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Reconsideration of default price-quality path for Unison Networks Limited 2024

Draft decision

Date: 3 July 2024

Overview

Unison applied to us to reconsider and amend its DPP3 price path for an unforeseeable major capex project

1 Unison Networks Limited (Unison) applied to us to reconsider and amend its Electricity Distribution Services Default Price-Quality Path Determination 2020 [2019] NZCC 21 as subsequently amended (DPP3 price path) to cover the Te Huka 3 project Unison considers an 'unforeseeable major capex project'.

2 Unison is subject to price-quality regulation by the Commission under Part 4 of the Commerce Act. As such, the revenue it can recover from its consumers is limited. It has applied to the Commission for these limits to be reconsidered to take account of a major capex project that was unforeseeable at the time the original revenue limits were set. Reconsideration of revenue limits is only permitted under certain circumstances and this paper sets out our draft view on Unison's application.

Our draft decision is to reopen Unison's DPP3 price path as applied for

3 Our draft decision is:

3.1 <u>the Te Huka 3 project is an unforeseeable major capex project</u>. Attachment A outlines our assessment against the Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26 (EDB IMs) criteria; and

3.2 <u>to reopen Unison's DPP3 price path</u> as proposed in these circumstances as it promotes the s 52A(1)(a) and (b) limbs of the purpose of Part 4 of the Commerce Act (Act). Detailed reasons for our draft decision to amend and how we amend the DPP3 price path are outlined at Attachment B.

4 Interested parties may provide their views by no later than 17 July 2024. Further details on how views can be provided are set out in attachment C. We intend issuing our final decision in Q3 2024.

Table 1: Summary of Unison's reopener applications

	Te Huka 3 application
Reopener type	Unforeseeable major capex project
Sub-type	Connection capex
Project description	Customer request for the supply of a new connection
Application link	Te Huka 3 application
Specific consultation questions	We have not included specific consultation questions. We welcome views on all aspects of the draft decision.
Project cost	Capex $5.766m
Impact on revenues	Less than 1%
Estimated consumer bill impact	No consumer bill impact unless the assets are used as alternative supply into the North Taupo network, when costs will be shared

Contents

Attachment A: Assessment of Unison's Te Huka 3 project

A.1 Our draft decision is that the Te Huka 3 project meets the 'Unforeseeable major capex project' criteria. This attachment sets out our assessment of the Te Huka 3 project application[1] against the Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26 (EDB IMs)' criteria for an 'Unforeseeable major capex project'.[2]

A.2 Table 2 below:

1.2.1 summarises the EDB IM criteria, which are set out in full at Attachment E;

1.2.2 sets out Unison's views and referenced evidence on whether the EDB IM criteria have been met; and

1.2.3 sets out our assessment of that evidence for the purposes of our draft decision.

A.3 The view and evidence set out in the middle row of the table are those presented by Unison in its application. Additional text added to assist the reader is denoted by []. Further information on Unison's Te Huka 3 project can be found in Unison's application at link.

A.4 We were not able to initially assess all criteria as being met. Where we were unable to assess whether the criterion was met based on Unison's view and evidence as set out in their application, we sought additional information from Unison. Set out below the table in paragraphs A.6 to A.10 are details of the additional information we requested or additional analysis we performed to complete our assessment.

A.5 Our draft decision to amend Unison's DPP3 price path to include the additional costs incurred in undertaking the Te Huka 3 project is set out in Attachment B.

Table 2: Assessment of Unison's Te Huka 3 project against criteria

Criteria	Unison's view and evidence[3]	Our assessment
EDB IMs, clause 4.5.5A – Unforeseeable major capex project		
(a) project has a primary driver of connection capex;	Meets (a) Connection Capex because the new connection point relates wholly to the supply of the new 60MW requested by the customer Contact Energy	Criterion has subsequently been met. Refer paragraphs A.6 to A.7.

[1] Unison, Te Huka 3 application, 14 May 2024 (Te Huka 3 application).

