

## Report on the IM Review 2023

### Part 4 Input Methodologies Review 2023 – Final decision

**Date of publication:** 13 December 2023



## Associated documents

Publication date	Reference	Title
13 October 2022	ISBN: 978-1-99-101241-8	<a href="#">Part 4 IM Review 2023 Framework paper</a>
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13 December 2023	ISBN: 978-1-991085-67-2	Part 4 IM Review 2023 - Final decision - CPPs and In-period adjustments topic paper - 13 December 2023
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13 December 2023	ISBN: 978-1-991085-68-9	Part 4 IM Review 2023 - Final decision - Transpower topic paper - 13 December 2023
13 December 2023	ISSN: 1178-2560	Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 34
13 December 2023	ISSN: 1178-2560	Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 35
13 December 2023	ISSN: 1178-2560	Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 37
13 December 2023	ISSN: 1178-2560	Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 36
13 December 2023	ISSN: 1178-2560	Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023 [2023] NZCC 38
13 December 2023	ISSN: 1178-2560	Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023 [2023] NZCC 39

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

Commerce Commission  
Wellington, New Zealand

## Glossary

Acronyms	Definition
<b>the Act</b>	Commerce Act 1986
<b>ACA</b>	Anticipatory Connection Asset
<b>ACAM</b>	Avoidable cost allocation methodology
<b>ACOT</b>	Avoided cost of transmission
<b>AHFU</b>	Asset held for future use
<b>AIAL</b>	Auckland International Airport Limited
<b>Airports</b>	Specified airport services
<b>Airport IM</b>	Commerce Act (Specified Airport Services Input Methodologies) Determination 2010, decision number 709
<b>Airports IM Amendment Determination</b>	Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023
<b>BBAR</b>	Building block allowable revenue
<b>bps</b>	Basis points
<b>Capex</b>	Capital expenditure
<b>CAPM</b>	Capital Asset Pricing Model
<b>CIAL</b>	Christchurch International Airport Limited
<b>Code</b>	Electricity Industry Participation Code 2010
<b>Commission</b>	Commerce Commission
<b>CPI</b>	Consumer Price Index
<b>CPP</b>	Customised price-quality path
<b>DGA</b>	Distributed generation allowance
<b>DPP</b>	Default Price-Quality Path
<b>E&amp;D</b>	Enhancements & Development
<b>EA</b>	Electricity Authority
<b>EDB</b>	Electricity Distribution Business
<b>EDB IM</b>	Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26
<b>EDB IM Amendment Determination</b>	Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023
<b>EDGS</b>	Electricity Demand Generation Scenarios
<b>ELS</b>	Electricity lines services
<b>ENA</b>	Electricity Networks Aotearoa
<b>EV</b>	Economic value
<b>FDC</b>	Finance during construction

Acronyms	Definition
<b>FENZ</b>	Fire Emergency New Zealand
<b>FNAR</b>	Forecast net allowable revenue
<b>Framework</b>	IM Review decision-making framework
<b>GAAP</b>	Generally accepted accounting practice
<b>GDB</b>	Gas Distribution Business
<b>GDB IM</b>	Gas Distribution Services Input Methodologies Determination 2012 [2012] NZCC 27
<b>GDB IM Amendment Determination</b>	Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023
<b>GPB</b>	Gas Pipeline Business
<b>GPS</b>	Gas pipeline services
<b>GTB</b>	Gas Transmission Business
<b>GTB IM</b>	Gas Transmission Services Input Methodologies Determination 2012 [2012] NZCC 28
<b>GTB IM Amendment Determination</b>	Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023
<b>IATA</b>	International Air Transport Association
<b>IBAT</b>	IRIS baseline adjustment term
<b>ID</b>	Information disclosure
<b>IEGA</b>	Independent Electricity Generators Association
<b>IM</b>	Input Methodologies
<b>IPA</b>	Innovation project allowance
<b>IPP</b>	Individual Price-quality Path
<b>IRIS</b>	Incremental rolling incentive scheme
<b>LCC</b>	Large connection contract
<b>MAR</b>	Maximum allowable revenue
<b>MBIE</b>	Ministry of Business, Innovation and Employment
<b>MCP</b>	Major capex project
<b>MDL</b>	Maui Development Limited
<b>MGUG</b>	Major Gas Users Group
<b>MVAU</b>	Market value alternative use
<b>MW</b>	Megawatt
<b>NGC</b>	Natural Gas Corporation
<b>NIC</b>	New investment contract
<b>NPV</b>	Net present value
<b>NSS curve</b>	Nelson-Siegel-Svensson curve

Acronyms	Definition
<b>NZCC</b>	New Zealand Commerce Commission
<b>NZ IFRS 16</b>	New Zealand Equivalent to the International Financial Reporting Standard 16
<b>ODV</b>	Optimised deprival value
<b>Opex</b>	Operating expenditure
<b>OVABAA</b>	Optional variation to the accounting-based allocation approach
<b>PDF</b>	Portable Document Format
<b>PIE</b>	Portfolio Investment Entities
<b>PQ</b>	Price-quality
<b>R&amp;R</b>	Replacement and renewal
<b>RAB</b>	Regulatory asset base
<b>RBNZ</b>	Reserve Bank of New Zealand
<b>RCP</b>	Regulatory control period
<b>ROU</b>	Right of use
<b>RTU</b>	Remote terminal unit
<b>SAIDI</b>	System Average Interruption Duration Index
<b>SAIFI</b>	System Average Interruption Frequency Index
<b>SMAR</b>	Smooth maximum allowable revenue
<b>TAMRP</b>	Tax adjusted market risk premium
<b>TCS</b>	Term credit spread differential
<b>Totex</b>	Total expenditure
<b>TPM</b>	Transmission pricing methodology
<b>Transpower Capex IM</b>	Transpower Capital Expenditure Input Methodology Determination [2012] NZCC 2
<b>Transpower Capex IM Amendment Determination</b>	Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023
<b>Transpower IM</b>	Transpower Input Methodologies Determination [2012] NZCC 17
<b>Transpower IM Amendment Determination</b>	Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023
<b>VoEUE</b>	Value of expected unserved energy
<b>WACC</b>	Weighted average cost of capital
<b>WAPC</b>	Weighted average price cap
<b>WIAL</b>	Wellington International Airport Limited

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# Chapter 1 Introduction

## Purpose of this report

- 1.1 We have reviewed 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 (**Airports**) against our IM Review decision-making framework (**Framework**).
- 1.2 The purpose of this report is to summarise our final decisions, from our topic papers on key topic areas for the IM Review<sup>1</sup> and from our wider ‘effectiveness’ review of the IMs,<sup>2</sup> 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 will better achieve the Framework’s overarching objectives than the status quo, how we have changed the IMs to provide for this.
- 1.3 Alongside this report, our Summary and context paper, and our topic papers, we have published final Electricity Distribution Business (**EDB**), Gas Distribution Business (**GDB**), Gas Transmission Business (**GTB**), Transpower, Transpower Capex, and **Airports** IM amendment determinations.

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<sup>1</sup> Alongside this report and our Summary and Context paper, we have published topic papers that explain our final 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; and
- Transpower investment.

<sup>2</sup> Commerce Commission “Part 4 Input Methodologies Review 2023 – Process and issues paper” (20 May 2022), chapter 9.



## The IM Review Framework

- 1.4 In identifying which IMs to consider changing, and in reaching decisions on changing the IMs, we have only changed the IMs if the change appears likely to meet one or more of our Framework’s overarching objectives of the IM Review:<sup>3</sup>
- 1.4.1 promoting the Part 4 purpose in s 52A more effectively;
  - 1.4.2 promoting the IM purpose in s 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 s 52A purpose).
- 1.5 In testing our final 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.<sup>4</sup>
- 1.6 The overarching objectives and other relevant considerations mentioned above are set out in more detail in our IM Review Framework paper.<sup>5</sup>

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

- 1.7 This report summarises our final decisions on:
- 1.7.1 whether the IM policy decisions made prior to this IM Review (**current IM decisions**)<sup>6</sup> 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 have changed the IMs to provide for this.

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<sup>3</sup> Commerce Commission “IM Review 2023 - Decision-making Framework paper (13 October 2022)”, para X20.

<sup>4</sup> Commerce Commission “Note of clarification – Our Part 4 Input Methodologies Review 2023 Framework paper” (21 December 2022).

<sup>5</sup> Commerce Commission “Part 4 Input Methodologies Review 2023: Framework paper” (13 October 2022).

<sup>6</sup> As we discuss further below, we derived the current IM decisions from [the 2016 Report on the IM review](#) and any reasons papers published after that report. The current IM decisions are given effect through the current IM determinations.

- 1.8 References in this report to the ‘IMs’ or to the ‘current IMs’ are generally to the IM determinations applying at the time of the IM Review, which give legal effect to our current IM decisions. References to an ‘Amendment Determination’ are generally to an IM amendment determination that will give legal effect to our final decisions from the IM Review to change the current IM decisions.
- 1.9 For the current IM decisions that we have changed, this report sets out the IM change and provides the rationale for the change (in many cases, by linking to the relevant topic paper which explains the rationale). This report also explains our reasons for not changing some of the current IM decisions.
- 1.10 The topic papers explain our final decisions on the current IM decisions which are relevant to the key topics we identified with input from stakeholders.<sup>7</sup> We generally refer to the relevant topic paper to explain the reasoning for our final decisions rather than explain the reasoning in detail within this report.<sup>8</sup>
- 1.11 As illustrated by Figure 1 (below), this report also presents final decisions we have reached on additional matters not covered by the topic papers.<sup>9</sup> These final decisions arose from our effectiveness review of the IMs, which was based on a review of:<sup>10</sup>
- 1.11.1 stakeholder submissions on the IM Review; and
  - 1.11.2 relevant reference material, such as the IM determinations, reasons papers and our own knowledge of issues relating to the IMs.

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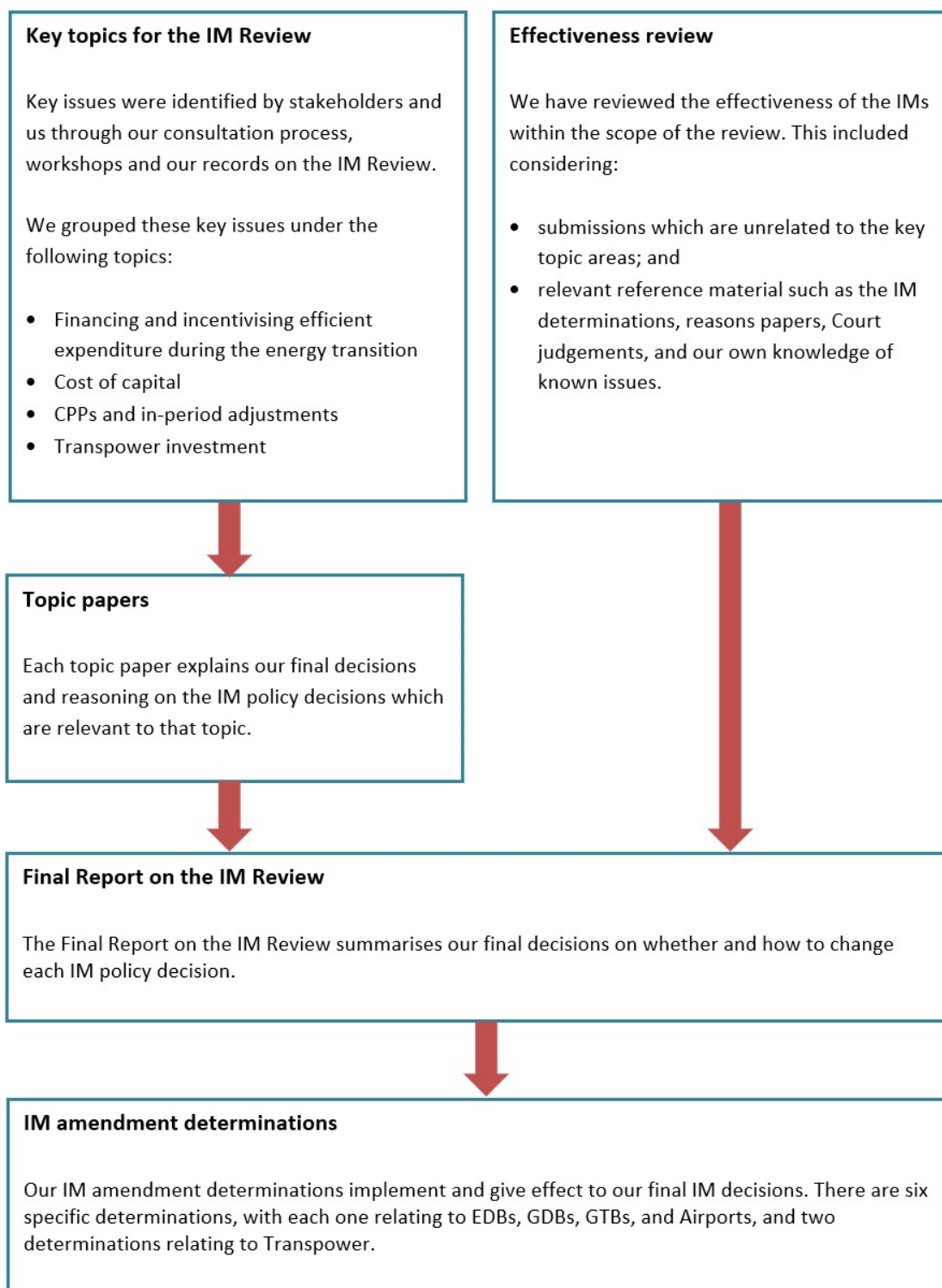
<sup>7</sup> For example, our Process and issues paper for the IM Review 2023 (see para X1) sought stakeholders’ input in identifying the key topics and defining the specific problems to be addressed by our review of the IMs.

<sup>8</sup> With the exception of decisions under the effectiveness review of the current IMs – where the reasoning for these decisions is explained within this report.

<sup>9</sup> Most of the changes in this category are minor. However, we generally provide more explanation for these final decisions than those final decisions which are discussed in a topic paper.

<sup>10</sup> 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 final decisions package for the IM Review<sup>11</sup>**



<sup>11</sup> Adapted from Figure 2 in Commerce Commission “Part 4 Input Methodologies Review 2023: Framework paper” (13 October 2022), at para 3.7.

- 1.12 Many of the 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 s 52R purpose by increasing certainty about the rules.

### **Our consultation process following the publication of our draft decisions on the IM Review**

- 1.13 We published our draft decisions on the IM Review on 14 June 2023. Alongside the draft Report on the IM Review (draft report),<sup>12</sup> we published our draft decisions package:
- 1.13.1 draft EDB, GDB, GTB, Airports, Transpower, and Transpower Capex IM amendment determinations;<sup>13</sup>
  - 1.13.2 draft Summary and Context paper;<sup>14</sup> and
  - 1.13.3 draft topic papers, which explained our draft IM policy decisions relevant to the following key topics:
    - 1.13.3.1 Cost of capital;<sup>15</sup>
    - 1.13.3.2 CPP and in-period adjustments;<sup>16</sup>
    - 1.13.3.3 Transpower investment;<sup>17</sup> and
    - 1.13.3.4 Financing and incentivising efficient expenditure during the energy transition.<sup>18</sup>

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<sup>12</sup> Commerce Commission "Report on the IM Review 2023: Part 4 Input Methodologies Review 2023 – Draft decision" (14 June 2023).

<sup>13</sup> The draft Transpower IM amendment determination and draft Transpower Capex IM amendment determination were published on 21 June 2023, one week later than the rest of the draft decisions package. As with the other draft amendment determinations, a seven-week consultation period applied.

<sup>14</sup> Commerce Commission "Context and summary of Draft decisions: Part 4 Input Methodologies Review 2023" (14 June 2023).

<sup>15</sup> Commerce Commission "Input methodologies review 2023 - Draft decision - Cost of capital topic paper" (14 June 2023).

<sup>16</sup> Commerce Commission "Input methodologies review 2023 - Draft decision - CPPs and in-period adjustments topic paper" (14 June 2023).

<sup>17</sup> Commerce Commission "Input methodologies review 2023 - Draft decision - Transpower investment topic paper" (14 June 2023).

<sup>18</sup> Commerce Commission "Input methodologies review 2023 - Draft decision - Financing and incentivising efficient expenditure during the energy transition topic paper" (14 June 2023).

- 1.14 We invited interested persons' views on our draft decisions package and provided a seven-week period for submissions and cross-submissions during July and August 2023.
- 1.15 We also undertook additional consultation on points that we considered needed further input from interested parties following the consultation process on our draft decisions package:
- 1.15.1 we provided a further period for cross-submissions on specific parts of an expert report, provided at the cross-submission stage of the consultation on the draft decisions, which we treated as a late submission;<sup>19</sup>
  - 1.15.2 technical consultation on discrete points related to the cost of debt wash-up for EDBs and GTBs;<sup>20</sup> and
  - 1.15.3 proposed changes to the effective dates in the draft Airports IM amendment determination.<sup>21</sup>
- 1.16 In making our final decisions on the IM Review, we have taken into account all relevant points raised in consultation on our draft decisions package and in our additional consultation. We thank submitters for providing their views and engaging in this process.
- 1.17 Our Summary and Context paper for the IM Review provides greater detail on our full consultation process in Chapter 1 of that paper.

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<sup>19</sup> We provided two weeks for cross-submissions on this expert report. See Commerce Commission "IM Review 2023 Cost of capital: Invitation to cross-submit on specific matters" (24 August 2023).

<sup>20</sup> We provided for a four-week period for submissions and cross-submissions. See Commerce Commission "Further consultation on IM Review draft decision on the cost of debt wash-up of EDBs and GTBs" (29 September 2023).

<sup>21</sup> We provided for a two-week period for submissions. See Commerce Commission "IM Review 2023: Invitation to submit on a proposed change to effective dates in the draft Airport IM amendment determination for the IM Review" (10 October 2023).

## Our final decisions package for the IM Review

- 1.18 This report forms part of a package of final decisions papers on the IM Review. Alongside this report, we have published:
- 1.18.1 our final IM amendment determinations, which gives legal effect to our final decisions on the IM Review:
    - 1.18.1.1 Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 (**EDB IM Amendment Determination**);<sup>22</sup>
    - 1.18.1.2 Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023 (**Transpower IM Amendment Determination**);<sup>23</sup>
    - 1.18.1.3 Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023 (**Transpower Capex IM Amendment Determination**);<sup>24</sup>
    - 1.18.1.4 Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023 (**GDB IM Amendment Determination**);<sup>25</sup>
    - 1.18.1.5 Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023 (**GTB IM Amendment Determination**);<sup>26</sup> and
    - 1.18.1.6 Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023 (**Airports IM Amendment Determination**);<sup>27</sup>

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<sup>22</sup> Commerce Commission “Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 35 (13 December 2023).

<sup>23</sup> Commerce Commission “Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 38 (13 December 2023).

<sup>24</sup> Commerce Commission “Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023” [2023] NZCC 39 (13 December 2023).

<sup>25</sup> Commerce Commission “Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 37 (13 December 2023).

<sup>26</sup> Commerce Commission “Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 36 (13 December 2023).

<sup>27</sup> Commerce Commission “Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 34 (13 December 2023).

- 1.18.2 our final Summary and Context paper;
- 1.18.3 our final topic papers, which explain our final IM policy decisions relevant to the following key topics:
  - 1.18.3.1 Financing and incentivising efficient expenditure during the energy transition;
  - 1.18.3.2 Cost of capital;
  - 1.18.3.3 CPPs and in-period adjustments; and
  - 1.18.3.4 Transpower investment.

### How this report presents the final decisions of the IM Review

- 1.19 This report presents the final decisions of the IM Review on a decision-by-decision basis. We consider that this is easier to follow and more useful than presenting the final decisions on a ‘clause by clause’ basis.
- 1.20 Presenting our final decisions of the IM Review by reference to the current IM decisions allows us to illustrate our changes to:<sup>28</sup>
  - 1.20.1 the policy intent of a current IM decision; and/or
  - 1.20.2 the way that a current IM decision is implemented.
- 1.21 We have followed the same format as the 2016 Report on the IM Review (**2016 report**).<sup>29</sup> In this report, each current IM decision is presented as a table throughout the report.
- 1.22 The history of each current 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.

