indirectly with the supplier in the current financial year). <p>See section 4.4, paragraphs 4.4.81 – 4.4.84 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision</p> <p>The amendment affects the IMs relating to ID regulation and individual price-quality regulation for Transpower. It will apply with effect from 1 July 2015 which corresponds to the commencement date of the first disclosure year for RCP2:</p> <ul style="list-style-type: none"> • We have amended the definition of ‘related party’ to exclude those parties that are related to Transpower solely by virtue of the Crown’s ownership of Transpower. • The term ‘related party’ is used in a number of places in the IMs, such as determining the regulatory value of assets acquired by Transpower from a related party under clause 2.2.7(1).
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³⁵ Commerce Commission “[Gas Distribution Services Input Methodologies Amendment Determination \(No.2\) 2022](#)” [2022] NZCC [15] and “[Gas Transmission Services Input Methodologies Amendment Determination \(No.2\) 2022](#)” [2022] NZCC [16].

	<ul style="list-style-type: none"> • The current definition draws on the meaning of ‘related’ under GAAP which has the effect of including Transpower’s shareholder (the Crown), the arms of the Crown (e.g., Government departments) and State Owned Enterprises such as Meridian Energy. • Limiting the definition so as to specifically exclude parties related to Transpower via the Crown is expected to reduce Transpower’s costs from complying with related party requirements, while still upholding the policy intent of the requirement. <p>See: Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</p> <p>2016 amendment to this decision</p> <p>We amended this decision to avoid a circular reference in the cost value to be used for an asset acquired from a regulated supplier in the Transpower IM Determination. We clarified clause 2.2.27(1)(f) to now reference the 'unallocated closing RAB value' of the transfer or for the purpose of setting the value.</p> <p>See chapter 4, paragraphs 119-120 of 2016 Report on the IM Review.</p>
This decision applies to the following sectors:	Transpower

Draft decision

4.22 Our draft decision in respect of AV32 is to:

- 4.22.1 add the related party asset valuation rules from the EDB and GPB IMs to the Transpower IMs (including the changes made to IM decision AV12 to ensure it is clear that GAAP applies on an arm’s-length basis);
- 4.22.2 require that the value of a commissioned asset that, before its commissioning date, Transpower acquired from another regulated supplier as works under construction, is limited to the sum of:
- 4.22.2.1 the costs of the other regulated supplier in constructing those works; and
- 4.22.2.2 any additional costs of Transpower in constructing the asset (excluding any amount paid to the other regulated supplier); and
- 4.22.3 remove the reference to “limited to” in cl 2.2.7(1)(f) of the Transpower IMs, such that assets acquired from another regulated supplier and used by Transpower in the supply of regulated goods and services must always be valued at the unallocated closing RAB value of the asset.

Why we are proposing this change

4.23 Our reasons for proposing these changes are discussed in Attachment A of this report.

Pre-review asset valuation IM decision AV34

<p>Decision AV34</p> <p>Straight line depreciation applies (Transpower)</p>	<p>Current IM decision</p> <p>Transpower must depreciate assets in its RAB using straight line depreciation. It may not depreciate land and easements (other than fixed life easements).</p> <p>See section 4.4, paragraphs 4.4.104 – 4.4.108 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

4.24 Our draft decision is to:

4.24.1 change IM decision AV34 to enable Transpower to apply for an alternative depreciation method to the standard depreciation method, where doing so would better promote the Part 4 purpose; and

4.24.2 make an editorial refinement to AV34 to amend clause 2.2.4(2)(a) to refer to 'opening RAB value'.

Why we are proposing this change

Alternative depreciation method

4.25 Our reasoning for proposing this change is discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition Topic Paper.

Editorial refinement

4.26 The chapeau of clause 2.2.4(2)(a) refers to determining the depreciation of an asset with an 'unallocated opening RAB value', but this should refer to 'opening RAB value'.³⁶

4.27 Our draft decision to remedy this drafting error reduces complexity and promotes greater regulatory certainty as to the calculation of depreciation.

³⁶ The formula in (a) correctly refers to 'opening RAB value' and therefore does not need to be amended.

Pre-review asset valuation IM decision AV41

<p>Decision AV41</p> <p>Initial RAB values for land assets and revaluation approach – Airports</p>	<p>Original 2010 decision</p> <p>Airports:</p> <ul style="list-style-type: none"> • must establish initial RAB values for their land assets, as on the last day of the disclosure year 2009, using the market value alternative use (MVAU) approach specified in Schedule A of the IM Determination; and • can revalue airport land in their RAB value using an MVAU valuation approach, in accordance with Schedule A, in any disclosure year. For revaluations to be recognised in the RAB value, they must encompass all land held by the Airport in its RAB value. All future development land must be revalued using a MVAU approach as at the same date. In years in which no MVAU revaluation is undertaken, land in the RAB value and future development land must be CPI-indexed. For this purpose airports must use the ‘All Groups Index SE9A’ published by Statistics New Zealand (CPI values prior to December 2010 must be multiplied by 1.02). <p>See section 4.3, Appendix C, sections C2 and C13 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision</p> <p>High Court judgment in Wellington International Airports Ltd and others v Commerce Commission [2013] NZHC 3289 (11 December 2013) and Commerce Commission “Publication of Electricity, Gas, and Airport Input Methodology Amendments ordered by the High Court” (27 November 2014). See amended clauses 3.2(1)(b) and 3.7(6)(c) of the Airports IM Determination:</p> <ul style="list-style-type: none"> • amend the disclosure year for the ‘unallocated initial RAB value’ for land from ‘disclosure year 2009’ to ‘disclosure year 2010’; and • the ‘unallocated revaluation’ of land and ‘revaluation’ of land in disclosure year 2010 are nil. <p>Publication of Electricity, Gas, and Airport Input Methodology Amendments ordered by the High Court (27 November 2014) Wellington International Airport Ltd & Ors v Commerce Commission [2013] NZHC 3289 [11 December 2013]</p> <p>2016 amendment to this decision (fast track review)</p> <p>We decided to incorporate the latest valuations standards by reference into Schedule A of the Airport IMs.</p> <p>We amended Schedule A of the Airport IMs to provide additional direction on the information required to be included in the valuer’s report in order to support the valuation. The additional information includes:</p> <ul style="list-style-type: none"> • where material to the valuation, economic analysis to support the highest and best alternative use (HBAU) plan; • other expert opinions obtained by the valuer, where the valuer is not suitably experienced or qualified to provide an expert opinion; • information to support the value of rezoning costs included in the MVAU; and • all material assumptions and special assumptions made in undertaking the valuation.
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	<p>“The amendments introduced through [the] fast track process are intended to clarify that the treatment of remediation costs also applies to the costs associated with rezoning airport land. In particular, in determining the MVAU of the land, it is assumed that airport zoning does not apply.</p> <p>Our decision is to remove any inconsistencies in, and repetition between, and within, the Schedule A requirements, explanatory notes and reference statements. Market-based evidence for estimating the eventual gross realisations or estimated value of the land can only be used to the extent that the use is unaffected by the supply of specified airport services.”</p> <p>Input methodologies review – Amendments to input methodologies for airports land valuation – Final reasons paper for the airports fast track review (24 February 2016)</p> <p>2016 amendment to this decision</p> <p>We made a change to this decision by introducing a pragmatic proxy for the initial RAB value for land as at 2010, by interpolating 2009 and 2011 RAB land values based on existing MVAU valuations.</p> <p>This decision changes IM decision AV41 by amending the mechanism for determining the unallocated initial RAB value of land in the Airports IM Determination to:</p> <ul style="list-style-type: none"> • no longer determine the value as on the last day of the disclosure year 2010 in accordance with the Airports Land Valuation Methodology; and • instead, determine the value by using a proxy for the initial RAB value as at 2010 by interpolating 2009 and 2011 RAB land values based on existing MVAU valuations. <p>As a consequence of introducing a formula for using a proxy for the initial RAB value, we introduced a definition for 'capital expenditure' (see discussion in Topic paper 5: Airports profitability assessment).</p> <p>See chapter 2, Topic paper 5: Airports profitability assessment (20 December 2016)</p>
This decision applies to the following sectors:	Airports

Draft decision

4.28 Our draft decision in respect of IM decision AV41 is to make an editorial refinement to clause 3.7(3) of the Airports IMs.

Why we are proposing this change

4.29 This change is intended to clarify that the requirement to revalue all land valued in accordance with Schedule A as at the same date does not apply to non-pricing land assets which are rolled forward at the Consumer Price Index (CPI).

4.30 The proposed change clarifies the application of clause 3.7(3), which reduces complexity and promotes greater certainty as to the rules and requirements applying to regulated suppliers.

Pre-review asset valuation IM decision AV46

<p>Decision AV46</p> <p>Purchase of assets from regulated supplier or related party – Airports</p>	<p>Original 2010 decision</p> <p>If an airport purchases an asset from another supplier of services regulated under Part 4, then it must add the asset to its RAB value at the asset's equivalent value in the RAB of the seller.</p> <p>Where an Airport purchases an asset from a related party (that does not supply services that are regulated under Part 4), it must add the asset to its RAB value at depreciated historic cost where documentation is available to support this.</p> <p>Where sufficient records do not exist to establish depreciated historic cost, the Airport must use the asset's market value as verified by an independent valuer. The market value must be established using the MVAU approach in the case of land, and must not exceed the asset's depreciated replacement cost for non-land assets. For this purpose a related party includes both:</p> <ul style="list-style-type: none"> • business units of the Airport that supply services other than specified airport services; and • a party that under GAAP is considered a related party (including any party that has conducted business either directly or indirectly with the supplier in the current financial year). <p>See section 4.3, Appendix C, section C7 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision</p> <p>We made an implementation change to this decision. We clarified clause 3.9(1)(d) to now reference the 'unallocated closing RAB value' of the transferor for the purpose of setting the value.</p> <p>This change was also made to IM decision AV12 for EDBs, GDBs and GTBs, and to IM Decision AV32 for Transpower.</p> <p>See chapter 4, paragraphs 150-151 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016).</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

Draft decision

4.31 Our draft decision is to change IM decision AV46 is to:

- 4.31.1 add the related party asset valuation rules from the EDB and GPB IMs to the Airports IMs (including the implementation changes made to AV12 to ensure it is clear that GAAP applies on an arm's-length basis);
- 4.31.2 require that the value of a commissioned non-land asset that, before its commissioning date, the Airport acquired from another regulated supplier as works under construction, is limited to the sum of:³⁷

³⁷ Where the asset is land, the value of the asset is to be determined in accordance with Schedule A of the Airports IM.

- 4.31.2.1 the costs of the other regulated supplier in constructing those works; and
- 4.31.2.2 any additional costs of the Airport in constructing the asset (excluding any amount paid to the regulated supplier); and
- 4.31.3 remove the reference to “limited to” in cl 3.9(1)(d) of the Airports IMs, such that assets acquired from another regulated supplier and used by the regulated supplier in the supply of regulated goods and services must always be valued at the unallocated closing RAB value of the asset.

Why we are proposing this change

- 4.32 Our reasons for proposing these changes are discussed in Attachment A of this report.

Pre-review asset valuation IM decision AV50

<p>Decision AV50</p> <p>Straight line depreciation applies with election to use non-standard approach (Airports)</p>	<p>Original 2010 decision</p> <p>Airports must depreciate their assets on a straight line basis, unless they elect to use a non-standard depreciation approach (subject to the ID Determination). No depreciation is to be applied to land and easements (other than fixed life easements).</p> <p>See Appendix C, section C11 of 2010 Airports IM reasons paper:</p> <p>Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision</p> <p>In 2016, we made an implementation change to this decision to improve the effectiveness of the pre-review decision.</p> <p>We supplemented the pre-review non-standard depreciation rules in the IMs with principles to help guide the application of the provisions. This change is supported by changes to the relevant ID determinations.</p> <p>See Topic paper 5: Airports profitability assessment (20 December 2016).</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

Draft decision

- 4.33 Our draft decision is to change IM decision AV50 to allow for depreciation for aeronautical assets in the year of acquisition or commissioning.

Why we are proposing this new IM decision

- 4.34 Currently the Airports IM does not allow for depreciation to be recognised in the year of commissioning or acquiring an aeronautical asset.

4.35 Auckland International Airport Limited (AIAL) submitted that:³⁸

This approach is not compatible with NZ GAAP which requires accounting depreciation to commence on the day an asset is first available for use. This seems unusual given that, in general, the IMs use GAAP as a starting point with any adjustments from GAAP clearly justified.

[...]

Given Auckland Airport’s multi-billion dollar aeronautical infrastructure development programme over the next ten years, the IM’s approach to depreciation would likely defer the recognition of tens of millions of dollars of depreciation expense, and thereby over-state our reported pricing period IRR.

4.36 We agree that the current treatment is inconsistent with GAAP.

4.37 Amending the IMs to allow for depreciation to be recognised in the year of commissioning, in accordance with GAAP, will promote the outcome of incentivising regulated suppliers to innovate and invest by upgrading to new assets which may improve efficiency.

4.38 In an ID context, this proposed change does not involve significant additional complexity to implement.³⁹

New asset valuation IM decision AV56

Decision AV56 Large connection contract (EDBs)	No pre-review IM decision because this is a new decision.
This decision applies to the following sectors:	EDBs

Draft decision

4.39 Our draft decision is to make the new IM decision AV56.

4.40 This draft decision introduces an LCC mechanism in the EDB IM that allows connection assets created under LCCs to be nil-valued, and therefore excluded from the RAB, where certain conditions around workable competition and the size of the connection are met.

³⁸ Auckland Airport “[Input Methodologies Review - response to Process and Issues Paper](#)” (11 July 2022), p. 3.

³⁹ Auckland International Airport Ltd “[Input Methodologies Review – response to Process and Issues Paper](#)” (11 July 2022), p. 3.

- 4.41 Under this mechanism, any revenue and connection costs associated with the assets funded under the LCC are excluded from regulatory forecast allowable revenue.
- 4.42 This mechanism is based on the new investment contract (**NIC**) mechanism in the Transpower IM.

Why we are proposing this new IM decision

- 4.43 Our reasons for proposing this change are discussed in the CPP and In-Period Adjustment Mechanisms Topic Paper.

Chapter 5 Treatment of taxation decisions that we are proposing to change

Pre-review taxation IM decision TX02

<p>Decision TX02</p> <p>Tax legislation and cost allocation to be applied</p>	<p>Original 2010 decision</p> <p>When calculating regulatory taxable income, the cost allocation IM and tax legislation (to the extent practicable) are to be used, subject to other relevant provisions in the IMs. Debt interest should be calculated using a notional leverage that is consistent with the cost of capital IM.</p> <p>See Appendix G of 2010 EDB-GPB IM reasons paper:</p> <p>Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2014 amendments to this decision</p> <p>See para 2.2, 2.3, 3.2, 3.3, 4.2, 4.3 – Electricity Distribution Services Input Methodology Amendments Determination 2014 [2014] NZCC 31 (27 November 2014).</p> <p><i>Definition of notional deductible interest</i></p> <p>This amendment changes the definition of notional deductible interest used in the treatment of taxation IMs to apply a mid-year cashflow timing assumption to the calculation of notional interest amounts. The current IMs assume year-end payments rather than payments being made during the year.</p> <p>The amendment provides formulae that assume interest payments are to be made continuously through the year at a constant rate, which would be closely equivalent to a single interest payment being made at mid-year. The interest payable amount is discounted using the cost of debt.</p> <p><i>Correction to double deduction of TCSD allowance</i></p> <p>This amendment corrects the double deduction of the term-credit spread differential (TCSD) allowance when calculating the regulatory tax allowance for the treatment of taxation IMs for DPPs.</p> <p>The TCSD is included as a deduction in the definitions of both the regulatory profit / (loss) before tax and the regulatory tax adjustments and clause 4.3.1 uses these two terms to derive the regulatory tax allowance. As a result, the TCSD allowance is incorrectly deducted twice when calculating the regulatory tax allowance.</p> <p><i>Correction to amortisation of initial differences</i></p> <p>This amendment corrects the definition of amortisation of initial differences in asset values to take account of the changes in initial difference values that result from the age, sale and acquisition of relevant assets.</p> <p>Clause 4.3.3(3) defines the ‘amortisation of initial differences in asset values’ for each disclosure year as the ‘initial differences in asset values’ divided by the ‘weighted average remaining useful life of relevant assets’.</p> <p>See Input methodology amendments for electricity distribution services: Default price-quality paths (Reasons paper) (27 November 2014)</p>
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	<p>2016 amendments to this decision</p> <p>In 2016 we amended the way the pre-review decision was implemented, to align with the language in the EDB ID Determination.</p> <p>We made the following two changes:</p> <ul style="list-style-type: none"> • changed references to 'weighted average remaining useful life of relevant assets' to 'opening weighted average remaining useful life of relevant assets'; and • defined 'opening weighted average remaining useful life of relevant assets' to provide greater clarity about what the term means. <p>See Chapter 5, paragraphs 181-185 of 2016 Report on the IM Review:</p> <p>Input methodologies review decisions: Report on the IM Review (20 December 2016)</p> <p>2018 amendment to this decision</p> <p>We amended the IM determination by specifying for ID and customised price-quality path proposals that any remaining asset lives used when calculating 'adjusted depreciation' for 'amortisation of revaluations' and 'depreciation temporary differences' must be consistent with the remaining asset lives used for calculating 'total depreciation'.</p> <p>We made the amendments to clarify that any differences between 'total depreciation' and 'adjusted depreciation' should arise solely from the inclusion (or exclusion) of revaluation amounts. Differences between 'total depreciation' and 'adjusted depreciation' should not arise from using different remaining asset lives.</p> <p>See paragraphs 2.17-2.21 of Amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation: Reasons paper (8 November 2018).</p> <p>2019 amendment to this decision</p> <p>We amended the EDB IM definition of 'other regulated income' to clarify that it includes gains and losses on disposals.</p> <p>This reflects that it has been our intention and our practice to include gains and losses on disposals in 'other regulated income' since 2014. We did not consider this amendment to be material, but rather, necessary for the purposes of clarification and ensuring certainty.</p> <p>See paragraphs 3.168-3.174 of Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019).</p>
This decision applies to the following sectors:	EDB

Draft decision

5.1 Our draft decision is to make minor implementation changes to IM decision TX02 as follows:

- 5.1.1 amend the definition of 'tax depreciation rules' as it relates to information disclosure (**ID**) to apply to all existing assets; and

- 5.1.2 amend the definition of ‘adjusted tax value’ to refer to the ‘tax rules’ rather than the ‘tax depreciation rules’.

Why we are proposing this change

- 5.2 Both changes are intended to remedy minor drafting errors, which better promotes the s 52R purpose by removing any ambiguity as to the rules and requirements applying to regulated suppliers.

Definition of ‘tax depreciation rules’

- 5.3 The current definition of ‘tax depreciation rules’ for ID purposes only refers to CPP assets. Therefore, at present an EDB on the DPP technically does not have to apply tax depreciation rules to DPP assets when calculating, for the purposes of ID, taxation temporary differences (clause 2.3.8(3)) or an asset’s regulatory tax asset value (clause 2.3.9).
- 5.4 We have no evidence to suggest that EDBs are applying the definition in this way – EDBs on the DPP have been applying the tax depreciation rules.
- 5.5 The proposed amendment is intended to ensure that the IM reflects the policy intent and application in practice.

Definition of ‘adjusted tax value’

- 5.6 The definition of ‘adjusted tax value’ incorrectly refers to the ‘tax depreciation rules’.
- 5.7 There is no corresponding reference to ‘adjusted tax value’ in the definition of ‘tax depreciation rules’. Instead, this term is defined in the ‘tax rules’.

Chapter 6 Cost of capital decisions that we are proposing to change

Pre-review cost of capital IM decision CC02

<p>Decisions CC02</p> <p>WACC Percentile</p>	<p>Original 2010 decision</p> <p>To incentivise efficient investment in regulated services (given the possibility of errors in estimating the weighted average cost of capital (WACC)), the WACC to apply for DPP and CPPs is specified as the 75th percentile estimate of the WACC.</p> <p>See section 6.7, H11 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2014 amendment</p> <p>The amendment gave effect to the Commission’s decision to move from using the 75th percentile estimate of WACC to the 67th percentile estimate of WACC for the purposes of price-quality regulation for ELS and GPS.</p> <p>The decision was that the specified WACC for EDBs, Transpower and GPBs should be amended, in light of evidence gathered since the IMs were first determined in December 2010. The decision was that the 67th percentile of our estimated WACC distribution should be used for price-quality path regulation. The decision was given effect by amending the cost of capital IMs applying to those businesses.</p> <p>See: Amendment to the WACC percentile for price-quality regulation for electricity lines services and gas pipeline services: Reasons paper (30 October 2014); and Amendments to the WACC percentile range for information disclosure regulation for electricity lines services and gas pipeline services: Reasons Paper (12 December 2014)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Draft decision

- 6.1 We are proposing to change IM decision CC02 so that the mid-point WACC (50th percentile) estimate will apply for price-quality path regulation of GDBs and GTBs, and the 65th percentile of the WACC will apply for price-quality path regulation for EDBs.
- 6.2 The proposed standard error of the WACC estimate used to calculate the appropriate percentile are:
- 6.2.1 For EDBs (continues to be): 0.0101; and
- 6.2.2 For GDBs and GTBs (continues to be): 0.0105.

Why we are proposing this change

6.3 Our reasons for this change are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC03

<p>Decision CC03</p> <p>The Commission to publish annual WACC estimates</p>	<p>Original 2010 decision</p> <p>The Commission will publish annually for all regulated suppliers:</p> <ul style="list-style-type: none"> • a mid-point estimate of the five year post-tax WACC and vanilla WACC to apply under information disclosure regulation; and • an estimate of 5 year vanilla WACC at the 75th percentile to apply in setting DPPs and CPPs under default/customised price-quality regulation. <p>Three and four year equivalent estimates of the vanilla WACC at the 75th percentile will also be published as required for CPPs, and estimated WACC ranges for the 25th to the 75th percentiles for both the post-tax WACC and the vanilla WACC will be published to inform interested persons.</p> <p>See sections 6.7, H14 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision (1)</p> <p>This amendment gives effect to the Commission's decision to move from using the 75th percentile estimate of WACC to the 67th percentile estimate of WACC for the purposes of price-quality regulation for ELS and GPS . This decision does not amend the WACC percentile range used for information disclosure regulation. Our decision is that the specified WACC for electricity lines and gas pipeline businesses should be amended, in light of evidence we have gathered since the IMs were first determined in December 2010. Our decision is that the 67th percentile of our estimated WACC distribution should be used for price-quality path regulation (the 75th percentile is currently used). Our decision has been given effect by amending the cost of capital IMs applying to those businesses.</p> <p>This amendment to the WACC percentile will apply to electricity distributors on a default price-quality path and to Transpower's individual price-quality path when the resets of those price-quality paths take effect in 2015.</p> <p>See: Amendment to the WACC percentile for price-quality regulation for electricity lines services and gas pipeline services: Reasons paper (30 October 2014)</p> <p>2014 amendment to this decision (2)</p> <p>Our decision is not to amend the 25th to 75th percentile range for information disclosure for ELS and GPS. These percentile estimates of WACC will continue to be determined and published annually, along with the mid-point estimate (which is also currently published annually). In addition, we will annually determine and publish 67th percentile estimates so that these are available to ourselves and other interested persons to be used in analysing the performance of suppliers.</p>
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	<p>See: Amendments to the WACC percentile range for information disclosure regulation for electricity lines services and gas pipeline services: Reasons Paper (12 December 2014)</p> <p>2016 amendment to this decision</p> <p>The decision was to no longer publish a specific CPP WACC but to use the prevailing DPP WACC for the purposes of PQ regulation under a CPP.</p> <p>We removed the formula for calculating the standard error of the debt premium. Removing the formula means that a fixed value for the overall standard error of the WACC can be set.</p> <p>The standard error of the WACC estimates used to calculate the appropriate percentile were:</p> <ul style="list-style-type: none"> • For EDBs: 0.0101 • For GPBs: 0.0105 <p>See Topic Paper 4: IM review (2016), paragraphs 606 to 643 and Table 13 and paragraphs 579 to 604.</p> <p>2022 amendment for GPBs/GTBs</p> <p>WACC determinations for GPBs/GTBs will consist of estimates for both a four-year and five-year regulatory period term. Once the final decision on the appropriate term of the regulatory period is taken the relevant WACC will apply.</p> <p>See: Commerce Commission, March 2022, Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths – weighted average cost of capital, paragraph 3.35.</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Draft decision

6.4 We are proposing to change IM decision CC03 to allow for the determination and publishing of a vanilla and post-tax WACC at the 65th percentile with parameters matched to the regulatory period term. The change will allow us to determine a WACC based on both a five-year and a four-year regulatory period. The change relating to the regulatory period term aligns with our current approach to GDBs and GTBs.

Why we are proposing this change

6.5 Our reasons for this change are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC05

<p>Decisions CC05</p> <p>Cost of Debt in WACC estimates</p>	<p>Original 2010 decision</p> <p>For all regulated suppliers, the cost of debt is estimated as:</p> <p><i>risk free rate + debt premium + debt issuance costs</i></p> <ul style="list-style-type: none"> the risk free rate is estimated by the Commission as part of publishing annual WACCs for all regulated suppliers. The risk free rate is estimated from the observed market yield to maturity of benchmark vanilla New Zealand Government NZ\$ denominated nominal bonds with a term to maturity that matches the term of the regulatory period (typically five years); the debt premium is also estimated by the Commission as part of publishing annual WACCs for all regulated suppliers as the difference between the risk free rate and the yield on publicly traded corporate bonds for EDBs and GPBs with a S&P long-term credit rating of BBB+ and a term to maturity which matches the regulatory period (typically five years); and debt issuance costs are 35 basis points (0.35%) p.a. <p>See sections 6.3; H2, H4, H5, H14 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment</p> <p>In 2016 we made four changes in respect of IM decision CC05.</p> <p>Regarding the risk free rate, we decided to continue using the prevailing risk free rate, but using three months of data instead of one month.</p> <p>Regarding the debt premium, we decided we would determine an 'average debt premium', which is an average of the debt premiums estimated over the preceding five years. We also changed our debt premium estimation methodology to: use 12 months of bond data instead of one month;</p> <ul style="list-style-type: none"> modify the government ownership limitation so that only bonds from 100% government owned entities would be subject to the limitation; and reference the 'Nelson-Siegel-Svensson curve' (NSS curve) as something we will have regard to when estimating the debt premium. <p>Regarding debt issuance costs, we decided to change this from 35 basis points (0.35%) p.a. to 20 basis points (0.20%) p.a.</p> <p>Regarding swap costs, we removed an allowance for swap costs from the TCSD and instead included it in the above value of debt issuance costs (see also IM decision CC06).</p> <p>See Topic paper 4: Cost of capital issues.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Draft decision

- 6.6 We are proposing to alter IM decision CC05 to allow for the appropriate calculation of the Cost of Debt for a four-year regulatory period, if required. The decision allows debt issuance costs at 25 basis points (0.25%) per annum for a four-year regulatory period. All other elements continue to apply for EDBs, GDBs and GTBs.

Why we are proposing this change

- 6.7 Our reasons for this change are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC07

<p>Decision CC07</p> <p>Cost of equity in WACC estimates</p>	<p>Original 2010 decision</p> <p>Cost of equity is estimated using the simplified Brennan-Lally Capital Asset Pricing Model (CAPM) as:</p> <p><i>risk free rate × (1 - investor tax rate) + equity beta × TAMRP</i></p> <ul style="list-style-type: none"> • the risk free rate is the same as for the cost of debt; • the equity beta for EDBs and Transpower is 0.61 and for GPBs is 0.79, derived from: <ul style="list-style-type: none"> ○ an asset beta for EDBs of 0.34 and for GPBs of 0.44; and ○ leverage of 44% for EDBs and GPBs; • the investor tax rate is the maximum prescribed investor tax rate under the PIE tax regime, which is 30% until 30 September 2010 and 28% thereafter. Changes in the prescribed rate will flow through to future WACC estimates automatically; and • The TAMRP is 7.5% until 30 June 2011 and 7% thereafter. The TAMRP is expressed as a five-year composite rate (to match the term of the regulatory period), hence the TAMRP estimated for the five year period which commences on 1 July 2010 is 7.1% and for the five year period which commences on 1 July 2011 is 7%. <p>See sections 6.3 to 6.6; H2 to H10 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendments to this decision</p> <p>In respect of decision CC07, we decided to make changes to:</p> <ul style="list-style-type: none"> • the equity beta estimate for EDBs – we changed this from 0.61 to 0.60; • the equity beta estimate for GDBs and GTBs – we changed this from 0.79 to 0.69; • the asset beta estimate for EDBs – we changed this from 0.34 to 0.35; • the asset beta estimate for GDBs and GTBs – we changed this from 0.44 to 0.40 (because we changed the asset beta adjustment for GDBs and GTBs from 0.1 to 0.05);
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	<ul style="list-style-type: none"> the leverage estimate for EDBs and GPBs – we changed this from 44% to 42%; and <p>our approach for calculating the asset beta – we updated the comparator sample and then estimated an average asset beta looking at four weekly (rather than monthly) and weekly estimates over the two most recent five-year periods.</p> <p>The TAMRP remained at 7%.</p> <p>See Topic paper 4: Cost of capital issues.</p> <p>2022 amendment to this decision (1) We increased the TAMRP parameter in the WACC calculation from 7.0% to 7.5% to reflect our most recent decision on this parameter when we set the cost of capital IMs for fibre regulation.</p> <p>We considered that the increase would promote the Part 4 purpose in s 52A of the Act more effectively than the existing IMs, as using the latest estimate of this parameter better supports the provision of ex-ante real FCM.</p> <p>See paragraphs 3.9-3.22 of Chapter 3: Amendments to the GDB and GTB Input Methodologies Determinations, of Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths - weighted average cost of capital: Reasons paper (25 March 2022).</p> <p>2022 amendment to this decision (2) We decided to amend the methodology for estimating the risk-free rate, and the estimate for the debt issuance costs in the Gas IMs, to align with the term of the regulatory period.</p> <p>We considered that the amendments would resolve a technical error in the gas IMs, improve certainty for consumers and suppliers, and enable suppliers to employ the necessary strategies to mitigate the effects of prevailing external market conditions.</p> <p>See paragraphs 3.23-3.40 of Chapter 3: Amendments to the GDB and GTB Input Methodologies Determinations, of Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths - weighted average cost of capital: Reasons paper (25 March 2022).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Draft decision

- 6.8 Our draft decision is to change IM decision CC07.
- 6.9 We are proposing to change the equity betas for EDBs to be 0.59, and for GDBs and GTBs to be 0.68; derived from:
- 6.9.1 An asset beta for EDBs of 0.35, and for GDBs and GTBs of 0.40; and
- 6.9.2 Leverage of 41% for EDBs and GDBs and GTBs.
- 6.10 We are proposing to change the TAMRP estimate for GDBs and GTBs to 7.0%.

Why we are proposing this change

- 6.11 Our reasons for this proposed change are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC12

<p>Decisions CC12</p> <p>WACC Percentile</p>	<p>Original 2010 decision</p> <p>To incentivise investment in regulated services (given the possibility of error in estimating the WACC) the 75th percentile estimate of the vanilla WACC will be applied under the IPP.</p> <p>See section 6.7, H11 of 2010 IM reasons paper:</p> <p>Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision (1)</p> <p>This amendment gives effect to the Commission’s decision to move from using the 75th percentile estimate of WACC to the 67th percentile estimate of WACC for the purposes of price-quality regulation for electricity lines services and gas pipeline services. This decision does not amend the WACC percentile range used for information disclosure regulation.</p> <p>Our decision is that the specified WACC for electricity lines and gas pipeline businesses should be amended, in light of evidence we have gathered since the IMs were first determined in December 2010. Our decision is that the 67th percentile of our estimated WACC distribution should be used for price-quality path regulation (the 75th percentile is currently used). Our decision has been given effect by amending the cost of capital IMs applying to those businesses.</p> <p>This amendment to the WACC percentile will apply to electricity distributors on a default price-quality path and to Transpower’s individual price-quality path when the resets of those price-quality paths take effect in 2015.</p> <p>See: Amendment to the WACC percentile for price-quality regulation for electricity lines services and gas pipeline services: Reasons paper (30 October 2014)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

- 6.12 We are proposing to change IM decision CC12 so that the 65th percentile of our estimated WACC will apply for price-quality path regulation for Transpower.
- 6.13 The proposed standard error of the WACC estimate used to calculate the appropriate percentile continues to be 0.0101.

Why we are proposing this change

- 6.14 Our reasons for this change are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC13

<p>Decision CC13</p> <p>Commission to publish annual WACC estimates - Transpower</p>	<p>Original 2010 decision</p> <p>The Commission will:</p> <ul style="list-style-type: none"> publish annually a mid-point estimate of the 5-year vanilla and post-tax WACC, as well as 25th and 75th percentile estimates of vanilla and post-tax WACC, to apply under ID regulation; and determine, as at 7 months prior to the start of the regulatory period, an estimate of a 5-year vanilla WACC at the 75th percentile to apply in setting the IPP for Transpower. The Commission will publish this WACC no later than one month after estimating it. <p>See sections 6.7, 6.2 of 2010 Transpower IM reasons paper:</p> <p>Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision (1)</p> <p>This amendment gives effect to the Commission's decision to move from using the 75th percentile estimate of WACC to the 67th percentile estimate of WACC for the purposes of price-quality regulation for electricity lines services and gas pipeline services. This decision does not amend the WACC percentile range used for ID regulation.</p> <p>Our decision is that the specified WACC for EDBs, Transpower and GPBs should be amended, in light of evidence we have gathered since the IMs were first determined in December 2010. Our decision is that the 67th percentile of our estimated WACC distribution should be used for price-quality path regulation (the 75th percentile is currently used). Our decision has been given effect by amending the cost of capital IMs applying to those businesses.</p> <p>This amendment to the WACC percentile will apply to EDBs on a DPP and to Transpower's IPP when the resets of those price-quality paths take effect in 2015.</p> <p>See: Amendment to the WACC percentile for price-quality regulation for electricity lines services and gas pipeline services: Reasons paper (30 October 2014)</p> <p>2014 amendment to this decision (2)</p> <p>Our decision is not to amend the 25th to 75th percentile range for ID for electricity lines services and gas pipeline services. These percentile estimates of WACC will continue to be determined and published annually, along with the mid-point estimate (which is also currently published annually).</p> <p>We will annually determine and publish 67th percentile estimates so that these are available to ourselves and other interested persons to be used in analysing the performance of suppliers.</p> <p>See: Amendments to the WACC percentile range for information disclosure regulation for electricity lines services and gas pipeline services: Reasons Paper (12 December 2014)</p> <p>2016 amendments</p> <p>We removed the formula for calculating the standard error of the debt premium. Removing the formula means that a fixed value for the overall standard error of the WACC can be set. We determined that the standard error of the WACC should be 0.0101 for Transpower.</p> <p>See: Topic Paper 4, 2016, Table 13 and paragraphs 579 to 604.</p>
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	<p>We also made an implementation change in respect of this decision, that we would determine mid-point estimates of post-tax WACC and 67th percentile estimates of post-tax WACC for Transpower.</p> <p>See Chapter 6, paragraphs 231-234 of the 2016 Report on the IM Review.</p>
This decision applies to the following sectors:	Transpower

Draft decision

- 6.15 Our draft decision is to change IM decision CC13.
- 6.16 We are proposing to change IM decision CC03 to allow for the determination and publishing of a vanilla and post-tax WACC at the 65th percentile with parameters matched to the regulatory period term to apply in setting the Individual Price-quality Path (IPP) for Transpower depending on whether a four- or five-year regulatory period applies. The change will allow us to determine a WACC based on both a five-year and a four-year regulatory period. The change relating to the regulatory period term aligns with our current approach to GDBs and GTBs.

Why we are proposing this change

- 6.17 Our reasons for this change are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC15

<p>Decisions CC15</p> <p>Cost of Debt in WACC estimates – Transpower</p>	<p>Original 2010 decision</p> <p>For all regulated suppliers, cost of debt is estimated as:</p> <p><i>risk free rate + debt premium + debt issuance costs</i></p> <ul style="list-style-type: none"> the risk-free rate of return is estimated by the Commission as part of publishing annual WACCs for all regulated suppliers. The risk-free rate is estimated from the observed market yield to maturity of vanilla NZ Government NZ\$ denominated nominal bonds with a term to maturity that matches the term of the regulatory period (five years); the debt premium is also estimated by the Commission as part of publishing annual WACCs for all regulated suppliers as the difference between the risk-free rate and the yield on publicly traded corporates bonds for EDBs and GPBs with a BBB+ S&P long-term credit rating and a term to maturity which matches the regulatory period (five years); and debt issuance costs are 35 basis points (0.35%) p.a. <p>See sections 6.3, H2, H4, H5 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
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	<p>2016 amendment</p> <p>In 2016 we made four changes in respect of IM decision CC15.</p> <p>Regarding the risk-free rate, we decided to continue using the prevailing risk free rate, but using three months of data instead of one month.</p> <p>Regarding the debt premium, we decided we would determine an 'average debt premium', which is an average of the debt premiums estimated over the preceding five years. We also changed our debt premium estimation methodology to:</p> <ul style="list-style-type: none"> • use 12 months of bond data instead of one month; • modify the government ownership limitation so that only bonds from 100% government owned entities would be subject to the limitation; and • reference the 'Nelson-Siegel-Svensson curve' (NSS curve) as something we will have regard to when estimating the debt premium. <p>Regarding debt issuance costs, we decided to change this from 35 basis points (0.35%) p.a. to 20 basis points (0.20%) p.a.</p> <p>Regarding swap costs, we removed an allowance for swap costs from the TCSD and instead included it in the above value of debt issuance costs (see also IM decision CC06).</p> <p>See Topic paper 4: Cost of capital issues.</p>
This decision applies to the following sectors:	Transpower

Draft decision

6.18 We are proposing to alter IM decision CC05 to allow for the appropriate calculation of the Cost of Debt for a four-year regulatory period, if required. The decision allows debt issuance costs at 25 basis points (0.25%) per annum for a four-year regulatory period. All other elements continue to apply for Transpower.

Why we are proposing this change

6.19 Our reasons for this proposed change are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC17

<p>Decision CC17</p> <p>Cost of equity in WACC estimates</p>	<p>Original 2010 decision</p> <p>Cost of equity is estimated using the simplified Brennan-Lally CAPM as:</p> $\text{risk free rate} \times (1 - \text{investor tax rate}) + \text{equity beta} \times \text{tax adjusted market risk premium (TAMRP)}$ <ul style="list-style-type: none"> • the risk free rate is the same as for the cost of debt; • the equity beta for Transpower is 0.61, derived from: <ul style="list-style-type: none"> ○ an asset beta for Transpower of 0.34; and
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	<ul style="list-style-type: none"> ○ leverage of 44% for Transpower; • the investor tax rate is the maximum prescribed investor tax rate under the PIE tax regime, which is 30% up until 30 September 2010 and 28% thereafter. Changes in the prescribed rate will flow through to future WACC estimates automatically; and • the TAMRP is 7.5% until 30 June 2011 and 7% thereafter. The TAMRP is expressed as a five-year composite rate (to match the term of the regulatory period), hence the TAMRP estimated for the five year period which commences on 1 July 2010 is 7.1% and for the five year period which commences on 1 July 2011 is 7%. <p>See sections 6.5, 6.6; H3, H7, H8, H10 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2016 amendment</p> <p>Cost of equity is estimated using the simplified Brennan-Lally CAPM as:</p> <p><i>Risk free rate x (1-investor tax rate) + equity beta x TAMRP</i></p> <ul style="list-style-type: none"> • The risk-free rate is the same as for the cost of debt • The equity beta for Transpower is 0.60; derived from: <ul style="list-style-type: none"> ○ An asset beta for Transpower of 0.35 ○ Leverage of 42% for Transpower • The investor tax rate is the maximum prescribed investor tax rate under the Portfolio Investment Entities (PIE) tax regime, which is 28%. Changes in the prescribed rate will flow through to future WACC estimates automatically • The TAMRP is 7%. <p>See Chapters 4 and 5 of Topic Paper 4.</p>
This decision applies to the following sectors:	Transpower

Draft decision

6.20 We are proposing to change IM decision CC17.

6.21 We are proposing the equity beta for Transpower to be 0.59; derived from:

6.21.1 An asset beta for Transpower of 0.35; and

6.21.2 Leverage of 41% for Transpower.

Why we are proposing this change

6.22 Our reasons for this proposed change are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC20

<p>Decision CC20</p> <p>Commission to publish annual WACC estimates – airports</p>	<p>Current IM decision</p> <p>The Commission will publish annually for airports:</p> <ul style="list-style-type: none"> • A mid-point estimate of the 5-year post-tax WACC and vanilla WACC; and • To calculate additional mid-point WACC estimates along with standard error, for the quarters that do not align with WACC estimates calculated for ID, and to publish these additional estimates either when requested by an Airport, or after an Airport’s price-setting event. <p>See section 6.7, E14 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010).</p> <p>2016 amendments</p> <p>We removed the formula for calculating the standard error of the debt premium. Removing the formula means that a fixed value for the overall standard error of the WACC can be set. We determined that the standard error of the WACC should be 0.0146 for Airports.</p> <p>See: Topic Paper 4, 2016, Table 13 and paragraphs 579 to 604.</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

Draft decision

6.23 Our draft decision is to change IM decision CC20.

6.24 We are proposing the standard error for Airports to be 0.0153.

Why we are proposing this change

6.25 Our reasons for this proposed change are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC24

<p>Decision CC24</p> <p>Cost of equity in WACC estimates</p>	<p>Original 2010 decision</p> <p>Cost of equity is estimated using the simplified Brennan-Lally CAPM as:</p> $\text{risk free rate} \times (1 - \text{investor tax rate}) + \text{equity beta} \times \text{TAMRP}$ <ul style="list-style-type: none"> • the risk-free rate is the same as for the cost of debt; • the equity beta for Airports is 0.72, derived from: <ul style="list-style-type: none"> ○ an asset beta for Airports of 0.60; and ○ leverage of 17%; • the investor tax rate is the maximum prescribed investor tax rate under the PIE tax regime, which is 30% until 30 September 2010 and 28% thereafter. Changes
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	<p>in the prescribed rate will flow through to future WACC estimates automatically; and</p> <ul style="list-style-type: none"> the TAMRP is 7.5% until 30 June 2011 and 7% thereafter. The TAMRP is expressed as a five-year composite rate (to match the term of the pricing period), hence the TAMRP estimated for the five year period which commences on 1 July 2010 is 7.1% and for the five year period which commences on 1 July 2011 is 7%. <p>See sections 6.3 to 6.6, E2 to E10 of 2010 IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment</p> <p>Cost of equity is estimated using the simplified Brennan-Lally CAPM as:</p> <p><i>Risk free rate x (1-investor tax rate) + equity beta x TAMRP</i></p> <ul style="list-style-type: none"> The risk-free rate is the same as for the cost of debt; The equity beta for airports is 0.74; derived from: <ul style="list-style-type: none"> An asset beta for airports of 0.60; and Leverage of 17% for airports; The investor tax rate is the maximum prescribed investor tax rate under the PIE tax regime, which is 28%. Changes in the prescribed rate will flow through to future WACC estimates automatically; and The TAMRP is 7%. <p>See Chapters 4 and 5 of Topic Paper 4.</p>
This decision applies to the following sectors:	Airports

Draft decision

6.26 Our draft decision is to change IM decision CC24.

6.27 We are proposing an unchanged equity beta for airports to be 0.74; derived from the following changed parameter values:

6.27.1 An asset beta for airports of 0.55; and

6.27.2 Leverage of 26% for airports.

Why we are proposing this change

6.28 Our reasons for this proposed change are discussed in the Cost of Capital Topic Paper.

Chapter 7 Specification of price decisions that we are proposing to change

Pre-review specification of price IM decision SP01

<p>Decision SP01</p> <p>Revenue wash-ups – EDBs, GPBs, Transpower</p>	<p>Original 2010 decision</p> <p>Price for EDBs and GDBs is specified by a weighted average price cap.</p> <p>See section 8.3 and Appendix J, section J2 of the 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision</p> <p>We decided to change the form of control for EDBs to a revenue cap, including a wash-up for over- and under-recovery of revenue, and to maintain the weighted average price cap for GDBs.</p> <p>Because we moved EDBs to a revenue cap, we decided that pre-review decision SP01 would no longer apply to EDBs.</p> <p>See Topic paper 1: Form of control and RAB indexation, and Chapter 7, paragraphs 268-272 of the 2016 Report on the IM Review.</p> <p>2019 amendment to this decision</p> <p>We introduced a new clause (3.1.1(1)(b)), which gives us the ability, in setting DPPs, to limit price shocks to consumers caused by increases in the gross revenue distributors can earn. It allows us to do this while keeping distributors whole across the regulatory period, ie, it is net present value (NPV) neutral for distributors.</p> <p>See paragraphs 3.9-3.23 of Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB/Transpower</p>

Draft decision

7.1 Our draft decision is to change IM decision SP01 in respect of the:

7.1.1 EDB wash-up; and

7.1.2 definition of ‘other regulated income’ in the EDB, GDB and GTB IMs.