[2] EDB IM, clause 4.5.5A defines 'unforeseeable major capex project'. The definition's criteria are set out in Attachment E.

[3] Te Huka 3 application, above n 1, table at paragraph 21.

Criteria	Unison's view and evidence[3]	Our assessment
(e) EDB's capex forecast used by the Commission for setting the DPP to which the reopener relates did not include that project;	No provision for the Te Huka 3 project included in the 2019 Asset Management Plan (and DPP3)	Criterion has been met.
(f) it was reasonable for that EDB not to have included that project in that capex forecast;	Reasonable uncertainty existed when the 2019 Asset Management Plan was developed and confirmed because the customer had made no firm enquiry.	Criterion has been met.
(g) amount of capital contributions to be received by the EDB for that project is sufficient in the circumstances, and is in accordance with that EDB's usual policy on capital contributions;	• Nil contribution. • Sufficient and consistent with Unison's capital contributions policy, which provides that Unison approaches capital contributions for large projects on a case-by-case basis.	Criterion has been met. Refer paragraphs A.8 to A.9
(h) forecast total value of commissioned assets for project (excluding capital contributions) exceeds either 1% of that EDB's forecast net allowable revenue for the DPP regulatory period in which the asset is forecast to be commissioned, or, two million dollars;	Exceeds $2M ($5.766M)	Criterion has been met.
(i) authorised officer of the connecting party has confirmed in writing to the Commission that it is committed to the project or programme	An authorised officer of Contact Energy has confirmed its commitment to the Commission. Appendix One [of the Te Huka 3 application] Letter from Contact Energy.	Criterion has been met.
(m) any proposed additional revenue sought will be apportioned appropriately between different parties.	Additional revenues will be recovered according to the contract with Contact Energy.	Criterion has subsequently been met. Refer paragraph A.10
EDB IMs, clause 4.5.6 – When price-quality path may be considered		
(1) the EDB applies to the Commission and satisfies the Commission that a project or programme of that EDB is an unforeseeable major capex project	Refer table at paragraph 21 of the Te Huka 3 application and further information discussed in this draft decision paper.	Criterion has been met.

Criteria	Unison's view and evidence[3]	Our assessment
(4) Commission will not reconsider an EDB's DPP in respect of an unforeseeable major capex project if reconsideration would result in the total forecast value of commissioned assets attributable to unforeseeable major capex projects application by that EDB in a disclosure year exceeding thirty million dollars.	Confirmed (forecast commissioned value: $5.766M). There have been no other reopener applications considered or applied for in the relevant disclosure year.	Criterion has been met.
(5)(a) For the purposes of subclause (4), disregard capital contributions received by the EDB in respect of that unforeseeable major capex project;	Calculation basis confirmed: - contributions: nil	Criterion has been met.
(5)(b) For the purposes of subclause (4), disregard any amounts included in respect of that unforeseeable major capex project in the EDB's capex forecast and provided by the Commission in setting the DPP to which the reopener relates;	Calculation basis confirmed: - previous values: nil.	Criterion has been met.

Project is connection capex

A.6 Our draft decision is that the project is connection capex as defined in the EDB IMs and proposed by Unison. The primary reason for incurring the costs in the year the costs were incurred relate to the Contact Energy connection request.

A.7 The assets applied for under this reopener are connection assets connecting Contact Energy. Although the assets are designed to connect large industrial customers or new feeders delivering electricity to residential and other customers the primary driver is connecting Contact Energy therefore it meets the definition of connection capex. This may not always be the outcome where there are shared assets.

Capital contributions

A.8 In considering this application, we are not taking any particular view on Unison's customer capital contribution policy. We are only establishing whether the contributions are sufficient and consistent with that policy.

A.9 Based on Unison's response and its intended pricing approach to recover the costs of the project, we are satisfied that contributions are consistent with the policy and sufficient in this instance.

Revenue apportionment

A.10 Our review of the contract with Contact Energy identified that the contract appropriately apportions allowed revenue to Contact Energy.