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<sup>28</sup> In each IM decision code textbox in Parts 1, 2 and 3 of this report, we sometimes refer to the current decisions as a ‘current IM decision’.

<sup>29</sup> [Commerce Commission “Input methodologies review decisions – Report on the IM review” \(20 December 2016\)](#).

- 1.23 Each current 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 current IM decisions.
- 1.24 In addition to the decision codes that have been referenced in the 2016 report, we have created nine new IM decisions codes (AV56, DP01, DP02, DP03, IR11, IR12, IR13, IR14, and TC69). These new IM decision codes relate to new aspects of matters already covered by the current IMs – for example, extending current rules applying to one sector to cover new sectors. They do not create IMs for new matters.<sup>30</sup>
- 1.25 The current IM decisions, as well as the nine new IM decisions, are presented in the following categories:
- 1.25.1 cost allocation (coded as ‘CA’);
  - 1.25.2 asset valuation (coded as ‘AV’);
  - 1.25.3 treatment of taxation (coded as ‘TX’);
  - 1.25.4 cost of capital (coded as ‘CC’);
  - 1.25.5 gas pricing (coded as ‘GP’);
  - 1.25.6 specification of price (coded as ‘SP’);
  - 1.25.7 customised price-quality path (**CPP**) requirements (coded as ‘CP’);<sup>31</sup>
  - 1.25.8 reconsideration of the price-quality path (coded as ‘RP’);<sup>32</sup>
  - 1.25.9 amalgamations (coded as ‘AM’);
  - 1.25.10 incremental rolling incentive scheme (**IRIS**) (coded as ‘IR’);
  - 1.25.11 Transpower investment (coded as ‘TC’);
  - 1.25.12 definitions provision (coded as ‘DP’); and

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<sup>30</sup> Commerce Commission “Part 4 Input Methodologies Review 2023: Framework paper” (13 October 2022), at para 2.65-2.74.

<sup>31</sup> 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.

<sup>32</sup> 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.



1.25.13 other regulatory rules and processes (coded as 'RR').

## **Structure of this report**

1.26 Following this introductory chapter, this report is split into three key parts and is supported by three attachments.

### **Part 1 – IM decisions that we are changing**

1.27 Part 1 lists those current IM decisions that we are changing (either at a policy level or in terms of the implementation of the decision) as part of the IM Review.

1.28 For each current IM decision that we are changing, Part 1 of this report:

1.28.1 states the current IM decision;

1.28.2 explains the change (our final decision); and

1.28.3 explains the reasons for the change (for those changes relating to key topic areas, we have simply referred to the relevant topic paper setting out those reasons).

### **Part 2 – IM decisions that we are not changing**

1.29 Part 2 lists the current IM decisions that in light of our Framework, submissions on the IM Review and our draft Report, 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 decided not to change.

### **Part 3 – IM decisions that we are not changing and found no reason to consider changing**

1.30 Part 3 lists those current 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;<sup>33</sup> and therefore have decided not to change.

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<sup>33</sup> That is not to say there have never been any issues raised in respect of the current IM decisions listed in Part 3 of this report. Minor issues have been raised in the past that are relevant to some of the current IM decisions listed in Part 3; but nonetheless, when we carried out our effectiveness review, we considered that these issues were not sufficiently material to consider changing the IMs.

## Attachments

- 1.31 The attachments to this report cover detailed final decisions on the IMs that sit outside the topics covered by the topic papers. These are:
- 1.31.1 Attachment A – changes to the valuation of assets acquired from related parties or regulated suppliers;
  - 1.31.2 Attachment B – changes to deal with effectiveness issues in the EDB IRIS capex wash-up and the ‘initial RAB’ wash-up mechanism.
  - 1.31.3 Attachment C – responses to points raised in Electricity Networks Aotearoa (ENA)’s “IM Practicality Issues Log” provided as part of its submission on our draft decisions, in relation to asset valuation, taxation treatment, amalgamations, and cost of capital.<sup>34</sup> Points raised in this Log on other topics are covered in the relevant topic papers.

## Effective dates for IM amendments

- 1.32 The IM changes for ELS, GPS, and Airports resulting from our completion of the IM Review are contained in the:
- 1.32.1 EDB IM Amendment Determination;
  - 1.32.2 Transpower IM Amendment Determination;
  - 1.32.3 Transpower Capex IM Amendment Determination;
  - 1.32.4 GDB IM Amendment Determination;
  - 1.32.5 GTB IM Amendment Determination; and
  - 1.32.6 Airports IM Amendment Determination.
- 1.33 The IM changes will come into force on the day after notice of the determination is given in the New Zealand Gazette under the Legislation Act 2019 in accordance with s 52W of the Act.
- 1.34 The IM changes will apply as explained in paragraphs 1.35-1.40.4.

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<sup>34</sup> Electricity Networks Aotearoa (ENA) “[Appendix D - IM Practicality Issues Log - Submission on IM Review 2023 Draft Decisions](#)” (19 July 2023).

## Application dates for IM changes contained in the EDB IM Amendment Determination

- 1.35 The IM changes contained in the EDB IM Amendment Determination:
- 1.35.1 will apply under ID requirements for electricity distribution businesses (**EDBs**) from the commencement of disclosure year 2026,<sup>35</sup> except for the changes described in paragraphs 1.35.2-1.35.3<sup>36</sup>
  - 1.35.2 to the definition of “adjusted tax value”, “pecuniary penalties”, and “tax depreciation rules” will apply under ID requirements for EDBs immediately upon the changes coming into force;<sup>37</sup>
  - 1.35.3 resulting from our changes to IM decision AV12, will apply under ID requirements for EDBs immediately upon the changes coming into force;<sup>38</sup>
  - 1.35.4 will apply for an EDB Default Price-Quality Path (**DPP**) which commences on or after 1 April 2025;<sup>39</sup> and
  - 1.35.5 will apply for a future EDB CPP application (and any CPP resulting from that application) immediately upon the changes coming into force.<sup>40</sup>

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<sup>35</sup> For the definition of “disclosure year”, see Commerce Commission “Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 35 (13 December 2023), clause 1.1.4(2) of Attachment B.

<sup>36</sup> Commerce Commission “Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 35 (13 December 2023), clause 4(b)(i).

<sup>37</sup> Commerce Commission “Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 35 (13 December 2023), clause 4(c)(i).

<sup>38</sup> Commerce Commission “Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 35 (13 December 2023), clause 4(c)(ii).

<sup>39</sup> Commerce Commission “Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 35 (13 December 2023), clauses 4(b)(ii)A, 4(b)(iii), and 4(d)-(e).

<sup>40</sup> Commerce Commission “Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 35 (13 December 2023), clauses 4(b)(ii)B. and 4(b)(iv).

## Application dates for IM changes contained in the Transpower IM Amendment Determination

- 1.36 The IM changes contained in the Transpower IM Amendment Determination:
- 1.36.1 will apply under ID requirements for Transpower from the commencement of disclosure year 2026,<sup>41</sup> except for the changes described in paragraphs 1.36.2-1.36.3;<sup>42</sup>
  - 1.36.2 to the definition of “pecuniary penalties” will apply under ID requirements for Transpower immediately upon the changes coming into force;<sup>43</sup>
  - 1.36.3 resulting from our changes to IM decisions AV32 and AV33, will apply under ID requirements for Transpower immediately upon the changes coming into force;<sup>44</sup> and
  - 1.36.4 will apply for an individual price-quality path (**IPP**), which commences on or after 1 April 2025, except for the changes to subpart 1 of Part 2 of Attachment B.<sup>45, 46</sup>

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<sup>41</sup> For the definition of “disclosure year”, see Commerce Commission “Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 38 (13 December 2023), clause 1.1.4(2) of Attachment B.

<sup>42</sup> Commerce Commission “Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 38 (13 December 2023), clause 4(b).

<sup>43</sup> Commerce Commission “Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 38 (13 December 2023), clause 4(e)(i).

<sup>44</sup> Commerce Commission “Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 38 (13 December 2023), clause 4(e)(ii).

<sup>45</sup> Commerce Commission “Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 38 (13 December 2023), clause 4(c).

<sup>46</sup> The changes to subpart 1 of Part 2 of Attachment B apply for an IPP which commences after 1 April 2025. See Commerce Commission “Transpower Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 38 (13 December 2023), clause 4(d).

### **Application dates for IM changes contained in the Transpower Capex IM Amendment Determination**

- 1.37 The IM changes contained in the Transpower Capex IM Amendment Determination:
- 1.37.1 will apply for any base capex proposal and opex proposal immediately upon the changes coming into force, except for the changes described in paragraphs 1.37.2-1.37.3<sup>47</sup>
  - 1.37.2 resulting from our changes to IM decision TC55, will apply from 1 April 2025;<sup>48</sup>
  - 1.37.3 will apply for any major capex proposal notification made on or after 1 April 2025;<sup>49</sup> and
  - 1.37.4 will apply for an IPP, which commences on or after 1 April 2025.<sup>50</sup>

### **Application dates for IM changes contained in the GDB IM Amendment Determination**

- 1.38 The IM changes contained in the GDB IM Amendment Determination:
- 1.38.1 will apply under ID requirements for GDBs from the commencement of disclosure year 2026,<sup>51</sup> except for the changes described in paragraphs 1.38.2-1.38.3 and 1.38.5<sup>52</sup>
  - 1.38.2 to the definition of “adjusted tax value”, “operating cost”, and “pecuniary penalties” will apply under ID requirements for GDBs immediately upon the changes coming into force;<sup>53</sup>

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<sup>47</sup> Commerce Commission “Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023” [2023] NZCC 39 (13 December 2023), clause 4(b)(i).

<sup>48</sup> Commerce Commission “Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023” [2023] NZCC 39 (13 December 2023), clause 4(c).

<sup>49</sup> Commerce Commission “Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023” [2023] NZCC 39 (13 December 2023), clause 4(b)(ii).

<sup>50</sup> Commerce Commission “Transpower Capital Expenditure Input Methodology (IM Review 2023) Amendment Determination 2023” [2023] NZCC 39 (13 December 2023), clauses 4(b)(iii) and 4(d).

<sup>51</sup> For the definition of “disclosure year”, see Commerce Commission “Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 37 (13 December 2023), clause 1.1.4(2) of Attachment B.

<sup>52</sup> Commerce Commission “Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 37 (13 December 2023), clause 4(b)(i).

<sup>53</sup> Commerce Commission “Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 37 (13 December 2023), clauses 4(c)(i)-(ii).

- 1.38.3 resulting from our changes to IM decision AV12 will apply under ID requirements for GDBs immediately upon the changes coming into force;<sup>54</sup>
- 1.38.4 will apply for a GDB DPP which commences on or after 1 October 2026;<sup>55</sup> and
- 1.38.5 will apply for a future GDB CPP application (and any CPP resulting from that application) immediately upon the changes coming into force.<sup>56</sup>

### **Application dates for IM changes contained in the GTB IM Amendment Determination**

- 1.39 The IM changes contained in the GTB IM Amendment Determination:
  - 1.39.1 will apply under ID requirements for GTBs from the commencement of disclosure year 2026,<sup>57</sup> except for the changes described in paragraphs 1.39.2-1.39.3 and 1.39.5<sup>58</sup>
  - 1.39.2 to the definition of “adjusted tax value”, “operating cost”, and “pecuniary penalties” will apply under ID requirements for GTBs immediately upon the changes coming into force;<sup>59</sup>
  - 1.39.3 resulting from our changes to IM decision AV12, will apply under ID requirements for GTBs immediately upon the changes coming into force;<sup>60</sup>
  - 1.39.4 will apply for a GTB DPP, which commences on or after 1 October 2026;<sup>61</sup> and

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<sup>54</sup> Commerce Commission “Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 37 (13 December 2023), clause 4(c)(iii).

<sup>55</sup> Commerce Commission “Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 37 (13 December 2023), clauses 4(b)(ii)A, 4(b)(iii), and 4(d)-(e).

<sup>56</sup> Commerce Commission “Gas Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 37 (13 December 2023), clauses 4(b)(ii)B. and 4(b)(iv).

<sup>57</sup> For the definition of “disclosure year”, see Commerce Commission “Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 36 (13 December 2023), clause 1.1.4(2) of Attachment B.

<sup>58</sup> Commerce Commission “Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 36 (13 December 2023), clause 4(b)(i).

<sup>59</sup> Commerce Commission “Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 36 (13 December 2023), clauses 4(c)(i)-(ii).

<sup>60</sup> Commerce Commission “Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 36 (13 December 2023), clause 4(c)(iii).

<sup>61</sup> Commerce Commission “Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 36 (13 December 2023), clauses 4(b)(ii)A, 4(b)(iii), and 4(d)-(e).

- 1.39.5 will apply for a future GTB CPP application (and any CPP resulting from that application) immediately upon the changes coming into force.<sup>62</sup>

#### **Application dates for IM changes contained in the Airports IM Amendment Determination**

- 1.40 The IM changes contained in the Airports IM Amendment Determination:
- 1.40.1 will apply under ID requirements for Airports from the commencement of disclosure year 2026,<sup>63</sup> except for the changes described in paragraphs 1.40.2-1.40.4;<sup>64</sup>
  - 1.40.2 to the definition of “operating cost” and “pecuniary penalties” will apply under ID requirements for Airports immediately upon the changes coming into force;<sup>65</sup>
  - 1.40.3 resulting from our changes to IM decision AV46, will apply under ID requirements for Airports immediately upon the changes coming into force;<sup>66</sup> and
  - 1.40.4 to the cost of capital will apply for Airports immediately upon the changes coming into force.<sup>67, 68</sup>

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<sup>62</sup> Commerce Commission “Gas Transmission Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 36 (13 December 2023), clauses 4(b)(ii)B. and 4(b)(iv).

<sup>63</sup> For the definition of “disclosure year”, see Commerce Commission “Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 34 (13 December 2023), clause 1.4(2) of Attachment B.

<sup>64</sup> Commerce Commission “Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 34 (13 December 2023), clause 4(b).

<sup>65</sup> Commerce Commission “Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 34 (13 December 2023), clauses 4(c)(i)-(ii).

<sup>66</sup> Commerce Commission “Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 34 (13 December 2023), clause 4(c)(iii).

<sup>67</sup> Commerce Commission “Airport Services Input Methodologies (IM Review 2023) Amendment Determination 2023” [2023] NZCC 34 (13 December 2023), clause 4(c)(iv).

<sup>68</sup> Following our consultation in October 2023, we decided to bring forward the application date for the cost of capital IM changes under Part 5 of the Airport IMs from the commencement of disclosure year 2026 to the day after publication of the Gazette notice for the Airports IM Amendment Determination. IM changes to Part 5 of the Airport IMs do not require consequential amendments to the Airports ID determination, so can be brought into effect immediately after publication of our final IM Review decision. Submissions on our consultation endorsed our view that the change to the application date would enable the policy intent of the relevant IM changes to come into effect as soon as possible.

## **Part 1: IM decisions that we are changing**

### **Chapter 2 Introduction to Part 1**

- 2.1 This Part lists the current IM decisions that we have decided 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 current IM decision that we are changing, Part 1 of this report:
  - 2.2.1 states the current IM decision;
  - 2.2.2 states the final decision; and
  - 2.2.3 explains why we are making the change (which may be done by reference to the relevant topic paper).



## Chapter 3 Cost allocation decisions that we are changing

### Current cost allocation IM decision CA02

<p>Decision CA02</p> <p>Allocating not directly attributable cost</p>	<p><b>Original 2010 decision</b></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"> <li>• the accounting-based allocation approach (<b>ABAA</b>);</li> <li>• the optional variation to the accounting-based allocation approach (<b>OVABAA</b>);</li> <li>• the avoidable cost allocation methodology (<b>ACAM</b>).</li> </ul> <p>See section 3.3, Appendix B, sections B4 to B6 of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p> <p><b>2016 amendment</b></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"> <li>• ABAA; and</li> <li>• OVABAA.</li> </ul> <p>See paragraphs 112-139 of 2016 topic paper 3: The future impact of emerging technologies in the energy sector: <a href="#">Input methodologies review decisions: Topic paper 3: The future impact of emerging technologies in the energy sector (20 December 2016)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

### Final decision

- 3.1 Our final decision is to make a minor implementation change to IM decision CA02 to clarify that asset and cost allocators are used to 'proportionally' allocate values.<sup>69</sup> This confirms our draft decision.

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<sup>69</sup> This drafting is also reflected in the changes to Transpower's cost allocation IM, discussed at IM decision CA07.

## Why we are making this change

- 3.2 In making our decision, we considered that this implementation change better promotes s 52R by clarifying the regulatory rules on the use of asset and cost allocators.

## Current cost allocation IM decision CA04

<p>Decision CA04</p> <p>ABAA causal relationship approach and proxy allocators</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p> <p><b>2016 amendment</b></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"> <li>• why they have used a proxy rather than a causal allocator; and</li> <li>• why they have used a particular quantifiable measure as the proxy allocator.</li> </ul> <p>See paragraphs 140-155 of 2016 topic paper 3: The future impact of emerging technologies in the energy sector: <a href="#">Input methodologies review decisions: Topic paper 3: The future impact of emerging technologies in the energy sector (20 December 2016)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB.</p>

## Final decision

- 3.3 Our final 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. This confirms our draft decision.

## Why we are making this change

### *Reasons for our draft decision*

- 3.4 In respect of both proxy asset allocators and proxy cost allocators, the Fibre IM requires that these are (among other things):<sup>70</sup>
- 3.4.1 consistent with similar measures (both within a disclosure year and from year to year); and
  - 3.4.2 objectively justifiable and demonstrably reasonable.
- 3.5 In contrast, the current EDB, GDB and GTB IMs do not contain any such consistency or reasonableness requirement.<sup>71</sup>
- 3.6 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.
- 3.7 Therefore, we considered that adding consistency and reasonableness requirements for proxy allocators better promotes the Part 4 purpose by:<sup>72</sup>
- 3.7.1 incentivising regulated suppliers to improve efficiency; and
  - 3.7.2 limiting regulated suppliers from extracting excessive profits through overinflating cost and asset values.
- 3.8 While we were guided by the reasonableness requirement in the Fibre IM, we have required that proxy allocators are “reasonable” rather than “objectively justifiable and demonstrably reasonable”.
- 3.9 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.

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<sup>70</sup> Commerce Commission *Fibre Input Methodologies Determination 2020* [2020] NZCC 21, clause 1.1.4(2).

<sup>71</sup> 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).

<sup>72</sup> Commerce Act 1986, s 52A(b) and (d).

- 3.10 To support our analysis of whether the ‘reasonableness’ requirement has been met for a given proxy cost or asset allocator, we noted that we will consider factors such as:<sup>73</sup>
- 3.10.1 whether the proposed allocation promotes the Part 4 purpose;
  - 3.10.2 whether the allocator type meets the definition of a proxy cost allocator or proxy asset allocator;
  - 3.10.3 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;
  - 3.10.4 whether the underlying data and assumptions are robust; and
  - 3.10.5 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.

*Stakeholder views and final decision*

- 3.11 Our draft decision was supported by PowerNet and Orion.<sup>74</sup>
- 3.12 In light of this support, and for the reasons described above, we have decided to confirm our draft decision to require under the EDB and GPB IMs, that any proxy allocator must be (a) consistent with similar measures (both within a disclosure year and from year to year); and (b) reasonable.

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<sup>73</sup> 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.

<sup>74</sup> [PowerNet "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 6.  
[Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 13.

