

Public version

[Draft] Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023

[2023] NZCC [XX]

The Commission:

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Date of decision:

[day] [month] 2023

[signature]

[name], Commissioner

Dated at Wellington this [day] of [month] 2023

COMMERCE COMMISSION

Wellington, New Zealand

Determination history		
Determination date	Decision number	Determination name
28 September 2012	[2012] NZCC 26	Electricity Distribution Services Input Methodologies Determination 2012 ('principal determination')*
15 November 2012	[2012] NZCC 34	Electricity and Gas Input Methodologies Determination Amendments (No. 2) 2012
26 September 2014	[2014] NZCC 24	Electricity Lines Services Input Methodologies Determination Amendment 2014
29 October 2014	[2014] NZCC 27	Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for price-quality regulation) 2014
14 November 2014	n/a	Determination of Input Methodologies by the High Court in <i>Wellington International Airports Ltd and others v Commerce Commission</i> [2013] NZHC 3289 (11 December 2013)
27 November 2014	[2014] NZCC 31	Electricity Distribution Input Methodology Amendments Determination 2014
27 November 2014	[2014] NZCC 32	Incremental Rolling Incentive Scheme Input Methodology Amendments Determination 2014
11 December 2014	[2014] NZCC 38	Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for information disclosure regulation) 2014
12 November 2015	[2015] NZCC 28	Electricity and Gas (Customised Paths) Input Methodology Amendments Determination 2015
25 November 2015	[2015] NZCC 32	Electricity Distribution Services (Incremental Rolling Incentive Scheme) Input Methodologies Amendments Determination 2015
20 December 2016	[2016] NZCC 24	Electricity Distribution Services Input Methodologies Amendments Determination 2016
21 December 2017	[2017] NZCC 30	Electricity Distribution Services Input Methodologies Amendments Determination 2017
8 November 2018	[2018] NZCC 19	Electricity Distribution Services Input Methodologies (Accelerated Depreciation) Amendments Determination 2018
13 November 2019	[2019] NZCC 18	Electricity Distribution Services Input Methodologies Amendments Determination 2019
26 November 2019	[2019] NZCC 20	Electricity Distribution Services Input Methodologies Amendments Determination (No. 2) 2019

30 March 2020	[2020] NZCC 2	Electricity Distribution Services Input Methodologies Amendments Determination 2020
[XX] [XX] 2023	[2023] NZCC [XX]	Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023

* The principal determination re-determined the input methodologies contained in *Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010* (Commerce Commission Decision No. 710, 22 December 2010), as amended by the *Electricity and Gas Input Methodologies Determination Amendments (No. 1) 2012* [2012] NZCC 18 (29 June 2012). A complete history of determinations relevant to the input methodologies applicable to electricity distribution services is available on the Commission's website.

[Drafting notes:

- This determination amends the Electricity Distribution Services Input Methodologies Determination 2012, as previously amended, ('principal determination').
- The included amendments which are secondary legislation are made under the Legislation Act 2019 and Part 4 of the Commerce Act 1986.
- The amendments to the body of the principal determination are marked as track changes in red
- Incremental changes in the revised draft are highlighted in yellow.
- For convenience, only pages with changes in the revised draft are reproduced here.].

A

ABAA	means accounting-based allocation approach, as described in, in the case of - (a) operating costs , clause 2.1.3(1); and (b) regulated service asset values , clause 2.1.3(2);
ACAM	means avoidable cost allocation methodology, as described in clause 2.1.5;
Act	means the Commerce Act 1986;
actual allowable revenue	has the meaning specified in clause 3.1.4(4)3(13)(e);
actual controllable opex	means the amount of operating expenditure made by the EDB in the categories to which allowed controllable opex relates;
actual net allowable revenue	has the meaning specified in clause 3.1.3(13)(h) or 3.1.3(13)(i), as applicable;
<u>actual inflation</u>	<u>means the amount calculated under clause 3.1.4(1112)(b) for the purpose of calculating the annual cost of debt wash-up amount;</u>
actual opex	has the meaning specified in clause 3.3.3(9);
actual revenue	has the meaning specified in clause 3.1.4(1315)3(13)(f);
additional assets	means assets of an EDB which are not existing assets and are forecast to be commissioned ;
additional CPP assets	means assets of an EDB which, for the purpose of a CPP proposal , are forecast to be commissioned within the assessment period or the CPP regulatory period ;
adjusted depreciation	means total depreciation for all assets calculated as if no amount of revaluation had been included in the calculation of any opening RAB value following the determination of the initial RAB , where:

	<p>services and other regulated services, namely, viz. 'directly attributable', 'causal' or 'proxy';</p>
allowable revenue before tax	<p>means allowable revenue before tax as determined by the Commission;</p>
allowed controllable opex	<p>means the allowance (which is reasonable in light of the expenditure objective) specified in a CPP determination for operating expenditure in categories specified as controllable;</p>
alternative depreciation method	<p>means a depreciation method which is not the standard depreciation method;</p>
amalgamate	<p>means amalgamate in accordance with Part 13 of the Companies Act 1993 and amalgamation is to be construed accordingly;</p>
amortisation of initial differences in asset values	<p>means the amount determined in accordance with, for the purpose of-</p> <ul style="list-style-type: none"> (a) Part 2, clause 2.3.5; (b) Part 4, clause 4.3.3(3); and (c) Part 5, clause 5.3.17;
amortisation of revaluations	<p>means the amount determined in accordance with, for the purpose of-</p> <ul style="list-style-type: none"> (a) Part 2, clause 2.3.6; (b) Part 4, clause 4.3.3(5); and (c) Part 5, clause 5.3.18;
amount carried forward	<p>means, for any given disclosure year, the amount determined in accordance with clause 3.3.3;</p>
annual cost of debt wash-up amount	<p>has the meaning specified in clause 3.1.4(10);</p>
arm's-length deduction	<p>means in respect of-</p> <ul style="list-style-type: none"> (a) operating costs not directly attributable, an amount of operating costs incurred by an EDB in the supply

cost of debt	means the amount specified for r_d in, for the purpose of-
	(a) Part 2, clause 2.4.1(3); and
	(b) Parts <u>3</u> , <u>4</u> , and Part 5, clause 4.4.1(3);
cost of debt wash-up amount	has the meaning specified in clause 3.1.4(9);
CPI	means-
	(a) subject to paragraph (b), the consumer price index stipulated for each quarter in the 'All Groups Index SE9A' as published by Statistics New Zealand; and
	(b) in respect of quarters prior to any quarter in which the rate of GST is amended after this determination comes into force, the same index as described in paragraph (a), multiplied by the Reserve Bank of New Zealand's forecast change in that index (expressed as a decimal) arising from the amendment;
CPP	means customised price-quality path;
CPP applicant	means an EDB who-
	(a) is preparing a CPP proposal ; or
	(b) has made a CPP proposal that has not been determined;
CPP application	has the meaning specified in clause 5.1.1(2);
CPP determination	means a determination of a CPP in relation to electricity distribution services made by the Commission under s 52P of the Act ;
CPP inflation rate	has the meaning specified in clause 5.3.4(9);
CPP proposal	means a proposal made by an EDB to the Commission for a CPP comprising the information specified in Part 5 Subpart 4;
CPP regulatory period	means-

fixed life easement	means an easement that- <ul style="list-style-type: none"> (a) is of fixed duration; or (b) whilst of indefinite duration, is to be held for a fixed period;
<u>flexibility</u>	<u>means the ability to modify energy generation injection or consumption patterns (or both);</u>
forecast aggregate value of commissioned asset	means the amount determined in accordance with clause 4.2.5(1);
forecast aggregate value of disposed assets	means the amount determined in accordance with clause 4.2.6;
forecast allowable revenue	means the amount determined in accordance with clause 3.1.1(34);
forecast allowable revenue as a function of demand	means a value specified in clause 3.1.1(5);
forecast CPI	means: <ul style="list-style-type: none"> (a) for the purpose of an annual cost of debt wash-up amount,- <ul style="list-style-type: none"> (i) <u>forecast CPI for DPP revaluation,</u> where an EDB is subject to a DPP; and (ii) <u>forecast CPI for CPP revaluation,</u> where an EDB is subject to a CPP; (a)(b) the amount specified in, for all other the purposes in Part 3 and Part 5, <u>the value specified in</u> clause 3.1.1(68);
forecast CPI for CPP revaluation	means the value amount specified in accordance with clause 5.3.10(5);
forecast CPI for DPP revaluation	means the value amount specified in accordance with clause 4.2.3(4);
forecast CPI for IRIS transitional provision	means the amount specified in accordance with clause 3.3.15(6);
<u>forecast inflation</u>	<u>means the amount calculated under clause 3.1.4(112)(a) for the purpose of calculating the annual cost of debt wash-up amount;</u>

revenue reduction percentage	has the meaning specified in clause 3.1.3(13)(j);
<u>revenue smoothing limit</u>	<u>means a maximum limit on revenue (excluding recovery of pass-through costs) specified by the Commission in a DPP determination or CPP determination;</u>
revenue wash-up draw-down amount	has the meaning specified in clause 3.1.3(13)(k);
reversal and reverse	have the same meanings as under GAAP ;
<u>revised cost of debt</u>	<u>means the amount calculated under clause 3.1.4(1011) for the purposes of calculating the annual cost of debt wash-up amount;</u>
right-of-use asset	has the same meaning as under GAAP except that it excludes any part of the cost of that asset that is a pass-through cost or recoverable cost ;
<u>risk event</u>	<u>has the meaning specified in cause 4.5.11;</u>
S	
<u>safety</u>	<u>means the quality of averting or not causing injury, danger, or loss;</u>
selection rationale	means a description of either or both of the- <ul style="list-style-type: none"> (a) criteria applied; and (b) fundamental reasons used, for, either or both- <ul style="list-style-type: none"> (c) determining; and (d) selecting, each- <ul style="list-style-type: none"> (e) asset allocator and associated allocator metric; and (f) cost allocator and associated allocator metric;
services	has the same meaning as defined in s 2 of the Act ;