EDB wash-up changes

7.2 We have proposed two broad sets of changes to the specification of price for EDBs:

7.2.1 additional wash-ups to change how risks are allocated between suppliers and consumers; and

7.2.2 effectiveness improvements to the way the wash-up will operate.

Additional wash-ups

- 7.3 Our draft decision is to change the IMs to:
- 7.3.1 provide a revenue wash-up for inflation for the first year of a regulatory period for EDBs and GTBs;
 - 7.3.2 wash-up for EDBs, an amount that is the difference between:
 - 7.3.2.1 the return on debt for the year based on the cost of debt assumed at the relevant price-quality determination; and
 - 7.3.2.2 the return on debt referred to in paragraph 7.3.2.1 where the cost of debt is adjusted for actual CPI inflation;
 - 7.3.3 allow for a demand volume wash-up mechanism for an EDB CPP, but not a DPP.

Revenue path and wash-up workability

- 7.4 Our draft decision is to:
- 7.4.1 amend the 'secondary' revenue control to give greater flexibility in how it is expressed, and to apply it only to net revenue and recoverable costs;
 - 7.4.2 change the status of transmission-related recoverable costs to pass-through costs;
 - 7.4.3 make a package of changes to move the wash-up mechanism from a rolling basis to an account basis; and
 - 7.4.4 change the timing of the CPI wash-up from a two-year lag to a one-year ahead forecast which involves:
 - 7.4.4.1 first, an annual update to forecast allowable revenue at the start of each regulatory year using the most up-to-date RBNZ forecasts of inflation; and
 - 7.4.4.2 second, a residual wash-up for differences between these updated forecasts and actual inflation.

Change to the definition of ‘other regulated income’

7.5 Our draft decision is to make an implementation change to SP01 by excluding awards of costs following an appeal under sections 52Z, 91, or 97 of the Commerce Act from ‘other regulated income’ in the EDB, GDB and GTB IMs.⁴⁰

Why we are proposing this change*Additional wash-ups*

7.6 Our reasons for proposing these changes are discussed in Chapter 5 of the Financing and incentivising efficient expenditure during the energy transition Topic Paper.

Revenue path and wash-up workability

7.7 Our reasons for proposing these changes can be found in Attachment D of the Financing and incentivising efficient expenditure during the energy transition Topic Paper.

Change to the definition of ‘other regulated income’

7.8 The reasoning for this draft decision is discussed above under IM decision CA14.

Pre-review specification of price IM decision SP02

<p>Decision SP02</p> <p>Revenue cap applies – the GTB</p>	<p>Original 2010 decision</p> <p>Price for GTBs will be specified by either a weighted average price cap or a total revenue cap.</p> <p>See section 8.3 and Appendix J, section J2 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision</p> <p>We changed the form of control for the GTB to a ‘pure’ revenue cap with a revenue wash-up.</p> <p>See section 8.3 and Appendix J, section J2 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>GTB</p>

⁴⁰ No change to the Transpower IMs is required because it does not include the concept of ‘other regulated income’.

Draft decision

- 7.9 Our draft decision is to change IM decision SP02 by:
- 7.9.1 amending the ‘secondary’ revenue control to give greater flexibility in how it is expressed, and to apply it only to net revenue and recoverable costs;
 - 7.9.2 introducing new wash-ups; and
 - 7.9.3 making amendments to improve the workability of the wash-up mechanism.

Why we are proposing these changes

- 7.10 Our reasons for these changes can be found in Attachment D of the Financing and incentivising efficient expenditure during the energy transition Topic Paper.

Pre-review specification of price IM decision SP03

<p>Decision SP03</p> <p>Pass-through costs – EDBs and GDBs</p>	<p>Original 2010 decision</p> <p>The IMs include a list of pass-through costs and a process for adding new pass-through costs.</p> <p>Pass-through costs include local authority rates and regulatory levies.</p> <p>See section 8.3 and Appendix J, section J2 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision – EDBs only</p> <p>This amendment applies to the IMs that apply for the specification of price for both DPPs and CPPs, and took effect from 1 April 2015, which corresponded with the start of the next DPP regulatory period.</p> <p>This amendment limits the risk of under- or over-recovery of pass-through and recoverable costs arising from uncertainty associated with forecasting.</p> <p>The amendment achieves this by limiting the calculation of allowable notional revenue and notional revenue for the weighted average price cap to ‘distribution prices’, which is defined as excluding pass-through and recoverable costs.</p> <p>The DPP determination includes provisions relating to demonstrating the recovery of pass-through and recoverable costs.</p> <p>See: Input methodology amendments for electricity distribution services: Default price-quality paths (Reasons paper) (27 November 2014)</p> <p>2016 amendment to this decision</p> <p>We made two changes to extend the range of pass-through costs:</p> <ul style="list-style-type: none"> • to allow criteria-based pass-through costs to be specified in a DPP determination or CPP determination at the time the DPP or CPP is set, as well as during the regulatory period; and
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	<ul style="list-style-type: none"> to provide for adding any type of cost, which meets the pass-through cost criteria in the IMs, to potentially be specified as a pass-through cost in a DPP determination, rather than just levies. <p>These changes applied to EDBs and GDBs under this IM decision SP03, and to GTBs under IM decision SP04.</p> <p>See Chapter 3 of Topic paper 2: CPP requirements.</p> <p>2019 amendment to this decision</p> <p>We updated the pass-through cost available to distributors subject to a DPP or CPP for levies that were payable by all members of the Electricity and Gas Complaints Commissioner Scheme to now refer to levies payable by all members of the Energy Complaints Scheme operated by Utilities Disputes Limited, being the approved scheme under Schedule 4 of the Electricity Industry Act 2010.</p> <p>See paragraphs 3.51-3.56 of Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019).</p>
This decision applies to the following sectors:	EDB/GDB

Draft decisions

7.11 Our draft decision is to change IM decision SP03 as follows:

7.11.1 For EDBs, we are proposing to reclassify recoverable costs related to transmission services as pass-through costs.

7.11.2 For GDBs, we are proposing to:

7.11.2.1 update the dispute scheme levy pass-through cost to refer to the disputes scheme in s 43E of the Gas Act, rather than specifically to the Electricity and Gas Complaints Commissioner Scheme; and

7.11.2.2 remove the pass-through cost for levies payable under the Commerce (Levy for Control of Natural Gas Services) Regulations 2005.

Why we are proposing these changes

Changes to EDB pass-through costs

7.12 Our reasons for proposing to change the status of transmission-related costs are discussed in Attachment D of the Financing and incentivising efficient expenditure during the energy transition Topic Paper.

Changes to the GDB pass-through costs

- 7.13 The Electricity and Gas Complaints Commissioner Scheme is now called the Utilities Disputes. By referring more broadly to a disputes scheme in s 43E of the Gas Act, the IM will provide for the intended costs to be treated as pass-through costs irrespective of any future name changes to such scheme.
- 7.14 Similarly, the Commerce (Levy for Control of Natural Gas Services) Regulations 2005 are expired and therefore the pass-through cost for levies payable under these regulations is redundant.
- 7.15 Removing these redundant references reduces the complexity of the IMs and provides greater certainty as to which costs may be treated as pass-through costs.

Pre-review specification of price IM decision SP04

<p>Decision SP04</p> <p>Pass-through costs – GTBs</p>	<p>Original 2010 decision</p> <p>The IMs include a list of pass-through costs and a process for adding new pass-through costs.</p> <p>Pass-through costs include local authority rates and regulatory levies.</p> <p>See section 8.3 and Appendix J, section J2 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2013 amendment to this decision</p> <p>We amended the IMs to make changes to provisions that will apply to the DPPs for suppliers of gas pipeline services.</p> <p>The definition of pass-through costs for gas transmission services was revised to allow the pass-through of Electricity and Gas Complaints Commission levies.</p> <p>See: Amendments to input methodologies for gas distribution and transmission services: Reasons paper (26 February 2013)</p> <p>2016 amendment</p> <p>We changed this decision to widen the criteria-based pass-through costs, consistent with the change to IM decision SP03.</p> <p>See Chapter 3 of Topic paper 2: CPP requirements.</p>
<p>This decision applies to the following sectors:</p>	<p>GTB</p>

Draft decision

- 7.16 Our draft decision is to make an implementation change to IM decision SP04 by updating the dispute scheme levy pass-through cost to refer to the disputes scheme in s 43E of the Gas Act, rather than specifically to the “Electricity and Gas Complaints Commissioner Scheme”.

Why we are proposing this change

7.17 Our reasons are the same as those described above for IM decision SP03.

Pre-review specification of price IM decision SP05

<p>Decision SP05</p> <p>Recoverable costs – EDBs</p>	<p>Original 2010 decision</p> <p>Recoverable costs include costs associated with a CPP application; the net incremental carry forward amount under IRIS; claw-back applied by the Commission; transmission charges; system operator charges; new investment contract charges; and avoided transmission charges.</p> <p>See section 8.3 and Appendix J, section J2 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision (1)</p> <p>The amendment changes the definitions in the general provisions of the IMs, and the IMs that apply to the specification of price for both DPPs and CPPs.</p> <p>It came into effect on 1 April 2015, which corresponded with the start of the next DPP regulatory period:</p> <p>This amendment introduces a recoverable cost relating to the revenue-linked quality incentive scheme for both System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) reliability targets under s 53M(2) of the Act.</p> <p>Individual SAIDI and SAIFI targets, associated caps and collars, and a distributor-specific incentive rate, for each disclosure year are now specified in the DPP determination. EDBs now calculate a financial reward or penalty using the formula set out in the DPP determination, and apply this as a recoverable cost, ie, either a positive or negative amount.</p> <p>See: Input methodology amendments for electricity distribution services: Default price-quality paths (Reasons paper) (27 November 2014)</p> <p>2014 amendment to this decision (2)</p> <p>The amendment changes the definitions in the general provisions of the IMs, and the IMs that apply for the specification of price for both DPPs and CPPs.</p> <p>It took effect from 1 April 2015, which corresponded with the start of the next DPP regulatory period.</p> <p>This amendment introduces a recoverable cost relating to the financial incentives to compensate EDBs for revenue foregone because of energy efficiency and demand-side management initiatives that are specified in the DPP determination.</p> <p>EDBs can now calculate an amount that they consider demonstrates revenue foregone because of energy efficiency and demand-side management initiatives, and apply this as a recoverable cost.</p> <p>This recoverable cost will require approval by the Commission. The requirement to obtain the Commission’s approval for charges payable by an electricity distributor to Transpower New Zealand Limited in respect of a new investment contract has</p>
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been removed. The approval process will be set out in the DPP or CPP determination for the relevant regulatory period.

See: [Input methodology amendments for electricity distribution services: Default price-quality paths \(Reasons paper\) \(27 November 2014\)](#)

2014 amendment to this decision (3)

The amendment took effect from 1 April 2015, which corresponded to the start of the next DPP regulatory period.

This amendment introduces a recoverable cost that ‘washes up’ for the revenue impact of capex forecast for the year (or years) prior to the resetting of prices under a DPP determination.

The amendment changes the definitions in the general provisions of the IMs, and the IMs that apply for the specification of price for both DPPs and CPPs. The objective of the wash-up is to place EDBs in approximately the same position as that in which the value of the RAB was known at the commencement of the regulatory period at the time prices were reset.

The amendment provides that EDBs must calculate a ‘capex wash-up adjustment’, and apportion this as a recoverable cost evenly over each disclosure year of a DPP regulatory period, other than the first year. The apportioned amounts are adjusted for the cost of debt to reflect the time value of money.

The ‘capex wash-up adjustment’ is specified as:

The present value of the difference in the series of building block allowable revenues before tax for a default price-quality path regulatory period from adopting actual values of commissioned assets instead of the forecast commissioned assets applied by the Commission in the year (or years) preceding the regulatory period when setting prices.

Distributors must also use the actual value of depreciation for the relevant preceding year (or years) for those newly commissioned assets. Where only one year of forecast commissioned asset values is involved then actual depreciation will be nil because the IMs do not permit depreciation to be calculated for newly commissioned assets in their year of commissioning.

The present value is determined using a discount rate equal to the WACC used by the Commission in setting prices for the current DPP regulatory period.

The building blocks allowable revenue before tax for the regulatory period must be calculated using the same methodology that was applied by the Commission in setting starting prices. This includes using all of the same financial inputs for the forecast years prior to the regulatory period (with the exception of commissioned assets and depreciation).

The actual values of commissioned assets will flow through to affect the calculation of building blocks allowable revenues before tax for the regulatory period other than the return on and of capital, including forecast revaluations and most aspects of the tax regulatory allowance.

The actual values of commissioned assets and depreciation will be available from EDBs’ ID values calculated under Part 2 of the IMs.

The Commission made spreadsheets available to EDBs to assist with the necessary wash-up calculations.

In most cases the ‘wash-up’ would be expected to apply in respect of the disclosure year immediately prior to the regulatory period for which prices are reset (e.g., the 2015 disclosure year for the 2016-2020 DPP regulatory period). However, when setting future price-quality paths it is possible that more than one year of forecast

capex may be relied on to effectively construct the opening regulatory asset value at the commencement of a regulatory period. The amendment caters for these multi-year situations.

See: [Input methodology amendments for electricity distribution services: Default price-quality paths \(Reasons paper\) \(27 November 2014\)](#)

2014 amendment to this decision (4)

The amendment took effect from 1 April 2015, which corresponded to the start of the next DPP regulatory period.

This amendment introduces a recoverable cost for the ‘wash-up’ of transmission asset purchases that are forecast to be completed prior to a price reset, but which are not concluded.

The Commission will identify in the relevant DPP or CPP determination the present value of the amount of revenues resulting from the additional expenditure forecast to be incurred during the regulatory period relating to transmission asset purchases forecast to occur prior to the regulatory period. Affected EDBs will then know in advance the amount of the wash-up adjustment that must be made if the purchase is not completed.

The amendment provides that a ‘transmission asset wash-up adjustment’ must be calculated by an electricity distributor for each disclosure year of a DPP regulatory period other than the first year. The adjustment is then applied as a recoverable cost. This recoverable cost, which is a negative amount, is effectively spread equally over the regulatory period, adjusted for the cost of debt.

See: [Input methodology amendments for electricity distribution services: Default price-quality paths \(Reasons paper\) \(27 November 2014\)](#)

2014 amendment to this decision (5)

This amendment took effect from 1 April 2015, which corresponded with the start of the next DPP regulatory period.

The amendment provides that a ‘transmission asset wash-up adjustment’ must be calculated by an electricity distributor for each disclosure year of a DPP regulatory period other than the first year. The adjustment is then applied as a recoverable cost. This recoverable cost, which is a negative amount, is effectively spread equally over the regulatory period, adjusted for the cost of debt.

This amendment introduces a recoverable cost to provide for the recovery of levies or other charges, revenues, or costs associated with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves that may be implemented during a regulatory period. EDBs can calculate amounts relating to extended reserves, and apply this as a recoverable cost, which can be a positive or negative amount.

This recoverable cost will require approval by the Commission. The approval process will be specified for each regulatory period in a DPP or CPP determination. The Commission’s approval of this recoverable cost will have regard to any stated policy intent by the Electricity Authority on whether:

- compensation payments to be made by a distributor would be expected to be treated as negative recoverable costs; or
- revenues to be received by a distributor would be expected to be treated as unregulated income.

See: [Input methodology amendments for electricity distribution services: Default price-quality paths \(Reasons paper\) \(27 November 2014\)](#)

2014 amendment to this decision (6)

The amendment took effect from 1 April 2015, which corresponds to the start of the next DPP regulatory period.

This amendment allows for the recovery of prudent expenditure incurred in response to a catastrophic event, prior to any reconsideration of a price-quality path taking effect. The Commission will specify the amount that can be recovered as a recoverable cost by amending the relevant DPP or CPP determination issued in response to a catastrophic event.

The recoverable cost amount covers the additional net costs prudently incurred by a distributor in its response to a catastrophic event (ie, costs that are not provided for in a DPP or CPP):

- It includes unrecovered pass-through or recoverable costs, and costs related to the financial impact of a catastrophic event on a quality incentive scheme; and
- It excludes any foregone revenue due to the impact of a catastrophic event.

This amendment is substantively the same as that included in the variation to the specification of price IM agreed with Orion New Zealand for its CPP in the event of the path being reopened for another catastrophic event.

See: [Input methodology amendments for electricity distribution services: Default price-quality paths \(Reasons paper\) \(27 November 2014\)](#)

2014 amendment to this decision (7)

This amendment applies to the IMs that apply for the specification of price for both default and CPPs, and took effect from 1 April 2015, which corresponds to the start of the next DPP regulatory period.

This amendment covers the additional net financial impact due to price path reconsideration events, other than a catastrophic event. It allows compensation for EDBs or consumers of any additional net costs associated with the impact of price path reconsideration events, where those costs are incurred prior to any reconsideration of the price-quality path taking effect.

The Commission will specify the amount that can be recovered as a recoverable cost in the relevant DPP or CPP determination issued following a price path reconsideration event. The recoverable cost can be a positive or negative amount.

This recoverable cost amount covers the additional net financial impact prudently incurred by a distributor as a result of a legislative or regulatory change event, or amounts to mitigate the effect of an error or provision of false or misleading information. It covers the period from the date of the event (for a change event) or from the start of the existing regulatory period (for an error or false information).

Amounts related to the financial impact of a price path reconsideration event on a quality incentive scheme are included, as well as any foregone revenue.

See: [Input methodology amendments for electricity distribution services: Default price-quality paths \(Reasons paper\) \(27 November 2014\)](#)

2014 amendment to this decision (8)

This amendment applies to the IMs that apply for the specification of price for both default and CPPs, and took effect from 1 April 2015, which corresponds to the start of the next DPP regulatory period.

This amendment modifies the existing treatment of avoided transmission charges associated with distributed generation to allow any changes implemented in accordance with the Electricity Act 2010 to be accommodated.

The addition of a new recoverable costs term means that we can be flexible in the event of any changes to the Electricity Authority's Electricity Industry Participation Code regarding avoided transmission charges associated with distributed generation.

See: [Input methodology amendments for electricity distribution services: Default price-quality paths \(Reasons paper\) \(27 November 2014\)](#)

2014 amendment to this decision (9)

This amendment applies to the IMs that apply for the specification of price for both default and CPPs, and took effect from 1 April 2015, which corresponds to the start of the next DPP regulatory period.

This amendment limits the risk of under- or over-recovery of pass-through and recoverable costs arising from uncertainty associated with forecasting.

The amendment achieves this by limiting the calculation of allowable notional revenue and notional revenue for the weighted average price cap to 'distribution prices', which is defined as excluding pass-through and recoverable costs.

The DPP determination includes provisions relating to demonstrating the recovery of pass-through and recoverable costs.

See: [Input methodology amendments for electricity distribution services: Default price-quality paths \(Reasons paper\) \(27 November 2014\)](#)

2016 amendment

We changed IM decision SP05 to add two new recoverable costs:

- a recoverable cost for the revenue wash-up drawdown amount ([see Topic paper 1: Form of control and RAB indexation for EDBs, GPBs and Transpower \(16 June 2016\)](#)); and

a new recoverable cost to allow suppliers to recover prudently incurred expenditure in response to an urgent project ('urgent project allowance') ([see Topic paper 2: CPP requirements \(20 December 2016\)](#)).

2019 amendment to this decision (1)

We introduced an innovation project allowance recoverable cost term. The recoverable cost is for an amount drawn down by an EDB from its 'innovation project allowance', requiring ex-post approval by the Commerce Commission for that purpose.

We considered that introducing this recoverable cost would likely promote the long-term interests of consumers by allowing us to set better incentives for innovation in DPPs and CPPs.

See paragraphs 3.24-3.38 of [Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper \(26 November 2019\)](#).

	<p>2019 amendment to this decision (2) We introduced a new recoverable cost for Fire Emergency New Zealand (FENZ) levies for distributors subject to a DPP or CPP.</p> <p>The level of FENZ levies payable by a distributor is largely outside their control and we considered that retaining the previous IM treatment of FENZ levies could result in consumers over-paying, or us setting an insufficient expenditure allowance for distributors.</p> <p>See paragraphs 3.39-3.50 of Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019).</p> <p>2019 amendment to this decision (3) We amended the EDB IM to extend the scope of the recoverable cost relating to charges for a 'new investment contract' (as defined in the Electricity Industry Participation Code). The amendment allows a distributor to use a third party option to finance a NIC between the distributor and Transpower (or an equivalent contract with another transmission provider).</p> <p>We considered that extending the scope of the recoverable cost removed a barrier to distributors making necessary network enhancements and possibly to reduce the financing costs of enhancements, as well as applying an additional layer of scrutiny to the level of costs that a distributor can recover.</p> <p>See paragraphs 3.57-3.71 of Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019).</p> <p>2020 amendment to this decision We amended the EDB IMs to correct an error relating to the definition of discounts. The previous drafting meant that non-exempt distributors could not include (or in other words 'net off') the value of any discounts made after a DPP or CPP is determined when complying with that DPP or CPP. This meant non-exempt distributors would have to have either:</p> <ul style="list-style-type: none"> - avoided offering any new discounts when setting their prices; or - risked non-compliance with the price path. <p>See Amendment to Electricity Distribution Services Input Methodologies Determination and Electricity Distribution Services Default Price-Quality Path Determination 2020: Correction to definition of discount - companion paper (30 March 2020).</p>
This decision applies to the following sectors:	EDB

Draft decision

- 7.18 Our draft decision is to change IM decision SP05 to:
- 7.18.1 introduce a 'reopener event allowance' recoverable cost which covers all reopener events;
 - 7.18.2 remove the distributed generation allowance (**DGA**) recoverable cost, while retaining the 'spur asset' recoverable cost;

- 7.18.3 require EDBs to adjust recoverable costs to take account of costs that are common to regulated and unregulated services;
- 7.18.4 change the reference in clause 3.1.3 of the EDB IM from ‘new investment contracts’ to ‘investment agreement’;
- 7.18.5 prevent EDBs from double recovering costs for ‘investment agreements’ (paid to Transpower) and finance-related payments for such payments (paid to a third party);
- 7.18.6 make changes to the innovation project allowance (**IPA**) mechanism to:
 - 7.18.6.1 rename and broaden the scope of the ‘IPA’ definition to ‘innovation and non-traditional solutions allowance’; and
 - 7.18.6.2 remove the ‘innovation project’ definition from the IMs;
- 7.18.7 reclassify transmission-related recoverable costs as pass-through costs; and
- 7.18.8 remove the recoverable costs associated with the ‘capex wash-up adjustment’ and ‘transmission asset wash-up adjustment’.

Why we are proposing these changes

Reopener event allowance

- 7.19 Our reasons for proposing this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

DGA recoverable cost

- 7.20 Removing the DGA recoverable cost is intended to promote certainty in the regulatory rules and requirements by removing ‘empty shell’ provisions from the EDB IM.
- 7.21 The Electricity Authority has removed the requirement for EDBs to pay avoided cost of transmission (**ACOT**), effective from April 2023.⁴¹
- 7.22 EDBs made ACOT payments to distributed generators based on the transmission charges that distributed generators help the EDBs to avoid – because of distributed generation on the network of distributed generators.⁴²

⁴¹ Electricity Authority “[Avoided cost of transmission payments](#)”.

⁴² Electricity Authority “[Distributed generation](#)”.

- 7.23 The DGA definition refers to ACOT.⁴³ The embedded or notionally embedded aspect of the definition is effectively redundant (which was in the past made via a separate payment which was explicitly included in the transmission charges).
- 7.24 There is also an ACOT-like recoverable cost to incentivise EDBs to purchase ‘spur assets’ from Transpower.⁴⁴ A ‘spur asset recoverable cost’ is essentially a charge that an EDB has avoided liability to pay for because the EDB has purchased Transpower’s transmission assets.⁴⁵ We do not propose removing this provision because there are still sub-transmission voltage assets that EDBs might take over from Transpower.

Recoverable costs to be subject to cost allocation

- 7.25 EDBs must adjust pass-through costs to take account of costs that are common to regulated and unregulated services. However, this is not the case for recoverable costs.
- 7.26 We consider that applying cost allocation to recoverable costs which are common to regulated and unregulated services better promotes the Part 4 purpose by preventing suppliers from extracting excess profits.
- 7.27 Currently, suppliers may allocate common recoverable costs wholly towards the regulated services to artificially increase the costs of the business while artificially decreasing the profits. Our proposed change prevents this by requiring common recoverable costs to be allocated between regulated and unregulated services.
- 7.28 This proposed change will create clearer boundaries between a regulated supplier’s regulated/unregulated services.

Amending wording from ‘new investment contracts’ to ‘investment agreement’ in the EDB IMs

- 7.29 Under clause 3.1.3(1)(c) a recoverable cost includes a charge payable by an EDB for a ‘new investment contract’ as defined in the Electricity Participation Code 2010 (Code).
- 7.30 However, the Code uses the term ‘investment agreement’ rather than ‘new investment contract’.

⁴³ Commerce Commission “[Electricity Distribution Services Input Methodologies Determination 2012](#)” (20 May 2020), clause 1.1.4(2).

⁴⁴ The definition of ‘spur asset’ are found in the [Electricity Distribution Services IMs](#) – clauses 3.1.3(1)(e), 3.1.3(1)(b)-(c), 3.1.3(2) and 3.1.3(4).

⁴⁵ The essence of the definition of ‘spur asset’ can be found in the [Electricity Distribution Services IMs](#), clause 3.1.3(1)(e).

- 7.31 Therefore, the proposed amendment is intended to create greater certainty as to the rules and requirements by ensuring consistency of terminology between rules and regulations which the EDB IM references.

Preventing EDBs from double recovery of costs for 'investment agreements'

- 7.32 Under clause 3.1.3(c), an EDB could double recover for charges paid to Transpower in respect of any 'investment agreement' (subparagraph (i))⁴⁶ and finance-related payments for such agreements paid to a third party (subparagraph (ii)).
- 7.33 We are proposing to amend subparagraph (ii) to clarify that such costs are only recoverable to the extent they are not recovered under subparagraph (i).
- 7.34 This draft decision is intended to prevent EDBs from extracting excessive profits through double recovery of these costs. It also promotes greater certainty about the recovery of costs relating to these investment agreements.

Innovation project allowance

- 7.35 Our reasons for proposing this change are discussed in Chapter 6 (topic 6b) of the Financing and incentivising efficient expenditure during the energy transition topic paper.

Reclassification of transmission-related recoverable costs

- 7.36 This change is necessary to support our overall suite of changes to improve the workability of the revenue path and wash-up mechanism.
- 7.37 Our reasons for proposing this change are further explained in Attachment D of the Financing and incentivising efficient expenditure during the energy transition Topic Paper.

Removal of specific wash-up recoverable costs

- 7.38 These wash-ups have been incorporated into the overall wash-up mechanism proposed as part of changes to SP01 and SP02, as such these recoverable costs are no longer necessary.
- 7.39 This draft decision is explained in Attachment D of the Financing and incentivising efficient expenditure during the energy transition Topic Paper.

⁴⁶ Clause 3.1.3(c)(i) of the EDB IM refers to 'new investment contract', however (as noted above), we are proposing to amend this to refer to 'investment agreement'.

Pre-review specification of price IM decision SP06

<p>Decision SP06</p> <p>Specification of price – GDBs</p>	<p>Original 2010 decision</p> <p>Recoverable costs include costs associated with a CPP application; the net incremental carry forward amount under IRIS; and claw-back applied by the Commission.</p> <p>See section 8.3 and Appendix J, section J2 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2013 amendment to this decision</p> <p>Amended the IMs to make changes to provisions that will apply to the DPPs for suppliers of gas pipeline services.</p> <p>The definition of recoverable costs was amended to refer to the recovery of balancing gas costs or credits from welded parties, as well as shippers, on a supplier’s network. Welded parties are defined as those entities having an interconnection agreement with the GTB.</p> <p>See: Amendments to input methodologies for gas distribution and transmission services: Reasons paper (26 February 2013)</p> <p>2016 amendment to this decision</p> <p>We amended this decision to add:</p> <ul style="list-style-type: none"> • a 'wash-up' of forecast capex for the year (or years) prior to the setting of a DPP or CPP, consistent with our 2014 decision for EDBs DPPs, and consistent with our changes for GTBs; • an allowance for the recovery of prudent expenditure incurred in response to a catastrophic event, consistent with our 2014 decision for EDBs and consistent with GTBs; and • as discussed in the reasons for change in Topic paper 2: CPP requirements, a new recoverable cost allowance to allow suppliers to recover prudently incurred expenditure in response to an urgent project ('urgent project allowance'). <p>See Chapter 7, paragraphs 292-307 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016)</p>
<p>This decision applies to the following sectors:</p>	<p>GDB</p>

Pre-review specification of price IM decision SP07

<p>Decision SP07</p> <p>Recoverable costs - GTBs</p>	<p>Original 2010 decision</p> <p>Recoverable costs include costs associated with a CPP application; the net incremental carry forward amount under IRIS; claw-back applied by the Commission; and costs or credits associated with the sale or purchase of balancing gas.</p> <p>See section 8.3 and Appendix J, section J2 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision</p> <p>We amended this decision to add:</p> <ol style="list-style-type: none"> 1. as discussed in the reasons for change in topic paper 1: Form of control and RAB indexation, a recoverable cost for the drawdown of the revenue cap wash-up balance; 2. a 'wash-up' of forecast capex for the year (or years) prior to the setting of a DPP determination or CPP determination, consistent with our 2014 decision (for DPPs) for EDBs and consistent with GDBs; 3. an allowance for the recovery of prudent expenditure incurred in response to a catastrophic event, consistent with our 2014 decision for EDBs and consistent with GDBs; 4. a recoverable cost for compressor fuel gas; and 5. as discussed in the reasons for change in topic paper 2: CPP requirements, a new recoverable cost allowance to allow suppliers to recover prudently incurred expenditure in response to an urgent project ('urgent project allowance'). <p>We also made a change that clarified the treatment of balancing gas as a recoverable cost.</p> <p>See Chapter 7, para 308-333 of 2016 Report on the IM Review:</p>
<p>This decision applies to the following sectors:</p>	<p>GTB</p>

Draft decisions for SP06 and SP07

7.40 Our draft decision is to change IM decisions SP06 and SP07 to:

- 7.40.1 introduce the 'reopener event allowance' recoverable cost to the GDB and GTB IMs;
- 7.40.2 introduce an additional recoverable cost for FENZ levies to the GDB and GTB IMs;
- 7.40.3 require GDBs and GTBs to adjust their recoverable costs to take account of costs that are common to regulated and unregulated services; and
- 7.40.4 amend the GTB IMs to provide a recoverable cost for all 'compressor fuel' used on the transmission network, not just fuel used in respect of the former Maui Development Ltd (Maui) pipeline.

Why we are proposing these changes

Reopener event allowance

- 7.41 Our reasons for proposing this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Recoverable cost for FENZ levies

- 7.42 FENZ levies are treated as a recoverable cost for EDBs but not for GDBs/GTBs. This treatment is inconsistent across these sectors.

- 7.43 This issue was identified by First Gas in its submission on the Process and Issues Paper.⁴⁷

... The 2020 EDB DPP reset introduced a new recoverable cost that allows for FENZ levies to be passed through to consumers. This change has not been included in the gas DPP reset, noting that only GasNet received an uplift for this levy. This levy is applicable to all GPBs.

Suggested solution: Consider this cost should be treated as a recoverable cost for all GPBs. No case for different treatment to EDBs.

- 7.44 Our draft decision to treat FENZ levies as a recoverable cost in the GTB and GDB IMs is intended to create cross-sector consistency, which promotes greater certainty for regulated suppliers and consumers as to the treatment of these levies.

Recoverable costs to be subject to cost allocation

- 7.45 GDBs and GTBs must adjust pass-through costs to take account of costs that are common to regulated and unregulated services. However, this is not the case for recoverable costs.
- 7.46 We consider that applying cost allocation to recoverable costs better promotes the Part 4 purpose by preventing suppliers from extracting excess profits.
- 7.47 Currently, suppliers may allocate common recoverable costs wholly towards the regulated services to artificially increase the costs of the business while artificially decreasing the profits. Our proposed change prevents this by requiring common recoverable costs to be allocated between regulated and unregulated services.
- 7.48 This proposed change will create clear boundaries between a regulated supplier's regulated/unregulated services.

⁴⁷ First Gas "[Part 4 Input Methodologies Review 2023 Process and Issues paper and Draft Framework Paper submission](#)" (13 July 2022), p. 29.

Compressor fuel

- 7.49 Compressor fuel (fuel which includes gas and electricity that GTBs use to maintain pressure on the transmission network) is a recoverable cost when used on the Maui pipeline but is treated as an opex when used on the rest of the transmission network (the former Vector assets).
- 7.50 This treatment is inconsistent per se and inconsistent with our framework for recoverable costs.
- 7.51 Our draft decision to treat all compressor fuel gas costs as recoverable costs (irrespective of where on the network it is used) is intended to:
- 7.51.1 create consistent incentives to invest (s 52A(1)(a)) across the transmission network and to operate the network efficiently (s 52A(1)(b)) while limiting excess profits (s 52A(1)(d));
 - 7.51.2 ensuring the IMs (and price-quality paths) are consistent with the expectation of a normal return principle; and
 - 7.51.3 reducing compliance cost and complexity.

Promoting the Part 4 purpose and expectation of a normal return

- 7.52 Recoverable costs (and pass-through costs) are intended to ensure price paths are set based on an ex-ante normal return. Exposing suppliers to forecast risk with respect to costs they have little or no control over undermines this, and in doing so, risks undermining incentives to invest and may lead to excess profits.
- 7.53 Our framework for assessing this was most recently articulated when setting the IMs for fibre:⁴⁸

To assess which costs should qualify as pass-through costs, we apply three criteria:

it must be appropriate that end-users bear the cost;

the regulated provider must have almost no control over the cost (whether to incur it and the amount incurred); and

the driver of the cost must be foreseeable when the IMs are determined.

- 7.54 While compressor fuel and the driver for its use is foreseeable, the use of such fuel is largely outside the control of First Gas, as it is highly dependent on demand for natural gas. This is true for both the Maui and former Vector assets.

⁴⁸ Commerce Commission "[Fibre Input Methodologies – Main final decisions reasons paper](#)" (13 October 2020), para 9.49. Note the Fibre IMs do not make a distinction between pass-through and recoverable costs, but the principle is the same.

- 7.55 Treating compressor fuel differently based on its location may also be creating a regulatory incentive to operate the network inefficiently. As First Gas are exposed to the cost of fuel on some compressors but not others, it may choose which compressors to use based on the regulatory treatment, not true cost efficiency.

Reducing compliance cost and complexity

- 7.56 Requiring separate treatment and reporting of compressor fuel depending on where on the network it is used adds unnecessary compliance cost without additional benefit. The issue is a legacy one from when the transmission system was operated as two different networks.

Pre-review specification of price IM decision SP08/AV26

<p>Decision SP08/AV26</p> <p>Price specified by revenue cap – Transpower; RAB indexation</p>	<p>Original 2010 decision (SP08) Price for Transpower will be specified by a total revenue cap.</p> <p>See section 7.3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>Original 2010 decision (AV26) No indexation is to be applied in rolling forward Transpower's RAB value.</p> <p>See section 4.3, paragraphs 4.4.68-4.4.80 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2019 amendment to this decision (1) (SP08) We introduced a new provision to allow an economic value account balance to be carried forward from one regulatory period to the next, and for that carried forward balance to be applied in the setting of Transpower's maximum allowable revenue for that next regulatory period.</p> <p>This change aimed to enable Transpower to share with consumers the benefits of efficiency gains in the supply of electricity transmission services, including through lower prices over regulatory periods.</p> <p>See paragraphs 2.19-2.48 of Chapter 2: Amendments to the Transpower IM Determination, Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019).</p> <p>2019 amendment to this decision (2) (SP08) We introduced an additional exclusion in the definition of 'operating costs' for "payment of any pecuniary penalties", and a new defined term 'pecuniary penalties'.</p> <p>We considered that the previous definition of operating costs (which is used in the Transpower IM determination for determining the 'forecast MAR' and the 'forecast SMAR', and calculating the opex IRIS incentive amounts) did not provide sufficient certainty about the treatment of pecuniary penalties. We made the amendment to address that lack of clarity.</p> <p>See paragraphs 2.97-2.112 of Chapter 2: Amendments to the Transpower IM Determination, Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019).</p>
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This decision applies to the following sectors:	Transpower
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Draft decision

7.57 Our draft decision is to change IM decision SP08/AV26 to index Transpower's RAB to inflation.

Why we are proposing this change

7.58 Our reasoning for proposing this change is discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

Pre-review specification of price IM decision SP09

Decision SP09 Pass-through costs - Transpower	<p>Original 2010 decision</p> <p>The IM includes a list of pass-through costs and a process for adding new pass-through costs. The list of path-through costs includes local authority rates and regulatory levies.</p> <p>See section 7.3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2019 amendment to this decision</p> <p>We introduced a new pass-through cost for Transpower for levies payable by all members of the Energy Complaints Scheme operated by Utilities Disputes Limited, being the approved scheme under Schedule 4 of the Electricity Industry Act 2010.</p> <p>As the actual amount of levy paid is outside of Transpower's control, treating it at a pass-through cost removed the risk of consumers paying more than necessary, or Transpower's expenditure allowance being insufficient.</p> <p>The amendment also made the treatment of Transpower's Energy Complaints Scheme levy consistent with the same levies under the EDB IM determination.</p> <p>See paragraphs 2.12-2.18 of Chapter 2: Amendments to the Transpower IM Determination, Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019).</p>
This decision applies to the following sectors:	Transpower

Draft decision

7.59 Our draft decision is to change IM decision SP09 to require Transpower to adjust its pass-through costs to take account of those costs which are common to regulated and unregulated services.

7.60 We propose this requirement only applies if Transpower's common costs (costs not directly attributable) exceed at least 2% of its costs associated with regulated services.

Why we are proposing this change

- 7.61 We consider that requiring Transpower to adjust its pass-through costs to take account of those costs which are common to regulated and unregulated services will better promote the Part 4 purpose by preventing Transpower from extracting excess profits.
- 7.62 Currently, Transpower may allocate pass-through costs which are shared between regulated and unregulated services solely towards the regulated services to artificially increase the costs of the business while artificially decreasing the profits.
- 7.63 Our proposed change limits this by requiring common pass-through costs to be allocated between regulated and unregulated services once the level of Transpower's total common costs meet a certain threshold (as discussed below).