## Current cost allocation IM decision CA05

<p>Decision CA05</p> <p>Definition of causal relationships</p>	<p><b>Current IM decision</b></p> <p>'Causal relationships' are defined in relation to:</p> <ul style="list-style-type: none"> <li>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</li> <li>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.</li> </ul> <p>See Appendix B, section B4 of 2010 EDB-GPB IM reasons paper:</p> <p><a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</a></p> <p>Airports – see Appendix B of 2010 Airports IM reasons paper:</p> <p><a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010).</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB/Airports.</p>

### Final decision

3.13 Our final decision is to make editorial refinements for IM decision CA05 as follows:<sup>75</sup>

3.13.1 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

3.13.2 remove the reference to 'quantifiable measure' from the requirements of how proxy cost and asset allocators are used in the EDB, GDB, GTB and Airports IMs.<sup>76</sup>

3.14 This confirms our draft decision.

### Why we are making these changes

#### *Reasons for our draft decision*

<sup>75</sup> These refinements are also reflected in the changes to Transpower's cost allocation IM, discussed at IM decision CA07.

<sup>76</sup> 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).

- 3.15 In our draft decision, we noted that these drafting improvements were intended to reduce regulatory complexity by simplifying and clarifying the drafting of the IMs.

*Stakeholder views*

- 3.16 Our draft decision was supported by the International Air Transport Association (IATA) and Orion.<sup>77</sup>

- 3.17 IATA also requested that we:<sup>78</sup>

impose more specific/effective requirements on consultation and validation with substantial customers i.e. airlines by the regulated airport operators on, but not limited to, the allocation methodology and ratios used prior to the review by the Commission.

- 3.18 ENA noted that clauses 2.1.3(3), 2.1.3(4), 2.1.3(5) of the IMs include the following statements in respect of the use of proxy allocators:

3.18.1 explain why a causal relationship cannot be established; and

3.18.2 explain the rationale for the quantifiable measure used for that proxy allocator.

- 3.19 ENA suggests that these statements are more consistent with the ID determination (as they are relevant to those practitioners preparing ID information), and therefore should be moved to the ID determination.<sup>79</sup>

*Analysis and final decision*

- 3.20 In response to ENA, we note that these requirements are already contained in the current ID determination.<sup>80</sup> We also see benefit from a regulatory certainty perspective in setting out these requirements in the IMs.

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<sup>77</sup> [International Air Transport Association \(IATA\) "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 2.

[Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 13.

<sup>78</sup> [International Air Transport Association \(IATA\) "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 2.

<sup>79</sup> Electricity Networks Aotearoa (ENA) "[Appendix D - IM Practicality Issues Log](#)" (19 July 2023), Cost Allocation sheet.

<sup>80</sup> Commerce Commission [Electricity Distribution Information Disclosure Determination \[2012\] NZCC 22](#), clause 2.3.5(b).

- 3.21 With respect to IATA’s request for more specific/effective requirements for consultation and validation, we note that regulated airports are subject to overarching consultation requirements under the Civil Aviation Act 2023. Any additional requirements relating to the validation of information disclosed under Part 4, such as the cost allocation methodology and ratios used, are something we could consider in the future in the context of ID requirements and compliance processes as well as our summary and analysis of disclosures, including price setting disclosures. After taking into account submitters' views, and for the reasons set out above, we have decided to confirm our draft decision.

### Current cost allocation IM decision CA07

<p>Decision CA07</p> <p>No cost allocation for common costs – Transpower</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Final decision

- 3.22 Our final decision is to change IM decision CA07 to require Transpower to apply the accounting-based allocation approach (**ABAA**) to adjust the total costs associated with supplying regulated services, to take into account costs that are common to regulated and unregulated services.
- 3.23 We have provided for 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 operating costs or asset values associated with regulated services in a disclosure year.
- 3.24 This confirms our draft decision.

### Why we are making this change

- 3.25 Our reasons for this decision are discussed in Chapter 10 of the Transpower investment topic paper.

## Current cost allocation IM decision CA11

<p>Decision CA11</p> <p>Allocating not directly attributable cost</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

### Final decision

3.26 Our final 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. This confirms our draft decision.

### Why we are making this change

3.27 In making our draft decision, we considered that this change better promotes s 52R by clarifying the use of asset and cost allocators.

3.28 We received no submissions on our draft decision. Accordingly, for the reason stated above, our final decision is to confirm our draft decision.

## Current cost allocation IM decision CA12

<p>Decision CA12</p> <p>Causal relationship approach and proxy allocators – Airports</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a>.</p> <p><b>2016 amendment to this decision</b></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"> <li>• why they have used a proxy rather than a causal allocator; and</li> <li>• why they have used the particular quantifiable measure as the proxy allocator(s).</li> </ul> <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 <a href="#">Topic paper 3: The future impact of emerging technologies in the energy sector (20 December 2016)</a>.</p>
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This decision applies to the following sectors:	Airports
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**Final decision**

- 3.29 Our final 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. This confirms our draft decision.
- 3.30 This decision is the equivalent decision for Airports to the decision under IM decision code CA04.

**Why we are making this change**

- 3.31 The reasons for our draft decision are discussed above at IM decision CA04, under which we made the same implementation change for EDBs and GPBs.
- 3.32 We received no submissions on this draft decision. Accordingly, our final decision is to confirm our draft decision.

## Chapter 4 Asset valuation decisions that we are changing

### Current asset valuation IM decision AV05

<p>Decision AV05</p> <p>Finance leases and intangible assets</p>	<p><b>Original 2010 decision</b></p> <p>EDBs and GPBs may include in their regulatory asset base (<b>RAB</b>) 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 practice (<b>GAAP</b>).</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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p> <p><b>2016 amendment to this decision</b></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: <a href="#">Input methodologies review decisions: Report on the IM Review (20 December 2016)</a>.</p> <p><b>2019 amendment to this decision (1)</b></p> <p>We decided to generally accept alignment with New Zealand Equivalent to the International Financial Reporting Standard 16 (<b>NZ IFRS 16</b>) 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: <a href="#">Treatment of operating leases: Final decisions paper (13 November 2019)</a>.</p> <p><b>2019 amendment to this decision (2)</b></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><b>2019 amendment to this decision (3)</b></p> <p>We decided to amend the IMs so that operating leases continue to be treated as opex for IRIS purposes.</p> <p><b>2022 amendment to this decision</b></p> <p>We made amendments such that:</p> <ul style="list-style-type: none"> <li>• a GAAP-based life can be assigned to depreciate right of use assets by GDBs and the GTB; and</li> <li>• 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.</li> </ul>
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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 <a href="#">Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths: Reasons paper (30 May 2022)</a>.</p>
This decision applies to the following sectors:	EDB/GDB/GTB.

## Final decision

- 4.1 Our final 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. This confirms our draft decision.

## Why we are making this change

- 4.2 Our draft decision was intended to create cross-sector consistency and improve the readability of the definition, which reduces complexity.
- 4.3 We made the same change to the definition of “identifiable monetary asset” in the GTB and GDB IMs as part of our amendments for DPP3.<sup>81</sup> We made this change to improve the clarity of this definition by removing ambiguity about the treatment of right of use (ROU) assets. The same rationale applies to the change to the EDB IMs.
- 4.4 Our draft decision was supported by PowerNet.<sup>82</sup> In light of this support, and for the reasons set out above, we have decided to confirm our draft decision.

## Current asset valuation IM decision AV12

<p>Decision AV12</p> <p>Assets purchased from regulated supplier</p>	<p><b>Original 2010 decision</b></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>
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<sup>81</sup> 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].

<sup>82</sup> [PowerNet "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 7.

	<ul style="list-style-type: none"> <li>• business units of the same EDB and GPB that supply services other than electricity transmission services; and</li> <li>• 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).</li> </ul> <p>See section E8, Appendix E of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p> <p><b>2012 amendment to this decision</b></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"> <li>• modifying the treatment of asset acquisitions by EDBs, GDBs and GTBs from related parties; and</li> <li>• 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.</li> </ul> <p>See: <a href="#">Electricity and Gas Input Methodologies Determination Amendments (No.1) 2012: Reasons Paper (29 June 2012)</a>.</p> <p><b>2016 amendment to this decision</b></p> <p>We made three implementation changes to this decision. We made changes to the IMs to:</p> <ul style="list-style-type: none"> <li>• 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';</li> <li>• 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</li> <li>• amend the IMs so the value of an asset is adjusted for depreciation and revaluation applying in the year of transfer.</li> </ul> <p>See chapter 4, paragraphs 79-87 of the <a href="#">2016 Report on the IM Review</a>.</p> <p><b>2017 amendment</b></p> <p>We 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><a href="#">Input methodologies review – related party transactions: Final decision and determinations guidance (21 December 2017)</a></p>
This decision applies to the following sectors:	EDB/GDB/GTB

**Final decision**

- 4.5 Our final decision is to make changes to IM decision AV12 to:
- 4.5.1 ensure it is clear that generally accepted accounting practice (**GAAP**) applies on an arm's-length basis to the valuation of commissioned assets acquired, or forecast to be acquired, in related party transactions.
  - 4.5.2 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:
    - 4.5.2.1 the costs of the other regulated supplier in constructing those works; and
    - 4.5.2.2 any additional costs of the acquiring regulated supplier in constructing the asset (excluding any amount paid to the other regulated supplier); and
  - 4.5.3 remove the reference to “limited to” in clause 2.2.11(1)(e) of the EDB and 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 that would have applied for the other regulated supplier.
- 4.6 This confirms our draft decision.

**Why we are making these changes**

- 4.7 Our reasons for making these changes are discussed in Attachment A of this report. Our draft decision was supported by Orion.<sup>83</sup> Our final decision for AV12 is to confirm our draft decision.

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<sup>83</sup> [Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), pp. 15-16.

## Current asset valuation IM decision AV16

<p>Decision AV16</p> <p>Straight line depreciation applies</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB.</p>

### Final decision

- 4.8 Our final 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. This confirms our draft decision.
- 4.9 To correctly give effect to our final decision, we have made a technical correction to the formula in the EDB and GPB amendment IMs for calculating the ‘remaining asset life for existing assets’.
- 4.10 We also considered changing the underlying depreciation method in the DPPs for both EDBs and GPBs and decided to make no changes to AV16 in this respect (see AV16 in Part 2: IM decisions that we are not changing).

### Why we are making changes to part of this decision

#### *Reasons for our draft decision*

- 4.11 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.
- 4.12 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.

- 4.12.1 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).
- 4.12.2 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.
- 4.13 We were 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.
- 4.14 Our draft decision was 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.
- 4.15 We considered that this 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 change limits any overcompensation through the depreciation allowance.

#### *Alternatives considered*

- 4.16 We considered a number of options, but most notably we considered addressing the issue of overcompensation via a wash-up.
- 4.17 While a wash-up also better promotes the Part 4 purpose as described above, we considered that our draft decision better promotes certainty for suppliers and consumers.
- 4.18 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 for consumers.

### *Final decision*

4.19 We did not receive any submissions on this point. Accordingly, for the reasons outlined above, our final decision is to confirm our draft decision 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.

### Technical correction

4.20 Subsequent to issuing the draft determinations, we identified a drafting error in the proposed formula for calculating the ‘remaining asset life for existing assets’ under clause 4.2.2(3)(a)(i)-(ii) of the draft EDB and GPB IM amendment determinations.

4.21 In that proposed formula, the denominator was expressed as “total depreciation for the disclosure year”. The IMs define ‘total depreciation’ as the sum of depreciation for existing and additional assets, but the formula in question is used for calculating the remaining asset life for existing assets only. While the numerator reflects this, the denominator in the draft EDB and GPB IM amendment determinations was incorrect.

4.22 To correct this error and ensure that the drafting properly implements our final decision, we have changed the denominator of the formula to refer to “the sum of depreciation for existing assets for the disclosure year”.

## **Current asset valuation IM decision AV17**

<p>Decision AV17</p> <p>Standard asset lives apply – with listed exceptions</p>	<p><b>Original 2010 decision</b></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"> <li>• EDBs and GPBs must depreciate fixed life easements over the expected term of the easement;</li> <li>• For dedicated assets, EDBs and GPBs may assign an asset life equal to the life of the supporting customer contract;</li> <li>• 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;</li> <li>• EDBs and GPBs may reduce an asset life, provided the reduced asset life is supported by an independent engineer's report;</li> <li>• EDBs and GDBs must determine when to commence depreciating network spares consistent with GAAP;</li> <li>• 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.</li> </ul>
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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](#).

#### **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 \(8 November 2018\)](#).

#### **2018 amendment to this decision (2)**

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.

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.

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><b>2022 amendment to this decision</b></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 <a href="#">Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths: Reasons paper (30 May 2022)</a>.</p>
This decision applies to the following sectors:	EDB/GDB/GTB

### Final decision

- 4.23 Our final 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. This confirms our draft decision.
- 4.24 We also considered and decided to make no changes to AV17, in respect of the following issues (see AV17 in Part 2: IM decisions that we are not changing):
- 4.24.1 We are making no change to the current asset life adjustment mechanism for GPBs; and
- 4.24.2 We are making no change to the DPP's 45-year standard lifetime for additional assets (EDB/GDB/GTB).

### Why we are making changes to part of this decision

- 4.25 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.
- 4.26 In making our draft decision, we considered that:
- 4.26.1 the 35-year life is unduly long for this type of asset, and 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); and
- 4.26.2 the proposed change better promotes the purpose of ID regulation under s 53A of the Act by better allowing interested persons to assess whether the Part 4 purpose is being met.

- 4.27 Our draft decision was supported by Orion.<sup>84</sup>
- 4.28 Accordingly, for the reasons described above, we have decided to confirm our draft decision to add an additional line item for 'instrumentation and RTU assets' to Schedule A of the GTB and GDB IMs, with a standard asset life of 15 years.

## Current asset valuation IM decision AV25

<p>Decision AV25</p> <p>Finance leases and intangible assets – Transpower</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2019 amendment to this decision (1)</b></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 <a href="#">Treatment of operating leases: Final decisions paper (13 November 2019)</a>.</p> <p><b>2019 amendment to this decision (2)</b></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 <a href="#">Treatment of operating leases: Final decisions paper (13 November 2019)</a>.</p> <p><b>2019 amendment to this decision (3)</b></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 <a href="#">Treatment of operating leases: Final decisions paper (13 November 2019)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<sup>84</sup> [Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 16.

## Final decision

- 4.29 Our final decision is to make a minor editorial refinement to IM decision AV25 by amending the definition of "identifiable non-monetary asset" in the Transpower IM. This confirms our draft decision.

## Why we are making this change

- 4.30 Our draft decision was intended to create cross-sector consistency and improve the readability of the "identifiable non-monetary asset" definition, which reduces complexity.
- 4.31 We made the same change to the definition of "identifiable monetary asset" in the GTB and GDB IMs as part of amendments for DPP3.<sup>85</sup> This was to improve the clarity of this definition by removing ambiguity about the treatment of right of use assets. The same rationale applies to the change to the Transpower IM.
- 4.32 We have received no submissions on our draft decision.<sup>86</sup> Accordingly, for the reasons outlined above, our final decision is to confirm our draft decision.

## Current specification of price IM decision AV26

Decision AV26 RAB indexation	<p><b>Original 2010 decision</b></p> <p>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 <a href="#">2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a>.</p>
This decision applies to the following sectors:	Transpower.

## Final decision

- 4.33 Our final decision is to change IM decision AV26 to index Transpower's RAB to inflation. This confirms our draft decision.

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<sup>85</sup> 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].

<sup>86</sup> While we received no submissions on this draft decision, we did receive support from PowerNet on our draft decision to make an identical change to the EDB IM. See our decision to change IM decision AV05 above.

## Why we are making this change

- 4.34 Our reasons for making this change are discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

## Current asset valuation IM decision AV32

<p>Decision AV32</p> <p>Purchase of assets from regulated supplier or related party – Transpower</p>	<p><b>Original 2010 decision</b></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"> <li>• business units of Transpower that supply services other than electricity transmission services; and</li> <li>• 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).</li> </ul> <p>See section 4.4, paragraphs 4.4.81 – 4.4.84 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision</b></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"> <li>• 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.</li> <li>• 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).</li> <li>• 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.</li> <li>• Limiting the definition 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.</li> </ul> <p>See: <a href="#">Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</a></p>
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	<p><b>2016 amendment to this decision</b></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 the <a href="#">2016 Report on the IM Review</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower.</p>

## Final Decision

4.35 Our final decision in respect of IM decision AV32 is to:

4.35.1 add the related party asset valuation rules from the EDB and GPB IMs to the Transpower IM (including the changes made to IM decision AV12 to ensure it is clear that GAAP applies on an arm's-length basis to the valuation of assets acquired in related party transactions);

4.35.2 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:

4.35.2.1 the costs of the other regulated supplier in constructing those works; and

4.35.2.2 any additional costs required of Transpower in constructing the asset (excluding any amount paid to the other regulated supplier); and

4.35.3 remove the reference to "limited to" in clause 2.2.7(1)(f) of the current Transpower IM, 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 that would have applied for the other regulated supplier.

4.36 This confirms our draft decision.

## Why we are making this change

4.37 Our reasons for making these changes are discussed in Attachment A of this report.

## Current asset valuation IM decision AV33

<p>Decision AV33</p> <p>Financing costs on works under construction – Transpower</p>	<p><b>Original 2010 decision</b></p> <p>Transpower 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 weighted average cost of capital (<b>WACC</b>) determined under the cost of capital IM.</p> <p>When it commissions works under construction, Transpower must reduce the cost of the asset, established consistent with GAAP, by the amount of any revenue derived in relation to the assets while they were works under construction (where such a reduction is not already made under GAAP, and where the revenue has not already been reported as income under ID).</p> <p>See section 4.4, paragraphs 4.4.31 – 4.4. 48 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision</b></p> <p>Our decision was to use the 67th percentile estimate of post-tax WACC as a limit, when determining the value of commissioned assets under particular provisions of the IMs. This change took effect as of the commencement dates specified in the amendment determination and discussed further below; it did not require subsequent changes to the ID requirements before suppliers were required to apply it.</p> <p>See: <a href="#">Amendments to the WACC percentile range for information disclosure regulation for electricity lines services and gas pipeline services: Reasons Paper (12 December 2014)</a></p> <p><b>2016 amendment to this decision</b></p> <p>We have amended IM decision AV33 to require Transpower to use its 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. We have also removed the WACC rate cap.</p> <p>See paragraphs 121 – 126 of the 2016 Report on the IM Review: <a href="#">Input methodologies review decisions: Report on the IM review (20 December 2016)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

## Final decision

4.38 Our final decision in respect of IM decision AV33, is to remove the requirement in the Transpower IM that, when applying GAAP for the purposes of valuing commissioned assets, the cost of financing is to be calculated using a rate not greater than Transpower’s weighted average of borrowing costs for each applicable disclosure year.<sup>87</sup>

## Why we are making this change

4.39 Our reasons for making this change are discussed in chapter 10 of the Transpower investment topic paper.

## Current asset valuation IM decision AV34

<p>Decision AV34</p> <p>Straight line depreciation applies (Transpower)</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

## Final decision

4.40 Our final decision is to make the following changes to IM decision AV34:

- 4.40.1 enable Transpower to apply for an alternative depreciation method to the standard depreciation method, where doing so would better promote the Part 4 purpose;
- 4.40.2 resolve a drafting error in clause 2.2.4(1)(b) of the Transpower IM; and
- 4.40.3 resolve a drafting error in clause 2.2.4(2)(a) of the Transpower IM.

## Why we are making these changes

### *Alternative depreciation method*

4.41 Our reasons for making this decision are discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

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<sup>87</sup> This requirement is currently set out in clause 2.2.7(2)(b) of the Transpower IM.



*Resolving a drafting error in clause 2.2.4(1)(b) of the Transpower IM*

- 4.42 The formula in clause 2.2.4(1)(b) of the Transpower IM for calculating 'unallocated depreciation' for an asset having a commissioning date in the disclosure year in question incorrectly refers to "unallocated opening RAB value". This should instead refer to "value of commissioned asset", as in the year of commissioning assets do not have an unallocated opening RAB value.
- 4.43 We noted this error during the draft-to-final process when reviewing the changes to the Airports IM to implement our decision to change IM decision AV50, as those changes are based on the drafting in the current Transpower IM.
- 4.44 This is a minor technical amendment to correct an error. We consider that our final decision to fix this error promotes regulatory certainty and reduces complexity.