smoothed cost of debt wash-up amount

standard depreciation method

standard error

standard physical asset life

starting price year

supply

system growth capex

system growth expenditure

has the meaning specified in clause 3.1.4(9);

means, in respect of an asset whose **remaining asset life** is the term remaining of its **physical asset life** at the commencement of the **disclosure year** in question, method specified in clause 5.3.7 excluding any method referred to in the whole clauses to which clause 5.3.7 is subject;

means estimated standard deviation;

means life for an asset as specified in *Table A.1: Standard Physical Asset Lives for EDBs* of Schedule A;

means, in relation to an **EDB**,–

- (a) the first **disclosure year** of a **regulatory period**; or
- (b) the **disclosure year** immediately following the expiration of a **CPP**;

has the same meaning as defined in s 2 of the **Act**, and **supplied** must be construed accordingly;

means **capex** other than **connection capex**, where the **primary driver** for the **capex** is either a requirement for additional capacity at a particular location or a change in the requirement for **electricity distribution services** as a result of the introduction of new or emerging technologies, ~~and, it~~ includes:

- (a) **capex** associated with network protection, control, automation, and telecommunications assets; and ~~also~~ **includes**

- ~~(a)~~(b) **capex** incurred in the acquisition of **networks** from other providers of **electricity lines services**;

means:

	(b) Part 4, the value determined in accordance with clause 4.2.3;
transmission asset wash-up adjustment	means a negative amount corresponding to the present value of revenues allowed in a DPP or CPP for additional capital expenditure and additional operating expenditure associated with a transmission asset forecast to be purchased in disclosure years preceding the regulatory period but were not completed, as specified in a DPP determination or CPP determination;
<u>transitional revenue accrual</u>	<u>has the meaning specified in clause 3.1.4(1214);</u>
Transpower	has the same meaning as defined in s 54B of the Act;
trigger event	has the meaning specified in clause 5.6.10(2)(a)5(3);
U	
unallocated closing RAB value	means value determined in accordance with, for the purpose of- <ul style="list-style-type: none"> (a) Part 2, clause 2.2.4(2); and (b) Part 5, clause 5.3.6(6);
unallocated depreciation	means an allowance to account for the diminution in an asset's remaining service life potential in the disclosure year in question with respect to its unallocated opening RAB value and the amount of such allowance is determined in accordance with, for the purpose of Part 2, clause 2.2.5(1);
unallocated initial RAB value	means value of an asset in the initial RAB determined in accordance with clause 2.2.3(1);
unallocated opening RAB value	means value determined in accordance with, for the purpose of- <ul style="list-style-type: none"> (a) Part 2, clause 2.2.4(1); and (b) Part 5, clause 5.3.6(5);

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

SUBPART 1 Specification of price

3.1.1 Specification and definition of prices

- (1) For the purpose of s 53M(1)(a) of the **Act**, the maximum revenues that may be recovered by an **EDB** will be specified in a **DPP determination** or **CPP determination** as a revenue cap, whereby:
- (a) **forecast revenue from prices** must not exceed **forecast allowable revenue** for each **disclosure year** of the **regulatory period**; and
 - (b) forecast revenue from prices less forecast pass-through costs must not exceed the revenue smoothing limit for each disclosure year of the regulatory period~~the Commission may also specify a limit or limits on the annual maximum percentage increase in forecast revenue from prices.~~
- ~~(2) For the purpose of setting the maximum revenues under subclause (1), the Commission may specify in a DPP determination or CPP determination an annual maximum percentage increase in forecast allowable revenue as a function of demand for a disclosure year.~~
- ~~(3)~~(2) For the purpose of this subpart, 'forecast revenue from prices' for a **disclosure year** means the forecast revenue used by an **EDB** to set **prices**, where forecast revenue is the total of each **price** multiplied by each forecast **quantity** plus any forecast of other regulated income and excluding any revenue forecast to be received under a large connection contract.
- ~~(4)~~(3) For the purpose of this subpart, 'forecast allowable revenue' as specified in a **DPP determination** or **CPP determination** includes-
- (a) **forecast net allowable revenue**;
 - (b) forecast **pass-through costs**; and
 - (c) forecast **recoverable costs**, ~~excluding any revenue wash-up draw down amount under clause 3.1.3(1)(v) for the disclosure year referred to in subclause (1); and~~
 - ~~(d) the balance of the wash-up account available for draw down.~~
- ~~(5) For the purpose of this subpart, 'forecast allowable revenue as a function of demand' is the forecast allowable revenue for the disclosure year expressed as a function of one or more units of demand as specified by the Commission in a DPP determination or CPP determination.~~
- ~~(6)~~(4) For the purpose of this subpart, 'forecast net allowable revenue' for the first **disclosure year** of a **DPP** or **CPP regulatory period** will be specified by the

Commission ~~by~~ at the start of the **regulatory period** in a **DPP determination** or **CPP determination**.