Implementation

- 7.64 As set out at IM decision CA07, we are proposing to require Transpower to apply ABAA to allocate costs that are common to regulated and unregulated services. This requirement only applies if Transpower's common costs (costs not directly attributable) are at least 2% of its costs associated with regulated services.
- 7.65 We consider that the allocation of pass-through costs should only apply if the requirement to allocate common costs is triggered (ie, by meeting the 2% threshold).

Pre-review specification of price IM decision SP10

Decision SP10 Recoverable costs – Transpower	<p>Original decision Recoverable costs include instantaneous reserves availability charges (with some exclusions), the costs of developing and funding transmission alternatives under some conditions, and the net incremental carry forward amount under IRIS.</p> <p>See section 7.3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision (1) The amendment affects the IMs relating to the individual price-quality regulation of Transpower. It will apply immediately, with the practical effect of allowing recoverable costs to be calculated in this way from the first disclosure year for RCP2.</p> <p>We have added a new recoverable cost to the specification of price IM to allow Transpower to recover operating costs that were originally forecast and approved as components of major capex projects.</p> <p>The amendment caters for the situation where the expenditure forecast in respect of approved major capex projects is ultimately required to be accounted for under GAAP as opex (such as project feasibility costs).</p> <p>See: Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</p>
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	<p>2014 amendment to this decision (2)</p> <p>The addition of the new recoverable cost ensures that the overall framework established in respect of catastrophic events is appropriate, whereby Transpower should be:</p> <ul style="list-style-type: none"> • compensated through the future amended IPP for prudent additional net costs that are forecast to be incurred after the price-quality path is reset (ie, existing reconsideration provisions); • cushioned through the future amended IPP against changes in future demand, by factoring in up-to-date forecasts when the price-quality path is reset (ie, existing reconsideration provisions); and • compensated through an amount in future revenues for prudent additional net costs of the catastrophic event incurred before the price-quality path is amended (ie, new recoverable cost) <p>The amendment affects the IMs relating to individual price-quality regulation for Transpower.</p> <p>It will apply immediately, with the practical effect of allowing the recovery of prudent net additional opex following a catastrophic event occurring from the commencement of RCP2.</p> <p>The first pricing year in which the amendment may therefore be applied in the setting of Transpower’s transmission revenue under the transmission pricing methodology (TPM) is the pricing year commencing 1 April 2016.</p> <p>We have amended the specification of price IM to allow Transpower to recover, as a recoverable cost, prudent net additional opex incurred in the period between the date of a catastrophic event and the effective date of any resulting amended IPP arising from a reconsideration of the IPP.</p> <p>See: Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</p> <p>2019 amendment to this decision</p> <p>We introduced a new recoverable cost for FENZ levy payable by Transpower.</p> <p>The FENZ levy payable by Transpower is largely outside of its control and we considered that retaining the previous IM treatment of FENZ levies could result in consumers over-paying, or us setting an insufficient expenditure allowance for Transpower.</p> <p>See paragraphs 2.5-2.11 of Chapter 2: Amendments to the Transpower IM Determination, Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019)</p>
This decision applies to the following sectors:	Transpower

Draft decision

- 7.66 Our draft decision is to change IM decision SP10 to require Transpower to adjust its recoverable costs to take account of those costs which are common to regulated and unregulated services.

- 7.67 We propose that this requirement only applies if Transpower's common costs (costs not directly attributable) are at least 2% of its costs associated with regulated services.

Why we are proposing this change

- 7.68 We consider that requiring Transpower to adjust its recoverable costs to take account of those costs which are common to regulated and unregulated services better promotes the Part 4 purpose by limiting Transpower's ability to extract excessive profits.
- 7.69 Currently, Transpower could allocate recoverable costs which are shared between regulated and unregulated services wholly towards the regulated services to artificially increase the costs of the business while artificially decreasing the profits.
- 7.70 Our proposed change limits this by requiring common recoverable costs to be allocated between regulated and unregulated services once the level of Transpower's total common costs meet a certain threshold (as discussed below).

Implementation

- 7.71 The 2% trigger is discussed above at IM decision SP09 (relating to recoverable costs).

Pre-review specification of price IM decision SP11

<p>Decision SP11</p> <p>Recoverable cost for additional revenue – Alpine/Top Energy/Centralines</p>	<p>Original decision</p> <p>This amendment introduces a recoverable cost to allow for a one-off recovery of additional revenue for three EDBs (Alpine Energy, Top Energy and Centralines). This amendment addresses the impact of the limit to price increases for Alpine Energy, Top Energy and Centralines in the last 2 years of the current regulatory period (1 April 2013 – 31 March 2015).</p> <p>The amendment changes the definitions in the general provisions of the IMs, and the IMs that apply for the specification of price for both DPPs and CPPs. It will apply from 1 April 2015, which corresponds to the start of the next DPP regulatory period:</p> <p>Input methodology amendments for electricity distribution services: Default price-quality paths (Reasons paper) (27 November 2014)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB (Alpine Energy, Top Energy and Centralines only)</p>

Draft decision

- 7.72 Our draft decision is to change IM decision SP11 to remove the '2013-15 NPV wash-up allowance' recoverable cost from the EDB IM.

Why we are proposing this change

- 7.73 The 2013-15 NPV wash-up allowance is no longer relevant and should be removed from the EDB IMs.
- 7.74 Removing this redundant recoverable cost promotes greater certainty as to the scope of those costs, as well as reducing the complexity of the EDB IMs.

Chapter 8 Reconsideration of price-quality path decisions that we are proposing to change

Pre-review reconsideration of price-quality path IM decision RP01

<p>Decision RP01</p> <p>Reconsideration of DPP</p>	<p>Original 2010 decision</p> <p>For all services, a DPP may be reconsidered if a material error is discovered in the determination; or a supplier has provided false or misleading information, which the Commission has relied upon in making its determination.</p> <p>See section 8.4 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2014 amendment</p> <p>High Court judgment in Wellington International Airports Ltd and others v Commerce Commission [2013] NZHC 3289 (11 December 2013) and Commerce Commission “Publication of Electricity, Gas, and Airport Input Methodology Amendments ordered by the High Court” (27 November 2014). See amended definitions of ‘catastrophic event’, ‘change event’ and clauses 4.5.1 to 4.5.5 of each of the EDB IM Determination, GDB IM Determination and GTB IM Determination: A DPP may be reconsidered if a catastrophic event or change event has occurred. This aligns the DPP reconsideration provisions with the CPP provisions.</p> <p>See: Publication of Electricity, Gas, and Airport Input Methodology Amendments ordered by the High Court (27 November 2014) Wellington International Airport Ltd & Ors v Commerce Commission [2013] NZHC 3289 [11 December 2013]</p> <p>2016 amendment</p> <ul style="list-style-type: none"> • In 2016 we changed the DPP reconsideration provisions to: • expand the existing DPP ‘error’ reopener provision for EDBs, GDBs and GTBs; • introduce a DPP reopener that would allow us to reconsider an EDB’s quality standards, in place of the pre-review option for EDBs to apply for a quality-only CPP; and • introduce a new reopener provision to allow a price-quality path to change in response to a major transaction for EDBs, GDBs and GTBs. <p>See Chapter 8, paragraphs 334-346 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM review (20 December 2016)</p> <p>2019 amendment (1)</p> <p>We amended the IM that specifies the circumstances in which a price-quality path may be reconsidered to introduce new reopeners for distributors subject to a DPP to allow for certain projects which require major capital expenditure (capex) for:</p> <ul style="list-style-type: none"> • new connections (including alterations to existing connections); • system growth; • a combination of new connections (including alterations to existing connections) and system growth; and
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	<ul style="list-style-type: none"> • asset relocations. <p>We considered these amendments were likely to better promote the Part 4 purpose because:</p> <ul style="list-style-type: none"> • under the previous EDB IMs, if a distributor were to face an unforeseen major capex project, it would face disincentives to invest because any additional commissioned assets would lead to a penalty under the capex IRIS mechanism, with no off-setting incentive to improve efficiency, as the demand for new connections is substantially beyond the distributor's control; and • if we were to include a forecast allowance for potential major capex projects when setting a DPP, a distributor may earn excessive profits where the demand does not eventuate. <p>See paragraphs 3.98-3.128 of Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019).</p> <p>2019 amendment (2)</p> <p>We amended the quality standard variation provisions to be more generalised so that they do not need to be updated whenever the DPP quality standards or quality incentives are changed.</p> <p>See paragraphs 3.175-3.180 of Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019).</p> <p>2022 amendment</p> <p>We made amendments to introduce reopeners to address capacity and risk events that apply to individual projects or programmes. We:</p> <ul style="list-style-type: none"> • amended the Gas IMs to allow for capacity and risk event reopeners; • set reopener maximum and minimum expenditure thresholds; and introduced the ability for GPBs to apply for a risk event reopener to seek additional opex if the GPB can demonstrate that the proposed opex is a more cost-effective substitute than capex solutions. <p>We considered that introducing these reopeners would increase the flexibility available to GPBs and reduce the potential for unintended consequences from the high-level capex setting approach have taken. The capex reopeners are equivalent to those introduced in the EDB IMs during the EDB DPP3 process.</p> <p>See paragraphs 3.73-3.127 of Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths: Reasons paper (30 May 2022).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

8.1 IM decision RP01 covers all of the reopener scope and process design IM decisions. For the purpose of this report, IM decision RP01 has been split into sub-decisions using a decimal point numbering system e.g., RP01.1.

Pre-review reconsideration of price-quality path IM decision RP01.1

Decision RP01.1 System growth capex	Pre-review IM decision The current drafting of the Foreseeable major capex project reopener provides for projects or programs that have a primary driver of meeting demand for system growth capex. The current definition provides for (a) capacity growth; and (b) capex associated with investment required on the network to provide for new technologies.
This decision applies to the following sectors:	EDB

Draft decision

8.2 Our draft decision is to change IM decision RP01.1 by amending the EDB IMs as follows:

8.2.1 amending the triggers for system growth expenditure within the Foreseeable major capex project reopener to provide for reopeners for general growth only where the relevant project or programme was identified within an Asset Management Plan used in setting the DPP;

8.2.2 amending the IM triggers for system growth expenditure within the Unforeseeable major capex project reopener to not allow for applications driven by general growth; and

8.2.3 refining the definitions of ‘system growth capex’ and ‘connection capex’.

Why we are proposing this change

8.3 Our reasons for proposing the first two changes are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

8.4 We are proposing to refine the definitions of ‘system growth capex’ and ‘connection capex’ to align these definitions with standard legal practice where definitions are stated using one sentence, rather than multiple sentences. This is intended to reduce regulatory complexity.

Pre-review reconsideration of price-quality path IM decision RP01.2

Decision RP01.2 Resilience capex	Pre-review IM decision The current drafting of the EDB, GDB and GTB IMs covers the occurrence of specific events or are growth focussed. They do not cover resilience-related expenditure which may be needed to maintain reliability and security of supply.
This decision applies to the following sectors:	EDB/GDB/GTB

Draft decision

- 8.5 Our draft decision is to change IM decision RP01.2 by amending:
- 8.5.1 the EDB IM to extend the drivers in the EDB Foreseeable and Unforeseeable major capex project reopeners to include targeted resilience-related capex; and
 - 8.5.2 the GDB and GTB IMs to include a new (separate) reopener for capex relating to targeted resilience and asset relocation, and include within the expenditure for targeted resilience and asset relocation, opex that is directly associated with the implementation of a capex solution provided it would not have been incurred but for that particular project or programme preceding it.

Why we are proposing this change

- 8.6 Our reasons for proposing this change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP01.3

Decision RP01.3	Pre-review IM decision
Risk events	The current drafting of the GDB and GTB IMs include a Risk event reopener covering the deterioration of one or more assets, which would have a materially adverse effect on the GDB's or GTB's ability to meet its quality standards, and/or compromise safety for any person, equipment or the network. The EDB IMs do not contain the equivalent DPP reopener.
This decision applies to the following sectors:	EDB

Draft decision

- 8.7 Our draft decision is to change IM decision RP01.3 by amending the EDB IM to include a Risk event reopener, with a lower reopener threshold of 1% of the EDB's forecast net allowable revenue (**FNAR**) or \$2.5 million (whichever is lower).

Why we are proposing this change

- 8.8 Our reasons for proposing this change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP01.4

Decision RP01.4 Consideration of whether an application is better suited to a CPP	Pre-review IM decision The current IMs do not provide for the option for the Commission to identify DPP reopeners that are better suited to CPPs.
This decision applies to the following sectors:	EDB/GDB/GTB

Draft decision

8.9 Our draft decision is to change IM decision RP01.4 by amending the IMs to include a new clause to provide the Commerce Commission (**the Commission**) with the option to identify reopeners that are better suited to CPPs. This new provision excludes error events, major transactions, and false or misleading information reopener events.

Why we are proposing this change

8.10 Our reasons for proposing this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP01.5/RP02.5

Decision RP01.5 RP02.5 Threshold to trigger the major transaction reopener	2016 amendment to this decision In 2016 we changed the CPP reconsideration provisions to: <ul style="list-style-type: none"> • provide for reconsideration of a CPP where there is a DPP WACC change. This decision linked with our decision to use the prevailing DPP WACC rate throughout a CPP (see IM decision CC03); • expand the scope of the existing 'error' reopener provision; • introduce a new reopener provision to allow a CPP to change in response to a major transaction for EDBs, GDBs and GTBs; and • introduce a contingent and unforeseen project reopener for EDBs and GDBs. <p>See Chapter 8, paragraphs 347-352 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Draft decision

- 8.11 Our draft decision is to make an editorial refinement to IM decision RP01.5/RP02.5 to make it clear that the 10% threshold to trigger the major transaction reopener applies to the regulated supplier's 'total opening RAB value' for its assets in the year of the transaction. This draft decision applies to the EDB, GDB and GTB IMs.

Why we are proposing this change

- 8.12 The 10% threshold to trigger the major transaction reopener is intended to apply to a regulated supplier's total opening RAB value.
- 8.13 We are concerned that the 10% threshold to trigger the major transaction reopener could be incorrectly interpreted as applying to an individual asset's opening RAB value, which is an unrealistically low hurdle and does not reflect the policy intent.
- 8.14 The proposed change is intended to better promote the s 52R purpose by removing any ambiguity about the threshold for triggering the major transaction reopener.

Pre-review reconsideration of price-quality path IM decisions RP01.6, RP02.6 and RP05.6

<p>Decisions RP01.6, RP02.2 and RP05.1</p> <p>Definition of a 'reopener event'</p>	<p>Pre-review IM decision</p> <p>The current IMs do not consistently set out the timeframe for which the reopener applies.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB/Transpower</p>

Draft decision

- 8.15 Our draft decision is to change IM decisions RP01.6, RP02.6 and RP05.6 by defining a 'reopener event' as an event, or a series of related events, that occurs within the twelve-month period before or during the regulatory period of the price-quality path determination.

Why we are proposing this change

- 8.16 Our reasons for proposing this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.7, RP02.7 and RP05.7

Decisions RP01.7, RP02.7 and RP05.7 Requirement to provide sufficient information	Pre-review IM decision The current IMs do not clearly state what information is required to support the reopener application.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Draft decision

- 8.17 Our draft decision is to change IM decisions RP01.7, RP02.7 and RP05.7 to require a supplier which nominates a reopener event to provide sufficient information to enable the Commission to assess whether a reopener event has occurred and whether a price-quality path should be amended.

Why we are proposing this change

- 8.18 Our reasons for proposing this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.8, RP02.8 and RP05.8

Decisions RP01, RP02 and RP05 Requirement to publish notice for reopener event applications	Pre-review IM decision The current IMs do not specify the notification requirements for the Commission following the nomination of a reopener event by a supplier and the reconsideration of a price-quality path.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Draft decision

8.19 Our draft decision is to change IM decisions RP01.8, RP02.8 and RP05.8 to require the Commission to publish a notice on its website after:

8.19.1 a reopener event has been nominated by a supplier; and

8.19.2 the Commission decides whether:

8.19.2.1 it is satisfied a reopener event has occurred;

8.19.2.2 to reconsider the price-quality path; and

8.19.2.3 to amend a price-quality path.

Why we are proposing this change

8.20 Our reasons for proposing this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.9, RP02.9 and RP05.9

Decisions RP01, RP02 and RP05	Pre-review IM decision
Considerations the Commission must have regard to	The current IMs do not prescribe a list of mandatory considerations the Commission must have regard to when deciding whether to amend the DPP, CPP or IPP, if it is satisfied that a reopener event has occurred.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Draft decision

8.21 Our draft decision is to change IM decisions RP01.9, RP02.9 and RP05.9 by prescribing a list of factors the Commission must have regard to when deciding whether to amend the DPP, CPP or IPP, if we are satisfied that a reopener event has occurred.

Why we are proposing this change

8.22 Our reasons for proposing this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.10, RP02.10 and RP05.10

Decisions RP01, RP02 and RP05 Confidentiality clause for reopener applications	Pre-review IM decision The current IMs do not contain any information on how confidential information is dealt with in a reopener application.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Draft decision

8.23 Our draft decision is to amend the IMs to include a new provision on confidential information in the reopener process IMs. The drafting has been repurposed from the Fibre Capex IM.⁴⁹

Why we are proposing this change

8.24 Our reasons for proposing this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP01.11, RP02.11 and RP05.11

Decisions RP01, RP02 and RP05 GAAP changes	Pre-review IM decision The current drafting of the EDB, GDB, GTB and Transpower IMs does not include a reopener for GAAP changes.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

⁴⁹ [Fibre Input Methodologies Determination 2020](#) [2020] NZCC 21, clause 3.7.6.

Draft decision

- 8.25 Our draft decision is to amend the EDB, GDB, GTB and Transpower IMs to change how the impacts of GAAP changes are assessed in the change event reopener to remove the potential for windfall gains and losses.

Why we are proposing this change

- 8.26 Our reasons for proposing this change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.25 and RP02.26

<p>Decisions RP01.25 and RP02.26</p> <p>Requirement to take into account the expenditure objective when determining the extent of any amendment to the price path.</p>	<p>Pre-review IM decision</p> <p>The current IMs do not require the Commission to take into account the expenditure objective when determining the extent of any amendment to the price path.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Draft decision

- 8.27 Our draft decision is to amend the EDB, GDB and GTB IMs to require the Commission to take into account the expenditure objective when determining the extent of any amendment to the price path.

Why we are proposing this change

- 8.28 Our reasons for proposing this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP02.1

<p>Decision RP02</p> <p>Inclusion of opex</p>	<p>Pre-review IM decision</p> <p>The current drafting of the EDB Unforeseeable major capex project and the Foreseeable major capex project reopeners in the EDB IMs, and the Capacity event reopeners in the GDB and GTB IMs, does not allow for opex solutions and costs.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Draft decision

8.29 Our draft decision is to amend:

8.29.1 the EDB Unforeseeable major capex project and the Foreseeable major capex project reopeners in the EDB IMs; and

8.29.2 the Capacity event reopeners in the GDB and GTB IMs,

by providing for entirely opex solutions in relation to system growth, and by including opex consequential to the implementation of capex-based solutions, and capex consequential to the implementation of opex-based solutions.

Why we are proposing this change

8.30 Our reasons for proposing this change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.1

<p>Decision RP03</p> <p>Change the basis for establishing the threshold for Catastrophic events</p>	<p>Pre-review IM decision</p> <p>The current IMs require the threshold for Catastrophic events to be calculated using an 'impact on revenue' test.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB/Transpower</p>

Draft decision

8.31 Our draft decision is to change the basis for establishing the threshold for the Catastrophic Event reopener from an 'impact on revenue' test, to an 'incurred cost' test:

8.31.1 for EDBs this will be that the total cost incurred in responding to the reopener event exceeds the lower of 1% of FNAR for the regulatory period, or \$5 million for Vector Limited and Powerco Limited, or \$2.5 million for all other EDBs;

8.31.2 for GDBs and GTBs this will be that the total cost incurred in responding to the reopener event exceeds \$100,000 for GasNet Limited or \$2 million for all other GDBs and the GTB; and

8.31.3 for Transpower this will that be the total cost incurred in responding to the event exceeds \$5 million.

Why we are proposing this change

- 8.32 Our reasons for proposing this change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.2

Decision RP03 Change the basis for establishing the threshold for Change events (not relating to GAAP)	Pre-review IM decision The current IMs require the threshold for Change events (not relating to GAAP) to be calculated using an 'impact on revenue' test.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Draft decision

- 8.33 Our draft decision is to change the basis for establishing the threshold for the Change Event reopener (not relating to GAAP) from an 'impact on revenue' test, to an 'incurred cost' test:
- 8.33.1 for EDBs, this be that the total cost incurred in responding to the event exceeds the lower of 1% of FNAR for the regulatory period, or \$5 million for Vector Limited and Powerco Limited, or \$2.5 million for all other EDBs;
 - 8.33.2 for GDBs and GTBs, this will be the total cost incurred in responding to the event exceeds \$100,000 for GasNet Limited or \$2 million for all other GPBs; and
 - 8.33.3 for Transpower, this will be the total cost incurred in responding to the event exceeds \$5 million.

Why we are proposing this change

- 8.34 Our reasons for proposing this change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.3

Decision RP03 Change the threshold for Error events	Pre-review IM decision The current IMs specify a threshold of 1% of: FNAR (EDB & GTB); allowable notional revenue (GDB); or forecast MAR (Transpower) for Error events.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Draft decision

8.35 Our draft decision is to change the threshold to be \$100,000 for errors related to the price path for all entities.

Why we are proposing this change

8.36 Our reasons for proposing this change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.4

<p>Decision RP03</p> <p>Raise the thresholds for Foreseeable and Unforeseeable large project reopeners</p>	<p>Pre-review IM decision</p> <p>The current IMs specify a threshold for Foreseeable and Unforeseeable large project reopeners of incurred capex exceeding 1% of the EDB's FNAR for the DPP regulatory period or \$2 million (whichever is lower).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB</p>

Draft decision

8.37 Our draft decision is to raise the existing dollar thresholds that could apply to \$5 million for Vector Limited and Powerco Limited, or \$2.5 million for all other EDBs.

Why we are proposing this change

8.38 Our reasons for proposing this change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.5

<p>Decision RP03</p> <p>Remove the upper threshold for Foreseeable and Unforeseeable large project reopeners</p>	<p>Pre-review IM decision</p> <p>The current IMs specify an upper threshold for Foreseeable and Unforeseeable large project reopeners of \$30 million.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB</p>

Draft decision

8.39 Our draft decision is to remove the \$30 million upper threshold.

Why we are proposing this change

- 8.40 Our reasons for proposing this change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.6

Decision RP03 Revise the impact on revenue test for Change events reopeners relating to GAAP	Pre-review IM decision The current IMs require the threshold for Change events relating to GAAP to be calculated based on additional costs incurred.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Draft decision

- 8.41 Our draft decision is to revise the impact on revenue test for Change event reopeners relating to GAAP changes to be based on whether changes had been in place at the time of the price path reset, there have been a different price path, rather than a cost incurred test, with the thresholds being:
- 8.41.1 for EDBs, the lower of 1% of FNAR for the regulatory period, or \$5 million for Vector Limited and Powerco Limited, or \$2.5 million for all other EDBs;
 - 8.41.2 for GPBs, the impact of the event exceeds \$100,000 for GasNet Limited or \$2 million for all other GPBs; and
 - 8.41.3 for Transpower, the impact of the event exceeds \$5 million.

Why we are proposing this change

- 8.42 Our reasons for proposing this change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.7

Decision RP03 Include consequential opex into materiality thresholds for Capacity events and Risk events for GPBs	Pre-review IM decision The current IMs specify the threshold for Capacity event and Risk event reopener to be the sum of incurred capex exceeding at least \$100,000 (GasNet) or \$2 million (other GPBs)
This decision applies to the following sectors:	GDB/GTB

Draft decision

- 8.43 Our draft decision is to extend the materiality threshold for a Capacity event and Risk event reopener to include consequential opex as well as incurred capex.

Why we are proposing this change

- 8.44 Our reasons for proposing this change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Chapter 9 Amalgamations decisions that we are proposing to change

Pre-review amalgamation IM decision AM01

<p>Decision AM01</p> <p>No price reset following amalgamation</p>	<p>Current IM decision</p> <p>The primary purpose of the IM covering amalgamations during a regulatory period is to provide certainty to suppliers that the Commission will not reset their prices until the end of the DPP or CPP regulatory period in which the transaction occurs. It is also intended to provide certainty as to when two (or more) price-quality paths should be amalgamated following a transaction.</p> <p>See section 8.6, paragraph 8.6.1 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Draft decision

- 9.1 Our draft decision is to make an editorial refinement to IM decision AM01 by changing the reference to “following an amalgamation” to “in response to an amalgamation” in clause 3.2.1(7) of the EDB, GDB and GTB IMs.

Why we are proposing this change

- 9.2 The policy intent behind this IM is that when there is a merger between regulated suppliers, this IM prevents the Commission from reopening the DPP to expropriate revenues from the efficiency gains resulting from the merger.
- 9.3 However, the way that the IM is drafted has stopped us from reopening the DPP following an amalgamation for any reason, which is not consistent with the policy intent.
- 9.4 The proposed change is intended to improve the certainty of the IMs for suppliers by ensuring that the IMs accurately and clearly reflect the policy intent.

Chapter 10 IRIS decisions that we are proposing to change

New IRIS IM decisions IR11 and IR12

<p>Decision IR11; IR12</p> <p>IRIS to apply - EDBs</p>	<p>Current IM decision</p> <p>IR11: In the opex IRIS, we estimate the implied opex retention factor based on the 67th percentile vanilla WACC as the discount rate (ie, the WACC applying for a price-quality path). Based on this retention factor, we equalise the capex incentive rate (set at a DPP determination) with this rate.</p> <p>IR12: IRIS incentive amounts are based on nominal allowances for opex and capex.</p>
<p>This decision applies to the following sectors:</p>	<p>EDBs</p>

Draft decision

- 10.1 Our draft decision is to make new IM decisions IR11 and IR12 as follows:
- 10.1.1 changing our approach to using the mid-point vanilla WACC as the discount rate for calculating the opex incentive rate;
 - 10.1.2 calculating the IRIS incentive amounts based on CPI-adjusted allowances for opex and capex (for EDBs) to remove the impact of economy-wide inflation; and
 - 10.1.3 removing clauses 3.3.15 to 3.3.17 of the EDB IM and the associated definitions.⁵⁰

Why we are proposing this change

Changes relating to mid-point vanilla WACC and IRIS incentive amounts

- 10.2 Our reasons for proposing these changes are discussed in Chapter 4 in Our approach to incentivising efficient expenditure for EDBs and Transpower Topic Paper.

Removing clauses 3.3.15 to 3.3.17

- 10.3 Clauses 3.3.15 to 3.3.17 of the EDB IM relate to the calculation of annual incremental changes and adjustment term for the CPP regulatory period, determination of the amount to be taken into account as a recoverable cost and calculating gains and losses after a catastrophic event.

⁵⁰ Those definitions include: actual controllable opex; allowed controllable opex; forecast CPI for IRIS transitional provision; incremental adjustment term; and inflation rate.

- 10.4 These provisions were introduced into the EDB IMs as part of the 2015-2020 EDB DPP. However, as the Orion 2014-2019 CPP was already in effect, we needed to retain these provisions (and associated definitions) for the IRIS provisions which continued to apply for Orion.
- 10.5 These clauses will no longer apply after 1 April 2025, and therefore we have proposed to remove these clauses with effect from this date.
- 10.6 The removal of these redundant provisions reduces regulatory complexity and promotes greater certainty as to the rules and requirements applying to regulated suppliers.

Pre-review IRIS IM decision IR05

<p>Decision IR05</p> <p>Treatment of IRIS balances – Transpower</p>	<p>Original 2010 decision</p> <p>While both incremental gains and losses will be carried forward to the subsequent 5 years, only positive net balances of such gains and losses in years in the next regulatory period will be treated as recoverable costs (ie, only net rewards will be recognised).</p> <p>See section 7.5 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision</p> <p>We put in place a symmetric incentive scheme to control expenditure that is the same in each year of the regulatory period. Unlike the pre-existing asymmetric IRIS for opex, the revised IRIS provides incentives that are the same in each year. For opex, the retention period for savings and losses is 5 years following the year of the gain and loss, which is equivalent to a retention factor of around 34% for a supplier. In the second full year after the price-quality path starts to apply to the supplier, a one-off adjustment is made after the carry forward amounts are added together. The one-off adjustment in the second year is required to correct for the difference between the actual and assumed level of opex in the final year of the preceding price-quality path. This adjustment is required because the incremental change in the final year of a price-quality path is assumed to be nil.</p> <p>See: Amendments to input methodologies for electricity distribution services and Transpower New Zealand: Incremental Rolling Incentive Scheme (27 November 2014)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

- 10.7 We are proposing to change IM decision IR05 to:
- 10.7.1 remove the baseline adjustment term from opex IRIS applying to Transpower;

- 10.7.2 change our approach to using the mid-point vanilla WACC as the discount rate for calculating the opex incentive rate; and
- 10.7.3 calculate the IRIS incentive amounts based on CPI-adjusted allowances for opex to remove the impact of economy-wide inflation.

Why we are proposing this change

- 10.8 Our reasons for proposing this change are set out in the Financing and incentivising efficient expenditure during the energy transition topic paper (Topics 4f and 4i).

Chapter 11 Transpower Investment IM decisions that we are proposing to change

Pre-review Transpower Capex IM decision AV32

<p>Decision AV32</p> <p>Purchase of assets from regulated supplier or related party – Transpower</p>	<p>Original 2010 decision</p> <p>Where Transpower purchases an asset from another regulated supplier it must add the asset to its RAB value at the asset's equivalent value in the RAB of the seller.</p> <p>Where Transpower purchases an asset from a related party (provided the related party is not itself a regulated supplier), it must add the asset to its RAB value at depreciated historic cost where documentation is available to support this.</p> <p>Where sufficient records do not exist to establish depreciated historic cost, it must use the asset's market value as verified by an independent valuer. For this purpose, a related party includes both:</p> <ul style="list-style-type: none"> • business units of Transpower that supply services other than electricity transmission services; and • a party that under GAAP is considered a related party (including any party that has conducted business either directly or indirectly with the supplier in the current financial year). <p>See section 4.4 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision</p> <p>We amended the definition of 'related party' to exclude those parties that are related to Transpower solely by virtue of the Crown's ownership of Transpower.</p> <p>The previous definition draws on the meaning of 'related' under GAAP which has the effect of including Transpower's shareholder (the Crown), the arms of the Crown (e.g., Government departments) and State Owned Enterprises such as Meridian Energy.</p> <p>See: Amendments to Input Methodologies for Transpower 2014: Reasons Paper (28 August 2014)</p> <p>2016 amendment to this decision</p> <p>We amended this decision to avoid a circular reference in the cost value to be used for an asset acquired from a regulated supplier in the Transpower IM Determination. We clarified clause 2.2.27(1)(f) to now reference the 'unallocated closing RAB value' of the transfer or for the purpose of setting the value.</p> <p>See chapter 4, paragraphs 119-120 of 2016 Report on the IM review: Report on the IM review (20 December 2016)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

- 11.1 Our draft decision is to change IM decision AV32 to:
- 11.1.1 add the rules for valuing assets acquired from related parties applying to EDBs and GPBs into the Transpower IM, including the proposed changes to ensure it is clear that GAAP applies on an arms-length basis to the valuation of these assets;
 - 11.1.2 require that the value of a commissioned asset that, before its commissioning date, Transpower acquired from another regulated supplier as works under construction, is limited to the sum of:
 - 11.1.2.1 the costs of the other regulated supplier in constructing the works; and
 - 11.1.2.2 any additional costs of Transpower in constructing the asset (excluding any amount paid to the other regulated supplier); and
 - 11.1.3 amend clause 2.2.7(1)(f) of the Transpower IMs to remove reference to “limited to”, such that assets acquired by Transpower from another regulated supplier and used by Transpower in the supply of regulated goods and services must always be valued at the unallocated closing RAB value of the asset.

Why we are proposing this change

- 11.2 Our reasons for the proposed change are set out in Attachment A of this report.

Pre-review Transpower Capex IM decision RP05

<p>Decision RP05</p> <p>Reconsideration of IPP</p>	<p>Original 2010 decision</p> <p>Transpower's IPP may be reconsidered if one of the following events has occurred:</p> <ul style="list-style-type: none"> • a catastrophic event, for which the costs of rectifying the impact of the event is material; or • a material error is discovered in the determination; or • Transpower has provided false or misleading information, which the Commission has relied upon in making its determination; or • a change in legislative or regulatory requirements that has a material impact on Transpower's costs. <p>See section 7.4 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2019 amendment to this decision</p> <p>The amendment allows Transpower to seek a reconsideration of Transpower's IPP if Transpower considers that two or more E&D base capex projects not included in the IPP have become reasonably likely to commence in the RCP. The reconsideration mechanism is available until the end of the second disclosure year of the relevant RCP.</p> <p>See: Amendments to input methodologies for Transpower: Reasons paper (28 August 2019)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

- 11.3 Our draft decision is to change IM decision RP05 to amend the Enhancements & Development (**E&D**) reconsideration mechanism in the Transpower IM to introduce opex as an option when Transpower applies for the E&D mid-period reopener.

Why we are proposing this change

- 11.4 Our reasons for the proposed change are set out in Chapter 11 of the Transpower Investment Topic Paper.

Pre-review Transpower Capex IM decisions TC03 and TC63

<p>Decision TC03</p> <p>Base Capex Threshold</p>	<p>Original decision</p> <p>The base capex threshold means, where the last asset delivered by the project or programme to which the capital expenditure has a forecast commissioning date from RCP2 onwards, of \$20 million.</p> <p>The base capex threshold serves as one of the delineating factors between base capex and major capex.</p> <p>See section 2.5 of the 2012 Capex IM Final Reasons Paper: 2012 Capex IM Final Reasons Paper</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC63</p> <p>Processes, requirements and evaluation criteria for listed projects - Base capex projects or programmes that can be listed</p>	<p>Original decision</p> <p>To be eligible for ‘listing’ a base capex project or programme, the Commission considers the project or programme will require capital expenditure of greater than \$20 million.</p> <p>See section 24.4.2 of the 2014 Capex IM Final Reasons Paper: 2014 Capex IM Final Reasons Paper</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

- 11.5 Our draft decision is to change IM decisions TC03 and TC63 to increase the base capex threshold to \$30 million to account for inflation, until the next IM Review in 2030 (expected).
- 11.6 We also propose to amend related thresholds to refer directly to “base capex threshold” rather than a nominal value.

Why we are proposing this change

- 11.7 Our reasons for proposing this change are discussed in Chapter 7 of the Transpower investment topic paper.

Pre-review Transpower Capex IM decisions TC03, TC37, TC39 and TC44

<p>Decision TC03</p> <p>Capex IM framework - categories and definitions for capital expenditure</p>	<p>Original 2012 decision</p> <p>We set out the criteria for categorising capital expenditure as either major capex or base capex. These criteria classified base capex as replacement and renewal (R&R) projects (and E&D projects below \$20 million) and major capex as E&D projects above \$20 million.</p> <p>See Chapter 2 - Capex IM framework, paragraphs 2.5.1-2.5.13 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC37</p> <p>Major capex - approval process - content requirements for a major capex proposal</p>	<p>Original 2012 decision</p> <p>We set out information requirements for major capex proposals. These were specified in Schedule G of the capex IM determination.</p> <p>See Chapter 6: Major capex - approval process, paragraphs 6.8.1-6.8.7 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC39</p> <p>Major capex – approval process – criteria for evaluating major capex proposals</p>	<p>Original 2012 decision</p> <p><i>Evaluation techniques</i></p> <p>In undertaking the evaluations described in the clauses in this schedule, the Commission may analyse power-flow and dynamics in the grid, undertake detailed critiques of conceptual designs, review of the calculation of costs and benefits, assess market development scenarios, undertake unit rate benchmarking, or any other technique or approach that the Commission considers appropriate in the circumstances.</p> <p>See Chapter 6: Major capex – approval process, paragraphs 6.10.1-6.10.15 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC44</p> <p>Major capex - approval process – criteria for evaluating major capex proposals</p>	<p>Original 2012 decision</p> <p>Costs and benefits accruing to participants in the electricity market are any of the following:</p> <ul style="list-style-type: none"> a) fuel costs incurred by generators in relation to existing assets, committed projects and modelled projects b) the cost of involuntary demand curtailment borne by end users of electricity c) the costs of demand-side management d) capital costs of modelled projects e) costs resulting from operations and maintenance expenditure on committed projects, existing assets and modelled projects f) the cost of ancillary services including system operator costs g) the cost of losses, including local losses h) any real option value i) the value of any benefit associated with any financial contribution that a third party has committed to make towards the costs of the project (the value of any such benefit may not exceed the amount of the contribution committed by the third party) j) subsidies or other benefits- <ul style="list-style-type: none"> i. relating to anything listed in paragraphs a to i; and ii. provided under or arising pursuant to all electricity-related legislation and electricity-related administrative determinations; and k) competition effects (in the electricity market); and l) any other benefit or cost occurring in the electricity market that is proposed by Transpower prior to its consultation on the shortlist of investment options and agreed to by the Commission. <p>See Chapter 7: Major Capex - Investment test, paragraphs 7.4.2-7.4.5 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

11.8 Our draft decision is to make an implementation change to IM decisions TC03, TC37, TC39 and TC44 to allow that, in a major capex project (MCP) application, Transpower can seek approval for uncapitalised opex that is incurred as a consequence of an MCP.

11.9 To facilitate this draft decision, we are proposing to amend the definitions, schedule C and schedule G in the Capex IM.

Why we are proposing this change

- 11.10 Our reasons for proposing this change are discussed in Chapter 11 of the Transpower Investment Topic Paper.

Pre-review Transpower Capex IM decision TC20

Decision TC20 Pre-approval Major Capex Output amendment mechanism	<p>Original decision</p> <p>For Major capex, the Commission will not determine the allowance, outputs, or any individual components of the proposal. We will only approve or decline a given proposal.</p> <p>See paragraph 2.2.5 of the 2012 Capex IM Reasons Paper.</p>
This decision applies to the following sectors:	Transpower

Draft decision

- 11.11 We are proposing to make an implementation change to IM decision TC20 to provide greater flexibility in the Capex IM regime in respect of Major Capex Outputs.
- 11.12 Our proposed amendment will allow us to provide partial approval for Major Capex Projects by approving some but not all outputs. We are also proposing to provide a mechanism that allows Transpower to apply to amend individual outputs between the time it submits a major capex proposal and when we release a draft decision.

Why we are proposing this change

- 11.13 Our reasons for proposing this change are discussed in Chapter 8 of the Transpower investment topic paper.

Pre-review Transpower Capex IM decision TC24

Decision TC24 Major Capex Allowance	<p>Original 2012 decision</p> <p>To set the incentive rates for major capex projects at the start of each regulatory control period (RCP), which would apply for the length of the RCP.</p> <p>2018 decision</p> <p>The major capex allowance will be set at the P50 level, consistent with providing an expectation of normal return.</p> <p>See paragraph 73.4 of the 2018 Capex IM Reasons Paper.</p>
This decision applies to the following sectors:	Transpower

Draft decision

- 11.14 We are proposing to make an implementation change to IM decision TC24 to reduce some of the unnecessary difficulties in estimating costs to the level of accuracy required by the P50 estimate.
- 11.15 Our proposed amendment is to set a deadband around the P50 estimate for the Major Capex Allowance. The deadband ranges will be from the P30 and the P70 estimates.

Why we are proposing this change

- 11.16 Our reasons for proposing this change are discussed in Chapter 3 of the Transpower Investment Topic Paper

Pre-review Transpower Capex IM decision TC35

<p>Decision TC35</p> <p>Major capex - approval process - rules for submitting a major capex proposal</p>	<p>Original 2012 decision</p> <p>We set out requirements for Transpower to submit a major capex proposal to the Commission for approval. (The rules allow Transpower to submit a major capex proposal at any time during a regulatory period).</p> <p>See Chapter 6: Major capex approval process, paragraphs 6.6.1-6.6.10 of Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p> <p>2018 Amendment</p> <p>We updated the Major capex approval process to incorporate project staging.</p> <p>See Chapter 3: Process matters, paragraphs 244-265 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

- 11.17 We are proposing to make an implementation change to IM decision TC35 to support interpretation clarity.
- 11.18 We are proposing to amend the ‘for avoidance of doubt’ provision in clause 3.3.3(1) of the Capex IM to support the original policy intent.

Why we are proposing this change

- 11.19 Our reasons for proposing this change are discussed in Chapter 5 of the Transpower Investment Topic Paper.

Pre-review Transpower Capex IM decision TC37

<p>Decision TC37</p> <p>Major capex - approval process - rules for submitting a major capex proposal</p>	<p>Original 2012 decision</p> <p>We set out information requirements for major capex proposals. These were specified in Schedule G of the capex IM determination.</p> <p>See Chapter 6: Major capex - approval process, paragraphs 6.8.1-6.8.7 of Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p> <p>2018 Amendment</p> <p>We decided to amend the capex IM to require Transpower to provide an estimate of the future increase in prices and to explain the additional service and system benefits that consumers will receive due to the proposed expenditure on each major capex project.</p> <p>See Chapter 4: Information and engagement, paragraphs 331-338 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

- 11.20 We are proposing to make an implementation change to IM decision TC37 for consistency with the new TPM.
- 11.21 We propose amending clause 7.5.1 of the Capex IM to remove reference to “per kilowatt of demand” when calculating transmission charge increases.

Why we are proposing this change

- 11.22 Our reasons for proposing this change are discussed in Chapter 12 the Transpower investment topic paper.