*Resolving drafting error in clause 2.2.4(2)(a) of the Transpower IM*

- 4.45 The chapeau of clause 2.2.4(2)(a) of the Transpower IM refers to determining the depreciation of an asset with an 'unallocated opening RAB value', but this should refer to 'opening RAB value'.<sup>88</sup>
- 4.46 We considered that remedying this drafting error reduces complexity and promotes greater regulatory certainty as to the calculation of depreciation.
- 4.47 We have received no submissions on this point. Therefore, for the reasons outlined above, we have decided to confirm our draft decision to fix the drafting error in clause 2.2.4(2)(a) of the Transpower IM.

**Current asset valuation IM decision AV41**

<p>Decision AV41</p> <p>Initial RAB values for land assets and revaluation approach – Airports</p>	<p><b>Original 2010 decision</b></p> <p>Airports:</p> <ul style="list-style-type: none"> <li>• 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 (<b>MVAU</b>) approach specified in Schedule A of the IM Determination; and</li> <li>• 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).</li> </ul>
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<sup>88</sup> The formula in (a) correctly refers to 'opening RAB value' and therefore does not need to be amended.

See section 4.3, Appendix C, sections C2 and C13 of 2010 Airports IM reasons paper:

[Input Methodologies \(Airport Services\): Reasons Paper \(22 December 2010\)](#)

**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). See amended clauses 3.2(1)(b) and 3.7(6)(c) of the Airports IM Determination:

- 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.

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]

**2016 amendment to this decision (fast track review)**

We decided to incorporate the latest valuations standards by reference into Schedule A of the Airport IMs.

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:

- where material to the valuation, economic analysis to support the highest and best alternative use 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.

“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.

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.”

[Input methodologies review – Amendments to input methodologies for airports land valuation – Final reasons paper for the airports fast track review \(24 February 2016\)](#)

	<p><b>2016 amendment to this decision</b></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"> <li>• no longer determine the value as on the last day of the disclosure year 2010 in accordance with the Airports Land Valuation Methodology; and</li> <li>• 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.</li> </ul> <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 <a href="#">Topic paper 5: Airports profitability assessment</a>).</p> <p>See chapter 2, <a href="#">Topic paper 5: Airports profitability assessment (20 December 2016)</a></p>
This decision applies to the following sectors:	Airports

## Final decision

4.48 Our final decision in respect of IM decision AV41 is to make an editorial refinement to clause 3.7(3) of the Airports IM. This confirms our draft decision.

## Why we are making this change

### *Reasons for our draft decision*

4.49 In our draft decision, we noted this change was intended to clarify that the requirement to revalue all land valued in accordance with Schedule A as at the same date under clause 3.7(3) does not apply to non-pricing land assets which are rolled forward at the Consumer Price Index (**CPI**) under clause 3.7(1).

4.50 The change clarifies the application of clause 3.7(3), so that it is clear that an airport can apply different land valuations to different categories of land in the asset base, and only land revalued under market value alternative use (**MVAU**) is required to be revalued under subclause (3). This reduces complexity and promotes greater certainty as to the rules and requirements applying to regulated suppliers.

## Stakeholder views

### 4.51 The IATA opposed our draft decision:<sup>89</sup>

It is IATA's position that revaluation has no basis for assets marked/designated for a specific purpose, not transferable or allowed to be repurposed for alternative usage e.g. lands utilized for runway, apron, terminal building etc. Market value (re)valuation does not apply in this case as there is not really a "market" for such assets, unlike regular commercial assets. Moreover, if there was any automatic revaluation through inflation indexation, then the cost of capital should only be expressed on a real basis (ie without inflation), in order to avoid any double counting of inflation.

Indexing the value of non-pricing land to the CPI and recovering the returns based on the inflated value for assets that have been locked in to deliver aeronautical services is similarly not acceptable. The returns should be based on the initial cost with a fixed value based on the acquisition or agreed investment cost. In the event that there is a change in the ownership/airport operator, the initial cost should be used for the calculation of returns and not to recognize the (likely) inflated purchase cost of the new investor/operator for these existing assets. Any premiums paid by the new owner/investor should not be recoverable from airport users as this should have been priced in and considered as part of their long-term asset holding.

Revaluation resulting in capital appreciation is only acceptable at the stage when the asset has been redesignated for non- aeronautical purpose and have permission to be disposed of/sold off to another party. The airport operator will (very likely) reap a financial benefit from the capital appreciation of their investments at this point; should not be allowed prior to that i.e. while assets are still used to deliver aeronautical services.

### 4.52 Christchurch International Airport Limited (**CIAL**) cross-submitted that revaluations enable the value of capital investment to be maintained in real terms. Therefore, any revaluations of land pricing must be treated as income to avoid the double counting of inflation.<sup>90</sup>

## Analysis and final decision

### 4.53 We note the IATA's submission that airport land should not be subject to revaluations. We consider, as CIAL has noted in its cross-submission, revaluations enable the value of capital investment to be maintained in real terms, and any revaluations of land pricing must be treated as income to avoid the double counting of inflation.

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<sup>89</sup> [International Air Transport Association \(IATA\) "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), pp. 2-3.

<sup>90</sup> [Christchurch International Airport \(CIAL\) "Cross-submission on IM Review 2023 Draft Decisions" \(9 August 2023\)](#), p. 4.

- 4.54 Therefore, our final decision is to confirm our draft decision to make an editorial refinement to clause 3.7(3) of the Airports IM 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 CPI.

### Current asset valuation IM decision AV46

<p>Decision AV46</p> <p>Purchase of assets from regulated supplier or related party – Airports</p>	<p><b>Original 2010 decision</b></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"> <li>• business units of the Airport that supply services other than specified airport services; and</li> <li>• 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).</li> </ul> <p>See section 4.3, Appendix C, section C7 of 2010 Airports IM reasons paper: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment to this decision</b></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 <a href="#">2016 Report on the IM Review</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Airports.</p>

### Final decision

- 4.55 Our final decision is to confirm our draft decision to change IM decision AV46 to:
- 4.55.1 add the related party asset valuation rules from the EDB and GPB IMs to the Airports IM (including the implementation changes made to IM decision AV12 to ensure it is clear that GAAP applies on an arm's-length basis to the valuation of commissioned assets acquired in related party transactions);

- 4.55.2 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:<sup>91</sup>
- 4.55.2.1 the costs of the other regulated supplier in constructing those works; and
  - 4.55.2.2 any additional costs of the Airport in constructing the asset (excluding any amount paid to the regulated supplier); and
- 4.55.3 remove the reference to “limited to” in clause 3.9(1)(d) of the Airports IM, 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 that would have applied for the other regulated supplier.

### Why we are making this change

4.56 Our reasons for making these changes are discussed in Attachment A of this report.

### Current asset valuation IM decision AV50

Decision AV50	<p><b>Original 2010 decision</b></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><a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment to this decision</b></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 <a href="#">Topic paper 5: Airports profitability assessment (20 December 2016)</a>.</p>
This decision applies to the following sectors:	Airports

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<sup>91</sup> Where the asset is land, the value of the asset is to be determined in accordance with Schedule A of the Airports IM.

## Final decision

- 4.57 Our final decision is to change IM decision AV50 to allow for depreciation for aeronautical assets in the year of commissioning. This confirms our draft decision.
- 4.58 In implementing our final decision, we have made a minor drafting correction to the formula for calculating depreciation for aeronautical assets in the year of acquisition or commissioning.

## Why we are making this change

### *Reasons for our draft decision*

- 4.59 Currently, the Airports IM does not allow for depreciation to be recognised in the year of commissioning an aeronautical asset.
- 4.60 Auckland International Airport Limited (**AIAL**) submitted that:<sup>92</sup>

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 overstate our reported pricing period IRR.

- 4.61 We agree that the current treatment is inconsistent with GAAP.
- 4.62 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.
- 4.63 In an ID context, this change does not involve significant additional complexity to implement.<sup>93</sup>

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<sup>92</sup> Auckland International Airport Ltd "[Input Methodologies Review - response to Process and issues paper](#)" (11 July 2022), p. 3.

<sup>93</sup> Auckland International Airport Ltd "[Input Methodologies Review – response to Process and issues paper](#)" (11 July 2022), p. 3.

### *Analysis and final decision*

- 4.64 We received no submissions on this draft decision. Therefore, for the reasons outlined above, we have decided to confirm our draft decision to allow for depreciation for aeronautical assets in the year of commissioning.

### Technical amendment

- 4.65 In implementing our final decision, we have made a drafting correction to the formula for calculating depreciation of aeronautical assets in the year of acquisition or commissioning.
- 4.66 In the formula in clause 3.4(1)(b) of the draft Airports IM Amendment Determination, we referred to “unallocated opening RAB value” but this should have referred to “value of commissioned asset”. We have corrected this error in the final Airports IM Amendment Determination, to ensure that the IM correctly implements our decision.
- 4.67 In correcting this error for Airports, we noticed that the same error applies under the current Transpower IM. Therefore, we have also fixed this error in the Transpower IM, as set out under IM decision AV34.

### **New asset valuation IM decision code AV56**

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

### **Final decision**

- 4.68 Our final decision is to create a new IM decision code AV56, which introduces an optional large connection contract (LCC) mechanism in the EDB IM where conditions on the size of the connection and other eligibility criteria are met, in respect of which new connection assets created under the LCC are nil-valued in the RAB.



- 4.69 Under this mechanism, LCC forecast revenue is included in the EDB DPP or CPP forecast allowable revenue, and actual LCC revenue is taken into account in the revenue wash-up. Operating costs associated with the assets funded under the LCC are excluded from forecast allowable revenue.<sup>94</sup>
- 4.70 The forecast allowable revenue in respect of LCCs is required to be updated each disclosure year for the forecast revenue of any additional LCCs that are forecast to be entered into in that disclosure year.
- 4.71 Other features of our final decision in relation to LCCs:
- 4.71.1 set the MW threshold for LCCs at 5MW;
  - 4.71.2 introduce an additional threshold that the relevant expenditure for the project or programme exceeds one of the following criteria:
    - 4.71.2.1 1% of the EDB's forecast net allowable revenue for the regulatory period; or
    - 4.71.2.2 \$5 million for Vector Limited or PowerCo Limited, or \$2.5 million for any other EDB;
  - 4.71.3 set out the treatment of the costs of construction and operation of new assets where the costs are funded under the contract;
  - 4.71.4 clarify that the LCC only applies to projects or programmes that have not been explicitly or implicitly provided for in DPP or CPP expenditure allowances; and
  - 4.71.5 require that the connection party agrees in writing that the terms and conditions of the contract, and of any variation of the contract (including terms and conditions relating to charges for the supply of the electricity distribution services), are reasonable.

#### **Why we are creating this new IM decision code**

- 4.72 Our reasons for making this change are discussed in Chapter 8 of the CPP and In-Period Adjustment Mechanisms topic paper.

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<sup>94</sup> Refer to IM decision DP03 in Part 1 of this report for more detail on the cost allocation aspect of the LCC decision.

## Chapter 5 Treatment of taxation decisions that we are changing

### Current taxation IM decision TX02

<p>Decision TX02</p> <p>Tax legislation and cost allocation to be applied</p>	<p><b>Original 2010 decision</b></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><a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendments to this decision</b></p> <p>See para 2.2, 2.3, 3.2, 3.3, 4.2, 4.3 – <a href="#">Electricity Distribution Services Input Methodology Amendments Determination 2014 [2014] NZCC 31 (27 November 2014)</a>.</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 (<b>TCSD</b>) 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 <a href="#">Input methodology amendments for electricity distribution services: Default price-quality paths (Reasons paper) (27 November 2014)</a></p>
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	<p><b>2016 amendments to this decision</b></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"> <li>• changed references to 'weighted average remaining useful life of relevant assets' to 'opening weighted average remaining useful life of relevant assets'; and</li> <li>• defined 'opening weighted average remaining useful life of relevant assets' to provide greater clarity about what the term means.</li> </ul> <p>See Chapter 5, paragraphs 181-185 of 2016 Report on the IM Review: <a href="#">Input methodologies review decisions: Report on the IM Review (20 December 2016)</a></p> <p><b>2018 amendment to this decision</b></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 <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation: Reasons paper (8 November 2018)</a>.</p> <p><b>2019 amendment to this decision</b></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 <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019)</a>.</p>
This decision applies to the following sectors:	EDB

## Final decision

- 5.1 Our final 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 'tax rules' rather than 'tax depreciation rules'.
- 5.2 This confirms our draft decision.

## Why we are making these changes

### *Reasons for our draft decision*

- 5.3 In our draft decision, we noted that both changes were 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'

- 5.4 The current definition of 'tax depreciation rules' for ID purposes only refers to CPP assets. Therefore, 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).
- 5.5 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.
- 5.6 The proposed amendment was intended to ensure that the IM reflects the policy intent and application in practice.

### Definition of 'adjusted tax value'

- 5.7 The definition of 'adjusted tax value' incorrectly refers to the 'tax depreciation rules'.
- 5.8 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'.

*Stakeholder views*

5.9 Our draft decision was supported by PowerNet and Orion.<sup>95</sup>

5.10 Based on support received, and for the reasons described above, we have decided to confirm our draft decision.

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<sup>95</sup> [PowerNet "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 9.  
[Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 17.

## Chapter 6 Cost of capital decisions that we are changing

### Current cost of capital IM decision CC02

Decisions CC02	<p><b>Original 2010 decision</b></p> <p>To incentivise efficient investment in regulated services (given the possibility of errors in estimating the weighted average cost of capital (<b>WACC</b>)), the WACC to apply for DPP and CPPs is specified as the 75<sup>th</sup> percentile estimate of the WACC.</p> <p>See section 6.7, H11 of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
WACC Percentile	<p><b>2014 amendment</b></p> <p>The amendment gave effect to the Commission’s decision to move from using the 75<sup>th</sup> percentile estimate of WACC to the 67<sup>th</sup> 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 67<sup>th</sup> 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: <a href="#">Amendment to the WACC percentile for price-quality regulation for electricity lines services and gas pipeline services: Reasons paper (30 October 2014)</a>; and</p> <p><a href="#">Amendments to the WACC percentile range for information disclosure regulation for electricity lines services and gas pipeline services: Reasons Paper (12 December 2014)</a></p>
This decision applies to the following sectors:	EDB/GDB/GTB

### Final decision

- 6.1 Our final decision is to change IM decision CC02 so that the mid-point weighted average cost of capital (**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 final standard error of the WACC estimate used to calculate the appropriate percentile are:
- 6.2.1 For EDBs (changed to): 0.0108; and
- 6.2.2 For GDBs and GTBs (changed to): 0.0112.

## Why we are making these changes

- 6.3 Our reasons for this change are discussed in Chapter 6 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC03

<p>Decision CC03</p> <p>The Commission to publish annual WACC estimates</p>	<p><b>Original 2010 decision</b></p> <p>The Commission will publish annually for all regulated suppliers:</p> <ul style="list-style-type: none"> <li>• a mid-point estimate of the five-year post-tax WACC and vanilla WACC to apply under information disclosure regulation; and</li> <li>• an estimate of 5 year vanilla WACC at the 75<sup>th</sup> percentile to apply in setting DPPs and CPPs under default/customised price-quality regulation.</li> </ul> <p>Three and four-year equivalent estimates of the vanilla WACC at the 75<sup>th</sup> percentile will also be published as required for CPPs, and estimated WACC ranges for the 25<sup>th</sup> to the 75<sup>th</sup> 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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision (1)</b></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: <a href="#">Amendment to the WACC percentile for price-quality regulation for electricity lines services and gas pipeline services: Reasons paper (30 October 2014)</a></p> <p><b>2014 amendment to this decision (2)</b></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: <a href="#">Amendments to the WACC percentile range for information disclosure regulation for electricity lines services and gas pipeline services: Reasons Paper (12 December 2014)</a></p> <p><b>2016 amendment to this decision</b></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"> <li>• For EDBs: 0.0101</li> <li>• For GPBs: 0.0105</li> </ul> <p>See <a href="#">Topic Paper 4: IM review (2016)</a>, paragraphs 606 to 643 and Table 13 and paragraphs 579 to 604.</p> <p><b>2022 amendment for GPBs/GTBs</b></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, <a href="#">Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths – weighted average cost of capital</a>, paragraph 3.35.</p>
This decision applies to the following sectors:	EDB/GDB/GTB

## Final decision

- 6.4 Our final decision is to change IM decision CC03 to allow for the determination and publishing of a vanilla and post-tax WACC at the 65<sup>th</sup> percentile with parameters matched to the regulatory period term for EDBs. 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.
- 6.5 We are changing the standard errors of the WACC estimates:
- 6.5.1 for EDBs to be: 0.0108; and
  - 6.5.2 for GDBs and GTBs to be: 0.0112.



## Why we are making this change

- 6.6 Our reasons for this change are discussed in Chapter 5 and Chapter 6 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC05

<p>Decisions CC05</p> <p>Cost of Debt in WACC estimates</p>	<p><b>Original 2010 decision</b></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"> <li>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);</li> <li>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&amp;P long-term credit rating of BBB+ and a term to maturity which matches the regulatory period (typically five years); and</li> <li>debt issuance costs are 35 basis points (0.35%) p.a.</li> </ul> <p>See sections 6.3; H2, H4, H5, H14 of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment</b></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"> <li>modify the government ownership limitation so that only bonds from 100% government owned entities would be subject to the limitation; and</li> <li>reference the 'Nelson-Siegel-Svensson curve' (<b>NSS curve</b>) as something we will have regard to when estimating the debt premium.</li> </ul> <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 <a href="#">Topic paper 4: Cost of capital issues.</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

## Final decision

- 6.7 Our final decision is 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 making this change

- 6.8 Our reasons for this change are discussed in Chapter 3 and Chapter 6 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC06

<p>Decision CC06</p> <p>Term credit spread differential allowance may apply</p>	<p><b>Original 2010 decision</b></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><a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment to this decision</b></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 <a href="#">Topic paper 4: Cost of capital issues</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

## Final decision

- 6.9 Our final decision is to change IM decision CC06 to reflect an updated spread premium used in the term credit spread differential (**TCSD**) allowance for EDBs, GDBs, and GTBs.
- 6.10 We are changing the spread premium for TCSD for EDBs, GDBs, and GTBs to be 8.5 basis points (**bps**) (from 7.5bps).

## Why we are making this change

- 6.11 Our reasons for this change are discussed in Chapter 3 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC07

<p>Decision CC07</p> <p>Cost of equity in WACC estimates</p>	<p><b>Original 2010 decision</b></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"> <li>• the risk free rate is the same as for the cost of debt;</li> <li>• the equity beta for EDBs and Transpower is 0.61 and for GPBs is 0.79, derived from:             <ul style="list-style-type: none"> <li>○ an asset beta for EDBs of 0.34 and for GPBs of 0.44; and</li> <li>○ leverage of 44% for EDBs and GPBs;</li> </ul> </li> <li>• the investor tax rate is the maximum prescribed investor tax rate under the portfolio investment entities (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</li> <li>• 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%.</li> </ul> <p>See sections 6.3 to 6.6; H2 to H10 of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendments to this decision</b></p> <p>In respect of decision CC07, we decided to make changes to:</p> <ul style="list-style-type: none"> <li>• the equity beta estimate for EDBs – we changed this from 0.61 to 0.60;</li> <li>• the equity beta estimate for GDBs and GTBs – we changed this from 0.79 to 0.69;</li> <li>• the asset beta estimate for EDBs – we changed this from 0.34 to 0.35;</li> <li>• 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);</li> </ul>
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	<ul style="list-style-type: none"> <li>the leverage estimate for EDBs and GPBs – we changed this from 44% to 42%; and</li> </ul> <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 <a href="#">Topic paper 4: Cost of capital issues</a>.</p> <p><b>2022 amendment to this decision (1)</b></p> <p>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 current 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 <a href="#">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)</a>.</p> <p><b>2022 amendment to this decision (2)</b></p> <p>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 <a href="#">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)</a>.</p>
This decision applies to the following sectors:	EDB/GDB/GTB

## Final decision

- 6.12 Our final decision is to change IM decision CC07.
- 6.13 We are changing the equity betas for EDBs to be 0.61, and for GDBs and GTBs to be 0.69; derived from:
- 6.13.1 An asset beta for EDBs of 0.36, and for GDBs and GTBs of 0.41; and
- 6.13.2 Leverage of 41% for EDBs and GDBs and GTBs.
- 6.14 We are changing the tax-adjusted market risk premium (**TAMRP**) estimate for GDBs and GTBs to 7.0%.