~~(7)~~(5) For each **disclosure year** of the **DPP** or **CPP regulatory period** after the first **disclosure year**, 'forecast net allowable revenue' is calculated ~~based on~~ ~~by applying~~

- (a) the **forecast net allowable revenue** for the ~~preceding first~~ **disclosure year** ~~of the regulatory period~~;
- (b) the **forecast CPI**, as specified in subclause ~~(68)~~; and
- (c) any X factor applicable to the **EDB**.

~~(8)~~(6) 'Forecast CPI' ~~means~~ -

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

~~(9)~~(7) 'Prices' means-

- (a) individual tariffs, fees or charges; or
- (b) individual components thereof,

in nominal terms exclusive of **GST** for the **supply** of an **electricity distribution service**, and must include a discount taken up by **consumers**.

~~(10)~~(8) 'Quantity' means the amounts **supplied** of **electricity distribution services** corresponding to the extent practicable to **prices**, expressed in units of kWh, kVA, kW, day or other unit applicable to such **supply**.

~~(11)~~(9) 'discount' means a discount to charges payable for the **supply of electricity distribution services-**

- (a) that is offered by an **EDB**;
- (b) the take-up of which is determined by **consumers**; and
- (c) that is included in the individual tariffs, fees, or charges (or individual components thereof) used to calculate **forecast revenue from prices** for the **disclosure year** that those individual tariffs, fees, or charges apply to.

3.1.2 Pass-through costs

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

- (a) a cost listed in subclause (2); or
- (b) subject to subclause (3), a cost, other than one listed in subclause (2), specified by way of a **DPP determination** or **CPP determination**.

(2) For the purpose of subclause (1)(a), the costs are-

- (a) rates on system fixed assets paid or payable by an **EDB** to a **local authority** under the Local Government (Rating) Act 2002; ~~and~~
- (b) **levies** payable-
 - (i) under regulations made under s 53ZE of the **Act**;
 - (ii) under regulations made under the Electricity Industry Act 2010; or
 - (iii) by all members of the approved scheme under Schedule 4 of the Electricity Industry Act 2010;

(c) a charge payable to **Transpower** for **electricity lines services** provided to an **EDB** in respect of the transmission system in accordance with the transmission pricing methodology **Transpower** uses to determine the prices it charges for its services, as specified in the Electricity Industry Participation Code, including any such charges on-charged at cost by a third party to an **EDB** that does not have a transmission agreement with **Transpower** for the relevant point of supply;

(d) an amount payable:

- (i) by an **EDB** to **Transpower** in respect of an investment agreement (as defined in the Electricity Industry Participation Code) between those parties, or, with the **Commission's** prior approval, an equivalent type of contract with another transmission provider (to the extent that these costs are not recoverable under subparagraph (ii)); or
- (ii) by an **EDB** to a party (other than a **related party** of the **EDB**) in connection with finance obtained by the **EDB** (whether principal, interest, or any other cost) in order to pay amounts payable under an investment agreement or a contract of the type described in subparagraph (i); and

~~(e)~~(e) a charge payable by an EDB for the **supply** of system operator services, where 'system operator' has the same meaning as defined in s 5 of the Electricity Industry Act 2010.

- (3) For the purpose of subclause (1)(b), the cost in question must-
- (a) be-
 - (i) associated with the **supply** of **electricity distribution services**;
 - (ii) outside the control of the **EDB**;
 - (iii) not a **recoverable cost**;
 - (iv) appropriate to be passed through to **consumers**; and
 - (v) one in respect of which provision for its recovery is not otherwise made explicitly or implicitly in the **DPP** or, where applicable, **CPP**; and
 - (b) come into effect during a **DPP regulatory period** or, where applicable, **CPP regulatory period**.
- (4) For the purpose of subclause (1), where a cost relates to both **electricity distribution services** and other services **supplied** by the **EDB**, only the proportion of the cost attributable to the **supply** of **electricity distribution services** (as determined in accordance with clause 2.1.1), may be a pass-through cost.