Attachment B: Our draft decision is to amend Unison's DPP3 price path

B.1 This attachment outlines our draft decision under clause 4.5.7(1) of the EDB IMs to amend Unison's DPP3 price path to include the additional costs incurred in undertaking the Te Huka 3 project.

B.2 We first set out how the DPP3 price path is amended by updating the forecast net allowable revenue (FNAR) and forecast aggregate value of commissioned asset (FAVCA) for the last year of the DPP3 regulatory period.

B.3 We then discuss the matters we considered in applying our discretion to reopen the price path including:

B.3.1 how we assessed that our decision would not amend the price path by more than an amount that reflects the efficient costs that a prudent non-exempt EDB would incur in undertaking that project;

B.3.2 how we estimated the impact on revenue and consumer bills; and

B.3.3 the level of scrutiny we applied to our assessment of Unison's application.

B.4 Finally, we set our how we adjusted the actual net allowable revenue (ANAR) to allow Unison to retain the additional revenue for the reopener and give effect to our policy intent for the reopener.

B.5 Our draft decision includes this draft decision paper and:

B.5.1 [Draft] Electricity Distribution Services Default Price-Quality Path (Unison Networks Limited Unforeseeable Major Capex Project) Amendment Determination 2024 (draft amendment determination); and

B.5.2 Reconsideration of default price-quality path for Unison Networks Limited 2024 – Draft decision financial model (Financial model).

B.6 The draft amendment determination does not include the amendments proposed for our draft decision to reopen Wellington Electricity Lines price path.[4]

Our draft decision is to reopen Unison's DPP3 price path

B.7 Having established that Unison's Te Huka 3 project meets the criteria under clause 4.5.5A (Unforeseeable major capex project) and 4.5.6(4) of the EDB IMs, our draft decision under clause 4.5.7(1) is to reconsider and reopen Unison's DPP3 price path as outlined in tables 3-4 below.

[4] Commerce Commission, [Draft] Electricity Distribution Services Default Price-Quality Path (Wellington Electricity Lines Limited Unforeseeable Major Capex Projects) Amendment Determination 2024 (21 May 2024)

Table 3: FNAR ($000s) for Unison per assessment period[5]

	31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025
FNAR in DPP3[6]	100,019	102,231	104,301	106,387	108,515
FNAR after the 2024 reconsideration of the DPP3 price path	100,019	102,231	104,301	106,387	108,693

Table 4: FAVCA ($000s) for the DPP regulatory period

	31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025
Capex allowance in DPP3[7]	46,746	54,653	55,713	46,852	48,041
Capex allowance after the 2024 reconsideration of the DPP3 price path	46,746	54,653	55,713	46,852	53,807

We have applied our discretion to reopen the price path

B.8 We consider our draft decision will enable Unison to undertake investment required to meet these one-off needs that were reasonable for Unison not to have included in its DPP3 capex forecast.

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5 The DPP3 determination uses the term 'assessment period' which covers the same 12-month period (commencing 1 April and ending on 31 March of the following year) as the EDB IMs' term 'disclosure year'. For ease of reference, we have used 'disclosure year' in the rest of this paper.

6 DPP3 Price path as amended by Commerce Commission, *Electricity Distribution Services Default Price-Quality Path (*Unison unforeseeable major capex project*) Amendments Determination 2022* [2022] NZCC 2, 4 March 2022 (Unison DPP3)

7 Unison DPP3, above n 5, at paragraph (2) of Schedule 2.2.

B.9 We likewise consider that reopening Unison's DPP3 price path in these circumstances promotes, in particular, the s 52A(1)(a) and (b) limbs of the Part 4 purpose. It does so by, respectively enabling Unison to:[8]

B.9.1 invest and, without undue delay, recover revenue for costs that were not reasonably foreseeable at the DPP3 reset. This in turn gives Unison incentives to innovate and to invest, including in replacement, upgraded, and new assets; and

B.9.2 provide services in a timely manner at a quality that reflects consumer demands.