## Why we are making this change

- 6.15 Our reasons for this change are discussed in Chapter 4 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC12

<p>Decisions CC12</p> <p>WACC Percentile</p>	<p><b>Original 2010 decision</b></p> <p>To incentivise investment in regulated services (given the possibility of error in estimating the WACC) the 75<sup>th</sup> percentile estimate of the vanilla WACC will be applied under the IPP.</p> <p>See section 6.7, H11 of 2010 IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision (1)</b></p> <p>This amendment gives effect to the Commission’s decision to move from using the 75<sup>th</sup> percentile estimate of WACC to the 67<sup>th</sup> 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 67<sup>th</sup> percentile of our estimated WACC distribution should be used for price-quality path regulation (the 75<sup>th</sup> 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: <a href="#">Amendment to the WACC percentile for price-quality regulation for electricity lines services and gas pipeline services: Reasons paper (30 October 2014)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

## Final decision

- 6.16 Our final decision is to change IM decision CC12 so that the 65th percentile of our estimated WACC will apply for price-quality path regulation for Transpower.
- 6.17 The final standard error of the WACC estimate used to calculate the appropriate percentile changes to be 0.0108.

## Why we are making this change

- 6.18 Our reasons for this change are discussed in Chapter 5 and Chapter 6 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC13

<p>Decision CC13</p> <p>Commission to publish annual WACC estimates - Transpower</p>	<p><b>Original 2010 decision</b></p> <p>The Commission will:</p> <ul style="list-style-type: none"> <li>publish annually a mid-point estimate of the 5-year vanilla and post-tax WACC, as well as 25<sup>th</sup> and 75<sup>th</sup> percentile estimates of vanilla and post-tax WACC, to apply under ID regulation; and</li> <li>determine, as at 7 months prior to the start of the regulatory period, an estimate of a 5-year vanilla WACC at the 75<sup>th</sup> percentile to apply in setting the IPP for Transpower. The Commission will publish this WACC no later than one month after estimating it.</li> </ul> <p>See sections 6.7, 6.2 of 2010 Transpower IM reasons paper:</p> <p><a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision (1)</b></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: <a href="#">Amendment to the WACC percentile for price-quality regulation for electricity lines services and gas pipeline services: Reasons paper (30 October 2014)</a></p>
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	<p><b>2014 amendment to this decision (2)</b></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: <a href="#">Amendments to the WACC percentile range for information disclosure regulation for electricity lines services and gas pipeline services: Reasons Paper (12 December 2014)</a></p> <p><b>2016 amendments</b></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: <a href="#">Topic Paper 4, 2016</a>, Table 13 and paragraphs 579 to 604.</p> <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 <a href="#">2016 Report on the IM Review</a>.</p>
This decision applies to the following sectors:	Transpower

### Final decision

- 6.19 Our final decision is to change IM decision CC13.
- 6.20 We are changing IM decision CC13 to allow for the determination and publishing of a vanilla and post-tax WACC at the 65<sup>th</sup> percentile with parameters matched to the regulatory period term to apply in setting the 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.
- 6.21 The final standard error of the WACC estimate to calculate the appropriate percentile changes to be 0.0108.

### Why we are making this change

- 6.22 Our reasons for this change are discussed in Chapter 5 and Chapter 6 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC15

<p>Decisions CC15</p> <p>Cost of Debt in WACC estimates – Transpower</p>	<p><b>Original 2010 decision</b></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"> <li>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);</li> <li>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&amp;P long-term credit rating and a term to maturity which matches the regulatory period (five years); and</li> <li>debt issuance costs are 35 basis points (0.35%) p.a.</li> </ul> <p>See sections 6.3, H2, H4, H5 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment</b></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"> <li>use 12 months of bond data instead of one month;</li> <li>modify the government ownership limitation so that only bonds from 100% government owned entities would be subject to the limitation; and</li> <li>reference the 'Nelson-Siegel-Svensson curve' (<b>NSS curve</b>) as something we will have regard to when estimating the debt premium.</li> </ul> <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 <a href="#">Topic paper 4: Cost of capital issues</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>



## Final decision

- 6.23 Our final decision is to alter IM decision CC15 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 making this change

- 6.24 Our reasons for this change are discussed in Chapter 3 and Chapter 6 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC16

<p>Decision CC16</p> <p>Term credit spread differential allowance may apply</p>	<p><b>Original 2010 decision</b></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:  <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision</b></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:  <a href="#">Companion Paper to the Update of Transpower's Maximum Allowable Revenues for the 2016/17 to 2019/20 Pricing Years</a></p> <p><b>2016 amendment to this decision</b></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 <a href="#">Topic paper 4: Cost of capital issues</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

## Final decision

- 6.25 Our final decision is to change IM decision CC16 to reflect an updated spread premium used in the TCSD allowance for Transpower.
- 6.26 We are changing the spread premium for TCSD for Transpower to be 8.5 bps (from 7.5bps).

## Why we are making this change

- 6.27 Our reasons for this change are discussed in Chapter 3 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC17

<p>Decision CC17</p> <p>Cost of equity in WACC estimates</p>	<p><b>Original 2010 decision</b></p> <p>Cost of equity is estimated using the simplified Brennan-Lally CAPM as:</p> <p><i>Risk free rate × (1- investor tax rate) + equity beta × tax adjusted market risk premium (TAMRP)</i></p> <ul style="list-style-type: none"> <li>• the risk free rate is the same as for the cost of debt;</li> <li>• the equity beta for Transpower is 0.61, derived from:             <ul style="list-style-type: none"> <li>○ an asset beta for Transpower of 0.34; and</li> <li>○ leverage of 44% for Transpower;</li> </ul> </li> <li>• 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</li> <li>• 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%.</li> </ul> <p>See sections 6.5, 6.6; H3, H7, H8, H10 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment</b></p> <p>Cost of equity is estimated using the simplified Brennan-Lally CAPM as:</p> <p><i>Risk free rate × (1-investor tax rate) + equity beta × TAMRP</i></p> <ul style="list-style-type: none"> <li>• The risk-free rate is the same as for the cost of debt</li> <li>• The equity beta for Transpower is 0.60; derived from:             <ul style="list-style-type: none"> <li>○ An asset beta for Transpower of 0.35</li> <li>○ Leverage of 42% for Transpower</li> </ul> </li> </ul>
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	<ul style="list-style-type: none"> <li>The investor tax rate is the maximum prescribed investor tax rate under the Portfolio Investment Entities (<b>PIE</b>) tax regime, which is 28%. Changes in the prescribed rate will flow through to future WACC estimates automatically.</li> <li>The TAMRP is 7%.</li> </ul> <p>See Chapters 4 and 5 of <a href="#">Topic Paper 4</a>.</p>
This decision applies to the following sectors:	Transpower

### Final decision

6.28 We are changing IM decision CC17.

6.29 We are changing the equity beta for Transpower to be 0.61; derived from:

6.29.1 An asset beta for Transpower of 0.36; and

6.29.2 Leverage of 41% for Transpower.

### Why we are making this change

6.30 Our reasons for this change are discussed in Chapter 4 of the Cost of Capital topic paper.

### Current cost of capital IM decision CC20

<p>Decision CC20</p> <p>Commission to publish annual WACC estimates – airports</p>	<p><b>Current IM decision</b></p> <p>The Commission will publish annually for airports:</p> <ul style="list-style-type: none"> <li>A mid-point estimate of the 5-year post-tax WACC and vanilla WACC; and</li> <li>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.</li> </ul> <p>See section 6.7, E14 of 2010 Airports IM reasons paper: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a>.</p> <p><b>2016 amendments</b></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: <a href="#">Topic Paper 4, 2016</a>, Table 13 and paragraphs 579 to 604.</p>
This decision applies to the following sectors:	Airports

## Final decision

6.31 Our final decision is to change IM decision CC20.

6.32 We are changing the standard error for Airports to be 0.0169.

## Why we are making this change

6.33 Our reasons for this change are discussed in Chapter 5 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC24

<p>Decision CC24</p> <p>Cost of equity in WACC estimates</p>	<p><b>Original 2010 decision</b></p> <p>Cost of equity is estimated using the simplified Brennan-Lally CAPM as:</p> <p><i>Risk free rate × (1- investor tax rate) + equity beta × TAMRP</i></p> <ul style="list-style-type: none"> <li>• the risk-free rate is the same as for the cost of debt;</li> <li>• the equity beta for Airports is 0.72, derived from:             <ul style="list-style-type: none"> <li>○ an asset beta for Airports of 0.60; and</li> <li>○ leverage of 17%;</li> </ul> </li> <li>• 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</li> <li>• 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%.</li> </ul> <p>See sections 6.3 to 6.6, E2 to E10 of 2010 IM reasons paper:  <a href="#">Input Methodologies (Airport Services) Reasons Paper (December 2010)</a></p> <p><b>2016 amendment</b></p> <p>Cost of equity is estimated using the simplified Brennan-Lally CAPM as:</p> <p><i>Risk free rate × (1-investor tax rate) + equity beta × TAMRP</i></p> <ul style="list-style-type: none"> <li>• The risk-free rate is the same as for the cost of debt;</li> <li>• The equity beta for airports is 0.74; derived from:             <ul style="list-style-type: none"> <li>○ An asset beta for airports of 0.60; and</li> <li>○ Leverage of 17% for airports;</li> </ul> </li> <li>• 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</li> <li>• The TAMRP is 7%.</li> </ul> <p>See Chapters 4 and 5 of <a href="#">Topic Paper 4</a>.</p>
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This decision applies to the following sectors:	Airports
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**Final decision**

6.34 Our final decision is to change IM decision CC24.

6.35 We are changing the equity beta for airports to be 0.87; derived from the following changed parameter values:

6.35.1 An asset beta for airports of 0.67; and

6.35.2 Leverage of 23% for airports.

**Why we are making this change**

6.36 Our reasons for this change are discussed in Chapter 4 of the Cost of Capital topic paper.

## Chapter 7 Specification of price decisions that we are changing

### Current specification of price IM decision SP01

<p>Decision SP01</p> <p>Revenue wash-ups – EDB</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment to this decision</b></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 <a href="#">Topic paper 1: Form of control and RAB indexation</a>, and Chapter 7, paragraphs 268-272 of the <a href="#">2016 Report on the IM Review</a>.</p> <p><b>2019 amendment to this decision</b></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 <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB</p>

### Final decision

- 7.1 Our final decision is to change IM decision SP01 in respect of wash-ups in the EDB IMs.
- 7.2 We have made 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 final decision is to amend the EDB IMs to:
- 7.3.1 wash-up allowable revenue for the first year of a regulatory period when inflation differs from expected inflation (we have made some technical amendments to the drafting of the wash-up provisions to implement this decision); and
  - 7.3.2 allow for a 'new connection wash-up mechanism' for an EDB on a CPP, but not for a DPP.
- 7.4 In our draft report, we proposed a wash-up for EDBs, which is the amount that is the difference between:
- 7.4.1 the return on debt for the year based on the cost of debt assumed at the relevant price-quality determination; and
  - 7.4.2 the return on debt, referred to in paragraph 7.4.1 where the cost of debt is adjusted for actual CPI inflation.
  - 7.4.3 Our final decision on the cost of debt wash-up is discussed under IM decision SP01 in chapter 17 of this report.

*Revenue path and wash-up workability*

- 7.5 Our final decision is to:
- 7.5.1 replace the "limit on the annual maximum percentage increase in forecast revenue from prices" with a "revenue smoothing limit" that gives greater flexibility in how the limit is specified;
  - 7.5.2 apply this "revenue smoothing limit" to revenue, including recovery of recoverable costs, but excluding recovery of pass-through costs and revenue received under large connection contracts;
  - 7.5.3 clarify in the IMs that the "revenue smoothing limit" does not apply in the first year of a regulatory period;
  - 7.5.4 retain the "voluntary undercharging" lower limit on the revenue path and remove the provision for a "limit on increase in revenue as a function of demand";
  - 7.5.5 make a package of changes to move the wash-up mechanism from a rolling basis to an account basis. The key features of the wash-up mechanism are:

- 7.5.5.1 a ‘one big bucket’ approach to all mechanisms that true-up for forecast versus actual differences;
  - 7.5.5.2 a wash-up account that tracks accruals, balances, time-value-of-money, and drawdowns;
  - 7.5.5.3 the ability for the Commission to specify the pace of drawdown over subsequent regulatory periods, for the purpose of returning the wash-up account balance towards zero over time;
  - 7.5.5.4 the ability for suppliers to make early drawdowns of the wash-up balance provided it does not cause price-shocks; and
  - 7.5.5.5 an implementation approach that where possible references “re-running” the models used to calculate allowable revenue, to simplify drafting; and
- 7.5.6 provide for a transition to a new wash-up mechanism by linking the wash-up account balance and drawdown for the start of the next regulatory period to the wash-up balances for the last two years of the current regulatory period;
  - 7.5.7 confirm the change we proposed to our draft decision (in our further consultation) to the EDB and GTB IMs to ensure that the most up-to-date CPI inflation (actual and forecast) is used when determining the forecast net allowable revenue at the start of each regulatory year; and
  - 7.5.8 provide for a residual wash-up for differences between these updated forecast and actual inflation as part of changes to the wash-up mechanism in para 7.5.5.
- 7.6 As part of this package, we have decided to reclassify transmission-related recoverable costs as pass-through costs (see IM decisions SP03 and SP05).
  - 7.7 We have also made some minor technical amendments to the drafting of the wash-up provisions to improve readability and clarity.

#### *LCC forecast revenue*

- 7.8 As part of our decision to introduce an optional large connection contract (LCC) mechanism for EDBs, LCC forecast revenue will be included in forecast allowable revenue for EDBs, and actual LCC revenue will be taken into account in the revenue wash-up.



## Why we are making these changes

### *Additional wash-ups*

7.9 Our reasons for making these changes are discussed in the Financing and incentivising efficient expenditure during the energy transition topic paper at:

7.9.1 Chapter 3 (Topic 3c) in relation to the ‘new connection wash-up mechanism’ for an EDB on a CPP; and

7.9.2 Chapter 4 (Topic 4b) in relation to additional wash-ups for inflation.

### *Revenue path and wash-up workability*

7.10 Our reasons for making these changes are set out in Attachment D of the Financing and incentivising efficient expenditure during the energy transition topic paper.

### *LCC forecast revenue*

7.11 Our reasons for making this change are discussed in Chapter 8 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current specification of price IM decision SP02

<p>Decision SP02</p> <p>Revenue cap applies – GTB</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment to this decision</b></p> <p>We changed the form of control for the GTB to a ‘pure’ revenue cap with a revenue wash-up.</p> <p>See Chapter 7, pp. 79-82 of the 2016 Report on the IM Review: <a href="#">Input methodologies review decisions - Report on the IM Review (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>GTB</p>

## Final decision

- 7.12 Our final decision is to change IM decision SP02 in respect of wash-ups in the GTB IMs to:
- 7.12.1 replace the “annual maximum percentage increase in forecast allowable revenue as a function of demand” with a “revenue smoothing limit” that gives greater flexibility in how the limit is specified;
  - 7.12.2 apply this "revenue smoothing limit" to revenue, including recovery of recoverable costs, but excluding recovery of pass-through costs;
  - 7.12.3 clarify in the IMs that the "revenue smoothing limit" does not apply in the first year of a regulatory period;
  - 7.12.4 extend the "voluntary undercharging" lower limit on the revenue path to the GTB IMs, for consistency;<sup>96</sup>
  - 7.12.5 make amendments to improve the workability of the wash-up mechanism. The key features of the wash-up mechanism are:
    - 7.12.5.1 a ‘one big bucket’ approach to all mechanisms that true-up for forecast versus actual differences;
    - 7.12.5.2 a wash-up account that tracks accruals, balances, time-value-of-money, and drawdowns;
    - 7.12.5.3 the ability for the Commission to specify the pace of drawdown over subsequent regulatory periods, for the purpose of returning the wash-up account balance towards zero over time;
    - 7.12.5.4 the ability for suppliers to make early drawdowns of the wash-up balance provided it does not cause price-shocks;
    - 7.12.5.5 an implementation approach that where possible references “re-running” the models used to calculate allowable revenue, to simplify drafting;

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<sup>96</sup> The existing EDB IM includes a voluntary undercharging lower limit on the revenue path. We are retaining this for EDBs and, for consistency, extending it to the GTB IMs.

- 7.12.6 provide for a transition to the new wash-up mechanism by linking the wash-up account balance and drawdown for the start of the next regulatory period to the wash-up balances for the last two years of the current regulatory period;
- 7.12.7 confirm the change we proposed to our draft decision (in our further consultation) to the EDB and GTB IMs to ensure that the most up-to-date CPI inflation (actual and forecast) is used when determining the forecast net allowable revenue at the start of each regulatory year;
- 7.12.8 provide for a residual wash-up for differences between these updated forecasts and actual inflation as part of changes to the wash-up mechanism in para 7.10.5; and
- 7.12.9 wash-up allowable revenue for the first year of a regulatory period when inflation differs from expected inflation (we have made some technical amendments to the drafting of the wash-up provisions to implement this decision).
- 7.13 We have also made some minor technical amendments to the drafting of the wash-up provisions to improve readability and clarity.

### Why we are making these changes

- 7.14 Our reasons for making these changes can be found in the Financing and incentivising efficient expenditure during the energy transition topic paper at:
- 7.14.1 Attachment D; and
- 7.14.2 Chapter 4 (Topic 4b) in relation to the allowable revenue for the first year of a regulatory period when inflation differs from expected inflation.

### Current specification of price IM decision SP03

Decision SP03  Pass-through costs – EDBs and GDBs	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision – EDBs only</b></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>
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	<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: <a href="#">Input methodology amendments for electricity distribution services: Default price-quality paths (Reasons paper) (27 November 2014)</a></p> <p><b>2016 amendment to this decision</b></p> <p>We made two changes to extend the range of pass-through costs:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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.</li> </ul> <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 <a href="#">Topic paper 2: CPP requirements</a>.</p> <p><b>2019 amendment to this decision</b></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 <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019)</a>.</p>
This decision applies to the following sectors:	EDB/GDB

## Final decisions

7.15 Our final decision is to change IM decision SP03.

7.16 For EDBs, we have decided to:

7.16.1 reclassify recoverable costs relating to transmission services as pass-through costs; and

7.16.2 give effect to the transmission-related pass-through cost in the EDB IMs such that it:

7.16.2.1 refers to ‘investment agreement’ for consistency with the language in the Electricity Industry Participation Code 2010 (**Code**); and

7.16.2.2 prevents EDBs from double recovering costs for ‘investment agreements’ (paid to Transpower) and finance-related payments for such payments (paid to a third party).

7.17 For GDBs, we have decided to:

7.17.1 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

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

7.18 In implementing our decision to reclassify recoverable costs relating to transmission services as pass-through costs, we have made some minor technical improvements to the drafting of clauses 3.1.2 and 3.1.3 of the EDB IMs.

### **Why we are making these changes**

#### *Reclassification of transmission-related recoverable costs to pass-through costs*

7.19 The reasons for our decision to reclassify transmission-related costs as pass-through costs are discussed in Attachment D of the Financing and incentivising efficient expenditure during the energy transition topic paper.