3.1.3 Recoverable costs

- (1) ~~A~~Subject to subclause (10), a recoverable cost is a cost that is-
- (a) any amount that is an IRIS incentive adjustment calculated in respect of a non-exempt EDB;-
 - ~~(i) an IRIS incentive adjustment calculated in respect of a non-exempt EDB; or~~
 - ~~(ii) a positive net balance determined in accordance with clause 3.3.16(2), provided that any requirements pursuant to an ID determination regarding auditor certification of any value determined in accordance with Section 3 of Subpart 3 have been met;~~
 - ~~(b) a charge payable to Transpower for electricity lines services provided to an EDB in respect of the transmission system in accordance with the transmission pricing methodology Transpower uses to determine the prices it charges for its services, as specified in the Electricity Industry Participation Code, including any such charges on charged at cost by a third party to an EDB that does not have a transmission agreement with Transpower for the relevant point of supply;~~
 - ~~(c) a charge payable:~~

- ~~(i)~~ by an **EDB to Transpower** in respect of a new investment contract (as 'new investment contract' is defined in the Electricity Industry Participation Code) between those parties, or subject to the prior approval of the **Commission**, an equivalent type of contract with another transmission provider; or
- ~~(ii)~~ by an **EDB** to a party that is not a **related party** to the **EDB**, for the purpose of the **EDB** receiving finance in order to pay amounts payable under a new investment contract (as 'new investment contract' is defined in the Electricity Industry Participation Code) between the **EDB** and **Transpower**, or an equivalent type of contract with another transmission provider, in each case subject to the prior approval of the **Commission**;
- ~~(d)~~ a charge payable by an **EDB** for the **supply** of system operator services, where 'system operator' has the same meaning as defined in s 5 of the Electricity Industry Act 2010, to the extent that the charge is not a **pass-through cost**;
- ~~(e)~~(b) an amount of a charge described in clause 3.1.2(2)(c) or (d) paragraphs ~~(b)~~ or ~~(c)~~ that the **Commission** is satisfied an **EDB** has avoided liability to pay as a result of the **EDB** having purchased transmission assets from **Transpower**, subject to-
 - (i) the requirement specified in subclause (2); and
 - (ii) subclause (4);
- ~~(f)~~ a **distributed generation allowance**;
- ~~(g)~~(c) claw-back applied by the **Commission** under sections 54K(3) or 53ZB(3) of the **Act**;
- ~~(h)~~(d) a standard application fee for a **CPP proposal** under 53Q(2)(c), subject to the proviso specified in subclause (5);
- ~~(i)~~(e) a fee notified by the **Commission** as payable by the **EDB** in respect of the **Commission** assessing a **CPP proposal** and determining a **CPP** in accordance with s 53Y of the **Act**, subject to the proviso specified in subclause (5);
- ~~(j)~~(f) a fee payable to a **verifier**, subject to the requirement specified in subclause (3);
- ~~(k)~~(g) any **auditor's** cost incurred for the purpose of meeting clauses 5.1.4 or 5.5.3, subject to the requirement specified in subclause (3);
- ~~(l)~~(h) a fee payable to an **engineer** for the purpose of meeting a requirement of clause 5.4.12(4)(b), subject to the requirement specified in subclause (3);
- ~~(m)~~(i) a **reopener catastrophic event allowance**, as specified in a **DPP determination** or **CPP determination**;

~~(n)(j)~~ an **extended reserves allowance**, subject to the requirements specified in subclauses (2) and (7);

~~(o)(k)~~ a **quality incentive adjustment**;

~~(p)~~ the amount calculated for a **non-exempt EDB** in accordance with the following formula for each **disclosure year** other than the first in a **DPP regulatory period** or **CPP regulatory period** for which the starting prices were determined by the Commission in a **DPP determination** or **CPP determination**—

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

where—

t is the number of **disclosure years** in the **DPP regulatory period** or **CPP regulatory period**;

r is the **cost of debt** applying to the **DPP regulatory period** or **CPP regulatory period**; and

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

~~(q)~~ an amount calculated for a **non-exempt EDB** if the acquisition of the transmission asset is not completed prior to the commencement of a **regulatory period** in accordance with the terms of any contract setting out the terms and condition of sale, in accordance with the following formula for a **disclosure year** in a **regulatory period** other than the first **disclosure year**—

$$\left(\frac{\text{transmission asset wash up adjustment}}{t-1} \right) \times (1+r)^{y+0.5}$$

where—

t is the number of **disclosure years** in the **regulatory period**;

r is the **cost of debt** applying to the **regulatory period**; and

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

~~(r)~~ the **2013-15 NPV wash-up allowance**;

a **reconsideration event allowance**, as specified in a **DPP determination** or **CPP determination**;

~~(s)(l)~~ a fee payable to an **engineer** for the purpose of meeting a requirement of clause 4.5. 125, subject to the requirement specified in subclause 810;

~~(t)(m)~~ an urgent project allowance, as determined by the **Commission** under subclause 911;

~~(u)(n)~~ a **revenue wash-up drawdown amount**, as specified in clause 3.1.4(5) subclause (13)(k);

~~(v)(o)~~ any **levy** payable to Fire and Emergency New Zealand under the Fire and Emergency New Zealand Act 2017; or