Our proposed price path amendment provides for the efficient costs a prudent non-exempt EDB would incur in undertaking the project.

B.10 Having decided to reconsider and reopen the DPP3 price path, our amendment must comply with clause 4.5.7(3) of the EDB IMs, which requires us to amend Unison's price path by no more than the amount reflecting the efficient costs a prudent non-exempt EDB would incur in undertaking the project.

B.11 Given the evidence outlined below, our draft decision is that amending Unison's DPP3 price path as outlined in Tables 4 and 5 above will not amend the price path by more than the amount that reflects the efficient costs a prudent non-exempt EDB would incur in undertaking the project.

B.12 Unison outlined that they relied on the following in determining that project costs reflect efficient costs:

B.12.1 contracted via competitive market engagement, by a customer experienced in similar construction contracts; and

B.12.2 utilising the local distribution network benefits Contact Energy and future connecting customers who will share the costs of using the assets.[9]

B.13 Unison also outlined how Contact Energy could have connected to the national grid directly, bypassing use of the distribution network. Unison proposed that the competitive process tested the value to both Contact Energy and Taupō customers of utilising the distribution network.[10]

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[8] Section 52A(1) of the Act provides: the purpose of…Part [4] is to promote the long-term benefit of consumers in markets referred to in s 52 by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services—

(a) have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and

(b) have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and

(c) share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and

(d) are limited in their ability to extract excessive profits.

[9] Te Huka 3 application, above n 1, table at paragraph 21.

[10] Te Huka 3 application, above n 1, table at paragraph 20.

B.14 Our draft decision is the forecast FAVCA represents efficient costs for the purpose of clause 4.5.7(3) because:

B.14.1 similar to the Unison Tauhara project, Contact Energy had contracted via competitive market engagement; and

B.14.2 Contact Energy is experienced in similar construction contracts, will have challenged the efficiency of the project costs and can make a submission in this process.

Unison's investment would impact revenue and potentially consumer bills

B.15 If we finalise our draft decision Unison's investment will impact revenues and potentially consumer bills. Our estimate of the impact on revenues and consumer bills, that will be realised in the next regulatory period, is set out in table 5.

Table 5: Impact on revenues and consumer bills

	Te Huka 3 project
Impact on revenues	Less than 1%
Estimated monthly consumer bill impact	No consumer bill impact unless the assets are used as alternative supply into the North Taupo network, when costs will be shared

B.16 While the investment will have an impact on FNAR in the final year of DPP3, the full annual impact is not realised until the assets have been included in the FNAR calculation from the beginning of the regulatory year. The full annual impact will be first realised in 2025/26.

B.17 Accordingly, to determine the full impact on revenues we have used the DPP3 price path model and added the project costs to the 2023/24 commissioned assets and measured the change in BBAR before tax for the 2024/25 regulatory year. Adding the commissioned assets to the 2023/24 year allows us to see the full impact of the investment on prices through analysis of the 2024/25 year. This counterfactual impact in 2024/25 is an estimate of the actual impact in 2025/26. This calculation is performed to understand the impact of the investment on revenue. It does not reflect how Unison's DPP3 price path is reopened.

B.18 The consumer bill impact is estimated to be nil unless the assets are used for an alternative electricity supply into Unisons North Taupo network.

Scrutiny applied to Unison's applications reflects the relatively low materiality of the changes to Unison prices

B.19 Applying our proportionate scrutiny principle,[11] we have applied a level of scrutiny to our assessment of Unison application which reflects the relatively low materiality of the proposed changes to Unison's revenue and prices. This aligns with the relatively low-cost approach applied in setting the original Unison DPP price path which is in line with the purpose of DPP regulation under s 53K of the Act.

B.20 Reopeners that would lead to material increases in prices or a material change in the quality of service may attract greater scrutiny.