#### *Drafting of transmission-related pass-through costs*

7.20 As part of our draft decisions relating to IM decision SP05 (recoverable costs), we proposed amending clause 3.1.3(1)(c) of the current EDB IM, which gives effect to the transmission-related recoverable cost, to:

7.20.1 change the reference from ‘new investment contracts’ (**NICs**) to ‘investment agreement’ for consistency with the Code; and

7.20.2 prevent EDBs from double recovering costs for ‘investment agreements’ (paid to Transpower) and finance-related payments for such payments (paid to a third party).

- 7.21 These draft decisions were supported by PowerNet and Orion.<sup>97</sup>
- 7.22 However, as a result of confirming our draft decision to reclassify transmission-related costs as pass-through costs, we have removed clause 3.1.3(1)(c) of the current EDB IM. Therefore, no change to this clause is required.
- 7.23 In accordance with the intent of our draft decision, we have decided to give effect to the transmission-related pass-through cost in the EDB IMs such that it:
- 7.23.1 refers to ‘investment agreement’ for consistency with the language in the Code;<sup>98</sup> and
- 7.23.2 prevents EDBs from double recovering costs for ‘investment agreements’ (paid to Transpower) and finance-related payments for such payments (paid to a third party).<sup>99</sup>
- 7.24 As this decision relates to the scope of pass-through costs, we have coded this as a decision to change IM decision SP03 (rather than SP05).

*Changes to the GDB pass-through costs*

- 7.25 The Electricity and Gas Complaints Commissioner Scheme is now called 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.
- 7.26 Similarly, the Commerce (Levy for Control of Natural Gas Services) Regulations 2005 have expired. Therefore, the pass-through cost for levies payable under these regulations is redundant. 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.
- 7.27 We received no submissions on these draft decisions. Accordingly, for the reasons above, our final decision is to confirm our draft decisions to:
- 7.27.1 update the dispute scheme levy pass-through cost to refer to the disputes scheme in s 43E of the Gas Act; and

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<sup>97</sup> [PowerNet "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 12.

[Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 22.

<sup>98</sup> Commerce Commission *Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023* [2023] NZCC 35, clause 3.1.2(2)(d)(i).

<sup>99</sup> Above.

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

### Current specification of price IM decision SP04

<p>Decision SP04</p> <p>Pass-through costs – GTBs</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2013 amendment to this decision</b></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: <a href="#">Amendments to input methodologies for gas distribution and transmission services: Reasons paper (26 February 2013)</a></p> <p><b>2016 amendment</b></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 <a href="#">Topic paper 2: CPP requirements</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>GTB</p>

### Final decision

- 7.28 Our final 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”. This confirms our draft decision.
- 7.29 This decision is the equivalent decision for GTBs to the decision under IM decision code SP03.

### Why we are making this change

- 7.30 The reasons for our decision are the same as those described above for IM decision SP03.

## Current specification of price IM decision SP05

<p>Decision SP05</p> <p>Recoverable costs – EDBs</p>	<p><b>Original 2010 decision</b></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 <a href="#">2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision (1)</b></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 (<b>SAIDI</b>) and System Average Interruption Frequency Index (<b>SAIFI</b>) 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: <a href="#">Input methodology amendments for electricity distribution services: Default price-quality paths (Reasons paper) (27 November 2014)</a></p> <p><b>2014 amendment to this decision (2)</b></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 been removed. The approval process will be set out in the DPP or CPP determination for the relevant regulatory period.</p> <p>See: <a href="#">Input methodology amendments for electricity distribution services: Default price-quality paths (Reasons paper) (27 November 2014)</a></p>
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**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 \(26 November 2019\)](#).

#### **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.

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.

See paragraphs 3.39-3.50 of [Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper \(26 November 2019\)](#).

	<p><b>2019 amendment to this decision (3)</b></p> <p>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 <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019)</a>.</p> <p><b>2020 amendment to this decision</b></p> <p>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"> <li>• avoided offering any new discounts when setting their prices; or</li> <li>• risked non-compliance with the price path.</li> </ul> <p>See <a href="#">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)</a>.</p>
This decision applies to the following sectors:	EDB

## Final decision

7.31 Our final decision is to change IM decision SP05 to:

- 7.31.1 introduce a 'reopener event allowance' recoverable cost which covers all reopener events;
- 7.31.2 remove the distributed generation allowance (**DGA**) recoverable cost, while retaining the 'spur asset' recoverable cost;
- 7.31.3 require EDBs to adjust recoverable costs to take into account costs that are common to regulated and unregulated services;

- 7.31.4 make changes to the innovation project allowance (**IPA**) mechanism to:
  - 7.31.4.1 rename and broaden the scope of the ‘IPA’ definition to ‘innovation and non-traditional solutions allowance’; and
  - 7.31.4.2 remove the ‘innovation project’ definition from the IMs;
- 7.31.5 reclassify transmission-related recoverable costs as pass-through costs; and
- 7.31.6 remove the recoverable costs associated with the ‘capex wash-up adjustment’ and ‘transmission asset wash-up adjustment’.

7.32 This confirms our draft decisions in respect of IM decision SP05.

### **Why we have made these changes**

#### Reopener event allowance

7.33 Our reasons for making this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

#### DGA recoverable cost

7.34 In our draft decision we noted that:

- 7.34.1 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.
- 7.34.2 The Electricity Authority (**EA**) has removed the requirement for EDBs to pay avoided cost of transmission (**ACOT**), effective from April 2023.<sup>100</sup>
- 7.34.3 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.<sup>101</sup>

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<sup>100</sup> Electricity Authority “[Avoided cost of transmission payments](#)”.

<sup>101</sup> Electricity Authority “[Distributed generation](#)”.

- 7.34.4 The DGA definition refers to ACOT.<sup>102</sup> 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).
- 7.34.5 There is also an ACOT-like recoverable cost to incentivise EDBs to purchase ‘spur assets’ from Transpower.<sup>103</sup> 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.<sup>104</sup> We do not propose removing this provision because there are still sub-transmission voltage assets that EDBs might take over from Transpower.
- 7.35 Our draft decision was supported by Orion.<sup>105</sup> The Independent Electricity Generators Association (**IEGA**) opposed this draft decision. The IEGA submitted that the DGA should be retained:<sup>106</sup>
- The IEGA submits the Commission should not remove the ‘Distributed Generation Allowance’ from recoverable Costs ... It seems unlikely that the proposed ‘Innovation and Non-Traditional Solutions Allowance’ could be used to compensate traditional non-network solutions. The new ‘Innovation and Non-Traditional Solutions Allowance’ is being interpreted very differently by EDBs and other stakeholders compared with the services distributed generation has and can continue to provide to EDBs. In our view, the distributed Generation Allowance continues to have a role.
- 7.36 Our final decision is to confirm our draft decision to remove the DGA recoverable cost, while retaining the ‘spur asset’ recoverable cost.
- 7.37 While we note that the IEGA opposes this change, we consider that the draft decision to remove the DGA recoverable cost should be confirmed. The definition of the DGA in the EDB IMs was based on avoided transmission charges. The EA noted in its decision paper that from April 2023, ACOT payments have been removed and that:<sup>107</sup>

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<sup>102</sup> Commerce Commission “[Electricity Distribution Services Input Methodologies Determination 2012](#)” (20 May 2020), clause 1.1.4(2).

<sup>103</sup> 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).

<sup>104</sup> The essence of the definition of ‘spur asset’ can be found in the [Electricity Distribution Services IMs](#), clause 3.1.3(1)(e).

<sup>105</sup> [Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 21.

<sup>106</sup> [Independent Electricity Generators Association \(IEGA\) "Cross-submission on IM Review 2023 Draft Decisions" \(9 August 2023\)](#), p. 3.

<sup>107</sup> Electricity Authority “[Avoided Cost of Transmission \(ACOT\) – TPM-related amendments – Decision paper](#)” (20 December 2022), p. 6.

price-quality regulated distributors cannot build ACOT payments into their target revenue via the 'distributed generation allowance' component of recoverable costs.

- 7.38 Therefore, the DGA recoverable cost has become redundant.<sup>108</sup> We consider that removing redundant provisions, such as this, promotes regulatory certainty and reduces complexity (without detrimentally affecting the promotion of the s 52A purpose).

#### Recoverable costs to be subject to cost allocation

- 7.39 In our draft decision we noted that:

7.39.1 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 under the current IMs.

7.39.2 Applying cost allocation to recoverable costs which are common to regulated and unregulated services better promote the Part 4 purpose by preventing suppliers from extracting excess profits.

7.39.3 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 draft decision prevents this by requiring common recoverable costs to be allocated between regulated and unregulated services.

7.39.4 The draft decision will create clearer boundaries between a regulated supplier's regulated/unregulated services.

- 7.40 Our draft decision was supported by PowerNet.<sup>109</sup>

- 7.41 Taking into account stakeholder views, and for the reasons set out above, we have decided to confirm our draft decision to require EDBs to adjust recoverable costs to take account of costs that are common to regulated and unregulated services.

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<sup>108</sup> The Electricity Authority intends to initiate a new workstream to consider incentives for investment in distributed generation to determine whether their efficiency can be improved. See Electricity Authority "[Avoided Cost of Transmission \(ACOT\) – TPM-related amendments – Decision paper](#)" (20 December 2022), para 4.2.

<sup>109</sup> [PowerNet "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 11.



### Innovation project allowance

- 7.42 Our reasons for making these changes 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

- 7.43 This change is necessary to support our overall suite of changes to improve the workability of the revenue path and wash-up mechanism.
- 7.44 In giving effect to our decision to reclassify transmission-related recoverable costs as pass-through costs in the EDB IMs, we have fixed a couple of drafting issues inherent in the current recoverable costs provisions. See our IM decision SP03 for details.<sup>110</sup>
- 7.45 Our reasons for making this change (and the other changes to the revenue path and wash-up mechanism) are explained in Attachment D of the Financing and incentivising efficient expenditure during the energy transition topic paper.

### Removal of specific wash-up recoverable costs

- 7.46 Our draft decision to remove the recoverable costs associated with the 'capex wash-up adjustment' and 'transmission asset wash-up adjustment' was supported by PowerNet.<sup>111</sup>
- 7.47 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.
- 7.48 Our final decisions on the overall wash-up mechanism are explained in Attachment D of the Financing and incentivising efficient expenditure during the energy transition topic paper.
- 7.49 Our reasons for IM changes relating to the calculation of the capex wash-up and capex wash-up adjustment are discussed in Attachment B of this report.

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<sup>110</sup> In the draft report, we proposed making these changes to IM decision SP05. However, as these decisions relate to the transmission-related pass-through cost (formerly a recoverable cost), we have decided it is more accurate to reflect these as decisions relating to IM decision SP03.

<sup>111</sup> [PowerNet "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 12.

## Current specification of price IM decision SP06

<p>Decision SP06</p> <p>Specification of price – GDBs</p>	<p><b>Original 2010 decision</b></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 <a href="#">2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2013 amendment to this decision</b></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: <a href="#">Amendments to input methodologies for gas distribution and transmission services: Reasons paper (26 February 2013)</a></p> <p><b>2016 amendment to this decision</b></p> <p>We amended this decision to add:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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</li> <li>• as discussed in the reasons for change in <a href="#">topic paper 2: CPP requirements</a>, a new recoverable cost allowance to allow suppliers to recover prudently incurred expenditure in response to an urgent project ('urgent project allowance').</li> </ul> <p>See Chapter 7, paragraphs 292-307 of the <a href="#">2016 Report on the IM Review</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>GDB</p>

## Current specification of price IM decision SP07

<p>Decision SP07</p> <p>Recoverable costs - GTBs</p>	<p><b>Original 2010 decision</b></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 <a href="#">2010 EDB-GPB IM reasons paper: Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment to this decision</b></p> <p>We amended this decision to add:</p> <ol style="list-style-type: none"> <li>1. as discussed in the reasons for change in <a href="#">topic paper 1: Form of control and RAB indexation</a>, a recoverable cost for the drawdown of the revenue cap wash-up balance;</li> <li>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;</li> <li>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;</li> <li>4. a recoverable cost for compressor fuel gas; and</li> <li>5. as discussed in the reasons for change in <a href="#">topic paper 2: CPP requirements</a>, a new recoverable cost allowance to allow suppliers to recover prudently incurred expenditure in response to an urgent project ('urgent project allowance').</li> </ol> <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 the <a href="#">2016 Report on the IM Review</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>GTB</p>

## Final decisions - for IM decisions SP06 and SP07

7.50 Our final decisions are to change IM decisions SP06 and SP07 to:

- 7.50.1 introduce the 'reopener event allowance' recoverable cost to the GDB and GTB IMs;
- 7.50.2 introduce an additional recoverable cost for FENZ levies to the GDB and GTB IMs;
- 7.50.3 require GDBs and GTBs to adjust their recoverable costs to take account of costs that are common to regulated and unregulated services; and
- 7.50.4 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 (**MDL**) pipeline.

- 7.51 This confirms our draft decisions in respect of changes to IM decisions SP06 and SP07.

### **Why we are making these changes - IM decisions SP06 and SP07**

#### *Reopener event allowance*

- 7.52 Our reasons for this decision are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

#### *Recoverable cost for FENZ levies*

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

- 7.54 This issue was identified by First Gas in its submission on the Process and issues Paper:<sup>112</sup>

... 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.

- 7.55 Our draft decision to treat FENZ levies as a recoverable cost in the GTB and GDB IMs was intended to create cross-sector consistency, which promotes greater certainty for regulated suppliers and consumers as to the treatment of these levies.
- 7.56 We received no submissions on this point. Therefore, for the reasons above, we have decided to confirm our draft decision.

#### *Recoverable costs to be subject to cost allocation*

- 7.57 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.

- 7.58 In making our draft decision to require GDBs and GTBs to apply cost allocation to recoverable costs, we noted that:

7.58.1 This better promotes the Part 4 purpose by preventing suppliers from extracting excess profits.

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<sup>112</sup> [First Gas Limited "Submission on IM Review Process and issues paper and draft Framework paper" \(13 July 2022\)](#), p. 29.

7.58.2 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 draft decision was intended to prevent this by requiring common recoverable costs to be allocated between regulated and unregulated services.

7.58.3 This proposed change will create clear boundaries between a regulated supplier's regulated/unregulated services.

7.59 We received no submissions on this draft decision. Therefore, for the reasons set out above, we have decided to confirm our draft decision to require GDBs and GTBs to adjust their recoverable costs to take account of costs that are common to regulated and unregulated services.

### *Compressor fuel*

7.60 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).

7.61 This treatment is inconsistent per se and inconsistent with our framework for recoverable costs.

7.62 Our draft decision to treat all compressor fuel gas costs as recoverable costs (irrespective of where on the network it is used) was intended to:

7.62.1 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));

7.62.2 ensure the IMs (and price-quality paths) are consistent with the expectation of a normal return principle; and

7.62.3 reduce compliance cost and complexity.

### Promoting the Part 4 purpose and expectation of a normal return

7.63 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.

7.64 Our framework for assessing this was most recently articulated when setting the IMs for Fibre:<sup>113</sup>

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.

7.65 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.

7.66 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

7.67 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.

#### Stakeholder views and final decision

7.68 We received no submissions on our draft decision to amend the GTB IMs to provide a recoverable cost for all 'compressor fuel' used on the transmission network.

7.69 Accordingly, for the reasons set out above, we have decided to confirm our draft decision.

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<sup>113</sup> 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.

## Current specification of price IM decision SP09

<p>Decision SP09</p> <p>Pass-through costs - Transpower</p>	<p><b>Original 2010 decision</b></p> <p>The IM includes a list of pass-through costs and a process for adding new pass-through costs.</p> <p>The list of path-through costs includes local authority rates and regulatory levies.</p> <p>See section 7.3 of <a href="#">2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2019 amendment to this decision</b></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: <a href="#">Amendments to the Transpower IM Determination, Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Final decision

7.70 Our final decision is to change IM decision SP09 to require Transpower to adjust its pass-through costs to take account of costs which are common to regulated and unregulated services. This requirement only applies if Transpower's common costs (costs not directly attributable) exceed 2% of its operating costs or asset values associated with regulated services over a disclosure year.

7.71 This confirms our draft decision.

### Why we are making this change

7.72 In making our draft decision, we considered that requiring Transpower to adjust its pass-through costs to take account of costs which are common to regulated and unregulated services will better promote the Part 4 purpose by preventing Transpower from extracting excess profits.

7.73 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.

- 7.74 Our proposed change was intended to limit 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.
- 7.75 As set out at IM decision CA07, we proposed requiring 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) exceed 2% of its operating costs or asset values associated with regulated services over a disclosure year.
- 7.76 Transpower submitted that it accepted this draft decision.<sup>114</sup>
- 7.77 Accordingly, for the reasons outlined above, we have decided to confirm our draft decision to require Transpower to adjust its pass-through costs to take account of costs which are common to regulated and unregulated services, if Transpower's common costs exceed 2% of its operating costs or asset values associated with regulated services over a disclosure year.

### Current specification of price IM decision SP10

Decision SP10  Recoverable costs – Transpower	<p><b>Original decision</b></p> <p>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:  <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision (1)</b></p> <p>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: <a href="#">Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</a></p>
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<sup>114</sup> [Transpower "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 23.



	<p><b>2014 amendment to this decision (2)</b></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"> <li>• 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);</li> <li>• 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</li> <li>• 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)</li> </ul> <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: <a href="#">Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</a></p> <p><b>2019 amendment to this decision</b></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, <a href="#">Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019)</a></p>
This decision applies to the following sectors:	Transpower

## Final decision

- 7.78 Our final decision is to change IM decision SP10 to:
- 7.78.1 require Transpower to adjust its recoverable costs to take account of those costs which are common to regulated and unregulated services. This requirement only applies if Transpower's common costs (costs not directly attributable) exceed 2% of its operating costs or asset values associated with regulated services over a disclosure year; and
  - 7.78.2 provide Transpower with the 'reopener event allowance' recoverable cost.<sup>115</sup> This decision is the equivalent decision for Transpower to the decision under decision code SP05.

## Why we are making this change

### *Requirement to allocate recoverable costs common to regulated and unregulated services*

- 7.79 In making our draft decision, we considered that requiring Transpower to adjust its recoverable costs to take account of those costs which are common to regulated and unregulated services would better promote the Part 4 purpose by limiting Transpower's ability to extract excessive profits.
- 7.80 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.
- 7.81 Our proposed change was intended to limit 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.
- 7.82 As set out at IM decision CA07, this requirement only applies if Transpower's common costs (costs not directly attributable) exceed 2% of its operating costs or asset values associated with regulated services over a disclosure year.
- 7.83 Our draft decision was accepted by Transpower in its submission.<sup>116</sup>

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<sup>115</sup> In our draft decision, we provided for the 'reopener event allowance' recoverable cost to apply to EDBs and GTBs. In our final decision, we have extended this to also apply to Transpower.

<sup>116</sup> [Transpower "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 23.

- 7.84 Accordingly, for the reasons set out above, we have decided to confirm our draft decision to require Transpower to adjust its recoverable costs to take account of costs which are common to regulated and unregulated services, if Transpower's common costs exceed 2% of its operating costs or asset values associated with regulated services over a disclosure year.

#### *Reopener event allowance*

- 7.85 Our reasons for providing Transpower with the 'reopener event allowance' recoverable cost is set out in chapter 5 of the CPP and in-period adjustment mechanisms topic paper.

### **Current specification of price IM decision SP11**

<p>Decision SP11</p> <p>Recoverable cost for additional revenue – Alpine/Top Energy/Centralines</p>	<p><b>Original decision</b></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><a href="#">Input methodology amendments for electricity distribution services: Default price-quality paths (Reasons paper) (27 November 2014)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB (Alpine Energy, Top Energy and Centralines only)</p>

#### **Final decision**

- 7.86 Our final decision is to change IM decision SP11 to remove the '2013-15 NPV wash-up allowance' recoverable cost from the EDB IM. This confirms our draft decision.