~~(w)(p) an **innovation and non-traditional solutions allowance** amount drawn down by an **EDB** from its **innovation project allowance**, in accordance with an approval by the **Commission** for that purpose.~~

- ~~(2) The requirement of this subclause is that~~For the purposes of subclauses (1)(b) and (1)(j), in respect of a particular **EDB**, the **Commission's** approval for the amount of cost must be obtained in accordance with any process relating to the type of cost in question specified in a **DPP determination**.
- ~~(3) The requirement of this subclause is that~~For the purposes of subclauses (1)(f)-(h), the amount that may be recovered in respect of a particular **EDB** must be specified by the **Commission** in a **CPP determination**.
- (4) For the purpose of subclause (1)(be)(ii), the amount is a recoverable cost only in the 5 **disclosure years** from and including the **disclosure year** in respect of which the **Commission** first approved the amount of the cost.
- (5) For the purpose of ~~subclauses (1)(h) and (1)(i)~~ subclause (1)(d) and (e), the proviso is that the **CPP proposal** is not discontinued by the **Commission** under s 53S of the **Act**.
- (6) In this clause, 'Electricity Industry Participation Code' has the same meaning as 'code' is defined in the Electricity Industry Act 2010.
- (7) For the purpose of giving approval under subclause (2) in respect of an **extended reserves allowance**, the **Commission** will have regard to any policy intent stated by the Electricity Authority as to whether—
 - (a) some or all compensation payments to be made by an **EDB** under the extended reserves regime would be expected to constitute negative **recoverable costs** and be passed-through to **consumers** via corresponding reductions in **prices**; and
 - (b) revenues that an **EDB** may receive under the extended reserves regime would be expected to be treated as unregulated income.

~~(8) For the purpose of subclause (1)(p), the 'capex wash up adjustment' is an amount equal to the present value of the difference in the series of **forecast net allowable revenue** for the **disclosure years** of the **DPP regulatory period** or **CPP regulatory period** in question, subject to subclause (9), from adopting—~~

- ~~(a) the sum of **value of commissioned assets** in the building blocks allowable revenue before tax for each **disclosure year** that follows the **base year** in the preceding **DPP regulatory period** or **CPP regulatory period**,~~
instead of—
- ~~(b) the **forecast aggregate value of commissioned assets** determined by the **Commission** in respect of each of those **disclosure years** when determining prices in accordance with a **DPP determination** or **CPP determination**, or an amendment thereof.~~

~~(9) For the purpose of subclause (8)—~~

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

~~building blocks allowable revenue before tax from using the forecast aggregate value of commissioned assets, then the difference is a positive amount of capex wash-up adjustment;~~

- ~~(e) where the series of building blocks allowable revenue before tax from adopting the sum of value of commissioned assets is less than the series of building blocks allowable revenue before tax from using the forecast aggregate value of commissioned assets, then the difference is a negative amount of capex wash-up adjustment; and~~
- ~~(f) where a CPP applies in respect of a disclosure year during the DPP regulatory period, then the amount of capex wash-up adjustment for that disclosure year and each subsequent disclosure year of the DPP regulatory period will be specified by the Commission in the relevant CPP determination, taking account the partial recovery of the capex wash-up adjustment in prior disclosure years of that DPP regulatory period.~~

~~(10)(8)~~ For the purpose of ~~subclause (1)(t)~~ subclause (1)(l), the amount that may be recovered by an EDB will be specified by the Commission in an amendment to the DPP determination.

~~(11)(9)~~ 'Urgent project allowance' means the allowance determined by the Commission in a CPP determination in respect of additional net costs where these costs-

- (a) exceed those already provided for in a DPP determination or CPP determination;
- (b) will not otherwise be recovered by the EDB; and
- (c) will be prudently incurred by the EDB before commencement of the resulting CPP regulatory period in responding to an urgent project that occurred in the time between the submission of a CPP proposal and determination of the resulting CPP determination by the Commission.

~~(12) For the purpose of subclause (1)(v), an EDB must for each disclosure year-~~

- ~~(a) perform a revenue wash-up calculation as specified in a DPP determination or CPP determination;~~
- ~~(b) calculate and record any voluntary undercharging amount foregone in accordance with subclause (13)(a);~~
- ~~(c) record in the wash-up account any wash-up amount calculated in accordance with subclause (13)(b);~~
- ~~(d) record in the wash-up account any revenue wash-up draw-down amount; and~~
- ~~(e) record a time value of money adjustment in the wash-up account-~~
 - ~~(i) using a rate equal to the 67th percentile estimate of WACC; and~~

(ii) ~~calculated by applying the method as specified in a DPP determination or CPP determination.~~