Pre-review Transpower Capex IM decisions TC41 and TC44

<p>Decision TC41</p> <p>Major capex - investment test - application of the investment test - Calculation of expected net electricity market benefit using scenarios</p>	<p>Original 2012 decision</p> <p>The expected net electricity market benefit is the aggregated quantum of electricity market costs and benefits, less the aggregated quantum of project costs.</p> <p>As part of the investment test, Transpower needs to estimate the expected net electricity market benefit of each investment option under each of a number of scenarios.</p> <p>The expected net electricity market benefit for each investment option is calculated by combining the net electricity market benefit for each investment option for each scenario, consistent with the scenario weightings.</p> <p>Scenarios are given the explicit or implicit weighting assigned to it by the party who has developed the scenario, unless Transpower considers that alternative weightings should apply and has consulted on these.</p> <p>See Chapter 7 - Major capex - investment test, paragraphs 7.3.2-7.3.8 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC44</p> <p>Major capex - investment test - implementation of the investment test - costs and benefits</p>	<p>Original 2012 decision</p> <p>When calculating the expected net electricity market benefits, the costs and benefits are limited to:</p> <ul style="list-style-type: none"> • benefits accruing to participants in the electricity market; and • the project costs of the investment option. <p>Costs and benefits accruing to participants in the electricity market are any of the following:</p> <ul style="list-style-type: none"> • fuel costs incurred by generators in relation to existing assets, committed projects and modelled projects; • the cost of involuntary demand curtailment borne by end users of electricity; • the costs of demand-side management; • capital costs of modelled projects; • costs resulting from operations and maintenance expenditure on committed projects, existing assets and modelled projects; • the cost of ancillary services including system operator costs; • the cost of losses, including local losses; • any real option value;
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	<ul style="list-style-type: none"> • the value of any benefit associated with any financial contribution that a third party has committed to make towards the costs of the project (the value of any such benefit may not exceed the amount of the contribution committed by the third party); • subsidies or other benefits: <ul style="list-style-type: none"> ○ relating to anything listed in the above paragraphs; and ○ provided under or arising from all electricity-related legislation and electricity-related administrative determinations; • competition effects (in the electricity market); and • any other benefit or cost occurring in the electricity market that is proposed by Transpower prior to its consultation on the shortlist of investment options and agreed to by the Commission. <p>See Chapter 7 - Major capex - investment test, paragraphs 7.4.3 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
This decision applies to the following sectors:	Transpower

Draft decision

11.23 We are proposing to make an implementation change to IM decisions TC41 and TC44 with respect to scenarios to clarify how the analysis of counterfactuals should be conducted.

11.24 Transpower is able to develop and use a counterfactual scenario to quantify the economic impact of no transmission investment being justified to meet increased electrification demand. The counterfactual scenario:

11.24.1 will be relevant when Transpower applies the economic limb of the investment test in an MCP;

11.24.2 must be a reasonable hypothetical future of demand and generation to meet that demand; and

11.24.3 must be consulted on and reasonably have regard to the views of interested persons.

Why we are proposing this change

11.25 Our reasons for proposing this change are discussed in Chapter 3 of the Transpower investment topic paper.

Pre-review Transpower Capex IM decision TC46

Decision TC46 Investment test default discount rate	<p>Original decision</p> <p>The default discount rate to be used for the investment test is prescribed at 7% with sensitivities at 4% and 10%.</p> <p>See paragraph 7.4.25 of the 2012 Capex IM Reasons Paper.</p>
This decision applies to the following sectors:	Transpower

Draft decision

11.26 Our draft decision is to make an implementation change to IM decision TC46 to ensure that the default discount rate reflects current market conditions. To do this, we propose to change the default discount rate to be used for the investment test to 5% with default sensitivities of 3% and 7%.

Why we are proposing this change

11.27 Our reasons for proposing this change are set out in Chapter 3 of the Transpower Investment Topic Paper.

Pre-review Transpower Capex IM decision TC55

Decision TC55 Independent Verification requirements	<p>Original 2012 decision</p> <p>Transpower would not be required to obtain independent verification or audit.</p> <p>See paragraph 9.2.1 of the 2012 Capex IM reasons paper.</p> <p>2018 decision</p> <p>Transpower would not be required to undertake an independent verification of its IPP proposal. A trial independent verification process would be undertaken for RCP3.</p> <p>See from paragraph 271 onwards of the .</p>
This decision applies to the following sectors:	Transpower

Draft decision

11.28 Our draft decision is to codify a requirement for Transpower to undertake an independent verification of its IPP proposal.

11.29 Independent verification of Transpower's IPP proposals is voluntary and needs to be added to the Transpower IM for consistency with other price path setting IMs in Part 4.

Why we are proposing this change

11.30 Our reasons for proposing this change are discussed in Chapter 9 of the Transpower Investment Topic Paper.

Pre-review Transpower Capex IM decision TC65

<p>Decision TC65</p> <p>Listed project categories</p>	<p>2014 Original decision</p> <p>To be eligible for 'listing', a base capex project or programme, must comply with the identified requirements. These requirements are that:</p> <ul style="list-style-type: none"> • the Commission considers the project or programme will require capital expenditure of greater than \$20 million; • the Commission considers the project or programme is reasonably required by Transpower, with at least one (or more) assets likely to be commissioned during the regulatory period; • the base capex forecast to be incurred is in relation to asset replacement and/or asset refurbishment; • a project or programme commencement date within the regulatory period is anticipated but cannot be forecast with specificity; and • the project or programme is not already accommodated in the base capex allowance for the regulatory period. <p>If a base capex project or programme complies with the identified requirements, the Commission may, at its discretion, decide to recognise the project/programme in the individual price-quality path that applies to the regulatory period in which commencement is anticipated.</p> <p>Under the original decision, transmission line reconductoring projects could be 'listed' if there was no increase in capacity to the transmission line.</p> <p>See: Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Draft decision

11.31 Our draft decision is to make a change to IM decision TC65 to extend the categories of projects that can be listed to reduce the regulatory cost and complexity.

11.32 We are proposing to amend the listed project mechanism to allow Transpower to include:

11.32.1 transmission line reconductoring projects where the primary driver is conductor deterioration (but there may be incidental increase in capacity); and

11.32.2 non-grid lifecycle replacement projects with estimated costs greater than the base capex threshold and a high level of uncertainty in cost.

Why we are proposing this change

11.33 Our reasons for proposing this change are set out in Chapter 4 of the Transpower Investment Topic Paper.

New Transpower IM decision TC69

Decision TC69 Anticipatory Connection Asset (ACA)	No pre-review IM decision because this is a new decision.
This decision applies to the following sectors:	Transpower

Draft decision

11.34 Our draft decision is to make a new IM decision TC69, which introduces provisions to the Capex IM to allow ACA investments to be made to address the Type 2 First Mover Disadvantage and ensure ACA investments are economically justified and tested under the Capex IM regime.

11.35 In particular, we are proposing that:

11.35.1 when ACA capacity is being proposed under an MCP, Transpower:

11.35.1.1 is only required to perform a shortlist consultation; and

11.35.1.2 must disclose in that shortlist consultation and MCP proposal submission material, the division of costs allocated to the New Investment Contract component and the ACA capacity component of the connection asset – based on the calculation method set out in clause 26(4) of Schedule 12.4 of the Code;

11.35.2 when ACA capacity is being proposed in a base capex proposal as E&D capex, Transpower must identify those ACA capacity investments;

11.35.3 when Transpower consults on ACA capacity investments that are MCPs or as E&D capex in a base capex proposal, it will have the flexibility to manage confidential information in relation to the party related to the NIC but must provide sufficient information so consumers and affected parties can meaningfully submit on the ACA capacity investment;

11.35.4 the base capex and major capex incentive rate mechanisms should apply to the ACA capacity component of the total build cost of the connection asset; and

11.35.5 when ACA capacity investment assets transition from the RAB, once subject to an NIC, we will use a 'nil valuation' accounting approach.

Why we are proposing these changes

11.36 Our reasons for proposing these changes are discussed at Chapter 6 of the Transpower Investment Topic Paper.

Chapter 12 Gas pricing IM decisions that we are proposing to change

Pre-review gas pricing IM decision GP01

<p>Decision GP01</p> <p>Principles-based approach to gas pricing</p>	<p>Original 2010 decision</p> <p>A ‘principles-based’ approach applies.</p> <p>See section 7.3 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

Draft decision

12.1 We are proposing to make a minor implementation change to GP01 by amending the chapeau of clause 2.5.1 of the GDB and GTB IMs.

Why we are proposing these changes

12.2 As drafted, clause 2.5.1 of the GDB and GTB IMs does not make sense grammatically. The proposed amendment is intended to remedy this error and therefore better promote s 52R through promoting greater certainty as to the requirement under this clause.

Part 2: IM decisions that we are not proposing to change

Chapter 13 Introduction to Part 2

- 13.1 This Part 2 lists the pre-review IM decisions that, in light of our framework, submissions on the IM Review, and all other relevant information before us, we considered changing but for the reasons presented in this Part, we propose not to change. We do not propose to make a change at either a policy level or in terms of the implementation of the decision.
- 13.2 For each pre-review IM decision, Part 2 of this report states the pre-review IM decision and explains why we have proposed not to change the decision as part of this IM Review. Where relevant, we reference the topic paper which sets out the reasoning.
- 13.3 Part 2 is structured based on the categories of pre-review IM decisions described in the 'Introduction' chapter of this report.

Chapter 14 Asset valuation decisions that we are not proposing to change

Pre-review risks and incentives IM decision AV03/SP01

Decision AV03/SP01	Current IM
Inflation forecasting method	We use the available Reserve Bank of New Zealand (RBNZ) forecasts (currently Quarter 1 to Quarter 13), then trend to 2% by the end of the forecasting window (Quarter 20 for a 5-year regulatory period).
This decision applies to the following sectors:	EDB/GPBs/Transpower

Why we are proposing no change to this decision

- 14.1 Our draft decision is to make no change to IM decision AV03/SP01. Our reasons for proposing no change are discussed in Chapter 5, of the Financing and incentivising efficient expenditure during the energy transition topic paper.

Pre-review asset valuation IM decision AV05

Decision AV05	Original 2010 decision
Finance leases and intangible assets	EDBs and GPBs may include in their RAB values finance leases and intangible assets provided that they are identifiable non-monetary assets that are not goodwill, consistent with the meanings under GAAP.
	EDBs and GPBs must establish the value of permitted intangible assets added to the RAB value after the last day of the disclosure year 2009 using the cost model for recognition under GAAP.
	See section E3, Appendix E of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)
	2016 amendment to this decision We amended the EDB 'value of commissioned asset' to clarify that a finance lease excludes the value of any assets to the extent that annual lease charges are instead included as a recoverable cost.
	See chapter 4, paragraphs 60-66 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016)
	2019 amendment to this decision (1) We decided to generally accept alignment with NZ IFRS 16 for price-quality and ID regulation purposes except in relation to costs that are pass-through costs and recoverable costs. This means that allowable revenue and returns on investment under ID will be calculated using capitalised 'right of use' asset values.

	<p>See Chapter 4 (Summary of our final decisions) in: Treatment of operating leases: Final decisions paper (13 November 2019).</p> <p>2019 amendment to this decision (2) We decided to retain the 45-year standard life assumption but allow a capex wash-up of any differences between the 45-year standard life and the GAAP lives for right of use assets to deal with any non-recovery of depreciation as a result of applying the standard 45-year life assumption.</p> <p>2019 amendment to this decision (3) We decided to amend the IMs so that operating leases continue to be treated as opex for IRIS purposes.</p> <p>2022 amendment to this decision We made amendments such that: - a GAAP-base life can be assigned to depreciate right of use assets by GDBs and the GTB; and - GDBs adopt opening GAAP deferred tax balances for right of use assets and other assets that do not have a corresponding regulatory tax asset value when calculating tax allowances for ID, DPP and CPP purposes.</p> <p>These amendments accepted alignment with NZ IFRS 16 for gas PQ and gas ID purposes, and were consistent with the IM amendments made for EDBs and Transpower.</p> <p>See paragraphs 3.58-3.72 of Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths: Reasons paper (30 May 2022).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Why we are proposing no change to this decision

- 14.2 Our draft decision in respect of IM decision AV05 is to make no change in relation to intangible assets or 'knowledge assets'.
- 14.3 We propose no change to the IMs to provide that certain costs are required to be capitalised (instead of expensed), because the IMs already permit capitalisation where, under GAAP, such costs will generate future economic benefits (including cost savings) and these costs can be reliably measured. Regulated suppliers could explore options available to them under GAAP to change the timing of cashflows to better align costs and beneficiaries.
- 14.4 Our reasons for proposing no change are to keep the DPP regime relatively low-cost in line with s 53K of the Act. Our preference is to not depart from GAAP for regulatory purposes, unless there is a strong reason for promoting the long-term benefit of consumers under s 52A of the Act.

Pre-review risks and incentives IM decision AV16

<p>Decision AV16</p> <p>Straight line depreciation applies</p>	<p>Current IM decision</p> <p>EDBs and GPBs must depreciate assets in their RAB using straight line depreciation.</p> <p>Regulated suppliers subject to default/customised price-quality regulation may apply to use an alternative depreciation approach under a CPP.</p> <p>Total (unallocated) depreciation over the lifetime of the asset must not exceed the value at which the asset is first recognised in the RAB under Part 4 (after adjusting for the effects of revaluations).</p> <p>Regulated suppliers may not depreciate land and easements (other than fixed life easements).</p> <p>See section E10, Appendix E of 2010 IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Why we are proposing no change to this decision

- 14.5 Our draft decision in respect of IM decision AV16 is to make no change to the depreciation method (straight line depreciation).⁵¹
- 14.6 Our reasons for proposing no change are discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

Pre-review risks and incentives IM decision AV17

<p>Decision AV17</p> <p>Standard asset lives apply – with listed exceptions</p>	<p>Original 2010 decision</p> <p>EDBs and GPBs must use the standard asset lives in Schedule A of the IM Determination, with the following exceptions:</p> <ul style="list-style-type: none"> • EDBs and GPBs must depreciate fixed life easements over the expected term of the easement; • For dedicated assets, EDBs and GPBs may assign an asset life equal to the life of the supporting customer contract; • EDBs and GPBs may extend asset lives beyond those provided in the list of standard physical asset lives, and set asset lives for refurbished assets, without an independent engineer's report; • EDBs and GPBs may reduce an asset life, provided the reduced asset life is supported to an independent engineer's report;
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⁵¹ While we are proposing to retain the straight-line depreciation method, we are also proposing to require EDBs and GPBs, when forecasting depreciation for a DPP period, to depreciate existing assets using the weighted average value of the remaining asset life for those assets for each year of the DPP period. The proposed change to AV16 is discussed in Chapter 4 (Asset Valuation) of this report.

- EDBs and GDBs must determine when to commence depreciating network spares consistent with GAAP;
- Where EDBs and GPBs add a found asset to the RAB, and where an EDB's or GPB's RAB already contains a similar asset, the asset life of the found asset should be the asset life applying to the similar asset.

For assets commissioned in the future that are not covered by the list of standard physical asset lives, regulated suppliers must establish physical asset lives as follows:

- where an asset of the same type is already in the RAB, using the same asset life as assigned to the existing asset; or
- otherwise, by setting an asset life for the asset supported by an independent engineer's report.

For assets in the initial RAB value, the physical asset life will be the asset's existing remaining life as at the balance date for each EDB's or GPB's 2009 disclosures.

Where an asset comprises a number of components with differing lives (a 'composite asset'), EDBs and GPBs must calculate the total asset life for the composite asset as a weighted average of the lives of those components. For the purpose of CPP proposals, no system fixed assets should be forecast to be written off during a regulatory period. All such assets in service at the start of a CPP regulatory period are deemed to have a physical asset life equal to the duration of the CPP period.

See section E10, Appendix E of 2010 EDP-GPB IM reasons paper: [Input Methodologies \(Electricity Distribution and Gas Pipeline Services\): Reasons Paper \(22 December 2010\)](#)

2016 amendment to this decision

We amended this decision as it applies to EDBs, but not to GDBs or GTBs. We decided to enable an EDB subject to a DPP, at the time the DPP is reset, to propose a factor by which to adjust the weighted average remaining asset life for its existing assets. An EDB that proposes a factor must justify why it requires this adjustment and cannot apply for a factor lower than 0.85. We will then review this proposal, giving consideration to its impact on pricing. The change may be applied by us as a one-off adjustment for any EDB that proposes the change.

See chapter 4, paragraphs 93-118 of 2016 Report on the IM Review: [Input methodologies review decisions: Report on the IM Review \(20 December 2016\)](#)

2018 amendment to this decision (1)

We amended the date for when EDBs may propose an adjustment factor from 'prior commencement of the 'base year' to 'not later than 13 months prior to the commencement of the next DPP regulatory period'. We made this change to allow EDBs more time to consult with interested parties on a potential adjustment factor.

See paragraphs 2.3-2.7 of [Amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation: Reasons paper \(8 November 2018\)](#).

	<p>2018 amendment to this decision (2)</p> <p>We amended the IM determination by specifying that the adjustment factor for a disclosure year after the base year, but before the start of the next DPP regulatory period, is '1'. We made this implementation change to clarify our policy intent from the 2016 IM review, that any adjustment to the remaining asset lives for existing assets will only apply as a one-off adjustment at the time the DPP is reset, not in a disclosure year prior to the reset.</p> <p>We also clarified that the adjustment factor made at the time a DPP is reset will apply for each disclosure year of the applicable new DPP regulatory period.</p> <p>See paragraphs 2.8-2.16 of Amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation: Reasons paper (8 November 2018).</p> <p>2022 amendment to this decision</p> <p>We amended the GPB IMs by introducing a mechanism which enables us to adjust asset lives for GPBs if we are satisfied that doing so would better reflect their economic lives and better promote the purpose of Part 4.</p> <p>We considered that the likely declining demand for gas pipelines services meant we can no longer assume the remaining economic lives of the gas pipeline assets will match their remaining physical lives. Further, the amendment allows for future adjustments of asset lives to be adjusted as forecasts of demand change.</p> <p>See paragraphs 3.11-3.57 of Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths: Reasons paper (30 May 2022).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Why we are proposing no change to this decision

- 14.7 Our draft decision in respect of IM decision AV17 is to make no change.
- 14.8 Our reasons for proposing no change are largely discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper (Topic 3b); and
- 14.9 Our reason for proposing no change with respect to the DPP's 45-year standard lifetime for additional assets is that we do not have robust evidence about the correct lifetime. Therefore, at this stage, we cannot determine that a change to the lifetime would likely meet one or more of the overarching objectives (and could, in fact, be detrimental to the promotion of those objectives). However, we may reconsider our proposal before DPP4 that the standard lifetime for additional assets may become shorter.

Pre-review risks and incentives IM decision AV18

<p>Decision AV18</p> <p>Keeping stranded assets in the RAB</p>	<p>Original 2010 decision</p> <p>Where demand for the asset falls away, regulated suppliers may retain the asset in the RAB value for the purpose of ID, and continue to depreciate the asset over its remaining asset life.</p> <p>See section 11 Appendix E of 2010 EDB-GPB IM reasons paper:</p> <p>Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment</p> <p>We discussed the issue of asset stranding in Topic paper 3 in the 2016 IM Review: The future impact of emerging technologies in the energy sector.</p> <p>Although we have not amended IM decision AV18, we have made an amendment to IM decision AV17 to allow EDBs the option to adjust asset lives by a moderate amount in certain circumstances.</p>
<p>This decision applies to the following sectors:</p>	<p>GPBs</p>

Why we are proposing no change to this decision

- 14.10 Our draft decision in respect of IM decision AV18 is to make no change. Our reasons for proposing no change to this IM decision are discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper (Topic 3d).

Pre-review asset valuation IM decision AV27

<p>Decision AV27</p> <p>Commissioned assets added to RAB – Transpower</p>	<p>Original 2010 decision</p> <p>Transpower should include capital additions in its RAB value at cost in the year that the asset is ‘commissioned’ (that is when the asset is first ‘used by Transpower to provide electricity transmission services’). In the case of (a) land that is not easement land, and (b) easements, whose acquisition has been approved under Part F of the Electricity Governance Rules (or under the capex IM once it comes into effect), ‘commissioned’ means ‘first acquired by Transpower’.</p> <p>See section 4.3, paragraphs 4.4.68-4.4.80 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision</p> <p>The amendment affects the IMs relating to ID regulation and individual price-quality regulation for Transpower. It will apply to land assets acquired from 1 July 2015, which corresponds to the commencement date of the first disclosure year for RCP2.</p> <p>We have amended the definition of ‘commissioned’ in the IMs to clarify that land which is base capex may enter Transpower’s RAB when acquired, as opposed to when it is first used to supply electricity lines services.</p> <p>Base capex is capex with a forecast cost of less than \$20 million or which relates to specified types of projects or programmes such as asset replacement or asset refurbishment.</p> <p>See paragraphs 26 to 35 of: Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Why we are proposing no change to this decision

14.11 Our draft decision is to make no change to IM decision AV27.

14.12 Our reasons for proposing no change are discussed in the Transpower Investment Topic Paper.

Pre-review asset valuation IM decision AV42

<p>Decision AV42</p> <p>RAB exclusions – Airports</p>	<p>Original 2010 decision</p> <p>Airports should exclude from their RAB values:</p> <ul style="list-style-type: none"> • any assets not used to provide specified airport services, as defined in s 56A; • future development land; • any asset that is part of works under construction; • working capital; • goodwill; and • easement land, that is land acquired for the purpose of creating an easement, and with the intention of subsequently disposing of the land. <p>See section 4.3; Appendix C, sections C3, C4, C5, C10 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
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	<p>2014 amendment to this decision High Court judgment in Wellington International Airports Ltd and others v Commerce Commission [2013] NZHC 3289 (11 December 2013) and Commerce Commission “Publication of Electricity, Gas, and Airport Input Methodology Amendments ordered by the High Court” (27 November 2014).</p> <p>See amended clause 3.12(3) of the Airports IM Determination: For the purpose of land that is works under construction on the last day of disclosure year 2009, Auckland International Airport’s cost of constructing the Northern Runway must not exceed \$22.3 million.</p> <p>Publication of Electricity, Gas, and Airport Input Methodology Amendments ordered by the High Court (27 November 2014)</p> <p>2016 amendment to this decision We made a change to IM decision AV42 by amending the definition of net revenue on excluded assets (in particular, in relation to assets held for future use, e.g., future development land). This ensured that if an airport included revenues on assets held for future use through a special levy, this would be captured in the definition of net revenue and not included as a regulatory income.</p> <p>Our decision changed the definition of “net revenue” in clause 3.11(6)(c) of the Airport IMs to make the policy intent clearer (ie, all revenues derived from or associated with assets held for future use would be captured in the definition of net revenue). We clarified that 'revenue' derived in relation to determining the value of commissioned assets is 'post-tax'.</p> <p>See Topic paper 5: Airports profitability assessment (20 December 2016).</p>
This decision applies to the following sectors:	Airports

Why we are proposing no change to this decision

- 14.13 Our draft decision is to make no change to IM decision AV42.
- 14.14 Revenues derived from “assets held for future use” prior to commissioning are netted off the commissioning values of those assets, reducing their value.

- 14.15 Auckland Airport submitted that any tax paid on this revenue (that would partially offset reductions in commissioning value) is not acknowledged in the IMs:⁵²

Per the current IMs, the carrying and eventual commissioning value into the RAB of an asset held for future use (“AHFU”) is reduced by any revenues generated by that asset before it is commissioned into the RAB (net of operating expenditure). The problem with this approach is that the IMs’ definition of operating expenditure excludes tax. This approach fails to recognise that tax is a genuine expense and is inconsistent with the treatment of tax elsewhere in the IMs.

This acts as a distortionary disincentive against using assets (such as land or buildings) held for future aeronautical use in an interim commercial capacity. If doing so results in a taxable profit before the asset is commissioned to the RAB, then the airport company will ultimately be worse off financially from undertaking that profitable activity than from simply leaving the asset to sit unproductive in fallow.

The financial implications for our airlines customers of any such decision are far more significant. The AHFU carrying value would simply continue to compound over time per the target return, with no offset from commercial revenues that would otherwise have been generated from the asset. This would ultimately result in a higher commissioned RAB value and therefore higher future aeronautical prices. We are sure that this was not the intent of the AHFU provisions.

- 14.16 While it is correct that the definition of ‘opex’ does not include a deduction for tax, it is incorrect that tax is not recognised in the revenue deducted from assets held for future use prior to their commissioning. The definition of “net revenue” (the amounts deducted as part of tracking the value of assets held for future use) clearly includes a tax term:⁵³

(revenue derived from the excluded asset (other than tracking revaluations) - operating costs incurred in relation to the excluded asset)(1 - corporate tax rate); and*

- 14.17 The intent of the “excluded assets” (the term that includes assets held for future use) provisions in the Airport IMs is to:

14.17.1 promote the Part 4 purpose, supporting incentives for airports to invest efficiently by:

14.17.1.1 avoiding incentives to unnecessarily acquire assets held for future use;

14.17.1.2 creating incentives to find alternate sources of revenue prior to commissioning the assets; and

⁵² Auckland International Airport Ltd “[Input Methodologies Review – response to Process and Issues Paper](#)” (11 July 2022), p. 4.

⁵³ Commerce Commission “[Airport Services Input Methodologies Determinations 2010](#)” (20 December 2016), clause 3.11(6)(c).

- 14.17.1.3 sharing the benefits of these efficiencies with consumers; and
- 14.17.2 assist in promoting the ID purpose, by ensuring that interested persons can accurately assess the impact of “excluded assets” on airport profitability.
- 14.18 In our view, the IMs are already achieving this intent, so the “change” element of the Framework is not met, and an amendment to the Airport IMs is not required.

Chapter 15 Cost of Capital decisions that we are not proposing to change

Pre-review cost of capital IM decision CC06

<p>Decision CC06</p> <p>Term credit spread differential allowance may apply</p>	<p>Original 2010 decision</p> <p>A separate TCSD allowance is calculated for qualifying suppliers reflecting the additional costs associated with holding a longer-term debt portfolio. The TCSD is used to adjust cash flows in ID and DPP regulation and is applied to allowable revenue calculations in CPP regulation.</p> <p>Qualifying suppliers are suppliers which have a debt portfolio with a weighted average original tenor exceeding the length of the regulatory period.</p> <p>See sections 6.1, 6.3, H6 of 2010 EDB-GPB IM reasons paper:</p> <p>Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision</p> <p>We made an implementation change in respect of this decision. The change was to use a fixed linear relationship to determine the additional debt premium associated with debt issued with an original maturity term of more than five years. In doing so, we would no longer include an allowance for swap costs as part of the TCSD (see IM decision CC05).</p> <p>See Topic paper 4: Cost of capital issues.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Why we are proposing no change to this decision

- 15.1 Our draft decision is to make no change to IM decision CC06.
- 15.2 In coming to that draft decision, we have considered the following matters:
- 15.2.1 whether an additional allowance is required for firms which issue debt for a term longer than 5 years; and
 - 15.2.2 whether the fixed linear relationship has changed since it was last estimated.
- 15.3 Our reasons for this draft decision are set out in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC08

<p>Decision CC08</p> <p>Corporate tax rate in WACC estimates</p>	<p>Current IM decision</p> <p>The corporate tax rate is 28%. Changes in the corporate tax rate will flow through to future post-tax WACC estimates automatically.</p> <p>See section 6.5, H10 of 2010 EDB-GPB IM reasons paper:</p> <p>Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Why we are proposing no change to this decision

15.4 Our draft decision is to make no change to IM decision CC08.

15.5 Our reasons for this draft decision are set out in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC09

<p>Decision CC09</p> <p>Commercially realistic estimates of WACC</p>	<p>Current IM decision</p> <p>We have compared the estimated WACCs under the IM against a range of other financial and economic information to check that the application of the cost of capital IM produces commercially realistic estimates of WACC for EDBs and GPBs.</p> <p>See section 6.8, H10 of 2010 EDB-GPB IM reasons paper:</p> <p>Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Why we are proposing no change to this decision

15.6 Our draft decision is to make no change to IM decision CC09.

15.7 Our reasons for this draft decision are set out in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC16

<p>Decision CC16</p> <p>Term credit spread differential allowance may apply</p>	<p>Original 2010 decision</p> <p>A separate TCSD allowance is calculated for qualifying suppliers reflecting additional costs associated with holding a longer-term debt portfolio. The TCSD is used to adjust cash flows in ID and individual price-quality regulation and is applied to allowable revenue calculations in the IPP. Qualifying suppliers have a debt portfolio with a weighted average original tenor exceeding the regulatory period (5 years).</p> <p>See sections 6.1, 6.3, H6 of 2010 Transpower IM reasons paper:</p> <p>Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision</p> <p>The implementation of the 2010 decision for the TCSD allowance uses the Bloomberg New Zealand 'A' fair value curve, which is no longer produced by Bloomberg.</p> <p>In 2014 we changed the implementation of this decision to allow use of the New Zealand Dollar Interest Rate Swap Curve as reported by Bloomberg plus the mean of the credit spreads of New Zealand corporate 'A-band' rated bonds as reported by Bloomberg.</p> <p>See page 15 of the companion paper that accompanied the amendment to the Transpower IM Determination:</p> <p>Companion Paper to the Update of Transpower's Maximum Allowable Revenues for the 2016/17 to 2019/20 Pricing Years</p> <p>2016 amendment to this decision</p> <p>We made an implementation change to this decision.</p> <p>The change was to use a fixed linear relationship to determine the additional debt premium associated with debt issues with an original maturity term of more than five years. In doing so, we no longer included an allowance for swap costs as part of the TCSD (see IM decision CC15).</p> <p>See Topic paper 4: Cost of capital issues.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Why we are proposing no change to this decision

- 15.8 Our draft decision is to make no change to IM decision CC16.
- 15.9 Our reasons for this draft decision are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC18

<p>Decision CC18</p> <p>Corporate tax rate in WACC estimates – Transpower</p>	<p>Current IM decision</p> <p>The corporate tax rate is 28%.</p> <p>Changes in the corporate tax rate will flow through to future post-tax WACC estimates automatically.</p> <p>See section 6.5, H10 of 2010 Transpower IM Reasons Paper</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Why we are proposing no change to this decision

15.10 Our draft decision is to make no change to IM decision CC18.

15.11 Our reasons for this draft decision are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC22

<p>Decision CC22</p> <p>Cost of debt in WACC estimates - airports</p>	<p>Original 2010 decision</p> <p>For all regulated suppliers of airport services, the cost of debt is estimated as:</p> <p style="text-align: center;"><i>Risk free rate + debt premium + debt issuance costs</i></p> <ul style="list-style-type: none"> • The risk-free rate is estimated by the Commission as part of publishing annual WACCs for all regulated suppliers. The risk-free rate is estimated from the observed market yield to maturity of benchmark vanilla New Zealand government NZ\$ denominated nominal bonds with a term to maturity that matches the typical term of airports' pricing agreements (5 years); • The debt premium is also estimated by the Commission as part of publishing annual WACCs for all regulated suppliers as the difference between the risk-free rate and the yield on publicly treated corporate bonds for airports with an S&P long-term credit rating of A- and a term to maturity which matches the pricing period (typically 5 years); and • Debt issuance costs are 35 basis points (0.35%) p.a. <p>See sections 6.3, E2, E4, E5, E14 of 2010 Airports IM reasons paper:</p> <p>Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p> <p>2016 amendments</p> <p>The estimation window for the risk-free rate was extended to 3 months.</p> <p>The debt premium methodology was changed to an average debt premium which is an average of the debt premiums estimated over the proceeding five years. The debt premium estimation methodology was changed to:</p> <ul style="list-style-type: none"> • Use 12 months of bond data instead of one month; • Modify the government ownership limitation so that only bonds from 100% government owned entities are subject to the limitation; and
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	<ul style="list-style-type: none"> Reference the 'Nelson-Siegel-Svensson curve' (NSS curve) as something we will consider when estimating the debt premium; <p>Debt issuance costs was changed from 35 basis points (0.35%) p.a. to 20 basis points (0.20%) p.a. and the allowance for swap costs is included in debt issuance costs.</p>
This decision applies to the following sectors:	Airports

Why we are proposing no change to this decision

15.12 Our draft decision is to make no change to IM decision CC22.

15.13 Our reasons for this draft decision are set out in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC23

<p>Decision CC23</p> <p>Term credit spread differential allowance does not apply – Airports</p>	<p>Original 2010 decision</p> <p>The Airports ID Determination allows qualifying suppliers to disclose a separate allowance for the TCSD, which reflects the additional costs associated with holding a longer-term debt portfolio. The TCSD is used to adjust cash flows in ID regulation. Qualifying suppliers are suppliers with a debt portfolio which has a weighted average original tenor debt portfolio which exceeds the pricing period (typically 5 years).</p> <p>See sections 6.1, 6.3, E6 of 2010 Airports IM reasons paper:</p> <p>Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision</p> <p>We removed the TCSD allowance by removing the defined term 'allowance for long term credit spread', which gave effect to the TCSD allowance, from the Airports ID Determination.</p> <p>See Topic paper 4: Cost of capital issues.</p>
This decision applies to the following sectors:	Airports

Why we are proposing no change to this decision

15.14 Our draft decision is to make no change to IM decision CC23.

15.15 Our reasons for this draft decision are set out in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC25

<p>Decisions CC25</p> <p>Corporate tax rate in WACC estimate – airports</p>	<p>Current IM decision</p> <p>The corporate tax rate is 28%.</p> <p>Changes in the corporate tax rate will flow through to future post-tax WACC estimates automatically.</p> <p>See sections 6.5, E10 of 2010 Airports IM reasons paper:</p> <p>Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

Why we are proposing no change to this decision

15.16 Our draft decision is to make no change to IM decision CC25.

15.17 Our reasons for this draft decision are discussed in the Cost of Capital Topic Paper.

Pre-review cost of capital IM decision CC26

<p>Decisions CC26</p> <p>Commercial realistic estimates of WACC – airports</p>	<p>Original 2010 decision</p> <p>The Commission has compared the expected WACC outputs under the IM against a range of other financial and economic information to check that the application of the cost of capital IM produces commercially realistic estimates of WACC for airports.</p> <p>See sections 6.8, E13 of 2010 Airports IM Reasons Paper:</p> <p>Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

Why we are proposing no change to this decision

15.18 Our draft decision is to make no change to IM decision CC26.

15.19 Our reasons for this draft decision are discussed in the Cost of Capital Topic Paper.

Chapter 16 Specification of price decisions that we are not proposing to change

Pre-review reconsideration of price-quality path IM decision SP01

Decision SP01 Contingent expenditure allowance	Current IM decision The current IMs have limited mechanisms, outside of the reopener process, to account for events that were foreseeable at the time of setting a price-quality path but had uncertainty regarding the timing of requirement for investment.
This decision applies to the following sectors:	EDB/GDB/GTB

Why we are proposing no change to this decision

- 16.1 Our draft decision in respect of IM decision SP01 is to make no change to incorporate new contingent expenditure allowances as recoverable costs.
- 16.2 Our reasons for proposing no change are discussed in Chapter 8 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision SP01

Decision SP01 Use-it-or-lose-it allowance	Current IM decision The current IMs do not allow for use-it-or-lose-it allowances.
This decision applies to the following sectors:	EDB/GDB/GTB

Why we are proposing no change to this decision

- 16.3 Our draft decision in respect of IM decision SP01 is to make no change to incorporate use-it-or-lose-it allowances.
- 16.4 Our reasons for proposing no change are discussed in Chapter 8 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review risks and incentives IM decision SP01

Decision SP01 Weighted average price cap applies – GDBs	Current IM decision The existing IMs specify a weighted average price cap (WAPC) for GDBs. Under a WAPC, the within-period demand risk falls on suppliers. If volumes vary, the maximum weighted average price that suppliers are allowed to charge remains the same, which means that the revenue they recover varies, until prices are reset in the next DPP reset.
This decision applies to the following sectors:	GDBs

Why we are proposing no change to this decision

- 16.5 Our draft decision in respect of IM decision SP01 is to make no change. We are proposing to retain the current form of control for GDBs, ie, the WAPC for GDBs.
- 16.6 Our reasons for proposing no change are discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper (Topic 3e).

Pre-review risks and incentives IM decision AV03/SP01

Decision AV03/SP01 Inflation forecasting method	Current IM We use the available RBNZ forecasts (currently Quarter 1 to Quarter 13), then trend to 2% by the end of the forecasting window (Quarter 20 for a 5-year regulatory period).
This decision applies to the following sectors:	EDB/GPBs/Transpower

Why we are proposing no change to this decision

- 16.7 Our draft decision is to make no change to IM decision AV03/SP01.
- 16.8 Our reasons for proposing no change are discussed in Chapter 5 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

Pre-review specification of price IM decision SP03

Decision SP03 Pass-through costs – EDBs and GPBs	Current IM decision The current IMs are drafted so that pass-through costs cover local authority rates and industry levies while recoverable costs cover a wider range of incentives, costs and wash-ups.
This decision applies to the following sectors:	EDB/GDB/GTB

We are proposing no change to this decision

16.9 Our draft decision in respect of IM decision SP03 is to make no change to increase the scope of pass-through costs or recoverable costs.

16.10 We considered two issues relating to this decision:

16.10.1 dealing with forecast uncertainty; and

16.10.2 incentives for efficient insurance cover.

Dealing with forecast uncertainty

16.11 Our reasons for proposing no change are discussed in Chapter 8 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Incentives for efficient insurance cover

16.12 Several submissions stated that it is becoming harder and more costly to insure assets against risks relating to climate change and/or natural disasters.⁵⁴

16.13 Submissions suggested changing regulatory settings for self-insurance.

16.13.1 Unison stated that “...non-traditional forms of insurance may become important in efficiently transferring or managing risks of disaster events. But these are currently not well-supported within the DPP/IRIS schemes: for example, establishment of an insurance captive or an insurance mutual across EDBs would result in opex IRIS penalties”.⁵⁵

16.13.2 Electricity Networks Aotearoa (ENA) stated that “Increasingly, EDBs are turning to self-insurance to maintain reasonable levels of insurance premiums, but the costs of this are not covered by regulatory allowances (cost of capital or self-insurance premiums). Therefore, ENA recommends the Commission review mechanisms to cover the costs of managing risk.”⁵⁶

16.14 We are proposing no change to IMs relating to insurance (including self-insurance) for EDBs or GPBs.

⁵⁴ For example [Unison – “Submission on IM Review Process and Issues paper and draft Framework paper” \(11 July 2022\)](#), p. 15 and [Electricity Networks Association “Submission on IM Review Process and Issues paper and draft Framework paper” \(11 July 2022\)](#), p. 17.

⁵⁵ [Unison – “Submission on IM Review Process and Issues paper and draft Framework paper” \(11 July 2022\)](#), p. 15.

⁵⁶ [Electricity Networks Association “Submission on IM Review Process and Issues paper and draft Framework paper” \(11 July 2022\)](#), p. 17.

- 16.15 We consider that an efficient insurance cover may include insurance from third party/external insurance providers or self-insurance. In either case, the insurance services would need to be covered by appropriate regulation (such as prudential supervision by the Reserve Bank of New Zealand). In the case of self-insurance, this could include the use of formal captive insurance providers, whereby suppliers own the insurance company or mutuals.⁵⁷
- 16.16 Different sources of insurance may be appropriate for different risks, and different suppliers may have different needs.⁵⁸ Our understanding is that electricity distributors generally use external insurance and some also use self-insurance (for example, Unison via its captive insurer Unison Insurance Limited).
- 16.17 We use ex-ante opex and capex allowances to set regulatory revenue, and these expenditure allowances are fungible. Our expenditure allowances are informed by actual and expected costs, which in the case of opex, includes insurance. Setting ex-ante allowances incentivises suppliers to seek efficient insurance cover (s 52A(1)(b)). For EDBs, these allowances are subject to our expenditure incentive schemes, which are designed to promote expenditure efficiency.
- 16.18 As part of our draft decision, we are proposing to keep the current suite of expenditure incentive schemes. This is discussed in Chapter 4 of the Financing and incentivising efficient expenditure during the energy transition topic paper .
- 16.19 We note that DPPs are intended to be relatively low-cost way of setting price-quality paths (s 53K of the Act). In that context, it would not be practical or low-cost for us to do detailed assessments specific to individual supplier's circumstances, including their exposure to business risks and how they manage risks.⁵⁹ However, if a supplier or suppliers on a DPP considered there was a need for a sector-wide overhaul of our approach to insurance, they could engage an insurance expert to demonstrate why DPP step change was appropriate at a DPP reset.
- 16.20 We do not consider this issue applies to CPPs, which provide scope to consider supplier-specific circumstances, including with respect to insurance.

⁵⁷ We note that an efficient insurance portfolio would include some risks not being insured by either third party insurance or formal self-insurance.

⁵⁸ In 2022 information disclosures: EDBs' insurance opex as proportion of total opex ranged from 1% to almost 9%; Transpower's insurance opex as a proportion of total opex was about 8%.

⁵⁹ In DPPs, we do not assess in detail how businesses manage controllable risk (e.g., the condition of network assets), or uncontrollable risk to the network from natural disasters.

Pre-review risks and incentives IM decision SP05

Decision SP05 IMs not to specifically provide for the regulatory sandboxes	Current IM decision The IMs do not specifically provide for regulatory sandboxes.
This decision applies to the following sectors:	EDB

Why we are proposing no change to this decision

16.21 Our draft decision in respect of IM decision SP05 is to make no change. Our reasons for proposing no change to this IM decision are discussed in Chapter 6a (Regulatory Sandboxes for EDBs) of the Financing and incentivising efficient expenditure during the energy transition topic paper.