ANAR adjusted to allow Unison to retain the additional revenue

B.21 To give effect to our decision and amend actual net allowable revenue (ANAR) for disclosure year five, our draft amendment determination also amends Unison's FNAR for the first disclosure year.

B.22 In amending the FNAR for the first disclosure year of the DPP regulatory period:

B.22.1 clause 3.1.1(6) of the EDB IMs requires us to specify the FNAR at the start of a DPP regulatory period. However, under clause 4.5.7(1) of the EDB IMs, to give effect to our draft decision, we consider we must also amend the DPP3 determination to specify an additional FNAR value for Unison for the first disclosure year for the sole purpose of correctly calculating the ANAR for the fifth disclosure year;

B.22.2 the additional FNAR value we have specified for the first disclosure year is based on a CPI figure that does not exist at the time of this draft decision. We have accordingly specified a formula that will produce the additional FNAR value, and enable ANAR to be calculated in respect of that disclosure year once the CPI data becomes available; and

B.22.3 we have ensured the additional FNAR value for Unison calculated for the first disclosure year will not affect price path compliance for that year. We have done this by providing that the additional FNAR value specified for the first disclosure year only enables the calculation of Unison's ANAR for disclosure year five.

B.23 To provide for the above adjustments, our draft amendment determination:

B.23.1 amends DPP3's definition of "forecast net allowable revenue" so that Unison has an additional FNAR value solely for the purpose of calculating Unison's ANAR for the fifth disclosure year; and

B.23.2 specifies in Schedule 1.6 of DPP3:

[11] Commerce Commission, "Default price quality paths for electricity distribution businesses from 1 April 2025 Issues paper (DPP4 Issues Paper)", (2 November 2023), paragraph B42.

(a) the formula for calculating Unison's additional FNAR value for the first disclosure year; and

(b) how Unison's additional FNAR value fits into the formulas for calculating ANAR for the remaining disclosure years of the DPP3 regulatory period.

Attachment C: How you can provide your views

C.1 Before making our final decision, we seek your written views on our draft decision and our draft amendment determination, published alongside this paper, within the timeframe below:

C.1.1 Submissions by 5pm 17 July 2024.

C.2 Please address your submission to Ben Woodham c/o infrastructure.regulation@comcom.govt.nz with 'Unison DPP UMCP reopener consultation' in the subject line of your email.

C.3 While we discourage requests for non-disclosure of submissions so that all information can be tested in an open and transparent manner, there may be cases in which submitters wish to provide information in confidence.[12] We offer the following guidance:

C.3.1 if it is necessary to include confidential material in a submission, the information should be clearly marked, with reasons why it is confidential;

C.3.2 where commercial sensitivity is asserted, submitters must explain why publication of the information would be likely to unreasonably prejudice their commercial position or that of another person who is the subject of the information;

C.3.3 both confidential and public versions of the submission are required to be provided;

C.3.4 the responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission; and

C.3.5 we request that you provide multiple versions of your submission if it contains confidential information or if you wish for the published electronic copies to be 'locked'. This is because we intend to publish all submissions on our website. Where relevant, please provide both an 'unlocked' electronic copy of your submission, and a clearly labelled 'public version'.

C.4 We prefer submission in both a format suitable for word processing (such as Microsoft Word document) as well as a 'located' format (such as PDF) for publication on our website.

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12 Parties can also request that we make orders under s 100 of the Act in respect of information that should not be made public. Any request for an s 100 order must be made when the relevant information is supplied to us and must identify the reasons why the relevant information should not be made public. We will provide further information on s 100 orders if requested by parties. A key benefit of such orders is to enable confidential information to be shared with specified parties on a restricted basis for the purpose of making submissions. Any s 100 order will apply for a limited time only as specified in the order. Once an order expires, we will follow our usual process in applying the Official Information Act 1982 in respect of any request for information provided to us in relation to this matter.