#### **Why we are making this change**

- 7.87 When making our draft decision, we noted that the 2013-15 NPV wash-up allowance is no longer relevant and should be removed from the EDB IMs.
- 7.88 Removing this redundant recoverable cost promotes greater certainty about the scope of these costs and reduces the complexity of the EDB IMs.

7.89 The draft decision was supported by PowerNet and Orion.<sup>117</sup> Accordingly, for the reason above, we have decided to confirm our draft decision to remove the '2013-15 NPV wash-up allowance' recoverable cost from the EDB IM.

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<sup>117</sup> [PowerNet "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 12.

[Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 23.

## Chapter 8 Reconsideration of price-quality path decisions that we are changing

### Current reconsideration of price-quality path IM decision RP01

<p>Decision RP01</p> <p>Reconsideration of DPP</p>	<p><b>Original 2010 decision</b></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:  <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment</b></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).</p> <p>Wellington International Airport Ltd &amp; Ors v Commerce Commission [2013] NZHC 3289 [11 December 2013].</p> <p><b>2016 amendment</b></p> <p>In 2016, we changed the DPP reconsideration provisions to:</p> <ul style="list-style-type: none"> <li>• expand the existing DPP ‘error’ reopener provision for EDBs, GDBs and GTBs;</li> <li>• 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</li> <li>• introduce a new reopener provision to allow a price-quality path to change in response to a major transaction for EDBs, GDBs and GTBs.</li> </ul> <p>See Chapter 8, paragraphs 334-346 of 2016 Report on the IM Review:  <a href="#">Input methodologies review decisions: Report on the IM review (20 December 2016)</a></p> <p><b>2019 amendment (1)</b></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 (<b>capex</b>) for:</p> <ul style="list-style-type: none"> <li>• new connections (including alterations to existing connections);</li> <li>• system growth;</li> <li>• a combination of new connections (including alterations to existing connections) and system growth; and</li> <li>• asset relocations.</li> </ul>
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	<p>We considered these amendments were likely to better promote the Part 4 purpose because:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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.</li> </ul> <p>See paragraphs 3.98-3.128 of <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019)</a>.</p> <p><b>2019 amendment (2)</b></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 <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019)</a>.</p> <p><b>2022 amendment</b></p> <p>We made amendments to introduce reopeners to address 02.1 and risk events that apply to individual projects or programmes. We:</p> <ul style="list-style-type: none"> <li>• amended the Gas IMs to allow for capacity and risk event reopeners;</li> <li>• 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.</li> </ul> <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 that we 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 <a href="#">Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths: Reasons paper (30 May 2022)</a>.</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.

## Current reconsideration of price-quality path IM decision RP01.1

Decision RP01.1 System growth capex	<b>Current IM decision</b> 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

### Final decision

8.2 Our final decision is to change IM decision RP01.1 by amending the EDB IM by refining the definitions of ‘system growth capex’ and ‘connection capex’.

#### *Refinements to definition*

8.3 As part of our draft decision, we proposed refining the definitions of ‘system growth capex’ and ‘connection capex’ to align these definitions with standard practice where definitions are stated using one sentence, rather than multiple sentences. This was intended to reduce regulatory complexity.

8.4 We received no submissions on this draft decision. Accordingly, to promote an internally consistent approach to definitions, we have decided to confirm our draft decision to refine the definitions of ‘system growth capex’ and ‘connection capex’.

## Current reconsideration of price-quality path IM decision RP01.2

Decision RP01.2 Resilience capex	<b>Current IM decision</b> 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

### Final decision

- 8.5 Our final 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 resilience-related capex; and
  - 8.5.2 the GDB and GTB IMs to include a new (separate) reopener for capex relating to resilience and asset relocation, and include within the expenditure for 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.

### Why we are making this change

- 8.6 Our reasons for making this change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision RP01.3

Decision RP01.3	<b>Current IM decision</b>
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

### Final decision

- 8.7 Our final 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:
- 8.7.1 1% of the EDB's forecast net allowable revenue (**FNAR**) for the regulatory period; or
  - 8.7.2 \$5 million for Vector Limited or PowerCo Limited, or \$2.5 million for any other EDB;

### Why we are making this change

- 8.8 Our reasons for making this change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms topic paper.



## Current reconsideration of price-quality path IM decision RP01.4

Decision RP01.4 Consideration of whether an application is better suited to a CPP	<b>Current IM decision</b> 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

### Final decision

8.9 Our final decision is to change IM decision RP01.4 by amending the IMs to include a new clause to provide 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 making this change

8.10 Our reasons for making this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current reconsideration of price-quality path IM decision RP01.5/RP02.5

Decision RP01.5 RP02.5 Threshold to trigger the major transaction reopener	<b>2016 amendment to this decision</b> In 2016 we changed the CPP reconsideration provisions to: <ul style="list-style-type: none"> <li>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);</li> <li>expand the scope of the existing ‘error’ reopener provision;</li> <li>introduce a new reopener provision to allow a CPP to change in response to a major transaction for EDBs, GDBs and GTBs; and</li> <li>introduce a contingent and unforeseen project reopener for EDBs and GDBs.</li> </ul> See Chapter 8, paragraphs 347-352 of the <a href="#">2016 Report on the IM Review</a> .
This decision applies to the following sectors:	EDB/GDB/GTB

### Final decision

8.11 Our final decision is to refine IM decision RP01.5/RP02.5 by amending the EDB, GDB and GTB IMs 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.

8.12 This confirms our draft decision.

### Why we are making this change

- 8.13 The 10% threshold to trigger the major transaction reopener is intended to apply to a regulated supplier's total opening RAB value.
- 8.14 In our draft decision, we noted that:
- 8.14.1 we were 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; and
  - 8.14.2 the proposed change was intended to better promote the s 52R purpose by removing any ambiguity about the threshold for triggering the major transaction reopener.
- 8.15 This draft decision was supported by PowerNet.<sup>118</sup> Accordingly, for the reasons above, we have decided to confirm our draft decision.

### Current reconsideration of price-quality path IM decisions RP01.6, RP02.6 and RP05.6

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

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<sup>118</sup> [PowerNet "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 14.

### Final decision

8.16 Our final 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, of a type specified that occurs in the period that:

8.16.1 begins on the date that is 12 months before the start of the regulatory period; and

8.16.2 ends at the end of the regulatory period.

### Why we are making this change

8.17 Our reasons for making this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current 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	<b>Current IM decision</b> 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

### Final decision

8.18 Our final 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 making this change

8.19 Our reasons for making this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current 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	<b>Current IM decision</b> 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.
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This decision applies to the following sectors:	EDB/GDB/GTB/Transpower
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### Final decision

8.20 Our final 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:

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

8.20.2 the Commission decides whether:

8.20.2.1 it is satisfied a reopener event has occurred;

8.20.2.2 to reconsider the price-quality path; and

8.20.2.3 to amend a price-quality path.

### Why we are making this change

8.21 Our reasons for making this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decisions RP01.9, RP02.9 and RP05.9

Decisions RP01, RP02 and RP05  Considerations the Commission must have regard to	<b>Current IM decision</b>  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

### Final decision

8.22 Our final 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 making this change

8.23 Our reasons for making this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decisions RP01.10, 0 and RP05.10

Decisions RP01, RP02 and RP05 Confidentiality clause for reopener applications	<b>Current IM decision</b> 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

### Final decision

8.24 Our final 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.<sup>119</sup>

### Why we are making this change

8.25 Our reasons for making this change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision RP01.11, RP02.11 and RP05.11

Decisions RP01, RP02 and RP05 GAAP changes	<b>Current IM decision</b> 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

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<sup>119</sup> Commerce Commission *Fibre Input Methodologies Determination 2020* [2020] NZCC 21, clause 3.7.6.I.  
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## Final decision

- 8.26 Our final decision is to amend the EDB, GDB, GTB and Transpower IMs to change how the impact of GAAP changes is assessed in the Change event reopener to remove the potential for windfall gains and losses.

## Why we are making this change

- 8.27 Our reasons for making this change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current 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><b>Current IM decision</b></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>

## Final decisions

- 8.28 Our final decision is to:
- 8.28.1 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; and
  - 8.28.2 amend the Transpower IM to require the Commission when amending the price path not to amend it by more than the prudent net additional expenditure incurred in responding to the reopener event.

## Why we are making these changes

- 8.29 Our reasons for making these changes are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current reconsideration of price-quality path IM decision RP02.1

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

### Final decision

8.30 Our final decision is to amend:

8.30.1 the EDB Unforeseeable major capex project and the Foreseeable major capex project reopens in the EDB IMs; and

8.30.2 the Capacity event reopens 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 making this change

8.31 Our reasons for making this change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current reconsideration of price-quality path IM decision RP03.1

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

### Final decision

8.32 Our final 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:

8.32.1 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;

8.32.2 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

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

### Why we are making this change

8.33 Our reasons for making this change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision RP03.2

<p>Decision RP03</p> <p>Change the basis for establishing the threshold for Change events (not relating to GAAP)</p>	<p><b>Current IM decision</b></p> <p>The current IMs require the threshold for Change events (not relating to GAAP) 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>

### Final decision

8.34 Our final decision on the reopener lower materiality thresholds (for EDBs, GDBs, GTBs and Transpower) is to change the basis for establishing the threshold for the Change event reopener, not relating to GAAP changes, from an 'impact on revenue' test, to an 'incurred cost' test:

8.34.1 for EDBs, the threshold is 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;

8.34.2 for GDBs and GTBs, the threshold is that the total cost incurred in responding to the event exceeds \$100,000 for GasNet Limited or \$2 million for all other GDBs and the GTB; and

8.34.3 for Transpower, the threshold is that the total cost incurred in responding to the event exceeds \$5 million.

### Why we are making this change

8.35 Our reasons for making this change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.



### Current reconsideration of price-quality path IM decision RP03.3

Decision RP03 Change the threshold for Error events	<b>Current IM decision</b> 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

#### Final decision

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

#### Why we are making this change

8.37 Our reasons for making this change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision RP03.4

Decision RP03 Raise the thresholds for Foreseeable and Unforeseeable large project reopeners	<b>Current IM decision</b> 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

#### Final decision

8.38 Our final decision is to retain the '1% of FNAR revenue' threshold, applied on a 'cost incurred' test, for the EDB Foreseeable large project reopener and Unforeseeable large project reopener, but raise the existing dollar thresholds that could apply to \$5 million for Vector Limited and PowerCo Limited, or \$2.5 million for any other EDB.

#### Why we are making this change

8.39 Our reasons for making this change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current reconsideration of price-quality path IM decision RP03.5

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

### Final decision

8.40 Our final decision is to remove the \$30 million upper threshold.

### Why we are making this change

8.41 Our reasons for making this change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current reconsideration of price-quality path IM decision RP03.6

Decision RP03 Revise the impact on revenue test for Change events reopeners relating to GAAP	<b>Current IM decision</b> 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

### Final decision

8.42 Our final decision is to revise the impact on revenue test for Change event reopeners relating to GAAP changes to be based on whether if changes had been in place at the time of the price path reset, there would have been a different price path, rather than a cost incurred test, with the thresholds being:

- 8.42.1 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;
- 8.42.2 for GPBs, the impact of the event exceeds \$100,000 for GasNet Limited or \$2 million for all other GPBs; and
- 8.42.3 for Transpower, the impact of the event exceeds \$5 million.

### Why we are making this change

- 8.43 Our reasons for making this change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision RP03.7

Decision RP03	<b>Current IM decision</b>
Include consequential opex into materiality thresholds for Capacity events and Risk events for GPBs	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

### Final decision

- 8.44 Our final decision is to extend the materiality threshold for a Capacity event and Risk event reopener to include consequential opex as well as incurred capex.
- 8.45 In particular, in the case of system growth expenditure that includes an opex solution, the relevant expenditure in the threshold is the forecast total lifetime solution costs plus any consequential capex or, in any other case, the forecast total value of commissioned assets for the project or programme less any capital contributions, less any amounts included in the GDB's capex forecast and provided for by the Commission in setting the DPP to which the reopener event relates, and plus any forecast consequential opex for the regulatory period.

### Why we are making this change

- 8.46 Our reasons for making this change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision RP07

Decision RP07	<b>2014 amendment</b>
Annual reconsideration for effect of major capex and listed projects	<p>The amendment provides a mechanism for Transpower to apply for, and the Commission to approve, additional base capex for inclusion within Transpower's price path during a regulatory period in respect of large-scale replacement and refurbishment projects, which are referred to as 'listed projects'.</p> <p>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.</p>

	<p>See <a href="#">Amendments to input methodologies for Transpower to provide a listed project mechanism: Reasons paper (27 November 2014)</a>.</p> <p><b>2019 amendment</b></p> <p>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 –</p> <ul style="list-style-type: none"> <li>• the revenue impact of major capex approved by the Commission; and</li> <li>• the revenue impact of any base capex approved by the Commission for a listed project on the forecast smooth maximum allowable revenue (<b>SMAR</b>).</li> </ul> <p>See paragraph 3.7.4(4) of Transpower IM Amendments Determination 2019: <a href="#">Transpower Input Methodologies Amendments Determination [2019] NZCC 10</a>.</p> <p>The Transpower IM determination was amended to provide that Transpower’s IPP may be reconsidered to take into account a large buildup in the economic value (<b>EV</b>) account balance only in circumstances where:</p> <ul style="list-style-type: none"> <li>• a large buildup 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;</li> <li>• 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 buildup in the EV account balance;</li> <li>• the forecast that a large buildup 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</li> <li>• if Transpower applies for a reconsideration of the IPP for this reason, that application: <ul style="list-style-type: none"> <li>○ relates to the remaining complete pricing years in the regulatory period; and</li> <li>○ 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.</li> </ul> </li> </ul> <p>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.</p> <p>See paragraphs 2.49 – 2.59 of Amendments to Transpower IMs – Reasons Paper (August 2019): <a href="#">Amendments to input methodologies for Transpower New Zealand Limited – Reasons Paper (28 August 2019)</a>.</p>
This decision applies to the following sectors:	Transpower

## Final decision

- 8.47 Our final decision is to lower the threshold for the Transpower IM 'large buildup in economic value (EV) account balance' reopener from greater than 10% (>10%) to greater than 5% (>5%) of the forecast smooth maximum allowable revenue (SMAR) for the final pricing year of the relevant regulatory period.

## Final reasons

### *Draft decision*

- 8.48 Our draft decision was to make no change, and we saw no need for a change on two related decisions:
- 8.48.1 IM decision RP07, which, among other things, includes the threshold for the large buildup in EV account balance,<sup>120</sup> and
  - 8.48.2 IM decision SP08, which provides for how Transpower may draw down the EV account balance as allowable revenue.

### *Stakeholder views*

- 8.49 Transpower was the only party to submit on our draft decisions for IM decision SP08. Transpower submitted:<sup>121</sup>

In RCP1 and RCP2, the price path was updated annually, and the EV account balance was recovered two years in arrears.

A change to a five-year wash-up was made in RCP3 to reduce intra-period volatility (year-to-year). With experience of the account balances during RCP3 and forecast for RCP4, we now consider inter-period volatility (RCP to RCP) a much larger concern.

We ask the Commission returns Transpower to an annual EV account wash-up (akin to its application in RCP2).

- 8.50 Transpower explained why it now considers inter-period volatility to be a larger concern than in-period volatility as follows:<sup>122</sup>

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<sup>120</sup> We restructured the Transpower reopener (and EDBs and Gas) to more closely match the Fibre IMs reopener structure. The aim was to make it easier for suppliers to prepare for a reopener, and to clarify the evaluation assessment process. As part of these changes, we clarified that the large buildup in EV account balance reopener is a reopener for which Transpower applies (as opposed to the Commission instigating it).

<sup>121</sup> [Transpower "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), para 176-178.

<sup>122</sup> [Transpower "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), para 179.

- 8.50.1 With a five-year wash-up, long-term macroeconomic trends can have a compounding effect on Transpower's ex-post wash-up outcome. This amount is not fully recovered from customers until 2030 – all the while accumulating interest at the post-tax WACC.
- 8.50.2 The effect of inter-period EV account balance volatility can be amplified by other differences in regulatory periods that have the effect of moving revenue in the same direction.<sup>123</sup>
- 8.50.3 The expected change in revenue between 2025 and 2026 solely due to movements in the EV account is approximately \$75 million.
- 8.50.3.1 For Regulatory Control Period (**RCP**) 2, the EV account balance closed at (\$73 million) to be returned to customers during RCP3. This translates to an expected reduction in the 2025 SMAR of approximately \$25 million.
- 8.50.3.2 The forecast increase in first year revenue of RCP4 in 2026 to recover one fifth of the closing RCP3 EV account balance of \$150 million is approximately \$50 million.
- 8.50.4 Transpower acknowledges that the EV account also could have an offsetting effect on other regulatory changes but considers it prudent to mitigate outcomes that produce significantly large inter-period volatility as opposed to smaller intra-period volatility.
- 8.50.5 Transpower also submitted that while there will be compliance costs attached to an annual wash-up, it expects the benefits of the wash-up change to consumers will more than offset costs.

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<sup>123</sup> For example, Transpower currently projects a forecast closing EV account balance for RCP3 of approximately \$150 million, which would equate to an increase in SMAR in 2026 of approximately \$50 million (including other costs such as tax). Transpower submitted that this increase coincides with a significant change in the risk-free rate between RCP3 and RCP4.

- 8.51 While no party cross-submitted on Transpower’s submission, other submissions we received indicate that low in-period volatility (and hence predictability) of transmission charges remain important for some transmission customers.<sup>124</sup> Our RCP3 draft decisions paper summarised stakeholders’ previous submissions on this matter.<sup>125</sup>

### *Analysis*

- 8.52 A key reason for adopting a smoothed maximum allowable revenue (**MAR**) for Transpower (including the related IM decision SP08 in 2019 to the EV account drawdown) was to reduce in-period volatility and hence improve predictability of transmission pricing, reducing compliance costs for Transpower and reducing complexity for consumers (without detrimentally affecting the promotion of the s 52A purpose).<sup>126</sup>
- 8.53 To help manage price-shock to Transpower’s customers when we set Transpower’s allowable revenue for the next regulatory period, we also provided for a reopener if there is a ‘large buildup in EV account balance’.<sup>127</sup>
- 8.54 In general, the potential for significant step changes in revenue from one regulatory period to the next has been a feature of price-quality regulation under Part 4. We acknowledge that the IMs’ approach to the EV account drawdown can amplify inter-period step changes in revenue. As Transpower also acknowledges (para 8.50.4 above), the EV account may also *reduce* inter-period volatility.

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<sup>124</sup> For example, Contact Energy submitted in the context of our draft decision to make transmission charges a pass-through cost: “While we appreciate the concerns from the EDBs, this proposal takes little to no consideration of the impact this could have on consumers. We consider that lines companies will be better placed to manage price volatility than will end consumers. A more consumer centric approach would be to retain the current obligations on EDBs but put greater obligations on Transpower to share some of the burden of smoothing prices for consumers. For example, it may be appropriate to set a ‘revenue smoothing limit’ on Transpower that applies at a regional level, and better accounts for the volatility from the yearly re-openers.”

[Contact Energy "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), para 39-40.

<sup>125</sup> Commerce Commission [“Transpower’s individual price-quality path from 1 April 2020 Draft decisions and reasons paper”](#) (29 May 2019), para J63.

<sup>126</sup> Commerce Commission [“Amendments to input methodologies for Transpower New Zealand Limited”](#) (28 August 2019), para 2.39-2.43.

<sup>127</sup> Commerce Commission [“Amendments to input methodologies for Transpower New Zealand Limited”](#) (28 August 2019), para 2.54.