Pre-review specification of price IM decision SP09

Decision SP09 Pass-through costs - Transpower	<p>Original 2010 decision</p> <p>The IM includes a list of pass-through costs and a process for adding new pass-through costs. The list of path-through costs includes local authority rates and regulatory levies.</p> <p>See section 7.3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2019 amendment to this decision</p> <p>We introduced a new pass-through cost for Transpower for levies payable by all members of the Energy Complaints Scheme operated by Utilities Disputes Limited, being the approved scheme under Schedule 4 of the Electricity Industry Act 2010.</p> <p>As the actual amount of levy paid is outside of Transpower's control, treating it as a pass-through cost removed the risk of consumers paying more than necessary, or Transpower's expenditure allowance being insufficient.</p> <p>The amendment also made the treatment of Transpower's Energy Complaints Scheme levy consistent with the same levies under the EDB IM determination.</p> <p>See paragraphs 2.12-2.18 of Chapter 2: Amendments to the Transpower IM Determination, Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019).</p>
This decision applies to the following sectors:	Transpower

Why we are proposing no change to this decision

- 16.22 Our draft decision in respect of IM decision SP09 is to make no change to treat insurance costs as pass-through costs.⁶⁰
- 16.23 Our reasons for proposing no change are discussed in Chapter 10 of the Transpower Investment Topic Paper.

⁶⁰ We have proposed a change to IM decision SP09 in Chapter 1, which requires Transpower to apply cost allocation to its pass-through costs.

Chapter 17 CPP decisions that we are not proposing to change

Pre-review CPP IM decision CP01.1

Decision CP01 CPP streamlining	Current IM decision The current IMs do not allow for streamlining based on the applicable CPP driver.
This decision applies to the following sectors:	EDB/GDB/GTB

Why we are proposing no change to this decision

- 17.1 Our draft decision in respect of IM decision CP01.1 is to make no change to our current CPP IMs for the purposes of streamlining CPPs.
- 17.2 Our reasons for proposing no change are discussed in Chapter 4 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision CP01.2

Decision CP01.2 Single CPP to cover multiple parties	Current IM decision The current IMs do not allow for a single CPP application to cover multiple parties.
This decision applies to the following sectors:	EDB/GDB/GTB

Why we are proposing no change to this decision

- 17.3 Our draft decision in respect of IM decision CP01.2 is to make no change to our current CPP IMs to allow a single CPP application to cover multiple parties.
- 17.4 Our reasons for proposing no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review CPP IM decision CP19

Decision CP19 Single issue CPP	Current IM decision The current IMs do not allow for a single issue CPP.
This decision applies to the following sectors:	EDB/GDB/GTB

Why we are proposing no change to this decision

- 17.5 Our draft decision in respect of IM decision CP19 is to make no change to our current CPP IMs to allow for a single issue CPP.
- 17.6 Our reasons for proposing no change are discussed in Chapter 4 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Chapter 18 Reconsideration of price-quality path decisions that we are not proposing to change

Pre-review Transpower Capex IM decision RP05

<p>Decision RP05</p> <p>Reconsideration of IPP</p>	<p>Original 2010 decision</p> <p>Transpower's IPP may be reconsidered if one of the following events has occurred:</p> <ul style="list-style-type: none"> • a catastrophic event, for which the costs of rectifying the impact of the event is material; or • a material error is discovered in the determination; or • Transpower has provided false or misleading information, which the Commission has relied upon in making its determination; or • a change in legislative or regulatory requirements that has a material impact on Transpower's costs. <p>See section 7.4 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision</p> <p>The amendment affects the IMs relating to individual price-quality regulation for Transpower.</p> <p>It will apply with effect from 1 July 2015, which corresponds to the commencement date of the first disclosure year for RCP2.</p> <p>We have amended the provisions relating to reconsideration of Transpower's IPP by replacing the term 'quality targets' with terminology that reflects the quality standards framework applying under the Capex IM.</p> <p>The new terminology is that of 'revenue-linked grid output measures', involving 'grid outputs', 'grid output targets', 'caps', 'collars' and 'grid output incentive rates', whereas the previous terminology reflected the quality targets set in the 2010 IPP.</p> <p>The change allows the revenue-linked grid output measures specified in an IPP determination to be amended following a catastrophic event, error, or change event, as provided for in the price-quality path reconsideration provisions in the IMs.</p> <p>See: Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</p> <p>Also see Chapter 7 - Major capex - investment test, paragraphs 7.3.2-7.3.8 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Why we are proposing no change to this decision

18.1 Our draft decision in respect of IM decision RP05 is to:

18.1.1 make no change to the Transpower IM to implement automatic price path adjustment; and

18.1.2 not amend the wording in clauses 3.7.4 and 3.7.5 of the Transpower IM.

18.2 Our reasons for proposing no change are discussed in Chapter 12 of the Transpower Investment Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.12, RP02.12 and RP05.12

Decisions RP01.12, RP02.12 and RP05.12 Timeframes for reopeners	Current IM decision The current IMs do not prescribe a timeframe for the Commission to evaluate reopener applications.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to these decisions

18.3 Our draft decision in respect of IM decisions RP01.12, RP02.12 and RP05.12 is to make no change to include timeframes for the Commission to evaluate reopener applications.

18.4 Our reasons for proposing no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.13, RP02.13 and RP05.13

Decisions RP01.13, RP02.13 and RP05.13 More prescription to guide reopener applications	Current IM decision The current IMs do not extensively prescribe the information required for a reopener application.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to these decisions

18.5 Our draft decision in respect of IM decisions RP01.13, RP02.13 and RP05.13 is to make no change to provide more prescription about the types of information required in reopener applications.

18.6 Our reasons for proposing no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.14, RP02.14 and RP05.14

Decisions RP01.14, RP02.14 and RP05.14 Reopener application windows	Current IM decision The current IMs do not allow for application windows for reopeners.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to these decisions

- 18.7 Our draft decision in respect of IM decisions RP01.14, RP02.14 and RP05.14 is to make no change to include application windows for reopeners.
- 18.8 Our reasons for proposing no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.15, RP02.15 and RP05.15

Decisions RP01.15, RP02.15 and RP05.15 Consultation requirements	Current IM decision The current IMs do not prescribe consultation requirements for reopener applications.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to these decisions

- 18.9 Our draft decision in respect of IM decisions RP01.15, RP02.15 and RP05.15 is to make no change to prescribe when consultation is required and when it is not for reopener applications.
- 18.10 Our reasons for proposing no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.16, RP02.16 and RP05.16

Decisions RP01.16, RP02.16 and RP05.16 Modification or exemption provision	Current IM decision The current IMs do not have a modification or exemption provision for DPP, CPP or IPP reopeners.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to this decision

- 18.11 Our draft decision in respect of IM decisions RP01.16, RP02.16 and RP05.16 is to make no change to include a modification or exemption provision for DPP or IPP reopeners.
- 18.12 Our reasons for proposing no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.17, RP02.17 and RP05.17

Decisions RP01.17, RP02.17 and RP05.17 Inclusion of a pre-application stage	Current IM decision The current IMs do not contain a provision allowing for a pre-application stage in the process of applying for a reopener.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to this decision

- 18.13 Our draft decision in respect of IM decisions RP01.17, RP02.17 and RP05.17 is to make no change to include a pre-application stage for the process of applying for a reopener.
- 18.14 Our reasons for proposing no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.18, RP02.18 and RP05.18

Decisions RP01.18, RP02.18 and RP05.18 Reopener for the purpose of assessing program financeability	Current IM decision The current IMs do not contain a reopener for the purpose of assessing program financeability.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to these decisions

- 18.15 Our draft decision in respect of IM decisions RP01.18, RP02.18 and RP05.18 is to make no change to include a reopener for the purposes of assessing program financeability.
- 18.16 Our reasons for proposing no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP01.19, RP02.19 and RP05.19

Decision RP01.19, RP02.19 and RP05.19 Allowing reopeners to be applied across regulatory periods	Current IM decision The current IMs do not allow for reopeners to apply across more than one regulatory period without having the supplier reapply for approval.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to these decisions

- 18.17 Our draft decision in respect of IM decisions RP01.19, RP02.19 and RP05.19 is to make no change to allow price-quality path reopeners to apply across more than one regulatory period without having the supplier reapply for approval.
- 18.18 Our reasons for proposing no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP01.20

Decision RP01.20 Single reopener application to cover multiple parties	Current IM decision The current IMs do not allow for a single DPP reopener application to cover multiple parties.
This decision applies to the following sectors:	EDB/GDB/GTB

Why we are proposing no change to this decision

- 18.19 Our draft decision in respect of IM decision RP01.20 is to make no change to allow a single reopener application to cover multiple parties.
- 18.20 Our reasons for proposing no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP01.21

Decision RP01.21 Contingent projects reopener	Pre-review IM decision The current drafting of the EDB, GDB and GTB IMs provide for contingent projects reopeners for CPPs. There is no equivalent provision for DPPs.
This decision applies to the following sectors:	EDB/GDB/GTB

Why we are proposing no change to this decision

- 18.21 Our draft decision is to make no change to IM decision RP01.21.
- 18.22 Our reasons for this draft decision are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP01.22 and RP02.22

Decisions RP01.22 and RP02.22 Government policy changes	Current IM decision The current IMs do not include a reopener for Government policy changes, Local Government rule changes or legislation affecting others in the supply chain.
This decision applies to the following sectors:	EDB/GDB/GTB

Why we are proposing no change to this decision

- 18.23 Our draft decision in respect of IM decision RP01.22/RP02.22 is to make no change to include reopeners to cover Government policy changes, Local Government rule changes or legislation affecting parties in the supply chain, unless otherwise covered by the change event reopener.
- 18.24 Our reasons for proposing no change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.23, RP02.23 and RP05.23

Decisions RP01.23, RP02.23 and RP05.23 General reopener/General escalating costs	Current IM decision The current IMs do not include a general reopener or a general escalating costs price-quality path reopener.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to this decision

- 18.25 Our draft decision in respect of IM decision RP01.23, RP02.23 and RP05.23 is to make no change.
- 18.26 Our reasons for proposing no change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decisions RP01.25 and RP02.24

Decision RP01.25 and RP02.24 Categories of expenditure	Current IM decision The current IMs do not include a reopener for the following specific categories of cost: <ul style="list-style-type: none"> • digitalisation and data; • monitoring of Low Voltage networks; • changes to a system operator's approach to security; • software as a service; • avoided cost of distribution payments; • increased insurance premiums; and • Distributed System Operator type services.
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This decision applies to the following sectors:	EDB/GDB/GTB
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Why we are proposing no change to these decisions

- 18.27 Our draft decision in respect of IM decisions RP01.25 and RP02.24 is to make no change to include specific categories of cost.
- 18.28 Our reasons for proposing no change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.8

Decision RP03.8 Maintain the test for the Error event materiality threshold	Current IM decision The current IMs require the threshold for Error events to be calculated using the 'impact on revenue' test.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to this decision

- 18.29 Our draft decision in respect of IM decision RP03.8 is to make no change to the method for calculating the threshold for Error events.
- 18.30 Our reasons for proposing no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.9

Decision RP03.9 Retain the 1% threshold for Foreseeable and Unforeseeable large project reopeners	Current IM decision The current IMs specify a threshold for Foreseeable and Unforeseeable large project reopeners of incurred capex exceeding 1% of the EDB's FNAR for the DPP regulatory period or \$2 million (whichever is lower).
This decision applies to the following sectors:	EDB

Why we are proposing no change to this decision

- 18.31 Our draft decision in respect of IM decision RP03.9 is to make no change to the 1% of FNAR threshold, applied on a 'cost incurred' test, for Foreseeable and Unforeseeable large project reopeners.

- 18.32 Our reasons for proposing no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.10

Decision RP03.10 Retain the materiality thresholds for Capacity event and Risk event reopeners for GPBs	Current IM decision The current IMs specify the threshold for Capacity events and Risk events as at least \$100,000 (GasNet) or \$2 million (other GPBs).
This decision applies to the following sectors:	GDB/GTB

Why we are proposing no change to this decision

- 18.33 Our draft decision in respect of IM decision RP03.10 is to make no change to the \$100,000 or \$2 million threshold.
- 18.34 Our reasons for proposing no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.11

Decision RP03.11 Lower threshold for high consumer benefit projects	Current IM decision The current IMs do not contain a lower threshold for high consumer benefit projects.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to this decision

- 18.35 Our draft decision in respect of IM decision RP03.11 is to make no change to introduce a lower reopener threshold for high consumer benefit projects.
- 18.36 Our reasons for proposing no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.12

Decision RP03.12 Not allow for the cumulative application of any of the lower thresholds	Current IM decision The current IMs do not allow for the cumulative application of any of the lower thresholds.
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

Why we are proposing no change to this decision

- 18.37 Our draft decision in respect of IM decision RP03.12 is to make no change to specifically allow for the cumulative application of any of the lower thresholds.
- 18.38 Our reasons for proposing no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Pre-review reconsideration of price-quality path IM decision RP03.13

Decision RP03.13 Retain the upper threshold for Capacity event and Risk event reopeners for GPBs	Current IM decision The current IMs specify the upper threshold for Capacity event and Risk event reopeners to be \$350,000 for GasNet and \$10 million for all other GPBs.
This decision applies to the following sectors:	GDB/GTB

Why we are proposing no change to this decision

- 18.39 Our draft decision in respect of IM decision RP03.13 is to make no change to raise the upper thresholds for Capacity event and Risk event reopeners.
- 18.40 Our reasons for proposing no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms Topic Paper.

Chapter 19 IRIS decisions that we are not proposing to change

New IRIS IM decisions IR01, IR13 and IR14

<p>Decision IR01, IR13, IR14</p> <p>IRIS applies - EDBs</p>	<p>Original 2010 decision</p> <p>The Commission will implement an IRIS under a CPP. The efficiency gain or loss for a particular year will be calculated as the difference between actual and forecast controllable opex for the current year, minus the difference in the preceding year, the result of which provides the incremental gain/loss for that year.</p> <p>See section 8.5, and Appendix J section J3 for 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2015 amendment to this decision (2)</p> <p>As a CPP may be a response to unforeseen circumstances that have a significant impact on a supplier, we consider that some flexibility on the application of IRIS under different circumstances is required.</p> <p>We have introduced a clause to the determination that allows use of an alternative allowance of opex or capex for the purposes of calculating IRIS adjustments. We envisage this clause would be used in certain circumstances to ensure consistency across a CPP.</p> <p>The ENA noted that, under s 53X(2), we are able to advise the suppliers of different starting prices that apply following the expiry of a CPP. It is possible that these prices may not have an underlying opex forecast from which to calculate IRIS carry over amounts.</p> <p>We have addressed this issue through an update to the determination. Under the new clause, at the expiration of the CPP, the Commission will notify the party of the forecast opex and forecast value of commissioned assets to use for the purpose of calculating the IRIS carry over amounts.</p> <p>To give effect to the IRIS in all situations we have introduced a number of additional adjustment terms to the IMs that apply under different scenarios (IM clause references: 3.3.4 (2) (a) 3.3.4 (2) (b) 3.3.4 (3) 3.3.4 (4) 3.3.4 (5) 3.3.4 (6))</p> <p>The baseline adjustment term is now defined separately for different scenarios. This gives effect to the revised (Powerco) approach when EDBs are transitioning onto a CPP:</p> <ul style="list-style-type: none"> • Under Scenarios 3 and 5 it is defined under clause 3.3.7 (1) of the IMs; and • Under Scenario 6 it is defined under clause 3.3.7 (2) of the IMs. <p>See: Further amendments to input methodologies for electricity distributors subject to price-quality regulation - Incremental Rolling Incentive Scheme (IRIS) (25 November 2015)</p> <p>2016 amendment to this decision</p> <p>We made an implementation change to this decision, by amending the EDB IM 'opex incentive amount' calculation to fit the purpose of the 'adjustment to the opex incentive' by using a modified version of the 'capex incentive adjustment' calculation.</p>
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	<p>This remedied the risk of, due to an adjustment to the opex incentive falling entirely in the second year of the regulatory period, fluctuations in allowable revenue (and therefore prices to consumers) resulting from those second year adjustments.</p> <p>See Chapter 9, paragraphs 368-372 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016)</p> <p>2019 amendment IR13: Our decision for the treatment of operating leases for incentive purposes, was that cashflows align more with opex treatment (as was the case before the introduction of NZ IFRS 16).</p>
This decision applies to the following sectors:	EDBs

Why we are proposing no change to this decision

- 19.1 Our draft decision in respect of IM decisions IR01, IR13 and IR14 is to make no change and specifically:
- 19.1.1 to not allow certain categories of expenditure to be excluded from IRIS at a EDB DPP or IPP reset;
 - 19.1.2 not to pursue a totex incentive scheme;
 - 19.1.3 no change to the treatment of operating leases for the purposes of IRIS in the IMs;
 - 19.1.4 not to introduce any tools for altering the cashflow timing, specifically, for expenditure incentive mechanism; and
 - 19.1.5 for IM decision IR14, our draft decision for altering cashflow timing is to not introduce a tool for altering cashflow timing, specifically, for expenditure incentive mechanism.
- 19.2 Our reasons for proposing no change are discussed in Chapter 3 (Topic 3b Implications of IRIS for cashflow timing) and Chapter 4 (Topic 4e Treatment of operating leases) in the Financing and incentivising efficient expenditure during the energy transition topic paper.

Pre-review IRIS IM decision IR02

<p>Decision IR02</p> <p>Treatment of IRIS balances - EDBs</p>	<p>Original 2010 decision</p> <p>While both incremental gains and losses will be carried forward to the subsequent 5 years, only positive net balances of such gains and losses in years in the next regulatory period will be treated as recoverable costs. (ie, only net rewards will be recognised).</p> <p>See section 8.5, Appendix J, section J3 for 2010 EDB-GPB IM reasons paper:</p>
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	<p>Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision (1)</p> <p>We put in place a symmetric incentive scheme to control expenditure that is the same in each year of the regulatory period. Unlike the pre-existing asymmetric IRIS for opex, the revised IRIS would provide incentives that are the same in each year:</p> <ul style="list-style-type: none"> • For opex, the retention period for savings and losses is 5 years following the year of the gain and loss, which is equivalent to a retention factor of around 34% for a supplier. • ... the strength of the incentive applying to capex can be varied relative to the incentive strength applying to opex. The choice of retention factor for capex will be decided at the time of each reset. <p>In the second full year after the price-quality path starts to apply to the supplier, a one-off adjustment is made after the carry forward amounts are added together. The one-off adjustment in the second year is required to correct for the difference between the actual and assumed level of opex in the final year of the preceding price-quality path. This adjustment is required because the incremental change in the final year of a price-quality path is assumed to be nil.</p> <p>See: Amendments to input methodologies for electricity distribution services and Transpower New Zealand: Incremental Rolling Incentive Scheme (27 November 2014)</p> <p>2015 amendment to this decision (2)</p> <p>We made further amendments intended to address situations in which a distributor transitions back and forth between default and CPPs. The situation in which a distributor transitions onto a CPP provides different incentives compared to the situations under a DPP and IPP.</p> <p>After considering the options proposed by submitters, we determined that retaining an IRIS and implementing the approach proposed by Powerco was most appropriate given the circumstances of a CPP as it provides the most beneficial incentives on suppliers:</p> <ul style="list-style-type: none"> • In its submission, Powerco suggested an approach in which the temporary savings in the penultimate year are assumed to be the difference between forecast and actual opex in that year. • Under the Powerco approach, the correct adjustments are made through the baseline adjustment term for any temporary savings in the penultimate year (e.g., year 4). <p>See: Further amendments to input methodologies for electricity distributors subject to price-quality regulation - Incremental Rolling Incentive Scheme (IRIS) (25 November 2015)</p> <p>2016 amendment</p> <p>We changed IM decision IR02 to amend the EDB IM 'opex incentive amount' calculation to fit the purpose of the 'adjustment to the opex incentive' by using a modified version of the 'capex incentive adjustment' calculation.</p>
This decision applies to the following sectors:	EDBs

Why we are proposing no change to this decision

- 19.3 Our draft decision in respect of IM decision IR02 is to make no change.
- 19.4 Our reasons for proposing no change are discussed in Chapter 4, Financing and incentivising efficient expenditure during the energy transition Topic Paper. Our approach to incentivising efficient expenditure for EDBs and Transpower.

Pre-review IRIS IM decision IR03

<p>Decision IR03</p> <p>Opex and capex IRIS incentive rates</p>	<p>Current IM decision</p> <p>Currently, the opex incentive rate (which is a function of the length of retention period, ie, the length of time that over which incentive amounts are held by the business, and the WACC as the discount rate) is determined by applying the IMs and the capex IRIS incentive rate is determined at the DPP reset.</p>
<p>This decision applies to the following sectors:</p>	<p>EDBs</p>

Why we are proposing no change to this decision

- 19.5 Our draft decision in respect of IM decision IR03 is to make no change.
- 19.6 Our reasons for proposing no change are discussed in Chapter 4 of the Financing and incentivising efficient expenditure during the energy transition Topic Paper.

Chapter 20 Transpower Investment IM decisions that we are not proposing to change

Pre-review Transpower Capex IM decision TC03

<p>Decision TC03</p> <p>Capex IM framework - categories and definitions for capital expenditure</p>	<p>Original 2012 decision</p> <p>The criteria classified base capex as R&R projects and E&D projects below \$20 million.</p> <p>See Chapter 2: Process matters, paragraphs 2.5.4 and 2.5.10 of the 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Why we are proposing no change to this decision

- 20.1 Our draft decision is to make no change to IM decision TC03 in respect of criteria for E&D and R&R base capex definitions, as they are flexible enough to support resilience expenditure proposals.
- 20.2 Our reasons for proposing no change are discussed in Chapter 3 (issue 5) of the Transpower Investment Topic Paper.

Pre-review Transpower Capex IM decision TC16 and TC27

<p>Decision TC16</p> <p>Base capex incentive and output framework - base capex policies and processes adjustment</p>	<p>Original 2012 decision</p> <p>To set an asymmetric incentive (penalty only) that required Transpower to bear a portion of the costs, determined by the base capex incentive rate, for those base capex assets that were not fully subjected to Transpower's policies and processes or, in all material respects, met the requirement to undertake a cost-benefit analysis and consultation consistent with the major capex consultation requirements.</p> <p>See Section 5.4 Chapter 5: Transpower capex input methodology reasons paper (31 January 2012).</p> <p>2018 amendment to this decision</p> <p>We amended the capex IM to remove the base capex policies and processes adjustment. However, requirement to undertake a cost-benefit analysis was retained.</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B37-B40, and Chapter 2 - Incentive mechanisms, paragraphs 176-178 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC27</p> <p>Major capex - approval process - rules for submitting a major capex proposal</p>	<p>Original 2012 decision</p> <p>Transpower will be required to provide qualitative information when submitting a Base capex proposal including detailed information on projects and programmes, including information on the aims and objectives of the programmes, cost-benefit analysis, an explanation of how the identified programme will be delivered, description of the methodology and assumptions used to forecast the Base capex involved, and the approach to prioritising projects.</p> <p>See Section 5.4 Chapter 5: Transpower capex input methodology reasons paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Why we are proposing no change to this decision

- 20.3 Our draft decision in respect of IM decisions TC16 and TC 27 is to make no change.
- 20.4 Our reasons for proposing no change are discussed in Chapter 12 (issue 2) of the Transpower Investment Topic Paper.

Pre-review Transpower Capex IM decision TC35

<p>Decision TC35</p> <p>Major capex - approval process - rules for submitting a major capex proposal</p>	<p>2018 Amendment</p> <p>We updated the Major capex approval process to incorporate project staging.</p> <p>See Chapter 3: Process matters, paragraphs 244-265 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Why we are proposing no change to this decision

- 20.5 Our draft decision in respect of IM decision TC35 is to make no change.
- 20.6 Our reasons for proposing no change are discussed in Chapter 5 of the Transpower Investment Topic Paper.

Pre-review Transpower Capex IM decision TC39

<p>Decision TC39</p> <p>Major capex – approval process – criteria for evaluating major capex proposals</p>	<p>Original 2012 decision</p> <p>The Commission will evaluate each major capex proposal in accordance with Schedule C of the Capex IM</p> <p>See section 6.10 of the 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
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This decision applies to the following sectors:	Transpower
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Why we are proposing no change to this decision

- 20.7 Our draft decision in respect of IM decision TC39 is to make no change.
- 20.8 Our reasons for proposing no change are discussed in Chapter 3 (issue 5) of the Transpower Investment Topic Paper.

Pre-review Transpower Capex IM decisions TC41 and TC44

<p>Decision TC41</p> <p>Major capex - investment test - application of the investment test - Calculation of expected net electricity market benefit using scenarios</p>	<p>Original 2012 decision</p> <p>The expected net electricity market benefit is the aggregated quantum of electricity market costs and benefits, less the aggregated quantum of project costs.</p> <p>As part of the investment test, Transpower needs to estimate the expected net electricity market benefit of each investment option under each of a number of scenarios.</p> <p>The expected net electricity market benefit for each investment option is calculated by combining the net electricity market benefit for each investment option for each scenario, consistent with the scenario weightings.</p> <p>See Chapter 7 - Major capex - investment test, paragraphs 7.3.2-7.3.8 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC44</p> <p>Major capex - investment test - implementation of the investment test - costs and benefits</p>	<p>Original 2012 decision</p> <p>When calculating the expected net electricity market benefits, the costs and benefits are limited to:</p> <ul style="list-style-type: none"> • benefits accruing to participants in the electricity market, and • the project costs of the investment option. <p>Costs and benefits accruing to participants in the electricity market are any of the following:</p> <ul style="list-style-type: none"> • fuel costs incurred by generators in relation to existing assets, committed projects and modelled projects; • the cost of involuntary demand curtailment borne by end users of electricity; • the costs of demand-side management; • capital costs of modelled projects; • costs resulting from operations and maintenance expenditure on committed projects, existing assets and modelled projects; • the cost of ancillary services including system operator costs; • the cost of losses, including local losses; • any real option value; • the value of any benefit associated with any financial contribution that a third party has committed to make towards the costs of the project (the value of any such benefit may not exceed the amount of the contribution committed by the third party); • subsidies or other benefits – <ul style="list-style-type: none"> ○ relating to anything listed in the above paragraphs; and ○ provided under or arising pursuant to all electricity-related legislation and electricity-related administrative determinations. • competition effects (in the electricity market); • any other benefit or cost occurring in the electricity market that is proposed by Transpower prior to its consultation on the shortlist of investment options and agreed to by the Commission. <p>See Chapter 7 - Major capex - investment test, paragraphs 7.4.3 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Why we are proposing no change to this decision

20.9 Our draft decision in respect of IM decisions TC41 and TC44 is to make no change.

20.10 Our reasons for proposing no change are discussed in Chapter 3 (issues 1, 2 and 5) and Chapter 12 (issue 2) in the Transpower Investment Topic Paper.

Pre-review Transpower Capex IM decision TC43

<p>Decision TC43</p> <p>Major capex - investment test – application of the investment test – satisfying the investment test</p>	<p>Original 2012 decision</p> <p>Investment options are regarded as having similar expected net electricity market benefits if the difference in the expected net electricity market benefit is 10% or less of the project cost of the investment option that has the highest expected net electricity market benefit before accounting for unquantified electricity market costs and benefits.</p> <p>Transpower may request the Commission to allow it to use an alternative percentage to 10% for particular projects. Transpower's request must be backed up by evidence that demonstrates the need for an alternative rate.</p> <p>See Chapter 7: Major Capex - Investment test, paragraphs 7.4.49-7.4.50 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p> <p>See Chapter 7 - Major capex - investment test, paragraphs 7.3.17-7.3.26 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

Why we are proposing no change to this decision

20.11 Our draft decision in respect of IM decision TC43 is to make no change.

20.12 Our reasons for proposing no change are discussed in Chapter 3 – issue #5 of the Transpower Investment Topic Paper.

Pre-review Transpower Capex IM decision TC49

<p>Decision TC49</p> <p>Major capex - investment test - implementation of the investment test - sensitivity analysis</p>	<p>Original 2012 decision</p> <p>To demonstrate that a proposed investment is sufficiently robust under sensitivity analysis, Transpower must undertake and report the results of its sensitivity analysis.</p> <p>This must quantify the expected impact on the outcome of the quantitative investment test of reasonable variations in key variables.</p> <p>To assess whether an investment test result is sufficiently robust, sensitivity analysis must cover a broad range of variables that might reasonably be expected to materially affect the relative expected net market benefit of the investment options. Reasonable variations in key variables include the following:</p> <ul style="list-style-type: none"> • forecast demand; • size, timing, location, fuel costs and operating and maintenance costs (relevant to existing assets), committed projects, modelled projects and the investment option in question;
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	<ul style="list-style-type: none"> • capital cost of the investment option in question (including variations up to proposed Major capex allowance) and modelled projects; • timing of decommissioning, removing or de-rating decommissioned assets; • the value of expected unserved energy; • discount rate; • range of hydrological inflow sequences; • relevant demand and generation scenario probability weightings; and • any other variables that Transpower considers to be relatively uncertain. <p>See Chapter 7: Major Capex - Investment test, paragraphs 7.4.49-7.4.50 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p> <p>See Chapter 7 - Major capex - investment test, paragraphs 7.3.2-7.3.8 of 2012 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
This decision applies to the following sectors:	Transpower

Why we are proposing no change to this decision

- 20.13 Our draft decision in respect of IM decision TC49 is to make no change.
- 20.14 Our reasons for proposing no change are discussed in Chapter 3 – issue #5 of the Transpower Investment Topic Paper.

Chapter 21 Treatment of taxation decisions that we are not proposing to change

<p>Decision TX19</p> <p>Tax losses ignored – Airports</p>	<p>Original 2010 decision</p> <p>Tax losses in an Airport’s wider tax group should be ignored when estimating tax costs, and any tax losses generated in the supply of airport services should be notionally carried forward to the following disclosure year.</p> <p>See Appendix D, section D2 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

Why we are proposing no change to this decision

- 21.1 Our draft decision in respect of IM decision TX19 is to make no change to how the Airports IM treats tax losses to deal with the impact of COVID-19 on Airports’ revenues. This issue was raised by AIAL in its submission on the Process and Issues paper.⁶¹
- 21.2 Airports do not usually forecast making a loss when determining their prices during a price-setting event. As such, the prices will not reflect any tax losses. On the other hand, Airports are required to carry forward any tax losses in their information disclosures and to reflect these via lower future prices.
- 21.3 Our reason for proposing no change is because the Airports IM already provides sufficient flexibility to deal with this issue. The current IM allows Airports to propose wash-ups for past losses as part of their future price-setting events. We do not consider a change to the Airports tax IM would (a) better promote the s 52A outcomes; or (b) improve regulatory certainty, without detrimentally impacting the s 52A purpose.

⁶¹ Auckland International Airport Ltd “[Input Methodologies Review – response to Process and Issues Paper](#)” (11 July 2022), p. 3-4.

Part 3: IM decisions that we are not proposing to change, and found no reason to consider changing

Chapter 22: Introduction to Part 3

22.1 This Part of the report lists the pre-review IM decisions that:

22.1.1 in light of our framework, submissions on the IM Review, and all other relevant information before us, we found no reason to propose changing;⁶² and

22.1.2 we propose not to change at a policy level, or in terms of the implementation of the decision.

⁶² That is not to say that there have never been any issues raised in respect of these current IM decisions listed in this part of the report. Minor issues have been raised in the past that are relevant to some of the current IM decisions listed here; but when we carried out our effectiveness review, we considered that none of those decisions were sufficiently material to lead us to consider changing the IMs.

Chapter 23 Decisions that we are not proposing to change, and found no reason to consider changing

Amalgamation IM decisions

<p>Decision AM02</p> <p>Suppliers to aggregate price-quality paths on amalgamation</p>	<p>Current IM decision</p> <p>If a supplier amalgamates with another supplier of the same type of regulated service, the Commission will not reconsider the existing price-quality path but will require the suppliers involved in the amalgamation to aggregate price-quality paths for compliance purposes from the start of the disclosure year following the amalgamation (if both regulated suppliers are subject to a DPP) or at the expiry of a CPP (if one or more of the regulated suppliers are subject to a CPP).</p> <p>See section 8.6, 8.6.2 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision AM03</p> <p>Amalgamation rule for existing CPPs</p>	<p>Current IM decision</p> <p>Where one or more parties to the amalgamation are already subject to a CPP at the time of the amalgamation, a joint CPP may not apply to the amalgamated supplier until the supplier(s) on a CPP have each completed at least 3 years of their CPP regulatory period (where applicable) by the time the new CPP is to take effect. In this circumstance, the regulatory period of any existing CPP would be shortened from 4 or 5 years to 3 or 4 years (terminating on the day before the new CPP will apply).</p> <p>The change would be given effect through an amendment to the existing regulatory period(s) specified in the relevant s 52P determinations. A supplier must complete at least 3 years of its CPP because of the requirement in s 53W(2) of the Commerce Act 1986 that the Commission may set a shorter period than 5 years if it considers this would better meet the purpose of this Part, but in any event may not set a term less than 3 years.</p> <p>See section 8.6, 8.6.3 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Asset valuation IM decisions

<p>Decision AV01</p> <p>Initial RAB values for EDBs and GPBs</p>	<p>Current IM decision</p> <p>EDBs and GPBs must establish their initial RAB values from existing regulatory valuations, namely:</p> <ul style="list-style-type: none"> • the regulatory asset values disclosed in 2009 in accordance with applicable ID requirements; or • in the case of assets that are subject to the Gas Authorisation, the RAB values determined under the Gas Authorisation as at 30 June 2005, updated to the financial year ending in 2009 for capex, depreciation and CPI indexation. <p>See section 4.3 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision AV02</p> <p>Adjustments to initial RAB values</p>	<p>Current IM decision</p> <p>EDBs and GPBs to adjust their initial RAB values to:</p> <ul style="list-style-type: none"> • correct for known errors in asset registers, with respect to the application of valuation approaches under existing ID requirements (with the exception of asset covered by the Gas Authorisation); • make adjustments to ensure that assets included in the initial RAB values align with the definitions of electricity lines services and gas pipeline services provided for in s 54C and s 55A of the Commerce Act; • in the case of EDBs: <ul style="list-style-type: none"> o adjust the application of multipliers in their 2004 optimised deprival value (ODV) valuations where better information has become available since 2004 (including revised ranges and application for some multipliers); o reapply the optimisation and EV tests set out in the 2004 ODV Handbook, with respect to assets where an optimisation or EV adjustment in 2004 led to either a full or partial write-down; o ensure finance during construction (FDC) costs are accounted for in establishing the initial RAB value of assets; and • in the case of Vector's Natural Gas Corporation (NGC) Distribution and NGC Transmission assets, adjust the value to provide for CPI indexation from the first day of the disclosure year 2006. <p>See section 4.3, Appendix E, section E2 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision AV04</p> <p>RAB exclusions</p>	<p>Current IM decision</p> <p>EDBs and GPBs should exclude from their RAB values:</p> <ul style="list-style-type: none"> • as applicable, any assets not used to provide electricity lines services (as defined by s 54C) and any assets not used to provide gas pipeline services (as defined by s 55A); • any asset that is part of a works under construction; • working capital; • goodwill; and • easement land, that is land acquired for the purpose of creating an easement and with the intention of subsequently disposing of the land. <p>See section 4.3, Appendix E, sections E2, E3, E5, E6 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision AV06</p> <p>Commissioned assets added to RAB</p>	<p>Original 2010 decision</p> <p>EDBs and GPBs should include capital additions in their RAB values at cost in the year in which the asset is 'commissioned', that is when the asset is first used by the regulated supplier to provide electricity distribution services/gas pipeline services.</p> <p>When a regulated supplier disposes of an asset the closing RAB value of that asset, for the disclosure year in which the disposal occurs, is nil.</p> <p>See section E4, Appendix E of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p> <p>2019 amendment</p> <p>The definition of 'identifiable non-monetary asset' in clause 1.1.4(2) of Electricity Distribution Services IM Determination (2012) has been amended to read "has the same meaning as under GAAP (which for the avoidance of doubt, includes right of use assets) except that it excludes goodwill."</p> <p>See clause 4.3 of Electricity Distribution Services IM Amendments Determination (2019): Electricity Distribution Services Input Methodologies Amendments Determination [2019] NZCC 18.</p> <p>See also clause 5.40.1 of Treatment of operating leases – Final decisions paper (2019).</p> <p>Amendments were made so that:</p> <ul style="list-style-type: none"> • A GAAP-based life can be assigned to depreciate right of use assets by GDBs and the GTB; and • GDBs adopt opening GAAP deferred tax balances for right of use assets and other assets that do not have a corresponding regulatory tax asset value when calculating tax allowances for ID, CPP and DPP purposes. <p>See clauses 3.58 to 3.72 of IM Amendments Reasons Paper for Gas Pipeline Businesses related to the 2022 default price-quality paths (2022).</p>
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This decision applies to the following sectors:	EDB/GDB/GTB
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Decision AV07 Network spares	<p>Current IM decision</p> <p>EDBs and GPBs should include network spares in the roll forward as additions to the RAB value where they are:</p> <ul style="list-style-type: none"> • treated as the cost of an asset under GAAP (wholly or in part); and • held in appropriate quantities, considering the historical reliability of the equipment and the number of items installed on the network. <p>See section E4, Appendix E of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision AV08 Easement rights	<p>Current IM decision</p> <p>EDBs and GPBs must include new easement rights in the RAB value at cost in the year in which the rights are acquired, provided that the RAB value of new easement rights does not exceed fair market value, as determined by an independent valuer.</p> <p>See section E6, Appendix E of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision AV09 Capital contributions	<p>2016 amendment to this decision</p> <p>We made two amendments to improve the way the original 2010 decision was implemented:</p> <ul style="list-style-type: none"> - we expanded the definition of 'capital contributions' to include money received in respect of asset acquisitions; and - we amended the IMs so that the calculation of the financing cost that can be capitalised in the RAB on a commissioned asset is based on a value of works under construction that is net of capital contributions received at any stage, including any situation where a capital contribution is received before money is spent on the works. <p>We made these implementation changes to achieve the policy intent more effectively. We considered that the policy intent of the original 2010 decision remained appropriate.</p> <p>See chapter 4, paragraphs 67-78 of 2016 Report on the IM Review:</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision AV10</p> <p>Vested assets</p>	<p>Current IM decision</p> <p>EDBs and GPBs must include vested assets in the RAB value at the cost to the supplier, consistent with GAAP, provided that the RAB value does not exceed the amount of consideration paid by the regulated supplier in respect of the asset.</p> <p>See section E7, Appendix E of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision AV11</p> <p>Lost and found assets</p>	<p>Current IM decision</p> <p>EDBs and GPBs must remove assets recognised as lost from the RAB value in the year in which they are identified as lost, and must reduce the RAB value by the asset's opening RAB value in that year. Once the initial RAB value has been established, lost assets that were in the original RAB will be permitted to remain in the RAB value.</p> <p>Once the initial RAB value has been established found assets are limited to assets commissioned after the 2009 disclosure year.</p> <p>Regulated suppliers must add found assets to the RAB in the year in which they are found, and must establish the RAB value of found assets at cost, consistent with GAAP, where sufficient records exist.</p> <p>Where sufficient records do not exist, regulated suppliers may assign the asset the same value as a similar asset in the RAB (where such an asset exists). If no such similar asset exists, regulated suppliers must use the asset's market value as verified by an independent valuer.</p> <p>See section E9, Appendix E of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision AV13</p> <p>Financing costs on works under construction – excludes exempt EDBs</p>	<p>Original 2010 decision</p> <p>EDBs and GPBs subject to default/customised price-quality regulation must capitalise financing costs on works under construction in accordance with GAAP, at a rate no greater than the 75th percentile for the regulatory post-tax WACC determined under the cost of capital IM, for the purpose of ID and CPPs.</p> <p>See section E5, Appendix E of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2014 amendment to this decision</p> <p>Our final decision was to use the 67th percentile estimate of post-tax WACC as a limit when determining the value of commissioned assets under particular</p>
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	<p>provisions of the IMs. This change took effect as of the commencement dates specified in the amendment determination; it did not require subsequent changes to the ID requirements before suppliers were required to apply it.</p> <p>See Amendments to the WACC percentile range for information disclosure regulation for electricity lines services and gas pipeline services: Reasons Paper (12 December 2014)</p> <p>2016 amendment to this decision</p> <p>We amended this decision to require non-exempt EDBs, GDBs and GTBs to use their GAAP cost of financing, capped at its New Zealand dollar weighted average cost of borrowing, when calculating the cost of financing for assets under construction.</p> <p>Under this approach, the cost of financing applies for the period from when the asset becomes a works under construction until its commissioning date.</p> <p>See chapter 4, paragraphs 88-90 of 2016 Report on the IM Review:</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision AV19</p> <p>Cost allocation applies to unallocated RAB</p>	<p>Current IM decision</p> <p>Regulated suppliers must record the total (ie, 'unallocated') value of an asset in the asset base and roll it forward (for depreciation, revaluations, additions etc.) on an unallocated basis. The cost allocation IM is applied to this asset value whenever it is necessary to determine a specifically attributable (ie, 'allocated') portion of the asset value for regulated activities (for example to calculate depreciation and revaluations).</p> <p>See section E13, Appendix E of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision AV20</p> <p>Initial RAB values (Transpower)</p>	<p>Current IM decision</p> <p>Transpower must establish initial RAB values for its assets based on the values determined under the settlement agreement as at 30 June 2011.</p> <p>See section 4.3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	Transpower