~~(13) For the purpose of subclause (12)-~~

- (a) ~~‘voluntary undercharging amount foregone’ means an amount of revenue permanently foregone, in accordance with the manner specified in the DPP determination or CPP determination, where the EDB has intentionally and voluntarily undercharged revenues relative to the amount allowed in the DPP or CPP;~~
- (b) ~~‘wash-up amount’ means, subject to subclauses (c) and (d), actual allowable revenue less actual revenue less revenue foregone for a disclosure year;~~
- (c) ~~if the revenue reduction percentage exceeds 20%, an amount of revenue foregone shall be calculated;~~
- (d) ~~if the revenue reduction percentage is less than or equal to 20%, the amount of revenue foregone shall be nil;~~
- (e) ~~‘actual allowable revenue’ means, for a disclosure year, an amount calculated in accordance with a DPP determination or CPP determination that includes-~~
- ~~(i) actual net allowable revenue;~~
 - ~~(ii) pass-through costs; and~~
 - ~~(iii) recoverable costs, including any revenue wash-up draw down amount;~~
- (f) ~~‘actual revenue’ means, for a disclosure year, the revenue amount calculated in accordance with a DPP determination or CPP determination that includes-~~
- ~~(i) actual revenue from prices; and~~
 - ~~(ii) other regulated income;~~
- (g) ~~‘revenue foregone’ means an amount calculated in a manner specified in a DPP determination or CPP determination by applying-~~
- ~~(i) the revenue reduction percentage to a net allowable revenue amount; less~~
 - ~~(ii) 20% of a net allowable revenue amount;~~
- ~~where-~~
- ~~(iii) net allowable revenue is specified for each of (i) and (ii) in the DPP determination or CPP determination;~~
- (h) ~~‘actual net allowable revenue’ means, for the first disclosure year of the regulatory period, the forecast net allowable revenue for that disclosure year as specified in clause 3.1.1(6);~~

- ~~(i) 'actual net allowable revenue' means, for each **disclosure year** of the **regulatory period** after the first **disclosure year**, an amount calculated in accordance with a **DPP determination** or **CPP determination** by applying:

 - ~~(i) the **actual net allowable revenue** for the preceding **disclosure year**;~~
 - ~~(ii) the **CPI** in place of the **forecast CPI** to the extent that **forecast CPI** was applied in setting **prices** for the **disclosure year** in accordance with clause 3.1.1(7); and~~
 - ~~(iii) the X factor that was used when the **forecast net allowable revenue** was originally determined for the **disclosure year** in accordance with clause 3.1.1(7); and~~~~
- ~~(j) 'revenue reduction percentage' means, for a **disclosure year**, the percentage reduction in revenue calculated in accordance with a **DPP determination** or **CPP determination** by comparing the actual revenue from **prices** with **forecast revenue from prices** for the **disclosure year**;~~
- ~~(k) 'revenue wash-up draw down amount' means an amount, calculated by the **EDB** in accordance with a **DPP determination** or **CPP determination**, such that if the balance referred to in clause 3.1.1(4)(d) is a balance that is to be returned to **consumers**, the amount shall equal that balance; and~~
- ~~(l) where a **pass-through cost** or **recoverable cost** is incurred by the **EDB** prior to a **regulatory period** and an amount of the cost is not otherwise able to be recovered by the **EDB**, the amount plus any related time value of money adjustment made in accordance with a **DPP determination** or **CPP determination** shall be included in the **wash-up account**.~~

(10) For the purpose of subclause (1), where a cost relates to both **electricity distribution services** and to other services **supplied** by the **EDB**, only the proportion of the cost attributable to the **supply of electricity distribution services** (as determined in accordance with clause 2.1.1) may be a recoverable cost.

3.1.4 Wash-up amounts

(1) For each **disclosure year**, an **EDB** must calculate the **wash-up account balance**, which is:

- (a) except in the case of subclause (2), the **wash-up account balance** for the **previous disclosure year**; plus
- (b) a time value of money adjustment, equal to the **wash-up account balance** for the **previous disclosure year** multiplied by the **mid-point estimate of WACC**; plus
- (c) the **wash-up accrual amount** for the **disclosure year**; minus
- (d) the **wash-up drawdown amount** for the **disclosure year**; minus
- (e) any **revenue foregone** amount for the **disclosure year**; plus

- (f) for the **disclosure year 2026** and the **disclosure year 2027**, any **transitional revenue accrual**.
- (2) For the **disclosure year 2026**, the **wash-up account balance** for the previous **disclosure year** is nil.
- (3) For the purposes of subclause (1), the ‘wash-up accrual amount’ for a **disclosure year** is an amount equal to:
- (a) **actual allowable revenue**; minus
 - (b) **actual revenue**; minus
 - (c) the **smoothed cost of debt wash-up amount**.
- (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:
- (a) actual **pass-through costs** for forecast **pass-through costs**;
 - (b) actual **recoverable costs** for forecast **recoverable costs**;
 - (c) actual **CPI** for forecast **CPI** except where **CPI** is used to determine the **revaluation rate** under clause 4.2.3 or clause 5.3.10;
 - (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;
 - (f) if the acquisition of a transmission asset by the **EDB** is not completed prior to the commencement of a **regulatory period** in accordance with the terms of any contract setting out the terms and conditions of sale:
 - (i) a nil value for the forecast **capital expenditure** value associated with the transmission asset; and
 - (ii) a nil value for any forecast **operating expenditure** associated with the transmission asset; and
 - (g) where a **connection cost mechanism** has been specified in a **CPP determination**, the actual number of **new connections** for the forecast number of **new connections** specified in the **CPP determination**.
- (5) For the purposes of clause 3.1.3(1)(n) and subclause (1), ‘wash-up drawdown amount’ means the sum of:

- (a) an amount specified by the **Commission** in a **DPP determination** or **CPP determination** to be drawn down by the **EDB** in each **disclosure year** of a **regulatory period**; and
- (b) an amount for each **disclosure year** nominated by the **EDB**, when demonstrating compliance with the price path in accordance with a notice under s 53N of the **Act**, that is:
 - (i) if the **wash-up account balance** for the **disclosure year** two years prior is zero or positive, no greater than that **wash-up account balance**; or
 - (ii) if the **wash-up account balance** for the **disclosure year** two years prior is negative, no less than that **wash-up account balance**.

(6) For the purposes of subclause (1), 'revenue foregone' means:

- (a) **voluntary revenue foregone**; plus
- (b) **compulsory revenue foregone**.

(7) For the purposes of subclause (6), 'voluntary revenue foregone' means:

- (a) the **undercharging limit** minus **forecast revenue from prices**, where **forecast revenue from prices** is less than the **undercharging limit**; or
- (b) nil, where **forecast revenue from prices** is greater than or equal to the **undercharging limit**.

(8) For the purposes of subclause (6), 'compulsory revenue foregone' means a positive amount returned to **consumers** through a reduction in **forecast revenue from prices** and **actual revenue**, for example, as agreed between the **Commission** and an **EDB** in response to a breach of a price-quality requirement or an information disclosure requirement.

(9) For the purposes of subclause (3), 'smoothed cost of debt wash-up amount' for a **disclosure year** means:

- (a) the **annual cost of debt wash-up amount** for that **disclosure year** divided by 5; plus
- (b) the **annual cost of debt wash-up amounts** for each of the four preceding **disclosure years** divided by 5 and adjusted for time value of money applying the **mid-point estimate of WACC**.

(10) For the purposes of subclause ~~(9)~~ and subject to subclause (13), 'annual cost of debt wash-up amount' means:

- (a) the **opening sum of RAB values without revaluations** multiplied by **leverage**, multiplied by the **cost of debt**; minus
- (b) the **opening sum of RAB values without revaluations** multiplied by **leverage**, multiplied by the **revised cost of debt**.

(11) For the purposes of subclause (910)(b), the ‘revised cost of debt’ for a disclosure year must be calculated in accordance with the following formula:

$$\frac{(1 + \text{cost of debt}) \div (1 + \text{forecast inflation for the disclosure year}) \times (1 + \text{actual inflation for the disclosure year}) - 1.}{}$$

(12) For the purposes of subclause (1140),-

(a) the ‘forecast inflation’ for a disclosure year must be calculated in accordance with the following formula:

$$\frac{(\text{forecast CPI for the disclosure year} \div \text{forecast CPI for the previous disclosure year}) - 1; \text{ and}}{}$$

(b) the ‘actual inflation’ for a disclosure year must be calculated in accordance with the following formula:

$$\frac{(\text{actual CPI for the disclosure year} \div \text{actual CPI for the previous disclosure year}) - 1.}{}$$

(13) For each disclosure year before the disclosure year 2026, the annual cost of debt wash-up amount is nil.

(14) For the purposes of subclause (1)(f), ‘transitional revenue accrual’ means any “wash-up amount” calculated under clause 3.1.3(13)(b) of Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26 in effect immediately before the commencement of the Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC [XX].

(15) For the purposes of subclauses (3) and (8), ‘actual revenue’ means, for a disclosure year, the revenue amount calculated in accordance with a DPP determination or CPP determination that includes:

- (a) actual revenue from prices, excluding revenue received under large connection contracts; and
- (b) other regulated income.

SUBPART 2 Amalgamations

3.2.1 Treatment of amalgamations

- (1) The DPPs of non-exempt EDBs subject to DPPs that have amalgamated must be aggregated from the start of the disclosure year following the amalgamation.
- (2) A DPP for an amalgamated EDB formed from an EDB subject to a DPP and an EDB subject to a CPP applies at the end of the existing CPP.
- (3) A DPP for an amalgamated EDB formed from 2 EDBs each subject to a CPP applies at the end of the existing CPPs.
- (4) Nothing in subclauses (2) and (3)-
 - (a) precludes a CPP applying to the amalgamated EDB at the end of the existing CPP or CPPs, as the case may be; nor