Attachment D: Legal framework

DPP3's price path and quality standards may only be reconsidered in limited circumstances

D.1 We determined the DPP3 price path under the EDB IMs on a forecast, *ex-ante* basis to cover the regulatory period of 2020 to 2025. Once determined, DPP3's price path and quality standards may not be reconsidered (or reopened) within the regulatory period except in limited circumstances,[13] which, under s 52T(1)(c)(ii) of the Act, include those specified in Subpart 5 of Part 4 of the EDB IMs.

D.2 Under clause 4.5.6(1)(a)(vi) of the EDB IMs, one of the specified circumstances where we may reconsider the DPP3 price path is if an EDB identifies a project or programme that meets the criteria for an 'unforeseeable major capex project' under clause 4.5.5A of the EDB IMs.

D.3 We set out the policy basis and the legal criteria for the 'unforeseeable major capex project' reopener under the next two subheadings.

The unforeseeable major capex project reopener enables an EDB to undertake a significant capex project that was unforeseeable at the DPP3 reset

D.4 When setting the DPP3 price path, we recognised that the changing nature of the electricity sector, largely driven by decarbonisation and the uptake of new technology, may require additional investments in electricity networks during the DPP3 regulatory period, beyond that provided for in the price path. The extent, timing and impact of these changes is uncertain, and the need or cost of such investments may have been unforeseeable at the DPP3 reset.

D.5 In our consideration of this uncertainty at the DPP3 reset, we amended the EDB IMs to introduce reopeners for large system growth and new connection projects and programmes that were unforeseeable, or for which the costs were under forecast, at the reset.[14]

D.6 The aim of the unforeseeable major capex reopeners is to ensure, where possible, that distributors are able and incentivised to undertake the investment required to meet the one-off needs of stakeholders. The reopeners enable distributors to connect and manage significant new demand and low-carbon technologies as New Zealand increases its focus on decarbonisation, while maintaining network reliability and meeting the long-term interests of consumers.[15]

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[13] Sections 52T(1)(c)(ii) and 53ZB of the Act.

[14] Commerce Commission, *Default price-quality paths for electricity distribution businesses from 1 April 2020 – Final decision Reasons Paper*, 27 November 2019 (DPP3 reasons paper), at [4.18] – [4.20].

[15] DPP3 reasons paper, above n 14, at [4.37].

Reopener criteria under clause 4.5.5A of the EDB IMs

D.7 Clause 4.5.5A of the EDB IMs define an ‘unforeseeable major capex project’ as an EDB’s project or programme that has a primary driver of meeting demand for:

D.7.1 connection capex;

D.7.2 system growth capex;

D.7.3 asset relocation capex; or

D.7.4 a combination of connection capex and system growth capex,

D.8 where,

D.8.1 the EDB’s capex forecast used by the Commission for setting the DPP to which the reopener relates did not include that project or programme;

D.8.2 it was reasonable for that EDB not to have included that project or programme in that capex forecast;

D.8.3 the amount of capital contributions to be received by the EDB for that project or programme is sufficient in the circumstances, and is in accordance with that EDB’s usual policy on capital contributions;

D.8.4 subject to clause 4.5.6(4) of the EDB IMs, forecast total value of commissioned assets for that project or programme, but excluding capital contributions, exceeds either:

(c) 1% of that EDB’s forecast net allowable revenue for the DPP regulatory period in which the asset is forecast to be commissioned; or

(d) two million dollars;

D.8.5 for connection capex (as is case for the project), an authorised officer of the connecting party has confirmed in writing to the Commission that it is committed to the project or programme; and

D.8.6 the EDB will apportion any proposed additional revenue sought appropriately between different parties.

D.9 Clause 4.5.6(4) of the EDB IMs also states that we will not reconsider a reopener in respect of an unforeseeable major capex project if the total forecast value of commissioned assets attributable to projects, which either have already resulted in a reconsideration of the DPP by the Commission or are the subject of a reconsideration application by that EDB, in a disclosure year exceeds thirty million dollars.