<p>Decision AV21</p> <p>Pseudo asset in initial RAB (Transpower)</p>	<p>Current IM decision</p> <p>The initial value of RAB should include the remaining value of the High Voltage Alternating Current (HVAC) lines pseudo asset, established by the settlement agreement, as at 30 June 2011.</p> <p>See section 4.3, paragraphs 4.4.25- 4.4.30 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV22</p> <p>RAB exclusions (Transpower)</p>	<p>Current IM decision</p> <p>Transpower should exclude from its RAB value:</p> <ul style="list-style-type: none"> • any assets not used to provide electricity transmission services; • any asset that is part of a works under construction; • working capital; • goodwill; and • easement land, that is land acquired for the purpose of creating an easement, and with the intention of on-selling the land. <p>See section 4.3, paragraphs 4.4.31-4.4.48, 4.4.60-4.4.63, 4.4.58-4.4.59, 4.4.89-4.4.103 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV23</p> <p>System operator assets excluded from RAB (Transpower)</p>	<p>Current IM decision</p> <p>Assets associated with delivering an agreement between Transpower and the Electricity Authority in respect of the provision of system operator services are excluded from the RAB value as the result of applying the cost allocation methodology.</p> <p>See section 4.4, paragraphs 4.4.15- 4.4.24 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV24</p> <p>New investment contract assets valued at zero (Transpower)</p>	<p>Current IM decision</p> <p>Assets provided under NICs are included in the RAB at zero value.</p> <p>See section 4.4, paragraphs 4.4.4-4.4.14 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV27</p> <p>Commissioned assets added to RAB (Transpower)</p>	<p>2014 amendment to this decision</p> <p>The amendment affects the IMs relating to ID regulation and individual price-quality regulation for Transpower. It will apply to land assets acquired from 1 July 2015, which corresponds to the commencement date of the first disclosure year for RCP2.</p> <p>We have amended the definition of ‘commissioned’ in the IMs to clarify that land which is base capex may enter Transpower’s RAB when acquired, as opposed to when it is first used to supply electricity lines services.</p> <p>Base capex is capex with a forecast cost of less than \$20 million or which relates to specified types of projects or programmes such as asset replacement or asset refurbishment.</p> <p>See section 3, paragraphs 26-35 of 2014 Transpower IM amendments reasons paper: Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</p> <p>2019 amendment</p> <p>The definition of ‘identifiable non-monetary asset’ in clause 1.1.4(2) of Electricity Distribution Services IM Determination (2012) has been amended to read “has the same meaning as under GAAP (which for the avoidance of doubt, includes right of use assets) except that it excludes goodwill.”</p> <p>See clause 4.3 of Electricity Distribution Services IM Amendments Determination (2019): Electricity Distribution Services Input Methodologies Amendments Determination [2019] NZCC 18.</p> <p>See also clause 5.4 of Treatment of operating leases – Final decisions paper (2019).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV28</p> <p>Network spares (Transpower)</p>	<p>Current IM decision</p> <p>Where the cost of a network spare is treated as the cost of an asset under GAAP (wholly or in part), it may be added to the RAB value at the date on which it is ‘commissioned’.</p> <p>See section 4.3, paragraphs 4.4.68-4.4.80 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV29</p> <p>Asset disposals (Transpower)</p>	<p>Current IM decision</p> <p>Where Transpower disposes of an asset, the closing RAB value of that asset, for the disclosure year in which the disposal occurs, is nil.</p> <p>See section 4.3, paragraphs 4.4.68-4.4.80 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV30</p> <p>Easements (Transpower)</p>	<p>Current IM decision</p> <p>Transpower may include easements in its RAB value at cost in the year in which the rights are acquired, provided that:</p> <ul style="list-style-type: none"> • the investments have been approved under the grid investment test in Part F of the Electricity Governance Rules; and • where Transpower acquires land to create a new easement, the cost of the easement is limited to the sum of: <ul style="list-style-type: none"> o legal and administrative costs; o the detrimental impact on the value of the land, as determined by a valuer; and o the cost of holding the land, calculated as the financing cost on the purchase of the land from the date Transpower acquires the land until the date the easement is created. <p>See section 4.4, paragraphs 4.4.89 – 4.4.103 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV31</p> <p>Lost and found assets (Transpower)</p>	<p>Current IM decision</p> <p>Transpower must remove assets recognised as lost from its RAB value in the disclosure year in which they are identified as lost, and should reduce the RAB value by the opening RAB value of the asset in that year. Once the initial RAB value has been established, lost assets that were in the initial RAB will be permitted to remain in the RAB value.</p> <p>Found assets are limited to assets commissioned after the 2011 disclosure year. Transpower should add found assets to the RAB value in the year in which they are found, and must establish the RAB value of found assets at cost, consistent with GAAP, where sufficient records exist.</p> <p>Where sufficient records do not exist, Transpower may assign the asset the same value as a similar asset in the RAB (where such an asset exists). If no such similar asset exists, Transpower must use the asset's market value at the time the found asset is added to the RAB value, as verified by an independent valuer.</p> <p>See section 4.4, paragraphs 4.4.85- 4.4.88 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV35</p> <p>Standard physical asset lives to apply with exceptions (Transpower)</p>	<p>2016 amendment to this decision</p> <p>In 2016 we made three implementation changes to this decision, by amending the Transpower IM Determination:</p> <ul style="list-style-type: none"> - so that the asset life of non-system assets is determined by applying the asset life used under GAAP; - to make it clear that asset lives are not reset on transfers of assets from other regulated suppliers; and - so the value of an asset is adjusted for depreciation applying in the year of transfer from the other regulated supplier.
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	<p>See chapter 4, paragraphs 127-128 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016)</p> <p>2019 amendment Clause 2.2.6(1)(h) of Commerce Act (Transpower IM) Determination 2010 [2012] NZ CC 17, has been amended to read: “(h) a non-network asset or right of use asset, its asset life determined under GAAP;”.</p> <p>See clause 4.4 of Transpower IM Amendments Determination (No. 2) [2019] NZCC 16.</p> <p>The reference to ‘network’ before ‘right of use asset’ has been deleted in clause 2.2.6(1)(h) of the Transpower IMs and clause 2.2.8(1)(f) of the EDB IMs. The reason is to avoid any implication that the underlying asset must be part of a network</p> <p>See clause 5.40.2 of Treatment of operating leases – Final decisions paper (2019).</p>
This decision applies to the following sectors:	Transpower

<p>Decision AV37</p> <p>Asset lives when asset is coming to end of life (Transpower)</p>	<p>2014 amendment to this decision</p> <p>The amendment affects the IMs relating to ID regulation and individual price-quality regulation for Transpower. It will apply to depreciation calculated in respect of assets from 1 July 2015, which corresponds to the commencement date of the first disclosure year for RCP2.</p> <p>We have removed the requirement in the asset valuation IM to spread the regulatory depreciation allowance for assets that reach the end of their depreciable life, across the remainder of a regulatory control period.</p> <p>See paragraphs 18-25 of 2014 Reasons Paper on Amendments to IMs for Transpower: Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014).</p>
This decision applies to the following sectors:	Transpower

<p>Decision AV38</p> <p>Cost allocation applies to unallocated RAB (Transpower)</p>	<p>Current IM decision</p> <p>Transpower must record the total (ie, ‘unallocated’) value of an asset base and roll it forward (for depreciation, revaluations, additions etc) on an unallocated basis.</p> <p>The cost allocation IM is applied to this asset value whenever it is necessary to determine a specifically attributable (ie, ‘allocated’) portion of the asset value for regulated activities (for example to calculated depreciation and revaluations).</p> <p>See section 4.5, Chapter 3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	Transpower

<p>Decision AV39</p> <p>Initial RAB values for non-land assets (Airports)</p>	<p>Current IM decision</p> <p>Airports must establish the initial value of their non-land assets using existing regulatory valuations, specifically asset values as on the last day of the disclosure year 2009, and as disclosed in the 2009 disclosure financial statements.</p> <p>See section 4.3 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV40</p> <p>RAB roll forward with indexation (Airports)</p>	<p>2016 amendment to this decision</p> <p>We amended IM decision AV40 to:</p> <ul style="list-style-type: none"> - require airports to disclose forward-looking and backward-looking costs in a way that is most consistent with the approaches used when setting prices; - limit airports in their approaches to revaluing assets to the use of either CPI indexation or an un-indexed approach (except when revaluing land using MVAU); and - allow airports to make their choice of either CPI indexation or an un-indexed approach for each subset of the asset base separately. <p>See chapter 5 of Topic paper 5: Airports profitability assessment (20 December 2016)</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV45</p> <p>Commissioned assets added to RAB (Airports)</p>	<p>Current IM decision</p> <p>Airports should include capital additions in their RAB values at cost in the year in which the asset is 'commissioned', that is when the asset is first 'used by the Airport to provide specified airport services other than excluded services'. When an Airport disposes of an asset the closing RAB value of that asset, for the disclosure year in which the disposal occurs, is nil.</p> <p>See section 4.3, Appendix C, section C6 of 2010 Airports IM Reasons Paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV47</p> <p>Lost and found assets (Airports)</p>	<p>Current IM decision</p> <p>Airports must remove assets recognised as lost from their RAB values in the disclosure year in which they are identified as lost, and must reduce the RAB value by the asset's opening RAB value in that year. From the end of the 2012 disclosure year, lost assets that were in the initial RAB value will be permitted to remain in the RAB value.</p> <p>After the end of the 2012 disclosure year, airports may only add found assets to the RAB value that were commissioned after the 2009 disclosure year. Airports must</p>
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	<p>add found assets to the RAB value in the year in which they are found, and must establish the RAB value of found assets at cost, consistent with GAAP, where sufficient records exist.</p> <p>Where sufficient records do not exist, the Airport may assign the asset the same value as a similar asset in the RAB (where such an asset exists). If no such similar asset exists, the Airport must use the asset's market value as verified by an independent valuer (in the case of land, the market value must be determined using Schedule A of the IM Determination).</p> <p>See Appendix C, section C8 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	Airports

<p>Decision AV48</p> <p>Capital contributions and vested assets (Airports)</p>	<p>2016 amendment to this decision</p> <p>We made two amendments to improve the way the original 2010 decision was implemented:</p> <ul style="list-style-type: none"> • we expanded the definition of 'capital contributions' to include money received in respect of asset acquisitions; and • we amended the IMs so that the calculation of the financing cost that can be capitalised in the RAB on a commissioned asset is based on a value of works under construction that is net of capital contributions at any stage, including any situation where a capital contribution is received before money is spent on the works. <p>We made these implementation changes to achieve the policy intent more effectively. We considered that the policy intent of the original 2010 decision remained appropriate.</p> <p>See chapter 4, paragraphs 152-154 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016)</p>
This decision applies to the following sectors:	Airports

<p>Decision AV49</p> <p>Easement rights (Airports)</p>	<p>Current IM decision</p> <p>All airports must include new easement rights in the RAB value at cost in the year in which the rights are acquired, provided that the RAB value of new easement rights does not exceed fair market value, as determined by an independent valuer.</p> <p>See Appendix C, section C10, of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	Airports

<p>Decision AV51</p> <p>Asset lives and limit on unallocated depreciation (Airports)</p>	<p>Current IM decision</p> <p>Airports may determine asset lives for airport assets. However, total (unallocated) depreciation over the lifetime of the asset must not exceed the value at which the asset is first recognised in the Airport's RAB value under Part 4 (after adjusting for the effects of revaluations).</p> <p>See Appendix C, section C11 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV52</p> <p>Stranded assets (Airports)</p>	<p>Current IM decision</p> <p>Where an asset is stranded or expected to become stranded, airports may adjust the asset life consistent with the requirements in respect of asset lives.</p> <p>See Appendix C, section C12 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV53</p> <p>Cost allocation applies to unallocated RAB (Airports)</p>	<p>Current IM decision</p> <p>Airports must record the total (ie, 'unallocated') value of an asset in the asset base and roll it forward (for depreciation, revaluations, additions etc) on an allocated basis. The cost allocation IM is applied to this asset value whenever it is necessary to determine a specifically attributable (ie, 'allocated') portion of the asset value for regulated activities (for example to calculated depreciation and revaluations).</p> <p>See Appendix C, section C14 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV54</p> <p>Initial RAB value (Powerco GDB/GTBs)</p>	<p>2016 amendment to this decision</p> <p>We amended this decision by removing references to 'Maui Development Limited' (MDL) in the definition of 'disclosure year', as well as the references which indicate that MDL's disclosure year 'means the preceding calendar year' in the GTB IM. These references were no longer required following the First Gas purchase of MDL, and removing them allowed the GTB ID determination to specify the First Gas disclosure year.</p> <p>Consistent with the airports, EDB and GDB IM determinations, we amended the GTB IM definition of 'disclosure year' to allow the corresponding definition of 'disclosure year' in the ID determination to provide a specific date for applicable regulated suppliers.</p> <p>IM decision AV54 now also applies to GTBs.</p>
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	See chapter 4, paragraphs 159-163 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016)
This decision applies to the following sectors:	GDBs (Powerco only)/GTBs

Cost allocation IM decisions

Decision CA01 Allocating directly attributable cost	<p>Current IM decision</p> <p>If a cost is solely and wholly caused by a single type of regulated service, the cost is 'directly attributable' and is allocated solely to that type of service.</p> <p>See section 3.3 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CA03 Process for deciding allocation approach	<p>Original 2010 decision</p> <p>The IM specifies the process for deciding which of the three approaches suppliers must use to allocate shared costs in different circumstances.</p> <p>See Appendix B, sections B2 and B3, of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment</p> <p>We removed the avoidable cost allocation methodology (ACAM) as a stand-alone cost allocation option for EDBs and GPBs.</p> <p>See paragraphs 112-139 of Input methodologies review decisions Topic paper 3: The future impact of emerging technologies in the energy sector (20 December 2016)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CA06 Variation to three allocation approaches	<p>Current IM decision</p> <p>Suppliers may also clarify their cost allocation policy more directly (than through the use of the three approaches) through their own operational practices. Where this is the case, the IM allows suppliers to make voluntary deductions for operating costs and asset values that have been recovered in arm's-length transactions.</p> <p>See sections 3.3, Appendix B, section B7 of 2010 IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
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This decision applies to the following sectors:	EDB/GDB/GTB
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Decision CA08 Operating costs must be adjusted for system operator costs – Transpower	<p>Current IM decision</p> <p>System operator services are defined under Part 4 of the Commerce Act as electricity line services.</p> <p>Operating costs or asset values allocated to activities undertaken by Transpower to supply electricity transmission services other than system operator services, must be net of costs or asset values implicitly or explicitly recoverable by Transpower in respect of any agreement between it and the Electricity Authority in respect of the system operator services.</p> <p>In addition, fixed assets used solely for the purposes of supplying system operator services are to be excluded from Transpower’s RAB.</p> <p>Any costs recovered through such an agreement are to be excluded from any opex or capex forecasts used to determine Transpower’s IPP.</p> <p>See section 3.3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	Transpower

Decision CA09 Costs associated with new investment contracts – Transpower	<p>Current IM decision</p> <p>Services provided by NICs fall under the Part 4 definition of electricity lines services as it involves the conveyance of electricity by line.</p> <p>Fixed assets associated with NICs are to be excluded from Transpower’s RAB. Any capex included in NICs is to be excluded from any capex forecasts used to determine Transpower’s IPP.</p> <p>Transpower should continue to include all operating costs associated with NICs within its total operating costs associated with providing regulated services.</p> <p>See section 3.3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	Transpower

Decision CA10 Allocating directly attributable cost	<p>Current IM decision</p> <p>If a cost is solely and wholly caused by a single activity, the cost is ‘directly attributable’ and is allocated solely to that activity.</p> <p>See section 3.3 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
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This decision applies to the following sectors:	Airports
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Decision CA11 Allocating not directly attributable cost	<p>Current IM decision</p> <p>Airports must apply ABAA to allocate costs that are ‘not directly attributable’ between each of the three regulated activities, and between regulated and unregulated activities that they undertake.</p> <p>See section 3.3 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	Airports

Cost of capital IM decisions

Decisions CC01 Cost of capital defined as estimate of WACC	<p>Current IM decision</p> <p>The cost of capital is an estimate of firms’ WACC which reflects the cost of debt and the cost of equity used to fund investment. A different WACC will apply in respect of the supply of regulated services by EDBs and GPBs.</p> <p>See sections 6.1, H1, H2 of 2010 EDB-GPB IM Reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CC04 Vanilla WACC and post-tax WACC estimation methodology	<p>Current IM decision</p> <p>The methodology for estimating a vanilla WACC is: cost of debt × leverage + cost of equity × (1 – leverage)</p> <p>The methodology for estimating a post-tax WACC is: cost of debt (after corporate tax) × leverage + cost of equity × (1 – leverage)</p> <p>See sections 6.7, H2 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision CC10</p> <p>Date for determining price-quality path estimates of WACC – EDBs and Transpower</p>	<p>Original 2014 decision</p> <p>We changed the date by which we must determine the estimates of WACC used for setting the DPP for EDBs and the IPP for Transpower New Zealand Limited from 30 September to 31 October for 2014. We have done this by changing:</p> <ul style="list-style-type: none"> • the date by which we estimate the WACC percentile for electricity lines businesses; and • the dates by which inputs to the WACC percentile (the risk free rate, debt premium, and the standard error of the debt premium and mid-point estimates of WACC) are determined or estimated. <p>See: Amendment to the WACC determination date for electricity lines services, including Transpower: Reasons paper (29 September 2014)</p> <p>2016 amendment to this decision</p> <p>We made an implementation change in respect of this decision, by changing the date in the IM determinations by which we must determine the estimates of WACC used for setting the DPP for EDBs and the IPP for Transpower from 31 October to 30 September.</p> <p>In 2014, we used 31 October as the date by which we were required to estimate the WACC to apply for the 2015-2020 EDB DPP and 2015-2020 Transpower IPP.</p> <p>As we had estimated the WACC to apply for the 2015-2020 EDB DPP and the 2015-2020 Transpower IPP, we reverted to our pre-2014 date of 30 September, to apply for future resets.</p> <p>See Chapter 6, paragraphs 227-228 2016 Report on the IM Review:</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/Transpower</p>

<p>Decision CC11</p> <p>Cost of Capital defined as estimate of WACC – Transpower</p>	<p>Current IM decision</p> <p>The cost of capital is an estimate of the WACC which reflects the cost of debt and the cost of equity used to fund investment. The WACC will apply in respect of the supply of regulated services by Transpower.</p> <p>The Commission has compared the estimated WACC outputs against a range of other financial and economic information to check that commercially realistic estimates of WACC for EDBs and Transpower will be produced by the IM.</p> <p>See section 6.1, 6.8, H1, H2, H13 of 2010 Transpower IM reasons paper:</p> <p>Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p> <p>Input Methodologies (Transpower) Supplementary Reasons Paper for Leverage in Cost of Capital (29 June 2012)</p>
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This decision applies to the following sectors:	Transpower
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Decision CC14 Vanilla WACC and post-tax WACC estimation methodology – Transpower	<p>Current IM decision</p> <p>The methodology for estimating a vanilla WACC is:</p> $\text{cost of debt} \times \text{leverage} + \text{cost of equity} \times (1 - \text{leverage})$ <p>The methodology for estimating a post-tax WACC is:</p> $\text{cost of debt (after corporate tax)} \times \text{leverage} + \text{cost of equity} \times (1 - \text{leverage})$ <p>See sections 6.7, H2 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	Transpower

Decision CC19 Cost of capital defined as estimate of WACC - Airports	<p>Original 2010 Decision</p> <p>The cost of capital is an estimate of firms' WACC which reflects the cost of debt and the cost of equity used to fund investment.</p> <p>In the case of airports, for ID, the Commission considers it appropriate to take a range between the 25th to 75th percentiles. In assessing profitability for the airports an appropriate starting point for any assessment is the 50th percentile (mid-point) on the range.</p> <p>See section 6.1, E1, E2 and E11 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p> <p>2016 Amendments</p> <p>Amended to remove the specific percentile range. Therefore, we will no longer publish the 25th and 75th percentiles, but instead publish the 50th percentile, together with a standard error of the WACC estimate so that any required percentile can be calculated.</p> <p>We also defined two WACC percentile equivalent methodologies: one related to the forecast cost of capital and one related to forecast post-tax internal rate of return, to improve clarity.</p> <p>See Topic paper 4: Cost of capital issues (2016) and Topic paper 6 – WACC percentile for Airports (2016)</p>
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This decision applies to the following sectors:	Airports
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Decision CC21 Vanilla WACC and post-tax WACC estimation methodology	<p>Current IM decision</p> <p>The methodology for estimating a vanilla WACC is: $\text{cost of debt} \times \text{leverage} + \text{cost of equity} \times (1 - \text{leverage})$</p> <p>The methodology for estimating a post-tax WACC is: $\text{cost of debt (after corporate tax)} \times \text{leverage} + \text{cost of equity} \times (1 - \text{leverage})$</p> <p>See section 6.7, E2 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	Airports

Decision CC27 Term credit spread differential allowance may not be less than zero for a DPP	<p>Current IM decision</p> <p>The TCSD should be set to a nil value if it would otherwise be negative.</p> <p>In 2012 we amended the TCSD allowance component of the cost of capital IM that applies to DPPs. This amendment sets out how we forecast a TCSD allowance during the regulatory period.</p> <p>See p. 25 and Attachment B of the 2012 reasons paper: Specification and Amendment of Input Methodologies as Applicable to Default Price-Quality Paths: Reasons paper (28 September 2012)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

CPP requirements IM decisions

Decision CP02 Expenditure information – qualitative	<p>2016 amendment to this decision</p> <p>We made implementation changes to IM decision CP02 as it applies to EDBs. We:</p> <ul style="list-style-type: none"> - better aligned the information requirements set out in Schedule D of the IMs with the EDB ID Determination; - reduced the level of disaggregation required for certain information; - improved the requirements to provide information on the deliverability of proposed expenditure; and - simplified the information requirements on related parties and expenditure escalations. <p>See Chapter 5 - Information requirements, and Attachment B, paragraphs 481-483 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
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This decision applies to the following sectors:	EDB/GDB/GTB
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Decision CP03 Expenditure information – qualitative	<p>2016 amendment to this decision</p> <p>We made implementation changes to IM decision CP03 as it applies to EDBs. We:</p> <ul style="list-style-type: none"> - better aligned the Schedule E information requirements with the EDB ID determination; and - reduced the level of disaggregation required for certain information. <p>See Chapter 5 and Attachment B, paragraphs 484-486 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP04 Period of information required	<p>Current IM decision</p> <p>CPP applicant must specify the period of the CPP that is sought and provide information sufficient to cover a 5-year CPP period and the preceding years for which ID information is not yet available.</p> <p>See Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP05 Detail on material projects and programmes	<p>2016 amendment</p> <p>We made an implementation change to IM decision CP05 as it applies to EDBs and GPBs.</p> <p>We decided to allow a level of flexibility in the number of identified programmes for which more in-depth information is required, as part of the CPP proposal (these programmes are then able to be verified in greater detail). The verifier will judge on a case-by-case basis the appropriate number of “identified programmes”.</p> <p>See Chapter 6 - Verification requirements, and Attachment B, paragraphs 488-491 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP06 Information relevant to prices	<p>Original 2010 decision</p> <p>CPP application must contain information on proposed new pass-through costs, and proposed recoverable costs relating to costs of making CPP application.</p> <p>See: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
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This decision applies to the following sectors:	EDB/GDB/GTB
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Decision CP07 CPP verifier	<p>Original 2010 decision</p> <p>CPP application must include a verification report, all information provided to the verifier, and certification from the verifier.</p> <p>See section 9.6 and Appendix K4 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2019 amendment</p> <p>Under the EDB IMs, a distributor's CPP proposal must be verified by a verifier, where this verifier must be engaged in accordance with Schedule F of the EDB IMs. Within Schedule F, there were typographical errors. We corrected those errors.</p> <p>See paragraphs 3.163-3.167 of Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP08 Audit and assurance report	<p>Original 2010 decision</p> <p>CPP application must include an audit report signed by the auditor.</p> <p>See section 9.6 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP09 Consumer consultation evidence	<p>Original 2010 decision</p> <p>CPP application must provide evidence of consumer consultation.</p> <p>See section 9.6 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP10 Certification	<p>Original 2010 decision CPP application must include the certificates recording Director's certification.</p> <p>See section 9.6 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP11 Modification or exemption of CPP application requirements	<p>Original 2015 decision (as part of IM Review fast track) CPP application must include information relating to all approved modifications and exemptions, including evidence any conditions of the approval have been met, and an indication of where the exemptions and modifications have been applied.</p> <p>See: Input methodologies review – Amendments to input methodologies for customised price-quality paths – Final reasons paper for Limb 1 of the CPP fast track (12 November 2015)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP12 Information regarding quality	<p>2016 amendment to this decision We made two changes to the way IM decision CP12 is implemented:</p> <ul style="list-style-type: none"> - We updated the information requirements for CPP proposals where a quality standard variation is proposed, to reflect the way we set quality standards. - We have also removed the requirement to show the effect of the proposed quality standard variation if it had applied the previous 5 years. <p>See Chapter 5 - Information requirements, and Attachment B, paragraphs 502-503 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
This decision applies to the following sectors:	EDB

<p>Decision CP13</p> <p>Cost allocation information</p>	<p>2016 amendment to this decision</p> <p>We made changes to the way IM decision CP13 is implemented for EDBs and GPBs. We:</p> <ul style="list-style-type: none"> - better aligned the cost allocation information requirements, including Schedules B and C, with the relevant ID Determinations; - added a materiality threshold that must be met, before providing certain cost allocation information; and - included tables in Schedules B and C requiring the applicant to provide the rationale for selecting proxy cost allocators. <p>See Chapter 5 - Information requirements, and Attachment B, paragraphs 504-506 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP14</p> <p>Asset valuation information</p>	<p>2016 amendment to this decision</p> <p>We made changes to IM decision CP14 and its implementation, as it applies to EDBs:</p> <p>We reduced the level of disaggregation of forecast depreciation. For example, by:</p> <ul style="list-style-type: none"> - grouping projects and programmes by asset categories and simplifying the calculation of depreciation for forecast commissioned assets; and - amending the depreciation information requirements to reflect that depreciation is calculated using asset expenditure category which is a more aggregated category than asset types. <p>See Chapter 5 - Information requirements, and Attachment B, paragraphs 507-509 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP15</p> <p>Tax information</p>	<p>2016 amendment to this decision</p> <p>We made an implementation change to IM decision CP15 by removing the requirement to provide regulatory tax asset value information by asset categories.</p> <p>See Chapter 5 - Information requirements, and Attachment B, paragraphs 510-512 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p> <p>2018 amendment to this decision</p> <p>We have amended the IM determination by specifying for a DPP that any remaining asset lives for existing assets used when calculating 'adjusted depreciation' for 'amortisation of revaluations' and 'depreciation temporary differences' must be consistent with the remaining asset lives for existing assets used for calculating 'total depreciation'.</p>
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	<p>We have amended the IM determination by specifying for ID and customised price-quality path proposals that any remaining asset lives used when calculating 'adjusted depreciation' for 'amortisation of revaluations' and 'depreciation temporary differences' must be consistent with the remaining asset lives used for calculating 'total depreciation'.</p> <p>We have made these amendments to clarify that any differences between 'total depreciation' and 'adjusted depreciation' should arise solely from the inclusion (or exclusion) of revaluation amounts. Differences between 'total depreciation' and 'adjusted depreciation' should not arise from using different remaining asset lives.</p> <p>See paragraphs 2.17-2.21 of Amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation: Reasons paper (8 November 2018).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision CP16</p> <p>Information relevant to alternative methodologies</p>	<p>Original 2015 decision (as part of IM Review fast track)</p> <p>CPP application must include information demonstrating alternative methodologies have equivalent effect.</p> <p>See: Input methodologies review – Amendments to input methodologies for customised price-quality paths – Final reasons paper for Limb 1 of the CPP fast track (12 November 2015)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision CP17</p> <p>Cost of capital information</p>	<p>Original 2010 decision</p> <p>CPP application must include information regarding WACC.</p> <p>See: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision CP18</p> <p>Gas pricing methodology to be submitted with CPP proposal – GDBs and GTBs</p>	<p>Original 2010 decision</p> <p>GPB will be required to submit a pricing methodology as part of its CPP proposal if it has been identified through the most recent information disclosure summary and analysis as being required to do so, were it to apply for a CPP.</p> <p>See section 9.3 and Appendix I of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

<p>Decision CP20</p> <p>Quality-only CPP</p>	<p>2016 amendment to this decision</p> <p>We made a change to IM decision CP20 to remove the option for EDBs to apply for a quality-only CPP.</p> <p>See Chapter 3 - Improvements to the way the DPP and CPP work together, and Attachment B, paragraphs 517-519 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB</p>

<p>Decision CP21</p> <p>Verification requirements</p>	<p>2016 amendment to this decision</p> <p>We made implementation changes to IM decision CP21 as it applies to EDBs and GPBs, to clarify the role of the verifier, improve the verification process and allow a degree of flexibility in the verification process.</p> <p>We:</p> <ul style="list-style-type: none"> - added a new section to the verifier’s Terms of Reference in Schedule G of the IMs that defined the verifier’s role, purpose, and obligations; - required the CPP applicant to provide us with a high level summary of their application by the time the verifier is engaged; - amended the tripartite deed requirements in Schedule F6 to include a communication protocol that set out the roles and obligations of the parties during the verification process regarding communication, and to allow meeting minutes to be used as the evidential basis for any verifier technical opinions; - allowed the verifier greater flexibility in the number of identified programmes that are selected; - removed the obligation for the verifier to consider non-standard depreciation; - removed the requirement for an independent engineer to provide a report on a quality standard variation, instead allowing suppliers to prepare the report themselves, subject to verification by the verifier (EDB IMs only); and - limited the requirement for the verifier to provide us with a list of all information provided to it by the applicant, to information relied upon by the verifier in fulfilling its obligations under Schedule G. <p>See Chapter 6 - Verification requirements, and Attachment B, paragraphs 520-523 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
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This decision applies to the following sectors:	EDB/GDB/GTB
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Decision CP22 Audit and assurance requirements	<p>2016 amendment</p> <p>We made implementation changes to IM decision CP22 as it applies to EDBs and GPBs, to more clearly distinguish the auditor's role in respect of historical and forecast information, and better align the IM requirements with industry standards for audit under the Financial Reporting Act 2013.</p> <p>We:</p> <ul style="list-style-type: none"> - modified the audit requirements to differentiate the role of the auditor with respect to historical financial information and forecast financial information; - clarified that the auditor needs to provide a report as part of the audit; and - set out our expressly lay out our expectations in relation to cost allocation information. <p>See Chapter 7 - Audit requirements, and Attachment B, paragraphs 524-527 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP23 Consumer consultation requirements	<p>2016 amendment to this decision</p> <p>We made implementation changes to IM decision CP23 as it applies to EDBs and GPBs.</p> <p>Following the changes, we required:</p> <ul style="list-style-type: none"> - CPP applicants to notify consumers of the price and quality impact of any alternative investment options in their CPP proposal, that are linked to the applicant's rationale for applying for a CPP; - the applicant to notify consumers why any proposed quality standard variation had been chosen over alternative quality standards; - the verifier to report on the extent and effectiveness of the applicant's consultation; and - the applicant to provide us with its planned consultation strategy early in the CPP process. <p>See Chapter 8 - Consumer consultation requirements, and Attachment B, paragraphs 528-530 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP24 Certification requirements	<p>Original 2010 decision</p> <p>The Commission requires certification of the information in a proposal.</p> <p>See section 9.6 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
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This decision applies to the following sectors:	EDB/GDB/GTB
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Decision CP26 Modification or exemption of CPP application requirements	<p>Original 2015 decision (as part of IM Review fast track) Commission may approve modification and exemption to the content of a CPP application; information required in a CPP proposal; and consumer consultation, verification, and audit and certification requirements for CPP proposals.</p> <p>See: Input methodologies review – Amendments to input methodologies for customised price-quality paths – Final reasons paper for Limb 1 of the CPP fast track (12 November 2015)</p> <p>2016 amendment to this decision We changed the way IM decision CP26 is implemented for EDBs, after first introducing the decision earlier in the IM Review as part of the fast track process.</p> <p>The change explicitly identified that the scale of a supplier can be taken into account when deciding on requests for modifications and exemptions.</p> <p>See Chapter 4 - Evaluation of CPP proposals, Chapter 5 - Information requirements, and Attachment B, paragraphs 532-534 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP27 Evaluation criteria	<p>Original 2010 decision The Commission must assess all CPP proposals against the evaluation criteria specified in the IMs.</p> <p>See section 9.4 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP28 Determination of annual allowable revenues	<p>2016 amendment We made changes to this decision as it applies to GDBs, to codify the approach to claw-back that we used in making Orion's 2013 CPP determination. In particular, we:</p> <ul style="list-style-type: none"> - reflected that the claw-back can be for historical over-recovery and under-recovery of revenue; and - reflected that the present value of claw-back amounts would be used if adjusting for claw-back in the building block allowable revenue (BBAR) calculation. <p>In addition, to give effect to the change from a lagged revenue cap to a pure revenue cap for GTBs, we removed references to the ΔQ factor in the revenue setting formula in the GTB CPP IMs.</p> <p>See Attachment B, paragraphs 537-538 of Input methodologies review decisions: Topic paper 2: CPP requirements (20 December 2016)</p>
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This decision applies to the following sectors:	EDB/GDB/GTB
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Decision CP29 Cost allocation and asset valuation	<p>Original 2010 decision Allocation of forecast operating costs and calculation of rolled forward asset values must largely follow rules applying to information disclosure.</p> <p>See: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP30 Treatment of taxation	<p>Original 2010 decision Regulatory tax allowance is calculated using the modified deferred tax method for EDBs and GDBs and a tax payable method for GTBs.</p> <p>See: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP31 Cost of capital	<p>Original 2010 decision Method of determining cost of capital uses the simplified Brennan-Lally model.</p> <p>See: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP32 Alternative methodologies with equivalent effect	<p>Original 2015 decision (as part of IM Review fast track) Alternative building block methodologies for cost allocation and asset valuation, treatment of taxation and the TCSD may be applied where they produce an equivalent effect.</p> <p>See: Input methodologies review – Amendments to input methodologies for customised price-quality paths – Final reasons paper for Limb 1 of the CPP fast track (12 November 2015)</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Gas pricing IM decisions

<p>Decision GP02</p> <p>Pricing principles to be consistent with Gas Authorisation</p>	<p>Current IM decision</p> <p>The pricing principles are consistent with those adopted for the Gas Authorisation, with some minor modifications.</p> <p>See section 7.3 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

<p>Decision GP03</p> <p>Pricing principles in the IM are to be used to measure consistency under ID</p>	<p>Current IM decision</p> <p>Under ID, where a GPB must disclose the extent of consistency of the pricing methodology it actually applies with the pricing principles, or the reasons for any inconsistency between its pricing methodology with the pricing principles, the relevant pricing principles are those set out in the pricing methodologies IM.</p> <p>See section 7.3 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

<p>Decision GP04</p> <p>No application of gas pricing IM to gas DPPs</p>	<p>Current IM decision</p> <p>The IM does not apply to DPPs.</p> <p>See section 7.3 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>
<p>Decision GP05</p> <p>Gas pricing IM may apply to a CPP</p>	<p>Current IM decision</p> <p>The IM applies to CPPs, but only to a particular CPP applicant if (at the time of the supplier making its CPP application), the Commission's most recent summary and analysis (under ID) has identified that the IM will apply to that supplier.</p> <p>See section 7.3, Appendix I of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

<p>Decision GP06</p> <p>Commission may amend a CPP gas pricing methodology annually</p>	<p>Current IM decision</p> <p>The Commission may amend a pricing methodology a maximum of once per year during the regulatory period. It may only do so where a GPB is proposing to make a material change to the pricing methodology specified in the CPP determination.</p> <p>See section 7.3, Appendix I of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

IRIS IM decisions

<p>Decision IR08</p> <p>IRIS to apply under a CPP</p>	<p>2016 amendment to this decision</p> <p>We changed this decision to remove the pre-review asymmetric opex IRIS applying to CPPs for gas pipeline services.</p> <p>See Chapter 9, paragraphs 375-379 of 2016 Report on the IM Review:</p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

<p>Decision IR08</p> <p>IRIS to apply under a CPP</p>	<p>2016 amendment</p> <p>We changed this decision to remove the pre-review asymmetric opex IRIS applying to CPPs for gas pipeline services.</p> <p>See Chapter 9, paragraphs 375-379 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016)</p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

<p>Decision IR09</p> <p>Treatment of IRIS balances</p>	<p>2016 amendment</p> <p>We changed this decision to remove the pre-review asymmetric opex IRIS applying to CPPs for gas pipeline services.</p> <p>See Chapter 9, paragraphs 380-381 of 2016 Report on the IM Review:</p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

<p>Decision IR10</p> <p>Five-year retention of efficiency gains</p>	<p>2016 amendment</p> <p>We changed this decision to remove the pre-review asymmetric opex IRIS applying to CPPs for gas pipeline services.</p> <p>See Chapter 9, paragraphs 382-383 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016)</p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

Reconsideration of price-quality path IM decisions

<p>Decision RP04</p> <p>Reconsideration for contingent or unforeseen expenditure under a CPP</p>	<p>Original 2010 decision</p> <p>A GTB's CPP may also be reconsidered if a trigger event occurs for a project on the contingent project list, or an unforeseen project has commenced or is committed to take place during a CPP regulatory period.</p> <p>The Commission has incorporated additional mechanisms for dealing with contingent or unforeseen gas transmission investments by adopting a contingent/unforeseen project approach, whereby:</p> <ul style="list-style-type: none"> • the costs of particular large investments are not provided for in the ex-ante revenue allowance where the need, timing, and/or costs of the project are uncertain or the project is unforeseen when a proposal is submitted; • the Commission will only reconsider the price path if the GTB satisfies the Commission that the project will proceed; and • the amendment to the price path will not take effect until the year in which assets associated with the project are forecast to be commissioned. <p>Contingent projects are tied to a specific trigger event and forecast costs must meet a materiality threshold. A trigger event is a condition or event that (among other things) is not within the control of the GTB and would reasonably cause the GTB to undertake the project.</p> <p>The GTB must demonstrate that the assets associated with the project are likely to be commissioned during the CPP regulatory period.</p> <p>The forecast or indicative capex of the project must be at least 10 per cent of the value of the applicant's most recently disclosed annual revenue. This is equivalent to an increase of approximately one per cent per annum of the annual allowable revenue and is consistent with the materiality threshold that forms part of the cost allocation IM.</p> <p>Proposals must include sufficient information to enable the Commission to identify whether a project satisfies the contingent project criteria. The independent verifier will be required to provide an opinion as to whether the project satisfies the criteria.</p> <p>Projects approved as contingent projects (and the trigger events for each project) will be identified in a CPP determination. The Commission may also decide to classify other projects (than those proposed by the supplier) as contingent projects.</p> <p>The Commission considers that it is appropriate to accommodate 'unforeseen projects' under the contingent project mechanism if the project satisfies the following criteria:</p> <ul style="list-style-type: none"> • it was unforeseeable to a prudent operator of gas transmission services at the
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	<p>time it submitted its CPP proposal; and</p> <ul style="list-style-type: none"> • it meets the same materiality threshold as a contingent project. <p>A GTB may apply to the Commission to reconsider the price path where a trigger event has occurred or an unforeseen project has commenced or is committed to proceed during the CPP regulatory period.</p> <p>Reconsideration arising from a contingent project or unforeseen project is not an opportunity to reconsider all aspects of the original proposal. Rather it allows the Commission the opportunity to scrutinise the justification for the proposed incremental increase in forecast capex and operating expenditure (opex), over and above the forecast capex and opex already provided for in the MAR. Any amendment to the price path will not take effect until the year in which assets associated with the project are forecast to be commissioned.</p> <p>See sections 8.4 and 9.5 and Appendix K of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision In 2016 we extended IM decision RP04 so that it applies to EDBs and GDBs, as well as GTBs.</p> <p>See Topic paper 2: CPP requirements and Chapter 8, paragraph 359 of .</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision RP06</p> <p>Meaning of ‘material’ for purposes of reconsideration</p>	<p>2016 amendment to this decision</p> <p>We amended IM decision RP06 in respect of the 1% materiality threshold on allowable revenue for the error reopener so that the threshold only applies to errors in allowable revenue, rather than errors that might affect other aspects of the price-quality path.</p> <p>In the case of error reopeners relating to quality standards or quality incentive measures, no threshold would apply. However, the error must relate to values rather than metrics.</p> <p>We also removed the requirement to meet the 1% materiality threshold for the change event DPP and CPP reopener, in circumstances where the change event causes an IM to become unworkable - that is, incapable of being applied.</p> <p>See Attachment B of 2016 Report on the IM Review:</p>
This decision applies to the following sectors:	Transpower

<p>Decision RP07</p> <p>Annual reconsideration for</p>	<p>2014 amendment</p> <p>The amendment provides a mechanism for Transpower to apply for, and the Commission to approve, additional base capex for inclusion within Transpower’s</p>
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effect of major capex and listed projects

price path during a regulatory period in respect of large-scale replacement and refurbishment projects, which are referred to as 'listed projects'.

The amendments took effect when they were published by notice in the Gazette, on 27 November 2014: Amended the price path reconsideration provision in the Transpower IM to accommodate the revenue impact of approved base capex in respect of listed project assets that are forecast to be commissioned in a regulatory period.

See [Amendments to input methodologies for Transpower to provide a listed project mechanism: Reasons paper \(27 November 2014\)](#).

2019 amendment

The Commission must consider, in each disclosure year commencing in a regulatory period, save the last disclosure year, the IPP in respect of the remaining disclosure years commencing in the regulatory period to take account of –

- (a) the revenue impact of major capex approved by the Commission; and
- (b) the revenue impact of any base capex approved by the Commission for a listed project on the forecast smooth maximum allowable revenue (SMAR).

See paragraph 3.7.4(4) of Transpower IM Amendments Determination 2019: [Transpower Input Methodologies Amendments Determination \[2019\] NZCC 10](#).