Our discretion to reopen and amend the DPP3 price path

D.10 Our decision making to reopen and amend the DPP3 price path is a two-step process: first, we assess whether the project meets the criteria for an ‘unforeseeable major capex project’ under clause 4.5.5A of the EDB IM. Then, if we decide the project meets the clause 4.5.5A criteria, under clauses 4.5.6(1)(a)(vi) and 4.5.7(1) of the EDB IMs, we exercise our discretion on whether to reopen and amend the DPP3 price path.

D.11 Our discretion on whether to reopen the price path is guided by the extent to which reopening the price path in these circumstances would promote the s 52A purpose of Part 4 of the Act.

D.12 If we decide to reopen the price path under clause 4.5.7(1), then under clause 4.5.7(3) of the EDB IMs, we must not amend the price path in respect of an unforeseeable major capex project by more than an amount that reflects the efficient costs that a prudent non-exempt EDB would incur in undertaking that project.

Reopening the DPP3 price path would involve amending FNAR, and FAVCA for calculating capex incentives

D.13 If we reopen the DPP3 price path, then we must amend the components of the price path that together set Unison's allowable revenue, which are:

D.13.1 FNAR for disclosure year five of the regulatory period. Unison has already set its prices for year five;[16]

D.13.2 FAVCA for the disclosure years in which project assets are forecast to be commissioned;[17] and

D.13.3 ANAR for disclosure year five of the regulatory period, which determines the revenue that Unison can retain for each of those disclosure years.[18]

D.14 Recalculating and amending Unison's FNAR and FAVCA is straightforward, since these price path components are specified values in the DPP3 price path. However, amending the ANAR is less straightforward. This is because, under the EDB IMs, changes to the FNAR for disclosure year five will not automatically flow into ANAR for that year because:

D.14.1 under clause 3.1.3(13)(h) of the EDB IMs, ANAR for the first disclosure year is calculated using the FNAR for the first disclosure year; but

[16] DPP3 price path, above n 11, at Schedule 1.4.

[17] DPP3 price path, above n 11, at paragraph (2) of Schedule 2.2.

[18] DPP3 price path, above n 11, at paragraph (3) of Schedule 1.6.

D.14.2 under clause 3.1.3(13)(i) of the EDB IMs, ANAR for each disclosure year after the first disclosure year is ANAR for the preceding disclosure year adjusted for the actual CPI for that year and any applicable X factor.

D.15 If an EDB's ANAR does not change, the EDB will not retain any additional revenue from the reopener.[19] Accordingly, if we decided to reopen Unison's price path, we would need to amend Unison's ANAR for the first disclosure year to allow Unison to retain the additional revenue for the reopener and give effect to our policy intent for the reopener. This would draw on the approach we took to implement the change in the weighted average cost of capital which we determined and published for DPP3 for EDBs on customised price-quality paths,[20] and with the approach we took to reopen and amend other DPP3 price paths for other unforeseeable major capex project reopeners.[21]

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[19] In effect, unchanged ANAR means that increased revenues (from FNAR changes) for disclosure year five are washed up under Schedule 1.7 of DPP3 and do not flow into forecast allowable revenue. Under Schedule 1.7, there is a two-year delay between calculating a wash-up amount and the disclosure year in which that amount becomes part of an EDB's forecast allowable revenue.

[20] Commerce Commission, *Reconsideration of customised price-quality paths of Powerco Limited and Wellington Electricity Lines Limited following change to weighted average cost of capital – Final decision*, 31 March 2020, at [6.1] – [6.5], available at: https://comcom.govt.nz/__data/assets/pdf_file/0024/213774/Reconsideration-of-Powerco-Limited-and-Wellington-Electricity-Lines-Limiteds-CPPs-following-change-to-WACC-Final-decision-31-March-2020.pdf.

[21] https://comcom.govt.nz/regulated-industries/electricity-lines/projects/2020-2025-electricity-default-price-quality-path

Attachment E: Additional information to support application

E.1 Unison provided the below additional diagram to assist with the understanding of the assets included in the application.