The Transpower IM determination was amended to provide that Transpower's IPP may be reconsidered to take into account a large build up in the economic value (EV) account balance only in circumstances where:

- a large build up in the EV account is likely to occur – where the EV account balance as of the last day of a regulatory period would be, when divided by the number of years in that regulatory period, greater than 10% of the forecast SMAR for the final pricing year in that regulatory period;
- the Commission considers (or that Transpower applies, and the Commission are satisfied) that it is necessary for the price path to be reopened to take account of this likely large build up in the EV account balance;
- the forecast that a large build up in EV account balance is likely to occur is made prior to the commencement of a pricing year in a regulatory period and the proposed amendment to the forecast SMAR is to be made in respect of the remaining pricing years of that regulatory period; and
- if Transpower applies for a reconsideration of the IPP for this reason, that application:
 - relates to the remaining complete pricing years in the regulatory period; and
 - is made within 80 working days after 30 June following the first or second disclosure year in the regulatory period, or within 80 working days after 30 June of the third disclosure year of the regulatory period where the regulatory period is more than 4 years.

In these circumstances, the IPP may be reopened to spread some of the EV account balance over the remaining years of the regulatory period and the forecast number of years in the next regulatory period. This spreading of the EV account balance over a greater number of years will result in revenue smoothing for Transpower and reduce the degree of price shock for consumers.

See paragraphs 2.49 – 2.59 of Amendments to Transpower IMs – Reasons Paper (August 2019): [Amendments to input methodologies for Transpower New Zealand Limited – Reasons Paper \(28 August 2019\)](#).

This decision applies to the following sectors:	Transpower
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Risks and incentives IM decisions

Decision SP01 Revenue cap applies – EDBs	<p>2016 amendment to this decision</p> <p>We changed the form of control for EDBs to a revenue cap, including a wash-up for over and under-recovery of revenue.</p> <p>2019 amendment to this decision</p> <p>We introduced a new clause (3.1.1(1)(b)), which gives us the ability, in setting DPPs, to limit price shocks to consumers caused by increases in the gross revenue distributors can earn. It allows us to do this while keeping distributors whole across the regulatory period, ie, it is NPV neutral for distributors.</p> <p>See paragraphs 3.9-3.23 of Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019).</p>
This decision applies to the following sectors:	EDBs

Decision SP02 Revenue cap applies – GTB	<p>Original 2010 decision</p> <p>Price for GTBs will be specified by either a weighted average price cap or a total revenue cap.</p> <p>See section 8.3 and Appendix J, section J2 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</p> <p>2016 amendment to this decision</p> <p>We decided to remove the option within the IMs for a weighted average price cap or a lagged revenue cap for GTBs, and instead specified that the form of control for GTBs would be a 'pure' revenue cap with a revenue wash-up. We decided that a 'pure' revenue cap would also apply to EDBs.</p> <p>See Topic paper 1: Form of control and RAB indexation; and Chapter 7, paragraphs 264-273 2016 Report on the IM Review:</p>
This decision applies to the following sectors:	GTB

Decision SP08 Revenue cap applies – Transpower	<p>Original 2010 decision (SP08)</p> <p>Price for Transpower will be specified by a total revenue cap.</p>
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	<p>See section 7.3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010).</p> <p>2019 amendment to this decision (1)</p> <p>We introduced a new provision to allow an economic value account balance to be carried forward from one regulatory period to the next, and for that carried forward balance to be applied in the setting of Transpower's maximum allowable revenue for that next regulatory period.</p> <p>This change aimed to enable Transpower to share with consumers the benefits of efficiency gains in the supply of electricity transmission services, including through lower prices over regulatory periods.</p> <p>See paragraphs 2.19-2.48 of Chapter 2: Amendments to the Transpower IM Determination, Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019).</p> <p>2019 amendment to this decision (2)</p> <p>We introduced an additional exclusion in the definition of 'operating costs' for "payment of any pecuniary penalties", and a new defined term 'pecuniary penalties'.</p> <p>We considered that the previous definition of operating costs (which is used in the Transpower IM determination for determining the 'forecast MAR' and the 'forecast SMAR', and calculating the opex IRIS incentive amounts) did not provide sufficient certainty about the treatment of pecuniary penalties. We made the amendment to address that lack of clarity.</p> <p>See paragraphs 2.97-2.112 of Chapter 2: Amendments to the Transpower IM Determination, Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019).</p> <p>We introduced a new clause (3.1.1(1)(b)), which gives us the ability, in setting DPPs, to limit price shocks to consumers caused by increases in the gross revenue distributors can earn. It allows us to do this while keeping distributors whole across the regulatory period, ie, it is NPV neutral for distributors.</p> <p>See paragraphs 3.9-3.23 of Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019).</p>
This decision applies to the following sectors:	Transpower

Other regulatory rules and processes IM decisions

<p>Decision RR02</p> <p>Availability of information - DPP</p>	<p>Current IM decision</p> <p>Where information necessary to calculate any base year or disclosure year amounts has not been disclosed by the supplier, in setting a DPP, the Commission may rely either on information disclosed under an ID Determination, prior ID requirements, or information obtained under a s 53ZD request.</p> <p>See para 72.2 of the 2012 reasons paper: Specification and Amendment of Input Methodologies as Applicable to Default Price-Quality Paths - Reasons Paper (28 September 2012)</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Transpower Capex IM decisions

<p>Decision TC01</p> <p>Capex IM framework – interaction with IPP determination</p>	<p>Current IM decision</p> <p>All capital expenditure adjustments will be applied as post-tax entries to the appropriate EV account.</p> <p>From RCP2, the Commission will retain the discretion to spread an EV adjustment over more than one year. This will be applied where the Commission considers the magnitude of the EV adjustment would result in an unacceptable price shock.</p> <p>See Chapter 2 - Capex IM framework, paragraphs 2.3.1-2.3.10 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC02</p> <p>Capex IM – Core framework</p>	<p>2018 amendment to this decision</p> <p>We amended the capex IM to introduce the option of an expenditure adjustment mechanism for base capex E&D projects. The mechanism adjusts the standard base capex allowance based on consideration of a range of factors.</p> <p>This change was in response to finding that the base capex allowance (that base capex was subject to ex-ante approval of) could be difficult to determine because a lot of the E&D projects depend on demand growth which can be difficult to forecast with certainty.</p> <p>See paragraphs 181-193 and Part 1: Capex IM decisions resulting in a change, paragraphs B11-B18 of Transpower capex input methodology review: Decisions and reasons (29 March 2018)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC04</p> <p>Capex IM framework – situations in which capex may be re-categorised</p>	<p>Current IM decision</p> <p>Transpower may submit to the Commission for approval, a previously-approved Base capex project or programme, or a project or programme that the Commission considers was originally accounted for in the Base capex allowance for that RCP. It may do this where the project or programme has become a Major capex project due to forecast scope or cost variations. In such instances, the project or programme will be subject to review under the Major capex approval process.</p> <p>If Transpower makes an application of the type described above, the Base capex allowance will be reduced accordingly. This reduction of the Base capex allowance will be reflected in the calculation of the annual Base capex expenditure adjustment.</p> <p>See Chapter 2 - Capex IM framework, paragraphs 2.6.1-2.6.4 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC05</p> <p>Capex IM framework – integrated transmission plan</p>	<p>Current IM decision</p> <p>To require Transpower to submit an integrated transmission plan with its RCP proposal and then annual updates of the plan in the first four disclosure years of the RCP.</p> <p>See Chapter 2 - Capex IM framework, paragraphs 2.7.1-2.7.7 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC06</p> <p>Capex IM framework – integrated transmission plan updates</p>	<p>Current IM decision</p> <p>We decided that Transpower must, by the last working day of September of each disclosure year, submit an updated integrated transmission plan narrative that takes account of any material changes to matters covered in the integrated transmission plan narrative most recently submitted to the Commission. We set requirements for the recency of supporting documents.</p> <p>See Chapter 2 - Capex IM framework, paragraphs 2.7.1 and 2.7.8-2.7.9 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC07</p> <p>Capex IM framework – classification of transmission alternatives</p>	<p>Current IM decision</p> <p>We decided that transmission alternative means costs incurred by Transpower in relation to one or more of the following that avoids or defers expenditure on the grid:</p> <ol style="list-style-type: none"> electricity generation; energy efficiency; demand-side management; local network augmentation; improvement to the systems and processes of the system operator; or the provision of ancillary services. <p>Expenditure on transmission alternatives may meet the definition of:</p> <ol style="list-style-type: none"> operating expenditure; Base capex; or a non-transmission solution. <p>Where expenditure on a transmission alternative is classified as operating expenditure or Base capex, the respective approval process and incentive framework for those types of expenditure applies.</p> <p>Where a transmission alternative is classified as a non-transmission solution, it is deemed to be Major capex. As non-transmission solutions are Major capex, the Major capex approval process, as set out in Chapter 6 applies.</p> <p>See Chapter 2 - Capex IM framework, paragraphs 2.8.1-2.8.8, and 2.8.9-2.8.12 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC08</p> <p>Capex IM framework – Definition of non-transmission solutions</p>	<p>Current IM decision</p> <p>We decided a non-transmission solution is a transmission alternative that avoids or defers a transmission investment where the transmission investment both:</p> <ol style="list-style-type: none"> satisfied the investment test if the investment options did not include any transmission alternatives; and is Major capex. <p>Satisfying the definition is not dependent on the cost of the non-transmission solution, nor whether the costs are normally considered operating expenditure or asset-related capital expenditure (and a non-transmission solution can include a mix of both).</p> <p>Chapter 2 - Capex IM framework, paragraphs 2.8.1-2.8.8, and 2.8.16-2.8.20 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC09</p> <p>Capex IM framework – Approval and cost recovery of non-transmission solutions</p>	<p>Current IM decision</p> <p>We decided a non-transmission solution may include a combination of both asset-related expenditure and non-asset-related expenditure:</p> <ul style="list-style-type: none"> - The asset-related portion of a non-transmission solution is approved and recovered in the same way as a Major capex transmission investment. - The non-asset-related expenditure portion of a non-transmission solution is approved in the same way as a Major capex transmission investment except that a maximum recoverable cost and a completion date assumption apply. <p>We also decided that:</p> <ul style="list-style-type: none"> - the non-asset-related expenditure portion of a non-transmission solution is recovered as recoverable costs via a recovery scheme; and - all cost components (asset-related and non-asset-related expenditure) of a non-transmission solution are subject to the Major capex incentives. <p>See Chapter 2 - Capex IM framework, paragraphs 2.8.1-2.8.8, and 2.8.21-2.8.25 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC10</p> <p>Capex IM framework – incremental rolling incentive scheme</p>	<p>Current IM decision</p> <p>The IRIS and the resulting incentive that applies to operating expenditure during RCP1 is not altered.</p> <p>The operating expenditure incentive rate under the IRIS will become symmetric from RCP2, adopting a five-year retention period on sustained efficiency gains.</p> <p>See Chapter 2 - Capex IM framework, paragraphs 2.9.1-2.9.5 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC12</p> <p>Base capex incentive and output framework - base capex expenditure adjustment</p>	<p>2018 amendment to this decision</p> <p>We amended the capex IM to move to an expenditure-based incentive mechanism for base capex.</p> <p>We also amended the capex IM to limit our ability to exclude expenditure from the base capex expenditure incentives to the following circumstances:</p> <ul style="list-style-type: none"> - where expenditure on a base capex project has expanded in scope and has become a major capex project; or - where cost elements of base capex in the base capex allowance can vary significantly due to factors beyond the control of Transpower. <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B19-B28, and Chapter 2 - Incentive mechanisms, paragraphs 181-193 of Transpower capex input methodology review: Decisions and reasons (29 March 2018)</p>
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This decision applies to the following sectors:	Transpower
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Decision TC13 Base capex incentive and output framework – grid output adjustment – development of output measures	<p>2018 amendment to this decision</p> <p>We amended the capex IM to:</p> <ul style="list-style-type: none"> - require Transpower to propose performance-based measures and asset health measures; and - allow us to determine asset health grid output measures and link them to revenue. <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B29-B36, and Chapter 2 - Incentive mechanisms, paragraphs 179-193 of Transpower capex input methodology review: Decisions and reasons (29 March 2018)</p>
This decision applies to the following sectors:	Transpower

Decision TC14 Base capex incentive and output framework – grid output adjustment – framework	<p>Current IM decision</p> <p>We decided that the grid output adjustment applies to each RCP from RCP2 onwards and that the grid output adjustment for each disclosure year (from RCP2) is the after-tax economic gain or loss resulting from the grid output mechanism. We set out how grid output measures that are to be linked to revenue through the grid output mechanism will be linked and decided that only the performance-based grid output measures will be linked to Transpower's revenue, unless Transpower elects to link some of the asset-based measures or other proposed measures to revenue.</p> <p>See Chapter 3 - Base capex incentive and output framework, paragraphs 3.4.11-3.4.16 of Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
This decision applies to the following sectors:	Transpower

Decision TC15 Base capex incentive and output framework – grid output adjustment – process	<p>Current IM decision</p> <p>We decided that prior to each RCP, Transpower would develop and propose a suite of grid output measures and include them as part of Transpower's base capex proposal. The Commission will then review the proposed grid output measures and determine which to apply and, for grid output measures linked to revenue, a grid output target, cap, collar and output incentive rate for each disclosure year.</p> <p>See Chapter 3 - Base capex incentive and output framework, paragraphs 3.4.17-3.4.23 of Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC16</p> <p>Base capex incentive and output framework – base capex policies and processes adjustment</p>	<p>2018 amendment to this decision</p> <p>We amended the capex IM to remove the base capex policies and processes adjustment.</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B37-B40, and Chapter 2 - Incentive mechanisms, paragraphs 176-178 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC17</p> <p>Base capex incentive and output framework – base capex incentive rates</p>	<p>2018 amendment to this decision</p> <p>We amended the capex IM to apply one of two incentive rates to base capex projects, which will be a standard rate of 33% and a low rate of 15% for large base capex projects that the Commission will determine during the setting of the IPP. We decided that these rates would be set in the capex IM and would require consequential changes to the definition of 'Identified programmes' in Schedule F.</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B41-B44, and Chapter 2: Incentive mechanisms, paragraphs 140-154 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p> <p>2019 amendment to this decision</p> <p>We decided to provide for the equalisation between the opex and capex incentive rates to provide Transpower with equal incentives to find efficiencies regardless of whether they are through opex or capex solutions.</p> <p>We amended the 'base capex standard incentive rate' in the Capex IM determination from 33% to an incentive rate based on a formula applied to the WACC rate to be set for the IPP price path in accordance with the Transpower IM determination, to align as closely as possible with the opex IRIS incentive rate.</p> <p>We considered that providing consistent incentive rates across opex and base capex would ensure that Transpower would have equal incentives to find efficiencies regardless of whether these are through opex or base capex solutions (as we consider opex and base capex to be generally substitutable).</p> <p>See Chapter 3: Amendment to the Transpower Capex IM determination, Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC20</p> <p>Major capex incentive and output framework – major capex project output adjustment – process</p>	<p>Current IM decision</p> <p>We decided that each Major capex proposal must specify the Major capex project outputs that will be delivered. If a project receives approval from the Commission, the Major capex project outputs determined will be those specified in Transpower's proposal. We set out reporting requirements for each project that is commissioned and the process for making a Major capex project output adjustment if required.</p> <p>See Chapter 4: Major capex incentive and output framework, paragraphs 4.3.9-4.3.15 of Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC21</p> <p>Major capex incentive and output framework – major capex project output adjustment – development of output measures</p>	<p>Current IM decision</p> <p>We decided that Transpower is responsible for developing and proposing the Major capex project output measures to apply for each Major capex project, and set out information the Major capex project output measures must capture and what they must be consistent with.</p> <p>See Chapter 4: Major capex incentive and output framework, paragraphs 4.3.16-4.3.21 of Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC22</p> <p>Major capex incentive and output framework – major capex overspend adjustment</p>	<p>2018 amendment to this decision</p> <p>We decided to amend the capex IM to change the major capex incentive regime to an ex-ante framework. We decided to replace three asymmetric ex-post incentive mechanisms (the major capex efficiency adjustment, the major capex overspend adjustment and the major capex project output adjustment) with a single ex-ante mechanism (the major capex expenditure and output adjustment).</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B53-B59, and Chapter 2: Incentive mechanisms, paragraphs 78-93 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC23</p> <p>Major capex incentive and output framework – sunk costs adjustment</p>	<p>Current IM decision</p> <p>Transpower may apply for a project-specific sunk costs adjustment at any stage during a project, or not later than six weeks after the expiry of a project approval expiry date. If Transpower complies with this timing requirement, a sunk costs adjustment will be calculated by the Commission.</p> <p>A sunk costs adjustment will take account of those costs sufficiently justified by Transpower. Where the Commission considers that:</p> <ul style="list-style-type: none"> a. the costs are sufficiently justified, an EV account entry will be made to allow Transpower to recover those justified costs b. a portion of those costs are not sufficiently justified, Transpower will bear those costs that are considered to be not sufficiently justified. <p>To determine which costs are sufficiently justified, the Commission will apply the criteria set out in the Capex IM.</p> <p>The Commission may require Transpower to provide any additional information required to calculate or justify a Major capex sunk costs adjustment application.</p> <p>See section 4.5, paragraphs 4.5.1-4.5.9 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC24</p> <p>Major capex incentive and output framework - major capex incentive rates</p>	<p>2018 amendment to this decision</p> <p>We decided to amend the capex IM to prescribe a 15% default incentive rate for major capex but also to allow the ability to vary the incentive rate for major capex projects under specific circumstances.</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B60-B63, and Chapter 2: Incentive mechanisms, paragraphs 120-129 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC25</p> <p>Base capex allowance – approval process – process for agreeing the quantitative information requirements</p>	<p>Current IM decision</p> <p>Between the first working day of November and the last working day of February two years prior to the start of the regulatory period, the Commission and Transpower must use reasonable endeavours to agree:</p> <ul style="list-style-type: none"> a. the form and nature of the content of the regulatory templates that Transpower will be required to complete and provide as part of its Base capex proposal b. the categories or criteria for identifying which projects and programmes may be subject to individual review, taking into account the categories and criteria outlined in Schedule F of the Capex IM Determination. <p>If agreement on the form and the content of the regulatory templates and the criteria for identifying project and programmes for individual review is not reached, the Commission will decide these matters. In making its decision, the Commission will have regard to Transpower's views. The Commission must notify Transpower of its decisions by the last working day of March, two years prior to the start of the regulatory period.</p> <p>See section 5.2, paragraphs 5.2.1-5.2.7 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC26</p> <p>Base capex allowance – approval process – timing and content requirements for each base capex proposal</p>	<p>2018 amendment to this decision</p> <p>We amended the capex IM to require Transpower to provide an estimate of the future increase in prices and explain the additional service and system benefits consumers will receive due to the proposed RCP expenditure (contained in base capex proposal) and expenditure on each listed project.</p> <p>We amended the capex IM to make changes to Schedule F to remove ambiguities, correct errors, or reduce unnecessary complexity and compliance costs, consistent with promoting the s 52R purpose. We decided to amend clause F2 to require Transpower to provide a list of listed projects and projects to which the lower incentive rate will apply, and explain how these projects meet the criteria in the capex IM.</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B43, B64-B78, and Chapter 4: Information and engagement, paragraphs 331-339 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC27</p> <p>Base capex allowance – approval process – base capex – qualitative information requirements</p>	<p>Current IM decision</p> <p>Transpower will be required to provide qualitative information when submitting a Base capex proposal. Schedule F of the Capex IM Determination sets out the required information. Those information requirements, in summary, involve Transpower providing the Commission:</p> <ul style="list-style-type: none"> a. a detailed overview and commentary on the strategic vision and long-term role of the grid; b. detail as to how the proposed projects and programmes contribute to achieving the specified goals; c. copies of policies, processes and consultant reports relating to Base capex; d. evidence of appropriate least-whole of life cost approaches and cost reduction strategies; e. detailed information on projects and programmes, including information on the aims and objectives of the programmes, cost-benefit analysis, an explanation of how the identified programme will be delivered, description of the methodology and assumptions used to forecast the Base capex involved, and the approach to prioritising projects; f. an overview of relevant procurement processes, including an explanation of the extent to which the processes were competitive, significant components of outsourced services, relevant procurement documents, and outsourced services that have a material effect on Base capex; g. a description of plans for resourcing and delivering the proposed Base capex projects, identification of the key risks and how Transpower plans to manage those risks; h. a description of escalation factors and the rationale for their use, including the underlying methodology, the weighting applied to each escalation factor, and the method for assigning those weightings; i. the foreign exchange rates used to prepare the proposed Base capex allowance, as well as an estimate of the exposure to each foreign currency, and a description of how these estimates were produced; j. a list of all proposed grid performance measures, asset performance measures, asset capability grid output measures, asset health grid output measures, and any other grid output measure; and k. detail for all grid output measures Transpower proposes be linked to revenue, including justification for the proposed grid output targets, caps, collars, and grid output incentive rates. <p>See section 5.4, paragraphs 5.4.1-5.4.2 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC28</p> <p>Base capex allowance – approval process – Commission’s base capex determination and process requirements</p>	<p>Current IM decision</p> <p>The Commission may require Transpower to provide in a time that is reasonable any additional information we consider necessary for determining an appropriate Base capex allowance.</p> <p>No later than the last working day in the August of the year before the start of a regulatory period, the Commission will determine in respect of that regulatory period:</p> <ul style="list-style-type: none"> a. Base capex allowances for each year of the RCP b. the quantum of the Base capex incentive rate c. the following revenue-linked grid output measures: <ul style="list-style-type: none"> i. one or more asset performance measure ii. one or more measure of grid performance iii. at Transpower’s request, one or more asset capability grid output measure iv. at Transpower’s request, one or more asset health grid output measure, and v. at Transpower’s request, any other grid output measure. d. in respect of each revenue-linked grid output measure, a: <ul style="list-style-type: none"> i. cap ii. collar iii. grid output incentive rate iv. grid output target, and e. none, one or more, as appropriate, of each of the following grid output measures to which the grid output mechanism will not apply: <ul style="list-style-type: none"> i. measures of grid performance ii. asset performance measures iii. asset capability grid output measures iv. asset health grid output measures <p>The Commission will also specify:</p> <ul style="list-style-type: none"> a. the forecast CPI used to determine the Base capex allowances b. the forecast FX rates used to determine the Base capex allowances, and c. the amount or percentage of the Base capex allowances to which the forecast FX rates may apply. <p>As part of the process for evaluating a Base capex proposal Transpower or the Commission may request that the proposal be updated or amended.</p> <p>See section 5.5, paragraphs 5.5.1-5.5.6 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC29</p> <p>Base capex allowance – approval process – Commission’s consultation obligations</p>	<p>Current IM decision</p> <p>After receiving a Base capex proposal, the Commission:</p> <p>a. must:</p> <ol style="list-style-type: none"> i. publish the proposal ii. publish its draft decision or decisions iii. seek the written views of interested persons on anything so published iv. seek the written views of interested persons on others’ submissions, and <p>b. may:</p> <ol style="list-style-type: none"> i. seek the views of any person the Commission considers has expertise on a relevant matter, and ii. hold a conference at which the views of some or all interested persons may be sought orally or in other forms of presentation. <p>Where we take any of the actions referred to in paragraph 5.6.1 above, we may do so in accordance with such timeframes and processes as we consider appropriate.</p> <p>See section 5.6, paragraphs 5.6.1-5.6.3 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC30</p> <p>Base capex allowance – approval process – criteria for evaluating and approving base capex</p>	<p>Current IM decision</p> <p>The Commission’s evaluation criteria for the Base capex are set out in Part 6 and Schedule A of the Capex IM Determination. In summary, the criteria set out in Schedule A specifies that the Commission will have regard to the following factors when evaluating a Base capex proposal:</p> <ol style="list-style-type: none"> a. the level of focus directed towards achieving cost-effective and efficient solutions b. Transpower’s process, including its use of cost-benefit analyses, to determine the identified programme’s reasonableness and cost-effectiveness c. the reasonableness of the key assumptions relied upon, and the adequacy of any asset replacement models used to prepare the proposed Base capex allowances d. the capital costing methodology and formulation, including unit rate sources, the method used to test the efficiency of unit rates and the quantum of included contingencies e. Transpower’s approach to prioritisation and risk-based asset management practice f. the overall deliverability of the Base capex proposal g. Transpower’s internal processes for assessing the need for an identified programme and the possible alternative solutions h. the dependencies between the proposed grid output targets and the proposed Base capex allowances, and the extent to which the grid output targets were met in the previous regulatory period i. how grid outputs, key drivers, assumptions, and cost modelling were used to determine forecast capital expenditure j. mechanisms for controlling actual capital expenditure for the proposed Base capex allowances and ensuring performance of proposed grid output targets. <p>In undertaking its evaluation, the Commission may undertake high-level governance and process reviews, benchmarking, process or functional modelling,</p>
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	<p>trending or time-series analysis, project and programme sampling, or any other technique or approach that the Commission considers appropriate in the circumstances to make an evaluation against the specified criteria.</p> <p>When considering Transpower's proposed grid output measures, the Commission will take into account matters such as:</p> <ol style="list-style-type: none"> a. the extent to which a measure is widely recognised, the relationship between a measure, Base capex, Major capex and operating expenditure, and the extent to which the measure aligns with the business processes used by Transpower in its supply of electricity transmission services b. the extent to which revenue-linked grid output measures are recognised measures of grid outputs that are valued by consumers, and the strength of the relationship between each measure and Base capex, and whether a measure is quantifiable, controllable by Transpower, auditable and replicable over time. <p>See section 5.7, paragraphs 5.7.1-5.7.5 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC31</p> <p>Major capex – approval process – major capex pre-approval process requirements</p>	<p>Current IM decision</p> <p>Transpower must notify the Commission of its intention to plan a Major capex project that Transpower considers may become a proposed investment.</p> <p>In the two-month period following such notification, the Commission and Transpower must use reasonable endeavours to agree, for that Major capex project:</p> <ol style="list-style-type: none"> a. an approach to ensure appropriate consideration of non-transmission solutions, consistent with the requirements specified in Section 6.3 b. a consultation programme for the transmission investment or non-transmission solution, consistent with the requirements specified in Section 6.4 c. timeframes for the Commission to make a decision on a Major capex project. <p>The Commission will decide and specify those matters where no agreement is reached. In forming its decision, the Commission will have regard to the views expressed by Transpower. Decisions will be provided no later than one week after the end of the two-month period.</p> <p>To assist interested persons, the Commission may include in the consultation programme, the processes we intend to follow. However, Transpower is not required to agree to the consultation processes that the Commission itself will follow.</p> <p>The Commission and Transpower must both publish the consultation programme, the approach and timeframes, as soon as reasonably practicable.</p> <p>The Commission and Transpower are to regularly review the consultation programme, the approach and timeframes. The Commission may amend one or more decisions to ensure these remain appropriate and reasonable.</p> <p>Transpower must consult interested persons in accordance with the consultation programme and follow the approach for consideration of non-transmission solutions.</p>
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	<p>None of the Commission's functions or decisions described in the Capex IM Determination are invalidated on account of any Commission failure to meet any of the timeframes or process requirements agreed.</p> <p>See section 6.2, paragraphs 6.2.1-6.2.11 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC32</p> <p>Major capex – approval process – approach to considering non-transmission solutions</p>	<p>2018 amendment to this decision</p> <p>We decided to amend the definition of 'non-transmission solution' in the capex IM to set out what alternatives to investment in the grid will qualify as non-transmission solutions without restricting those alternatives to specific solutions.</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B79-B83 of Transpower capex input methodology review: Decisions and reasons (29 March 2018)</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC33</p> <p>Major capex – approval process – Transpower's consultation requirements</p>	<p>2018 amendment to this decision</p> <p>We decided to amend the capex IM to clarify that Transpower can invite interested parties to provide information on potential non-transmission solutions when it consults on the investment need and on a long list of options to meet the investment need.</p> <p>We also decided to amend the scope of consultation requirements for subsequent stages of a staged major capex project. The consultation requirements for stage one of a staged major capex project remained the same as those for an un-staged major capex project. We decided that for subsequent stages of a staged major capex project Transpower would be required to consult on the updates to investment need, demand and generation scenarios, key assumptions and investment test. The extent of such consultations would be commensurate with the materiality of the changes in these matters compared with the most recent consultation.</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B84-B89, and Chapter 3: Process matters, paragraphs 244-266 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC36</p> <p>Major capex – approval process – rules for approving or rejecting a major capex proposal</p>	<p>2018 amendment to this decision</p> <p>We decided to amend the capex IM to allow us to determine the major capex allowance, consistent with our approach for base capex.</p> <p>In order to implement the new process for staged approvals, we decided to amend the capex IM to update the rules for approving or rejecting a major capex proposal.</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B95-B100, and Chapter 3: Process matters, paragraphs 244-265 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC38</p> <p>Major capex – approval process – project approval expiry date</p>	<p>Current IM decision</p> <p>Transpower must include in each Major capex proposal, an approval expiry date assumption (refer paragraph 6.7.5e).</p> <p>Where an investment is approved by the Commission, the approval expiry date will be that specified in the proposal (refer paragraph 6.8.2(d)(i)).</p> <p>See section 6.9, paragraphs 6.9.1-6.9.4 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC40</p> <p>Major capex – investment test – form and scope of the investment test</p>	<p>Current IM decision</p> <p>To require Transpower to apply the investment test to identify a preferred investment option from a number of investment options for major capex.</p> <p>We require that the costs and benefits to be included in the investment test were to be those accruing to participants in the electricity market.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC42</p> <p>Major capex – investment test – application of the investment test – investment options</p>	<p>Current IM decision</p> <p>Transpower must develop a number of investment options.</p> <p>An investment option means a Major capex project:</p> <ol style="list-style-type: none"> designed to meet a particular investment need that is technically feasible that is materially different to another Major capex project designed to meet the same investment need, at least in respect of its proposed commissioning date or completion date or date for proposed delivery of grid outputs, as the case may be. <p>Investment options do not include transmission investments that will be fully funded under a new investment contract.</p> <p>The number of investment options considered under the investment test must be appropriate given the magnitude of the estimated capital expenditure and the complexity of the investment need associated with the proposed investment.</p> <p>The investment options may include both transmission investments and non-transmission solutions. In deciding the investment options to be subjected to the investment test, Transpower must demonstrate that it has considered potential non-transmission solutions.</p> <p>See Chapter 7 - Major capex - investment test, paragraphs 7.3.9-7.3.16 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC43</p> <p>Major capex – investment test – application of the investment test – satisfying the investment test</p>	<p>Current IM decision</p> <p>A proposed investment option must satisfy the investment test.</p> <p>For a proposed investment to satisfy the investment test it must:</p> <ul style="list-style-type: none"> - have a positive expected net electricity market benefit unless it is designed to meet an investment need generated by a deterministic requirement of the grid reliability standards, and - be sufficiently robust under sensitivity analysis. <p>In addition, the proposed investment must have the highest expected net electricity market benefit, having regard only to quantified electricity market costs and benefits.</p> <p>Alternatively, if investment options have similar expected net electricity market benefits, Transpower may identify the proposed investment as that with the highest expected net electricity market benefit by having regard to quantified electricity market costs and benefits, and a qualitative assessment of any unquantified electricity market costs and benefits.</p> <p>Investment options are regarded as having similar expected net electricity market benefits if the difference in the expected net electricity market benefit is 10% or less of the project cost of the investment option that has the highest expected net electricity market benefit before accounting for unquantified electricity market costs and benefits.</p> <p>Transpower may request the Commission to allow it to use an alternative</p>
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	<p>percentage to 10% for particular projects. Transpower's request must be backed up by evidence that demonstrates the need for an alternative rate.</p> <p>See Chapter 7 - Major capex - investment test, paragraphs 7.3.17-7.3.26 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC44</p> <p>Major capex – investment test – implementation of the investment test – costs and benefits</p>	<p>Current IM decision</p> <p>We decided to retain our current approach to the key inputs and calculations that are used in the investment test.</p> <p>See paragraphs 208-220 and Part 2: Capex IM decisions resulting in no change, paragraphs B136-B139 of Transpower capex input methodology review: Decisions and reasons (29 March 2018)</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC45</p> <p>Major capex – investment test – implementation of the investment test – quantification of the expected values of costs and benefits</p>	<p>Current IM decision</p> <p>We decided to retain our current approach to the key inputs and calculations that are used in the investment test.</p> <p>See paragraphs 208-220 and Part 2: Capex IM decisions resulting in no change, paragraphs B136-B139 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC47</p> <p>Major capex – investment test – implementation of the investment test – calculation period and discounting</p>	<p>Current IM decision</p> <p>The calculation period is a 20-year period starting from the base year unless varied by Transpower after consultation.</p> <p>The base year is the year in which the last asset to be delivered by the proposed investment is commissioned.</p> <p>All project costs prior to the base year are compounded forward at the discount rate to the base year. All subsequent costs and benefits occurring in the calculation period are discounted back at the discount rate to the base year.</p> <p>See Chapter 7: Major Capex - Investment test, paragraphs 7.4.33-7.4.35 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
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This decision applies to the following sectors:	Transpower
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Decision TC50 Major capex – investment test – implementation of the investment test – value of expected unserved energy	<p>Current IM decision</p> <p>The Commission requires Transpower to use, in the investment test analysis, a value of expected unserved energy (VoEUE) for the purpose of quantifying reliability benefits associated with transmission investments.</p> <p>The VoEUE to be used is that determined by the Authority as recorded in clause 4 of Schedule 12.2 of the Code. Currently this is \$20,000 per MWh.</p> <p>Transpower may use an alternative VoEUE if it considers that the VoEUE set by the Authority is not appropriate for a particular transmission investment.</p> <p>Regardless of the VoEUE value used, Transpower must clearly set out its reasons in support of the value, and consult on this. If a value other than the VoEUE set by the Authority is applied, the VoEUE set by the Authority must be included in sensitivity analysis of the Major capital expenditure proposal.</p> <p>See Chapter 7: Major Capex - Investment test, paragraphs 7.4.52-7.4.54 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</p>
This decision applies to the following sectors:	Transpower

Decision TC51 Amendments to major capex approvals – process requirements for amendment applications	<p>2018 amendment to this decision</p> <p>We decided to amend the capex IM to remove the current ability to amend the major capex allowance after its initial determination, but to continue to allow Transpower to apply to amend some of the other components of the major capex projects.</p> <p>See Part 1: Capex IM decisions resulting in change, paragraphs B108-B111, and Chapter 2: Incentive mechanisms, paragraphs 81-82 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
This decision applies to the following sectors:	Transpower

Decision TC52 Amendments to major capex approvals – information requirements for amendment applications	<p>Current IM decision</p> <p>To allow Transpower to apply for a range of amendments to previously approved major capex projects.</p> <p>See Chapter 8: Amendments to major capex approvals, paragraphs 8.3.1-8.3.6 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
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This decision applies to the following sectors:	Transpower
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<p>Decision TC53</p> <p>Amendments to major capex approvals – criteria for evaluating major capex amendment applications</p>	<p>Current IM decision</p> <p>When evaluating a Major Capex amendment proposal, the Commission may take into account the views of any person or any other information we consider relevant, and engage any appropriately qualified person to assist with its evaluation.</p> <p>In summary, the Commission will apply the following criteria in evaluating a Major capex amendment application:</p> <ul style="list-style-type: none"> a. whether the proposal is consistent with the Capex IM Determination and, where relevant, the 2010 TP IM Determination b. the extent to which the proposal promotes the purpose of Part 4 c. whether the data, analysis, and assumptions underpinning the proposal are fit for the purpose of the Commission exercising its powers under Part 4, including consideration as to the accuracy and reliability of data and the reasonableness of assumptions and other matters of judgment d. the extent to which each key factor relevant to the proposed amendment: <ul style="list-style-type: none"> i. was reasonably foreseeable by Transpower before the Major capex project was approved by the Commission ii. was or is within Transpower’s control e. for each key factor outside Transpower’s control: <ul style="list-style-type: none"> i. the reasonableness of any applicable mitigation strategy devised by Transpower ii. the reasonableness and extent of mitigation actions taken by Transpower f. the extent to which the expected net electricity market benefit would be materially lower as a result of the amendment than when it was approved g. in respect of a Major capex project that has already commenced, the extent to which Transpower has incurred capital expenditure by the date of the application. <p>See section 8.4, paragraphs 8.4.1-8.4.3 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC54</p> <p>Amendments to major capex proposals – consultation requirements for amendments application</p>	<p>Current IM decision</p> <p>The Commission may take none, any or all of the actions listed below:</p> <ol style="list-style-type: none"> publish the relevant proposal or application make and publish a draft decision or decisions seek the written views of interested persons on anything published seek the written views of interested persons on others’ submissions seek the views of any person the Commission considers has expertise on a relevant matter hold a conference at which the views of some or all interested persons may be sought orally or in other forms of presentation. <p>Where the Commission takes any of the actions referred to above, the Commission may do so in accordance with such timeframes and processes as its considers appropriate.</p> <p>See section 8.5, paragraphs 8.5.1-8.5.3 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC56</p> <p>Certification requirements for proposals and amendment applications – change of certification of opinions or matters of fact</p>	<p>Current IM decision</p> <p>We decided that anyone who has provided certification must notify the Commission as soon as reasonably practicable if their opinion or a matter of fact has changed.</p> <p>See section 9.2, paragraphs 9.2.15-9.2.16 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC57</p> <p>Certification requirements – certification of annual information</p>	<p>Current IM decision</p> <p>It is intended that the annual information requirements for Base and Major capex will be considered for inclusion in a future information disclosure determination. Until such a determination is made, the following annual information will be specified in a s 53ZD notice.</p> <p>Two Transpower directors will be required to certify the annual information requirements for Base and Major capex.</p> <p>The directors will be required to certify that, having made all reasonable enquiries, to the best of their knowledge and belief, the annual information provided by Transpower for Base and Major capex complies with the annual information requirements.</p> <p>From RCP2, for any project or programme that is forecast to cost more than \$20</p>
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	<p>million, Transpower's Chief Executive Officer will be required to certify that Transpower:</p> <ol style="list-style-type: none"> a. undertook a cost-benefit analysis consistent with the investment test, as required under the Capex IM Determination b. undertook consultation as required under the Capex IM Determination. <p>Transpower's Chief Executive Officer will be also be required to certify for each Base capex project or programme first commissioned in the disclosure year in question, that Transpower acted in accordance with each relevant policy and process as specified in its Base capex proposal.</p> <p>See section 9.3, paragraphs 9.3.1-9.3.9 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC58</p> <p>Reporting requirements – base capex annual reporting requirements</p>	<p>Current IM decision</p> <p>We decided not to amend the capex IM to introduce additional reporting requirements. Instead, we intended to consider changing Transpower's information disclosure requirements to require Transpower to report annually in relation to base capex on:</p> <ul style="list-style-type: none"> - whether it has engaged with stakeholders and, if so, how it has engaged with stakeholders; - how effective it considers that engagement has been; and - how satisfied stakeholders were with the engagement process based on the views expressed by stakeholders. <p>See paragraphs 295-328 and Part 2: Capex IM decisions resulting in no change, paragraphs B144-B148 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC59</p> <p>Annual reporting requirements – major capex annual reporting requirements</p>	<p>Current IM decision</p> <p>The Commission is currently in the process of developing an information disclosure determination under s 52P. Until then, the Commission intends to specify the Major capex annual reporting requirements in a s 53ZD Notice issued annually to Transpower by the Commission.</p> <p>Transpower will be required to report the following information to the Commission by the last working day of September each year:</p> <ol style="list-style-type: none"> a. information on uncompleted projects, including: <ol style="list-style-type: none"> i. updates as to the expected Major capex project cost (ie, an updated P50) compared against the Major capex allowance (or maximum recoverable cost, in the case of non-transmission solutions), together with explanations for any variance between the updated P50 and the P50 value specified in the Major capex project approval ii. forecast commissioning date or completion date, and explanations for any
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	<p>variance from the commissioning date assumption or completion date assumption specified in the Major capex project approval.</p> <p>b. information for each commissioned or completed Major capex project, including:</p> <ul style="list-style-type: none"> i. commissioning dates of assets associated with the project, and explanations for variances between the actual commissioning date and any commissioning date assumption specified in the project approval ii. in the case of a transmission investment, actual expenditure, and explanations of any variance from P50 iii. in the case of a non-transmission solution, the actual costs treated as recoverable costs, and explanations of any variance from P50 iv. the grid outputs achieved by the project and explanations for any variances from the approved outputs v. analysis of lessons learned during and after the project vi. an assessment of any cost efficiencies that Transpower considers it has achieved in the course of the project, including descriptions, explanations, and assumptions made vii. any required adjustments resulting from project overspend relative to the Major capex allowances viii. any required Major capex adjustments resulting from non-delivery of Major capex project outputs. <p>c. information for calculating the Major capex overspend adjustment and the Major capex project output adjustment, including:</p> <ul style="list-style-type: none"> i. the values or amounts for each term used to determine the quantum of the relevant adjustment, as specified in the Capex IM ii. all calculations and assumptions used to obtain those values or amounts iii. evidence in support of the actual FX rates. <p>Information submitted to the Commission will require appropriate certification. Certification requirements are discussed in Chapter 9.</p> <p>See section 10.3, paragraphs 10.3.2-10.3.7 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC60</p> <p>Annual reporting requirements – formatting for reporting, proposal, and applications</p>	<p>Current IM decision</p> <p>All significant financial and numerical data must be provided by Transpower to the Commission in electronic, Microsoft Excel format.</p> <p>All other information must be provided by Transpower to the Commission in Microsoft Word, Microsoft Excel or Adobe Portable Document Format (PDF) format.</p> <p>All electronic data or information files must be capable of having a 'copy and paste' function applied.</p> <p>All data or information provided to the Commission must include an index to each electronic file or document in that file that:</p> <ul style="list-style-type: none"> a. cross-references the data or information provided to the information requirement applicable b. briefly describes the information requirement
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	<p>c. identifies the location in the file or document where a response to the information requirement is provided.</p> <p>Where data is provided in Microsoft Excel format, and that data has been computed or derived from other data in that file, using a formula or formulae, all underlying formulae must be either accessible by the Commission or otherwise provided to the Commission.</p> <p>Any data or information provided to the Commission where Transpower wishes to retain a claim to confidentiality must be provided in an appendix or separate electronic file that is clearly marked as confidential.</p> <p>Omissions of required data or information must be identified to the Commission with a reasonable explanation for omission.</p> <p>See section 10.3, paragraphs 10.4.2-10.4.9 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC61</p> <p>Transitional provisions – Base capex transitional provisions</p>	<p>Current IM decision</p> <p>The process for approving Base capital expenditure allowances does not apply to RCP1. The allowance, provided under the IPP Determination will not be amended by the Capex IM.</p> <p>The existing quality standards, set under the IPP Determination continue to apply during RCP1. The quality standards set under the IPP Determination will be replaced by the grid output measures in RCP2.</p> <p>The Capex IM incentive mechanisms that apply to Base capex, including the Base capex expenditure adjustment, the grid output adjustment, and the Base capex policies and process adjustment, do not apply during RCP1. The policies and process adjustment, set by the IPP Determination, continues to apply during RCP1.</p> <p>The obligations specified in clauses 3.2.1 and 3.2.2 of the Capex IM do not apply during RCP1.</p> <p>A number of wording differences exist between the definitions in the IPP Determination and Capex IM Determination. Examples include the 'Major capex' versus 'Major capex' and 'Base capex' versus 'Minor capital expenditure'. The definitions are substantially the same, and will not be amended to reflect the new terms until RCP2.</p> <p>See Chapter 11: Transitional provisions, paragraphs 11.2.1-11.2.6 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC62</p> <p>Transitional provisions – Major capex transitional provisions</p>	<p>Current IM decision</p> <p>Major capex projects that were approved prior to the Capex IM Determination will not be reassessed under the Capex IM. These projects will be treated as Major capex projects approved by the Commission under the Capex IM. The components of these project approvals will be considered to be the approved components under the Capex IM. For example, this will include approval components such as:</p> <ol style="list-style-type: none"> any date specified as the date the approval expires will become the 'approval expiry date' the specified outputs or deliverables become 'approved Major capex project outputs' forecast costs adopted, where the probability of the actual costs being lower than the forecast is 50%, becomes the 'P50' any forecast commissioning date becomes the 'commissioning date assumption' any forecast completion date becomes the 'completion date assumption' any allocation of costs as recoverable costs, for non-transmission solutions, becomes the recovery scheme. <p>Major capex projects that were approved prior to the Capex IM Determination, but are not yet commissioned, are listed in Table 11.1 (refer to document).</p> <p>Major capex projects that were submitted for approval prior to the Capex IM Determination and are still under review by the Commission will continue to be assessed under Part F of the Electricity Governance Rules in accordance with s 54R. These projects are listed in Table 11.2 (refer to document).</p> <p>See Chapter 11: Transitional provisions, paragraphs 11.3.1-11.3.3 of 2010 Transpower capex IM reasons paper: Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC64</p> <p>Processes, requirements, and evaluation criteria for listed projects – Timeframes and processes for evaluating applications for approval of base capex in respect of listed projects</p>	<p>Current IM decision</p> <p>Under the listed project mechanism, Transpower may submit an application in relation to any one or more listed projects within a regulatory period for approval of base capex in respect of that listed project.</p> <p>The listed project mechanism will operate within some practical timing constraints relating to when Transpower calculates and announces its pricing for the pricing years in the regulatory period.</p> <p>This means the base capex increment is only available:</p> <ul style="list-style-type: none"> if approval is given prior to November, from the pricing year beginning the following April; or if approval is given in or after November, from the pricing year beginning after the disclosure year in which approval is given. <p>Also, Transpower’s base capex proposal for the regulatory period following a project’s ‘listing’ must be submitted to the Commission no later than the first working day of the December 16 months prior to the next regulatory period. It will encompass all forecast base capex, including in respect of the listed project assets, where the related assets are forecast to be commissioned in that next regulatory period.</p> <p>After receiving an application from Transpower, we will consider and evaluate it as</p>
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	<p>soon as reasonably practicable.</p> <p>If we decide to approve an amount of base capex for inclusion in Transpower's individual price-quality path, we will update the forecast MAR figures to provide for the revenue impact of the approved base capex in respect of the relevant listed project.</p> <p>See chapter 3, paragraphs 112-118 of 2014 Transpower listed projects reasons paper: Amendments to input methodologies for Transpower to provide a listed project mechanism - Reasons paper (27 November 2014).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC65</p> <p>Processes, requirements, and evaluation criteria for listed projects – requirements that must be met by Transpower</p>	<p>Current IM decision</p> <p>Prior to seeking approval of base capex in respect of any listed project, Transpower must meet a number of requirements, including requirements relating to:</p> <ol style="list-style-type: none"> 1. the extent of consultation and agreement with consumers; and 2. the scope and specificity of information required from Transpower. <p>While the scope and specificity of information required from Transpower is comprehensive, it has the following purposes:</p> <ol style="list-style-type: none"> 1. Ensuring we receive the information we will require to make a prompt turnaround decision; 2. Applying a consistent approach to that which would apply if the listed projects had been specified as part of the most recent base capex proposal; and 3. Allowing us to assure, in making our approval, that there is an appropriate commitment by Transpower to carry out the project, taking into account the potential expenditure flexibility for Transpower in increasing the overall base capex pool by the amount of additional base capex. <p><u>Extent of consultation and agreement with consumers</u></p> <p>Before seeking approval of base capex in respect of any listed project, Transpower must, in line with clause 3.2.1(b) of the Capex IM, undertake consultation with interested persons. Consultation with interested persons should be of a scope commensurate with the project's nature, complexity, impact and significance.</p> <p>We would expect that when Transpower consults with interested persons on a proposed project, it would identify the project targets for delivering the amount of work that it plans (e.g., in the case of a reconductoring project this might be represented by a targeted percentage of conductor commissioned by disclosure year).</p> <p>Other requirements that must be met by Transpower</p> <p>Before seeking approval of base capex in respect of any listed project, Transpower must undertake a cost-benefit analysis commensurate to the project size and complexity. Currently this is (and will continue to be) a requirement for any base capex project costing more than \$20 million.</p> <p>The cost-benefit analysis must include consideration of alternatives to the project, and for the project, where applicable. These alternative options could include non-replacement and demolition, enhancement or development of alternative assets, and non-transmission solutions.</p> <p>Transpower must assess the current and future need for the applicable proposed</p>
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	<p>assets by reference to the demand and generation scenarios in clause D4(1) of Schedule D of the Capex IM.</p> <p>Transpower must demonstrate that its Board of Directors has considered and approved (subject to our approval of an additional base capex amount) the business case for the listed project and must also show that it has delegated its financial authority to commence the listed project. The business case considered and approved by Transpower’s Board must include Transpower’s fully completed quality assurance checklist.</p> <p>Transpower must provide certification, by its chief executive officer, that:</p> <ol style="list-style-type: none"> 1. the information underpinning the application was derived from and accurately represents, in all material respects, the operations of Transpower; and 2. the listed project to which the application relates was approved in line with the applicable requirements of Transpower’s approval processes of directors and management. <p>In addition to the cost-benefit analysis, Transpower must, in its application for approval of base capex in respect of a listed project, provide us with:</p> <ol style="list-style-type: none"> 1. a description of the reasons for carrying out the listed project, supported by relevant technical information; 2. the intended scope of the listed project, including specification of the grid outputs that apply in respect of the listed project; 3. all relevant technical and costing information used to estimate both the cost of the listed project and alternative options, including details on risk allowances and contingencies; and 4. the estimated cost of the listed project, broken down into year by year figures in ‘expected disclosure year of commissioning’ prices, and the assumptions used to derive the estimated cost. <p>Where we consider that, for the purpose of deciding whether to approve base capex in respect of a listed project we require further information from Transpower, we will request Transpower to provide such information by a date specified by us such that it is reasonable for Transpower to comply.</p> <p>See chapter 3, paragraphs 112-118 of 2014 Transpower listed projects reasons paper: Amendments to input methodologies for Transpower to provide a listed project mechanism - Reasons paper (27 November 2014).</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC66</p> <p>Processes, requirements, and evaluation criteria for listed projects – Criteria we will use to evaluate applications for approval of base capex in respect of listed projects</p>	<p>2018 amendment to this decision</p> <p>We decided to amend the capex IM to clarify that the requirements for assessing listed projects are those set out in clauses 6.1.1(1) and 6.1.1(2), and in clause A2.</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B112-B115 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
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This decision applies to the following sectors:	Transpower
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<p>Decision TC67</p> <p>Processes, requirements, and evaluation criteria for listed projects – How base capex in respect of listed projects will feed into the base capex incentive framework</p>	<p>Current IM decision</p> <p>The key components of the incentive framework for base capex are contained in Schedule B of the Capex IM. Revenue adjustments are given effect through the wash-up process in Transpower’s individual price-quality path determination.</p> <p>Approved base capex associated with listed projects is subject to incentive mechanisms that apply to base capex. The two incentive mechanisms that apply specifically to base capex are the:</p> <ol style="list-style-type: none"> 1. base capex expenditure adjustment (Schedule B, clause B1 of the Capex IM); and 2. policies and processes adjustment (Schedule B, clause B2 of the Capex IM). <p><i>Base capex expenditure adjustment</i></p> <p>To ensure that the base capex expenditure adjustment also applies to approved base capex associated with listed projects, some amendments to the mechanism were required.</p> <p>We amended the ‘adjusted base capex allowance’ used in the annual base capex expenditure adjustment to have the effect of combining the base capex allowance set for the regulatory period (e.g., in August 2014 for RCP2) with any further approved base capex in respect of a listed project. That is, the base capex expenditure adjustment would measure Transpower’s performance against all approved base capex (as approved in both the initial base capex allowance, plus the further base capex approved in respect of any listed project).</p> <p>We have also made an additional, non-material, amendment to the definition of ‘base capex incentive rate’ to correctly reference (within that definition) the base capex expenditure adjustment.</p> <p>The disparity adjustments for the forecast CPI and the forecast FX rates in the annual base capex expenditure adjustment will work in the same way for approved base capex in respect of listed projects as they do for the base capex allowance.</p> <p>For consistency with the fungibility concept of base capex and to simplify any disparity adjustments for RCP2, we fixed the forecast CPI and forecast FX rates used for the base capex allowance in the setting of the base capex allowance, so they would also be used for any proposed base capex in respect of a listed project.</p> <p>At the time we approve the base capex in respect of a listed project we will also determine the amount or percentage of that approved base capex to which the forecast FX rates will apply.</p> <p><i>Policies and processes adjustment</i></p> <p>No amendments to the existing policies and processes adjustment (Schedule B2 of the Capex IM) are necessary to accommodate approved base capex in respect of listed projects in this incentive mechanism. The applicable policies for base capex described in a base capex proposal will apply to any application made by Transpower for approval of base capex in respect of a listed project.</p> <p>As the requirements that must be met by Transpower effectively include undertaking a cost-benefit analysis and consultation in accordance with clause 3.2.1 of the Capex IM, approval of base capex in respect of listed projects will mean that the value for ‘h’ in the policies and processes adjustment is zero. As for any other</p>
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	<p>base capex, the value of ‘h’ (ie, compliance with clause 3.2.2 of the Capex IM, which relates to Transpower’s compliance with its own policies and processes) is evaluated once the assets funded as base capex are commissioned.</p> <p>See chapter 3, paragraphs 131-140 of 2014 Transpower listed projects reasons paper: Amendments to input methodologies for Transpower to provide a listed project mechanism - Reasons paper (27 November 2014).</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC68</p> <p>Major capex incentive and output framework – incentives that apply to major capex</p>	<p>Current IM decision</p> <p>We decided to make no changes to the capex IM to place further incentives on Transpower to complete major capex projects on time.</p> <p>See paragraphs 235-236 and Part 2: Capex IM decisions resulting in no change, paragraphs B128-B131 of Transpower capex input methodology review: Decisions and reasons (29 March 2018).</p>
This decision applies to the following sectors:	Transpower

Treatment of Taxation IM decisions

<p>Decision TX01</p> <p>Modified deferred tax approach applies (EDBs/GDBs)</p>	<p>2016 amendment to this decision</p> <p>In 2016, we made a change to improve the way IM decision TX01 was implemented.</p> <p>We amended the EDB and GDB IM determinations so that the ID and CPP IM calculation for closing deferred tax includes an adjustment for asset disposals. This change improved consistency between the EDB and GDB ID determinations, and the EDB IM determination.</p> <p>We did amend the GTB, Airports, and Transpower IM determinations for asset disposals because they do not include deferred tax in their tax calculations.</p> <p>See Chapter 5, paragraphs 170-180 of 2016 Report on the IM Review: Input methodologies review decisions: Report on the IM Review (20 December 2016)</p> <p>2019 amendments to this decision</p> <p>Clause 2.3.7(1) of Electricity Distribution Services IM Determination [2012] NZCC 26 has been amended to read:</p> <p>“(1) Opening deferred tax means, -</p> <ul style="list-style-type: none"> (a) in respect of 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
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balance under GAAP for those assets at the date when those assets were first commissioned.”

Clause 4.3.4(1) of [Electricity Distribution Services IM Determination \[2012\] NZCC 26](#) has been amended to read:

“(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.”

Clause 5.3.19 of [Electricity Distribution Services IM Determination \[2012\] NZCC 26](#) has been amended to read:

“(1) Opening deferred tax means-

- (a) in respect of 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 are forecast to be commissioned.”

See clauses 4.5, 4.10 and 4.11 of [Electricity Distribution Services IM Amendments Determination \[2019\] NZCC 18](#).

Our final decision is to amend the EDB IM to apply the opening deferred tax balance as it is calculated under GAAP for right of use assets and any other regulatory assets that do not have a corresponding tax asset value.

See clauses 5.23 to 5.25 of [Treatment of operating leases – Final decisions paper \(November 2019\)](#).

2022 amendments

Opening deferred tax means, in respect of –

- (b) Subject to paragraph (c), 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.

See clause 2.3.7(1) of [Gas Distribution Services IM Amendment Determination \(No.2\) \[2022\] NZCC \[15\]](#).

Opening deferred tax means, for –

- (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.

See clause 4.3.4(1) of [Gas Distribution Services IM Amendment Determination \(No.2\) \[2022\] NZCC \[15\]](#).

	<p>Opening deferred tax means, in respect of –</p> <p>(b) subject to paragraph (c), in respect of each disclosure year thereafter, closing deferred tax for the preceding disclosure year; and</p> <p>(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 are forecast to be commissioned.</p> <p>See clause 5.3.19 of Gas Distribution Services IM Determination 2012 (consolidated as of September 2022).</p> <p>For treatment of operating leases: amendments were made so that:</p> <ul style="list-style-type: none"> • a GAAP-based life can be assigned to depreciate right of use assets by GDBs and the GTB; and • GDBs adopt opening GAAP deferred tax balances for right of use assets and other assets that do not have a corresponding regulatory tax asset value when calculating tax allowances for ID, DPP and CPP purposes. <p>See paragraphs 3.58 to 3.72 of Amendments to IMs for gas pipeline businesses related to the 2022 default price-quality paths – Reasons paper (2022).</p>
This decision applies to the following sectors:	EDB/GDB

<p>Decision TX03</p> <p>Tax losses ignored</p>	<p>Current IM decision</p> <p>Tax losses in the wider tax group must be ignored when estimating tax costs.</p> <p>See Appendix G of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision TX05</p> <p>Initial regulatory tax asset value</p>	<p>Current IM decision</p> <p>The initial regulatory tax asset value in 2009 (as at 31 March) should be the lesser of that recognised under tax rules for the relevant assets or share of assets used to supply electricity or gas distribution services, or the initial RAB value.</p> <p>See Appendix G of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision TX06</p> <p>Initial deferred tax balance is zero</p>	<p>Current IM decision</p> <p>The initial deferred tax balance should be zero.</p> <p>See Appendix G of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB</p>

<p>Decision TX07</p> <p>Tax effect of discretionary discounts and rebates</p>	<p>Current IM decision</p> <p>For EDBs only, discretionary discounts and customer rebates should be treated as a tax-deductible expense, if allowed under tax legislation, but should not be treated as a cost for the purposes of disclosing or determining regulated revenue.</p> <p>See Appendix G of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>EDBs</p>

<p>Decision TX08</p> <p>Tax legislation and cost allocation to be applied</p>	<p>2018 amendment to this decision</p> <p>We amended the IM determination by specifying for a DPP that any remaining asset lives for existing assets used when calculating 'adjusted depreciation' for 'amortisation of revaluations' and 'depreciation temporary differences' must be consistent with the remaining asset lives used for calculating 'total depreciation'.</p> <p>We made the amendments to clarify that any differences between 'total depreciation' and 'adjusted depreciation' should arise solely from the inclusion (or exclusion) of revaluation amounts. Differences between 'total depreciation' and 'adjusted depreciation' should not arise from using different remaining asset lives.</p> <p>See paragraphs 2.17-2.21 of Amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation: Reasons paper (8 November 2018).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB</p>

<p>Decision TX09</p> <p>Tax payable approach applies (GTBs)</p>	<p>Current IM decision</p> <p>Tax cost must be estimated using a tax payable approach.</p> <p>See section 5.3 of 2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</p>
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This decision applies to the following sectors:	GTB
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Decision TX10 Tax payable approach applies (Transpower)	<p>Current IM decision Transpower's tax obligations should be estimated using a tax payable approach.</p> <p>See section 5.3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010).</p>
This decision applies to the following sectors:	Transpower

Decision TX11 Tax legislation and cost allocation to be applied (Transpower)	<p>Current IM decision The cost allocation IM is to be applied, and tax legislation is to be applied (to the extent practicable and subject to other relevant provisions in the IMs) to calculate the regulatory taxable income.</p> <p>See section 5.3 paragraph 5.4.3 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010).</p>
This decision applies to the following sectors:	Transpower

Decision TX12 Notional leverage for deductible debt interest (Transpower)	<p>Current IM decision Tax-deductible debt interest should be calculated using a notional leverage that is consistent with the cost of capital IM.</p> <p>See paragraphs 5.4.4- 5.4.7 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010).</p>
This decision applies to the following sectors:	Transpower

Decision TX13 Tax losses ignored (Transpower)	<p>Current IM decision Tax losses in Transpower's wider tax group should be ignored when estimating tax costs, and any tax losses generated in the supply of regulated services should be notionally carried forward to the following disclosure year.</p> <p>See paragraphs 5.4.9- 5.4.12 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010).</p>
This decision applies to the following sectors:	Transpower

<p>Decision TX14</p> <p>Regulatory tax asset value of asset acquired (Transpower)</p>	<p>Current IM decision</p> <p>The regulatory tax asset value of assets acquired from a supplier of another type of regulated service should remain unchanged in the event of an acquisition of assets used to supply services under Part 4.</p> <p>See paragraphs 5.4.13- 5.4.17 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TX15</p> <p>Initial regulatory tax asset value (Transpower)</p>	<p>Current IM decision</p> <p>The initial regulatory tax asset value should be the lesser of that recognised by Inland Revenue for the relevant assets or share of assets used by Transpower to supply regulated electricity line services, and the initial RAB value.</p> <p>See paragraphs 5.4.18- 5.4.20 of 2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TX16</p> <p>Tax payable approach applies (Airports)</p>	<p>2016 amendment to this decision</p> <p>We changed this decision to allow airports to apply alternative taxation methodologies with equivalent effect when applying alternative asset valuation methodologies with equivalent effect, because variation from the standard 'tax payable' approach may be necessary. This change is consistent with IM decision AV55.</p> <p>See Chapter 5, paragraphs 203-204 of 2016 Report on the IM Review: Input methodologies review decisions: .</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision TX17</p> <p>Tax legislation and cost allocation to be applied (Airports)</p>	<p>Current IM decision</p> <p>The cost allocation IM is to be applied, and tax legislation is to be applied (to the extent practicable and subject to the other relevant provisions in the IMs), to calculate the regulatory taxable income.</p> <p>See Appendix D, section D2 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision TX18</p> <p>Notional leverage for deductible debt interest (Airports)</p>	<p>Current IM decision</p> <p>Tax-deductible debt interest should be calculated using a notional leverage that is consistent with the cost of capital IM.</p> <p>See Appendix D, section D2 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision TX21</p> <p>Initial regulatory tax asset value (Airports)</p>	<p>Current IM decision</p> <p>The initial regulatory tax asset value should be the lesser of that recognised by Inland Revenue for the relevant assets or share of assets used to supply airport services, and the initial RAB value.</p> <p>See Appendix D, section D2 of 2010 Airports IM reasons paper: Input Methodologies (Airport Services): Reasons Paper (22 December 2010).</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

Attachment A Proposed IM changes to address transaction-related issues

- A1 This Attachment explains our draft decisions for changes to the valuation of assets acquired from related parties or regulated suppliers.
- A2 The draft decisions set out in this Attachment relate to pre-review IM decisions AV12 (EDBs and GPBs), AV32 (Transpower) and AV46 (Airports).
- A3 Our draft decisions discussed below are to:
- A3.1 amend clauses 2.2.11(5) and 5.3.11(7) of the EDB and GPB IMs to ensure it is clear that GAAP applies on an arm's length basis to the valuation of commissioned assets acquired, or forecast to be acquired, in related party transactions;
 - A3.2 add the related party transaction asset valuation rules applying to EDBs and GPBs to the Airports and Transpower IMs, including the changes under A3.1 above;
 - A3.3 require that the value of a commissioned asset that, before its commissioning date, was acquired from another regulated supplier as works under construction, is limited to the sum of:
 - A3.3.1 the costs of the other regulated supplier in constructing those works; and
 - A3.3.2 any additional costs of the regulated supplier in constructing the asset (excluding any amount paid to the other regulated supplier); and
 - A3.4 amend clause 2.2.11(1)(e) of the EDB and GPB IMs, clause 2.2.7(1)(f) of the Transpower IMs and clause 3.9(1)(d) of the Airports IMs to remove the term "limited to".

Valuation of commissioned assets in related party transactions

Draft decision

- A4 Our draft decision is to amend clauses 2.2.11(5) and 5.3.11(7) of the EDB and GPB IMs to ensure it is clear that GAAP applies on an arm's length basis to the valuation of commissioned assets acquired, or forecast to be acquired, in related party transactions.
- A5 The proposed change is designed to:
- A5.1 promote the IM purpose in s 52R more effectively by providing greater certainty to regulated suppliers about how right of use (ROU) assets and other assets acquired in related party transactions should be valued; and

- A5.2 improve the readability of the IM and therefore reduce complexity and compliance costs.
- A6 The proposed change does not alter how assets acquired in related party transactions are to be valued. It is simply intended to more clearly state how GAAP is to be applied, with the value of the asset being limited to the lesser of (a) the GAAP value that would apply if it were an arm's-length transaction; or (b) the actual amount charged to the regulated provider by the related party.
- A7 As an example, we are proposing to amend clause 2.2.11(5) of the EDB IMs to read as follows:

For the purpose of subclause (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 is not greater than either of the following amounts determined under GAAP:

(i) the value that would have applied if that transaction had been an arm's-length transaction; or

(ii) the actual amount charged to the EDB by the related party; and

(b) for the purpose of paragraph (a)(i), an objective and independent measure must be used in determining the terms of an arm's-length transaction.

Why we have made this draft decision

- A8 The treatment of recent sale and leaseback transactions by Vector, in respect of which we issued a formal warning letter, highlighted that regulated suppliers may not be properly applying GAAP on an arm's length basis when valuing assets acquired in related party transactions as required under clause 2.2.11 of the EDB and GPB IMs.⁶³
- A9 To ensure that GAAP is correctly applied in the future, we have proposed the relevant IM be amended to be clearer about the application of GAAP.
- A10 It is important that GAAP applies on an arms-length basis to the valuation of assets acquired in related party transactions as it ensures that, depending on the circumstances of the transaction:
- A10.1 transaction-specific accounting rules provided under GAAP are not circumvented by the related party relationship; and
- A10.2 GAAP provides a consistent market value methodology for deriving arms-length values.

⁶³ Commerce Commission "[Warning letter to Vector Limited](#)" (23 December 2022).

Insert related party asset valuation rules applying to EDBs and GPBs into Airports and Transpower IMs

Draft decision

- A11 Our draft decision is to add the rules for valuing assets acquired from related parties applying to EDBs and GPBs into the Airports and Transpower IMs, including the proposed changes described above to ensure it is clear that GAAP applies on an arms-length basis to the valuation of these assets.
- A12 The proposed changes to the Airports and Transpower IMs will introduce, with necessary amendments, the changes applied to the EDB and Gas IMs by the 2017 review of related party transactions provisions.⁶⁴ Those changes include:
- A12.1 incorporating relevant auditing and accounting standards into the IM by reference in accordance with the applicable drafting rules set out in Schedule 5 of the Act;
 - A12.2 amendments to key definitions of arm's-length transaction, related party and related party transaction; and
 - A12.3 amending the value of commissioned assets (general valuation and value limitation rules).⁶⁵

Related party rules are not currently included in the Airports or Transpower IMs

- A13 The related party asset valuation rules applying to EDBs and GPBs noted above do not exist in the Airports and Transpower IMs because the amendments arising out of the 2017 Related Party Transactions IM Review were only implemented for EDBs and GPBs.
- A14 The 2017 Related Party Transactions IM Review looked at the rules in the context of the overall value and volume of EDB and GPB related party transactions at the time.
- A14.1 We kept the Transpower IM out of scope for the 2017 review because the high level of prescription that the review introduced for EDBs and GPBs was too detailed for Transpower's circumstances at the time.

⁶⁴ See Commerce Commission "[Related party transactions provisions](#)".

⁶⁵ The general valuation rule is set out in Commerce Commission "[Input methodologies review – related party transactions – Final decision and determinations guidance](#)" (21 December 2017), para 4.9. The value limitation rule is set out in Commerce Commission "[Input methodologies review – related party transactions – Final decision and determinations guidance](#)" (21 December 2017), para 4.20 to 4.27.

A14.2 The changes were not considered relevant for Airports at that time, given the form of regulation (ID) for Airports.⁶⁶

Why we propose to make this change now

A15 Today, the context for considering related party rules is somewhat different than in 2017 because:

A15.1 the implementation of NZ IFRS 16 changed the accounting treatment of operating leases;⁶⁷ and

A15.2 the Vector sale and leaseback transactions (noted above) highlighted how a single related party transaction might impose significant additional costs on consumers without any improvement to assets or services.

A16 Our draft decision to bring across the related party asset valuation rules for EDBs and GPBs to the Airports and Transpower IMs is intended to:

A16.1 better promote the Part 4 purpose, by limiting the ability of Airports and Transpower to raise the value of ROU assets created in related party transactions and pass these higher costs on to consumers without any improvement to services or infrastructure; and

A16.2 better promote the s 52R purpose, by aligning the related party asset valuation rules between the IMs and improving the certainty of those rules.

A17 The key related party IM for Airports and Transpower requires that the value of an asset acquired from a related party is:⁶⁸

A17.1 its depreciated historic cost in respect of the related party determined by applying GAAP as on the day before the acquisition by the regulated supplier; or

A17.2 where sufficient records do not exist to establish this cost, its market value as of its commissioning date as determined by a valuer.

A18 Applying GAAP as on the day before the transaction, as required by the current IMs, is problematic in respect of ROU assets arising from a lease transaction, which do not exist until the day of the transaction, so the rule is currently unworkable for ROU assets.

⁶⁶ Note that the omission of the Transpower and Airports IMs are not discussed in: Commerce Commission [“Input methodologies review – related party transactions – Final decision and determinations guidance”](#), (December 2017).

⁶⁷ IFRS 16 had the effect of changing operating leases from an operating cost to a ‘lease asset’.

⁶⁸ Commerce Commission [“Airport Services Input Methodologies Determination 2010”](#) (20 December 2016), clause 3.9(1)(e); and Commerce Commission [“Transpower Input Methodologies Determination 2010”](#) (29 January 2020), clause 2.2.7(1)(h).

A19 In addition, it is important that ROU assets are valued in accordance with GAAP (NZ IFRS 16) as other valuations could result in significantly higher costs to consumers with no substantive change to assets or services provided by those assets. The proposed changes therefore address the risk that Transpower could seek higher pricing, or Airports could seek to justify higher pricing under ID, via a sale and leaseback transaction.

Valuation of land

A20 There is one key difference between the valuation of land and non-land assets acquired in related party transactions under the Airports IMs.⁶⁹

A21 In respect of land, rather than the value under GAAP on an arm's length basis, the value is to be determined under Schedule A. This is consistent with the current approach to valuing land under the Airports IMs.⁷⁰

Sale of works under construction

Draft decision

A22 Our draft decision is to amend clauses 2.2.11(2) and 5.3.11(3) of the EDB and GPB IMs, clause 2.2.7(2) of the Transpower IMs and clause 3.9(3) of the Airports IMs to require that the value of a commissioned asset that, before its commissioning date, was acquired from another regulated supplier as works under construction, is limited to the sum of:

A22.1 the costs of the other regulated supplier in constructing those works; and

A22.2 any additional costs of the regulated supplier in constructing the asset (excluding any amount paid to the other regulated supplier).⁷¹

Why we have made this draft decision

A23 The IMs determine the value of commissioned assets as the cost of the asset as determined by applying GAAP on its commissioning date, but subject to several exceptions. One exception is that an asset acquired from another regulated supplier and used by that regulated supplier in the supply of regulated goods or services, is limited to the unallocated closing RAB value of the asset in the other regulated supplier's RAB.

⁶⁹ For a discussion on the valuation of land for Airports, see Commerce Commission "[Input Methodologies \(Airport Services\): Reasons Paper](#)" (December 2010), Appendix C.

⁷⁰ For example, under clause 3.9(4) of the [Airports IMs](#), the market value of land is to be determined in accordance with Schedule A.

⁷¹ In respect of the Airports IM, this differs for land assets which are limited to the value determined under Schedule A.

- A24 As the limit under this clause on the value of an asset transferred between regulated suppliers only applies to commissioned assets, it is currently possible for regulated suppliers to trade works under construction at a mark-up in excess of reasonable costs and if the asset is then subsequently commissioned by the purchasing regulated supplier, the mark-up becomes part of the purchaser's RAB.
- A25 The proposed change to the IMs is designed to better promote the Part 4 purpose by ensuring that regulated suppliers cannot extract excessive profits through the sale and acquisition of works under construction with another regulated supplier. This is done by effectively limiting the cost of acquisition to the cost of the other regulated supplier in constructing the works.
- A26 The proposed IM reflects that works under construction may require further expenditure before they are ready for commissioning.
- A26.1 The value of the commissioned asset under our proposed drafting includes additional costs of the regulated supplier in constructing the asset, which are to be determined in accordance with subclause (1).
- A26.2 Those additional costs do not include any amount paid to the regulated supplier. This is intended to exclude any premium (above the cost of constructing the works) paid to the other regulated supplier. If such costs could be included in the additional costs of the regulated supplier, this would effectively circumvent the intent of the provision.

Acquiring assets from another regulated supplier

Draft decision

- A27 We propose amending clause 2.2.11(1)(e) of the EDB and GPB IMs, clause 2.2.7(1)(f) of the Transpower IMs and clause 3.9(1)(d) of the Airports IMs to remove the reference to "limited to".

Why we have made this draft decision

- A28 Our draft decision better promotes the s 52R purpose by removing the current ambiguity in the drafting in relation to the requirements for valuing commissioned assets which are (a) acquired from another regulated supplier; and (b) used by that regulated supplier in the supply of regulated goods or services.⁷²
- A29 Under this IM, the value of the asset is "limited to" the unallocated closing RAB value that would have applied for the other (selling) regulated supplier.

⁷² The related party IM is set out in clause 2.2.11(1)(e) of the [EDB and GPB IMs](#), clause 2.2.7(1)(f) of the [Transpower IMs](#) and clause 3.9(1)(d) of the [Airports IMs](#).

A30 However, the intention of this IM is that the unallocated closing RAB value will always be recognised (not just act as an upper limit), so the modifier “limited to” is unnecessary and potentially confusing.

A31 This intention is reflected in our 2010 Input Methodologies (Electricity and Gas Pipeline Services) Reasons Paper:⁷³

Where an asset is purchased from another regulated supplier, the buyer must add the asset to its RAB value at the asset’s equivalent value in the RAB value of the seller, ie at its most recent RAB value.

A32 The rationale for the unallocated closing RAB value always being recognised is that where commissioned assets are sold between regulated suppliers at a discount, the loss on disposal recorded by the selling regulated supplier is treated as a regulatory cost to be recovered from its consumers (to the detriment of those consumers).

⁷³ Commerce Commission [“Input Methodologies \(Electricity and Gas Pipeline Services\) Reasons Paper”](#) (December 2010), para E8.4.

Attachment B Proposed IM changes relating to the calculation of the capex wash-up and capex wash-up adjustment

Introduction

- B1 EDBs raised concerns that the IRIS template model⁷⁴ does not interpret the IMs correctly, specifically, the way the IRIS template model calculates the capex component of the adjustments.
- B2 We have analysed the concerns raised by EDBs and consider that an inconsistency exists between:
- B2.1 the IRIS template model and the IMs relating to the capex wash-up component of the IRIS adjustments; and
 - B2.2 the capex wash-up adjustment model and the IMs relating to the calculation of this recoverable cost.
- B3 We have considered whether IM changes are needed to ensure the model calculations preserve the original policy intent.

Draft decision

- B4 Our draft decision is to amend clause 3.3.11(2)(b)(ii) of the EDB IMs and to include as part of the overall wash-up changes new drafting in clause 3.1.4(4)(e) to require that only the remaining asset life calculated under Part 2 in respect of each disclosure year be used in the calculation of depreciation for the capex wash-up and other wash-up amounts.
- B5 We will also consider updating the IRIS template model and capex wash-up adjustment models to align with this change.

Problem definition

- B6 The IRIS template model was published with the EDB DPP3 determination on 27 November 2019 to help non-exempt EDBs to calculate IRIS incentive adjustments to share with consumers the opex and capex over- and under-spends incurred by the EDB during its DPP2 regulatory period (1 April 2015 - 31 March 2020).
- B7 The capex-wash-up section of the model corrects for the forecast error in the previous DPP period. It ensures that the actual capex spend is recognised in place of the original forecast spend.

⁷⁴ [IRIS template model](#).

B8 The IMs require EDBs to start sharing DPP2 capex over- and under-spends in the disclosure year ending 31 March 2022.⁷⁵ Accordingly, non-exempt EDBs will have already incorporated the IRIS incentive adjustments into their forward-looking annual price-setting compliance statements for the disclosure year ended 31 March 2022.⁷⁶

Standard life of additional assets

B9 Clause 4.2.2(3)(b) of the Part 4 asset valuation IMs specifies that the remaining asset life for additional assets in any disclosure year is 45 years in the forecast disclosure year of commissioning less the number of disclosure years to the disclosure year in question. The 45-year term was considered a “reasonable value for...electricity distribution services...as it represents a balance of standard physical asset lives.”⁷⁷

B10 The use of actual lives as an input to the IRIS capex wash-up model is intended to wash-up the depreciation arising from the difference between the actual asset lives of additional assets and the standard life assumption of 45 years used when setting the DPP. For this wash-up to be correct additional assets must only start to depreciate in the year after commissioning, consistent with how depreciation is calculated in setting the DPP.

The nature of EDB error queries

B11 The concerns about possible model error arose from the five data input cells in the IRIS template model labelled ‘years of remaining life for newly commissioned assets’ and the way the entered values are used in the model. The headings to the input cells are each of the five DPP2 assessment years 2015/16–2019/20. These flow through to the capex wash-up calculations.

B12 Model guidance is provided in the ‘Description’ worksheet. The guidance requires that the EDB enters “a weighted average of the lifetime of the newly commissioned assets (ie, value of newly commissioned assets divided by depreciation of new commissioned assets)”.

B13 EDBs may have variously interpreted this label as requiring either the—

⁷⁵ Commerce Commission “[Electricity Distribution Services Input Methodologies Determination 2012](#)” (20 May 2020), clause 3.3.10(2).

⁷⁶ Commerce Commission “[Electricity Distribution Services Default Price-Quality Path Determination 2020](#)”, clause 11.5(d)-(e).

⁷⁷ Commerce Commission “[Specification and Amendment of Input Methodologies as Applicable to Default Price-Quality Paths: Reasons paper](#)” (28 September 2012), para 55.2.

B13.1 asset lives as at the commencement of the first disclosure year in which depreciation is applied (ie, the interpretation adopted by the model); or

B13.2 asset lives as at the date of commissioning.

B14 In addition, we have identified a computational error in the model in that the life entered for each disclosure year is transposed by a year, so the remaining life entered for 2015/16 newly commissioned assets is applied to 2014/15 commissioned assets. This means the IRIS template model washes up depreciation for the disclosure year ended March 2015 on the basis of 2015/16 newly commissioned asset values and does the same offset for each successive year.⁷⁸

Remaining asset life

B15 The definition of “remaining asset life” at clause 1.1.4(2):

means term remaining of an asset's asset life at the commencement of the disclosure year in question, taking into account the reduction in asset life as specified in clause 2.2.8(4)(a)

B16 Our view is that this means for a newly commissioned asset, the life of the asset as at its date of commissioning. This is the remaining asset life input required for the model, which must then apply depreciation to the asset's opening RAB value at the beginning of the next disclosure year in accordance with the IM depreciation rules.

Calculation of depreciation under existing IMs

B17 For the purpose of the capex wash-up, clause 3.3.11(2)(b)(ii) provides that the series of building blocks allowable revenue before tax for each disclosure year of the preceding DPP regulatory period must adopt the sum of depreciation calculated under Part 2 in respect of each disclosure year for assets having a commissioning date in the preceding DPP regulatory period.

B18 Our interpretation of clause 3.3.11(2)(b)(ii) is that it requires all components of the formula calculating depreciation under clause 2.2.5 to be applied, including “opening RAB value”.

⁷⁸ The 2014/15 disclosure year is not a part of the “capex wash-up” calculation for DPP2 but is dealt with by the “capex wash-up adjustment”, which is a separate recoverable cost calculated in a separate model - the capex wash-up adjustment model.

- B19 The same interpretation also applies to the inclusion of depreciation in the calculation of the “capex wash-up adjustment” as applied in our [EDB capex wash-up adjustment recoverable cost calculation sheet](#) published on 11 December 2015. The capex wash-up adjustment, contained in clause 3.1.3(1)(p) of the EDB IM corrects for the forecast period between the base year and the start of the next DPP. It ensures that the next DPP is based off the correct opening RAB values.⁷⁹
- B20 Our interpretation of 3.3.11(2)(b)(ii) raises two application issues:
- B20.1 Capex wash-up – the depreciation on commissioned assets for the capex wash-up taken from ID for each disclosure year after the year of commissioning must be calculated on revalued amounts. The depreciation formulae in clause 2.2.5 include “unallocated opening RAB value” and “opening RAB value” as defined under clauses 2.2.4(1) and 2.2.4(3), both of which require a determination of “unallocated revaluation” under clause 2.2.4(2)(d). These revalued amounts, if included in the model, will then also have the relevant forecast indexation applied in setting the DPP, using the original “series of building blocks allowable revenue before tax for the preceding DPP regulatory period”, as required by clause 3.3.11(1). The rerunning of the original building blocks allowable revenue indexed forecast calculation using ID asset values that have already been revalued gives rise to double indexation and an over-recovery of depreciation and return on investment.
- B20.2 Capex wash-up adjustment – the same interpretation of the equivalent clause 3.1.3(9)(b)(ii) presents a workability issue, as it is not clear what value of depreciation should be used for the forecast disclosure years of the next regulatory period (years one to five) in setting maximum allowable revenue under clause 3.1.1 of the IMs. If clause 3.1.3(9)(b)(ii) is interpreted as simply rolling forward the actual disclosed depreciation, then this is problematic as the depreciation will be nil for an asset commissioned in disclosure year five of the previous regulatory period (assuming disclosure year four is the base year and it is a five-year DPP regulatory period). If it is interpreted as continuing to apply the actual disclosed depreciation under Part 2 to the forecast disclosure years one to five of the next regulatory period, then EDBs will not know the ID values for years two to five when they come to calculate the adjustment, as the revaluation rate to be applied to the opening RAB is not yet known.

⁷⁹ The accompanying Reasons Paper states that “[t]he objective of the wash-up is to place distributors in approximately the same position as that in which the value of the regulatory asset base was known at the commencement of the regulatory period at the time prices were reset”. See Commerce Commission “[Input methodology amendments for electricity distribution services – Default price-quality paths](#)” (27 November 2014).

Proposed solution

B21 Our proposed solution is to amend the following clauses as follows:

B21.1 Clause 3.3.11(2)(b)(ii) capex wash-up:

(ii) for the purpose of subparagraph (i), adopt the remaining asset life calculated under Part 2 in respect of each disclosure year for assets having a commissioning date in the preceding DPP regulatory period; and

B21.2 A new clause 3.1.4(4)(e) requiring a wash-up including:

(4) For the purposes of subclause (3), 'actual allowable revenue' for a disclosure year means an amount calculated on the same basis as the forecast allowable revenue for the disclosure year (as specified by the Commission in a DPP determination or CPP determination), adjusted by substituting

[...]

(d) the actual value of commissioned assets in the disclosure year prior to the start of the regulatory period for the forecast value of commissioned assets in the disclosure year prior to the start of the regulatory period;

(e) in respect of any asset referenced in paragraph (d) with a commissioning date in the preceding DPP regulatory period or CPP regulatory period, the weighted average remaining asset life calculated under Part 2 in respect of each disclosure year for the forecast remaining asset life for that asset;

Reasons

B22 Clarifying the capex wash-up calculation requirements will help to prevent possible overpricing due to incorrect wash-up amounts being calculated and better promote the s 52A purpose in limiting the ability of EDBs to extract excessive profits.

B23 Clarifying the capex wash-up adjustment calculation requirements will help to promote the s 52R purpose more effectively, by providing greater certainty for regulated suppliers and consumers in relation to the rules, requirements, and processes applying to regulation under Part 4.