- 8.55 We consider that the status quo for IM decision SP08 (ie, the accrual of wash-ups over the previous regulatory period is drawn down in the next regulatory period) better promotes the overarching objectives of our Framework than Transpower's proposal.
- 8.55.1 The status quo reduces complexity for transmission customers and consumers (without detrimentally affecting the promotion of the s 52A purpose) and improves the predictability of transmission charges within a regulatory period.
- 8.55.2 Compared to retaining the status quo, changing the EV account drawdown as Transpower proposes would entail increased compliance costs for Transpower.<sup>128</sup>
- 8.56 However, we share Transpower's concern that the EV account build-up could contribute to price shock. Specifically, we consider the current threshold of 10% for a 'large buildup in EV account balance' reopener (IM decision RP07), when combined with compounding effects of other future trends (such as increases in the cost of capital) may contribute to price shocks for consumers from one regulatory period to the next.
- 8.57 To mitigate this risk, we have decided to lower the reopener threshold to greater than 5% of the forecast SMAR for the final year of the regulatory period. We expect a >5% reopener threshold to be more effective at mitigating inter-period price shocks from large EV account build-ups than a >10% threshold. This would also complement our decision to make no change to the current approach to the EV account drawdown (IM decision SP08), which reduces intra-period volatility.

*Drafting changes for readability and clarity*

- 8.58 We have also made some minor technical amendments to the drafting of the in-period adjustment provisions to improve readability and clarity.

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<sup>128</sup> We note Transpower's view that these costs would be more than offset by the benefits of reducing inter-period step changes in transmission charges.



## Chapter 9 Amalgamation decisions that we are changing

### Current amalgamation IM decision AM01

<p>Decision AM01</p> <p>No price reset following amalgamation</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

### Final decision

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

### Why we have made this change

#### *Reasons for our draft decision*

- 9.3 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.
- 9.4 However, the way that the IM was drafted has stopped us from reopening the DPP following an amalgamation for any reason, which is not consistent with the policy intent.
- 9.5 The proposed change was intended to improve the certainty of the IMs for suppliers by ensuring that the IMs accurately and clearly reflect the policy intent.

#### *Stakeholder views*

- 9.6 Our draft decision was supported by PowerNet and Orion.<sup>129</sup>

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<sup>129</sup> [PowerNet "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 17.

[Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 30.

9.7 Harbour Asset Management also commented on our draft decision, noting the importance of access to capital if the industry faces a step change in required investment, and the role of consolidation as a potential solution:<sup>130</sup>

... we ask that, as with implementing reopeners or a CPP, the Commission realises that the less friction it can cause when appraising merger proposals, the more easily the capital necessary for decarbonisation can flow to constrained entities.

*Analysis and final decision*

9.8 Our final decision is to maintain our draft decision to make an editorial refinement to IM decision AM01.

9.9 We note the points raised by Harbour Asset Management. As discussed in our reasons above, the intent of this change is to improve the certainty of the IMs when there is a merger between regulated suppliers.

9.10 Our review of the IMs that relate to suppliers' incentives and ability to invest efficiently are presented in chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

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<sup>130</sup> [Harbour Asset Management "Written submission on the IM Review 2023 Draft Decisions provided via email" \(19 July 2023\)](#), p. 2.

## Chapter 10 IRIS decisions that we are changing

### New IRIS IM decision codes IR11 and IR12

<p>Decision IR11; IR12</p> <p>IRIS to-apply - EDBs</p>	<p><b>Current IM decision</b></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>

#### Final decision

- 10.1 Our final decision is to create new IM decision codes IR11 and IR12 as follows:
- 10.1.1 change our approach to using the mid-point vanilla WACC as the discount rate for calculating the operating expenditure (**opex**) incentive rate;
  - 10.1.2 calculate the IRIS incentive amounts based on CPI-adjusted allowances for opex and capital expenditure (**capex**) to remove the impact of economy-wide inflation;
  - 10.1.3 remove clauses 3.3.15 to 3.3.17 and the associated definitions;<sup>131</sup> and
  - 10.1.4 remove spent IRIS transitional provisions.

#### Why we are making these changes

##### *Draft decision*

- 10.2 Our draft decision was to create new EDB IM decision codes IR11 and IR12 as follows:
- 10.2.1 changing our approach to using the mid-point vanilla WACC as the discount rate for calculating the opex incentive rate;

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<sup>131</sup> Those definitions include: actual controllable opex; allowed controllable opex; forecast CPI for IRIS transitional provision; incremental adjustment term; and inflation rate.

- 10.2.2 calculating the IRIS incentive amounts based on CPI-adjusted allowances for opex and capex to remove the impact of economy-wide inflation; and
- 10.2.3 removing clauses 3.3.15 to 3.3.17 and the associated definitions.<sup>132</sup>

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

- 10.3 Our reasons for making these IM changes are discussed in the Financing and incentivising efficient expenditure during the energy transition topic paper (Topics 5c and 5f).
- 10.4 In implementing the EDB IM changes to use the mid-point vanilla WACC as the discount rate for calculating the opex incentive rate, we have made one minor correction to our draft changes to the definition of ‘mid-point estimate of WACC’.<sup>133</sup> Our draft changes to this definition had inadvertently applied the mid-point vanilla WACC to all Part 3 IMs, rather than just as the discount rate for calculating the opex incentive rate. We have narrowed the changes, so they only capture the IRIS IMs in subpart 3 of Part 3 of the EDB IM, and do not apply to other Part 3 IMs where the post-tax WACC continues to apply.<sup>134</sup>

*Remove clauses 3.3.15 to 3.3.17 of the EDB IMs*

- 10.5 Clauses 3.3.15 to 3.3.17 of the EDB IMs relate to the calculation of annual incremental changes and adjustment term for the CPP regulatory period, the determination of the amount to be taken into account as a recoverable cost and calculating gains and losses after a catastrophic event.
- 10.6 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.
- 10.7 As these clauses will no longer apply after 1 April 2025, we proposed in our draft decision to remove these clauses with effect from this date.

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<sup>132</sup> Those definitions include: actual controllable opex; allowed controllable opex; forecast CPI for IRIS transitional provision; incremental adjustment term; and inflation rate.

<sup>133</sup> We note this correction was not required to implement the mid-point vanilla WACC as the discount rate for calculating the opex incentive rate in the Transpower IMs.

<sup>134</sup> For example, the calculation of the time value of money adjustment for the wash-up account uses the post-tax WACC. See Commerce Commission [“Input methodologies review decisions – topic paper 1: Form of control and RAB indexation for EDBs, GPBs and Transpower” \(20 December 2016\)](#), at para 163.4.

- 10.8 We considered that the removal of these redundant provisions reduces regulatory complexity and promotes greater certainty as to the rules and requirements applying to regulated suppliers.
- 10.9 ENA endorsed our draft decision to remove clauses 3.3.15 to 3.3.17 of the EDB IM (and associated definitions). Therefore, for the reasons above, we have decided to confirm our draft decision.

*Remove spent IRIS transitional provisions in the EDB IMs*

- 10.10 In its submission on our draft decision, ENA recommended we remove the IRIS transitional provisions at clauses 3.3.2(3), 3.3.3(6), and 3.3.10(3) of the current EDB IMs as they are no longer required.<sup>135</sup>
- 10.11 These provisions specify disclosure years for which no ‘opex incentive amount’, ‘amount carried forward’, and ‘capex incentive amount’ should be calculated.
- 10.12 We agree with ENA that, given the relevant disclosure years have since ended, these provisions are spent (ie, have no practical effect). The provisions (and any cross-references) can therefore be removed to reduce complexity and any uncertainty from the IMs.

## Current IRIS IM decision IR04

<p>Decision IR04</p> <p>IRIS to apply under an IPP (Transpower)</p>	<p><b>Original 2010 decision</b></p> <p>The Commission will implement an IRIS under an IPP. 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 7.5 of 2010 Transpower IM reasons paper:  <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2017 amendment to this decision (as part of IM review)</b></p> <p>We made an adjustment to the IRIS mechanism so that it no longer assumed that IPP forecasts incorporate permanent savings made by Transpower in Year 4. This required an adjustment to the definition of the baseline adjustment term in the Transpower IRIS IM.</p> <p>This adjustment addressed the problem that arose from the IRIS mechanism assuming that any permanent savings made up to, and including, Year 4 are incorporated in Transpower's IPP forecast. In the absence of an adjustment, the reward for permanent savings would be almost twice the intended amount.</p> <p>See Chapter 3: Issue 1 - Interaction between the IRIS and the IPP forecast, of Input</p>
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<sup>135</sup> Electricity Networks Aotearoa (ENA) “[Appendix D – IM Practicality Issues Log](#)” (19 July 2023), Transitional Provisions sheet.

	<p>methodologies review final decision: <a href="#">Transpower Incremental Rolling Incentive Scheme (29 June 2017)</a>.</p> <p><b>2019 amendment to this decision</b></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: <a href="#">Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019)</a>.</p>
This decision applies to the following sectors:	Transpower

## Final decision

10.13 Our final decision is to make the following changes to IR04:

- 10.13.1 change our approach to using the mid-point vanilla WACC as the discount rate for calculating the opex incentive rate; and
- 10.13.2 remove spent IRIS transitional provisions.

## Why we are making these changes

### *Draft decisions*

10.14 Our draft decision was to make the following changes to IM decision IR04:

- 10.14.1 changing our approach to using the mid-point vanilla WACC as the discount rate for calculating the opex incentive rate under Transpower IMs; and
- 10.14.2 calculating the IRIS incentive amounts based on CPI-adjusted allowances for opex and capex to remove the impact of economy-wide inflation.

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

- 10.15 Our reasons for making these IM changes are discussed in the Financing and incentivising efficient expenditure during the energy transition topic paper (Topics 5c and 5f). Our final decision on providing for IRIS allowances adjusted for inflation differs from our draft decision (refer to topic 5c). We are not providing for inflation adjusted IRIS allowances in the Transpower IM, as we can already provide for these in an IPP determination under the current arrangements.

*Remove spent IRIS transitional provisions in the Transpower IMs*

- 10.16 In its submission on our draft decision, ENA recommended we remove certain IRIS transitional provisions of the current EDB IM as they are no longer required.<sup>136</sup> As discussed in decisions IR11 and IR12, we have removed these provisions from the EDB IMs.
- 10.17 There are similar provisions at clauses 3.6.1(2), 3.6.3(5), and 3.6.6 of the Transpower IMs. There are also cross-references to those provisions at clauses 3.6.1(1), 3.6.3(1), and 3.1.3(1)(a)(ii) of the Transpower IMs, and related definitions in clause 1.1.4(2) - 'incremental change', 'incremental adjustment term', 'inflation rate', and 'RCP1'. These provisions, cross-references, and definitions are spent (ie, have no practical effect). We have therefore removed them to reduce complexity and any uncertainty from the IMs.

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<sup>136</sup> Electricity Networks Aotearoa (ENA) "[Appendix D – IM Practicality Issues Log](#)" (19 July 2023), Transitional Provisions sheet.

## Current IRIS IM decision IR05

<p>Decision IR05</p> <p>Treatment of IRIS balances – Transpower</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision</b></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: <a href="#">Amendments to input methodologies for electricity distribution services and Transpower New Zealand: Incremental Rolling Incentive Scheme (27 November 2014)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Final decision

- 10.18 We are changing IM decision IR05 to:
- 10.18.1 remove the IRIS baseline adjustment term (IBAT);
  - 10.18.2 modify how the base year adjustment term is calculated;
  - 10.18.3 modify how the year 5 carry forward is calculated; and
  - 10.18.4 to use the mid-point vanilla WACC as the discount rate for calculating the opex incentive rate.

### Why we are making these changes

- 10.19 Our reasons for making these changes are set out in the Financing and incentivising efficient expenditure during the energy transition topic paper (Topics 5f and 5i).



## Chapter 11 Transpower investment IM decisions that we are changing

### Current Transpower IM decision AV32

<p>Decision AV32</p> <p>Purchase of assets from regulated supplier or related party – Transpower</p>	<p><b>Original 2010 decision</b></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"> <li>• business units of Transpower that supply services other than electricity transmission services; and</li> <li>• 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).</li> </ul> <p>See section 4.4 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision</b></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: <a href="#">Amendments to Input Methodologies for Transpower 2014: Reasons Paper (28 August 2014)</a></p> <p><b>2016 amendment to this decision</b></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: <a href="#">Report on the IM review (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

**Final decision**

- 11.1 Our final decision is to change IM decision AV32 to:
- 11.1.1 add the related party asset valuation rules from the EDB and GPB IMs to the Transpower IM (including the changes made to IM decision AV12 to ensure it is clear that GAAP applies on an arms-length basis to the valuation of assets acquired in related party transactions);
  - 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 those 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 remove the reference to “limited to” in cl 2.2.7(1)(f) of the Transpower IM, 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 that would have applied for the other regulated supplier.

**Why we are making this change**

- 11.2 Our reasons for making these changes are set out in Attachment A of this report.

## Current Transpower IM decision RP05 and TC02

<p>Decision RP05</p> <p>Reconsideration of IPP</p>	<p><b>Original 2010 decision</b></p> <p>Transpower’s IPP may be reconsidered if one of the following events has occurred:</p> <ul style="list-style-type: none"> <li>• a catastrophic event, for which the costs of rectifying the impact of the event is material; or</li> <li>• a material error is discovered in the determination; or</li> <li>• Transpower has provided false or misleading information, which the Commission has relied upon in making its determination; or</li> <li>• a change in legislative or regulatory requirements that has a material impact on Transpower’s costs.</li> </ul> <p>See section 7.4 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2019 amendment to this decision</b></p> <p>The amendment allows Transpower to seek a reconsideration of Transpower’s IPP if Transpower considers that two or more enhancements and developments (E&amp;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: <a href="#">Amendments to input methodologies for Transpower: Reasons paper (28 August 2019)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC02</p> <p>Capex IM – Core framework</p>	<p><b>2018 amendment to this decision</b></p> <p>We amended the capex IM to introduce the option of an expenditure adjustment mechanism for base capex E&amp;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 which is subject to ex-ante approval (which is the base capex allowance) could be difficult to determine because a lot of the E&amp;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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

## Final decision

11.3 Our final decision is to change IM decisions RP05 and TC02 to amend the Enhancements & Development (**E&D**) reconsideration mechanism in the Transpower IM to introduce:

11.3.1 opex as an option when Transpower applies for the E&D mid-period reopener; and

11.3.2 ‘resilience expenditure’ as an E&D reconsideration driver.

## Why we are making this change

11.4 Our reasons for making this change are set out in Chapter 6 and Chapter 11 of the Transpower Investment topic paper.

## Current Transpower Capex IM decision RP05

<p>Decision RP05</p> <p>Reconsideration of IPP</p>	<p><b>Original 2010 decision</b></p> <p>Transpower’s IPP may be reconsidered if one of the following events has occurred:</p> <ul style="list-style-type: none"> <li>• a catastrophic event, for which the costs of rectifying the impact of the event is material; or</li> <li>• a material error is discovered in the determination; or</li> <li>• Transpower has provided false or misleading information, which the Commission has relied upon in making its determination; or</li> <li>• a change in legislative or regulatory requirements that has a material impact on Transpower’s costs.</li> </ul> <p>See section 7.4 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2019 amendment to this decision</b></p> <p>The amendment allows Transpower to seek a reconsideration of Transpower’s IPP if Transpower considers that two or more E&amp;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: <a href="#">Amendments to input methodologies for Transpower: Reasons paper (28 August 2019)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

## Final decision

- 11.5 Our final decision is to make a change to IM decision RP05 to incorporate a new ‘anytime’ reconsideration mechanism for Anticipatory Connection Asset (**ACA**) capacity investments which can be used for a single ACA capacity investment project greater than \$10 million but less than \$30 million, and is available to Transpower at any time throughout an RCP.

## Why we are making this change

- 11.6 Our reasons for making this change are set out in chapter 3, issue #1 of the Transpower investment topic paper.

## Current Transpower Capex IM decisions TC03, TC57, TC63 and TC65

<p>Decision TC03</p> <p>Base Capex Threshold</p>	<p><b>Original decision</b></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>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&amp;R) projects, business support, information system and technology assets and capital expenditure not exceeding the base capex threshold and major capex as capex exceeding the base capex threshold. See section 2.5 of the 2012 Capex IM Final Reasons Paper: <a href="#">2012 Capex IM Final Reasons Paper</a></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><b>Original IM decision</b></p> <p>From RCP2, for any project or programme that is forecast to cost more than \$20 million, Transpower’s Chief Executive Officer will be required to certify that Transpower:</p> <ol style="list-style-type: none"> <li>undertook a Cost-benefit analysis consistent with the investment test, as required under the Capex IM Determination</li> <li>undertook consultation as required under the Capex IM Determination.</li> </ol> <p>See section 9.3, paragraphs 9.3.1-9.3.9 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>Original decision</b></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: <a href="#">2014 Capex IM Final Reasons Paper</a></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><b>Current IM decision</b></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 a requirement for any base capex project costing more than \$20 million.</p> <p>See chapter 3, paragraphs 112-118 of 2014 Transpower listed projects reasons paper: <a href="#">Amendments to input methodologies for Transpower to provide a listed project mechanism – Reasons paper (27 November 2014)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

## Final decision

- 11.7 Our final decision is to change IM decisions TC03, TC57, TC63 and TC65 to increase the base capex threshold to \$30 million.<sup>137</sup>
- 11.8 We have also amended the related thresholds to refer directly to “base capex threshold” rather than a nominal value.

## Why we are making this change

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

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<sup>137</sup> Please note, other aspects of IM decision TC57 and TC65 have been referred to in Part 3 of this report (IM decisions that we are not changing and found no reason to consider changing).

## Current 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><b>Original 2012 decision</b></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&amp;R) projects (and E&amp;D projects below \$20 million) and major capex as E&amp;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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>Original 2012 decision</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>Original 2012 decision</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>Original 2012 decision</b></p> <p>Costs and benefits accruing to participants in the electricity market are any of the following:</p> <ul style="list-style-type: none"> <li>a) fuel costs incurred by generators in relation to existing assets, committed projects and modelled projects;</li> <li>b) the cost of involuntary demand curtailment borne by end users of electricity;</li> <li>c) the costs of demand-side management;</li> <li>d) capital costs of modelled projects;</li> <li>e) costs resulting from operations and maintenance expenditure on committed projects, existing assets and modelled projects;</li> <li>f) the cost of ancillary services including system operator costs;</li> <li>g) the cost of losses, including local losses;</li> <li>h) any real option value;</li> <li>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);</li> <li>j) subsidies or other benefits- <ul style="list-style-type: none"> <li>i. relating to anything listed in paragraphs a to i; and</li> <li>ii. provided under or arising pursuant to all electricity-related legislation and electricity-related administrative determinations; and</li> </ul> </li> <li>k) competition effects (in the electricity market); and</li> <li>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.</li> </ul> <p>See Chapter 7: Major Capex – Investment test, paragraphs 7.4.2-7.4.5 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>



## Final decision

- 11.10 Our final 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 opex that is incurred as a consequence of an MCP.<sup>138</sup>
- 11.11 To facilitate this final decision, we are amending the definitions, Schedule C and Schedule G in the Capex IM.

## Why we are making this change

- 11.12 Our reasons for making this change are discussed in Chapter 11 of the Transpower Investment topic paper.

## Current Transpower Capex IM decision TC20, TC36 and TC39

<p>Decision TC20</p> <p>Pre-approval Major Capex Output amendment mechanism</p>	<p><b>Original decision</b></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>If a project receives approval from the Commission, the Major capex project outputs determined will be those specified in Transpower’s proposal.</p> <p>See paragraph 2.2.5 of the <a href="#">2012 Capex IM Reasons Paper</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC36</p> <p>Major capex – approval process – rules for approving or rejecting a major capex proposal</p>	<p><b>Original 2012 decision</b></p> <p>We decided that the Commission would either approve or reject a major capex proposal as a whole.</p> <p><b>2018 amendment to this decision</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
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<sup>138</sup> Please note, other aspects of IM decision TC44 have been referred to in Part 2 of this report (IM decisions that we are not changing) and in Part 3 of this report (IM decisions that we are not changing and found no reason to consider changing).

This decision applies to the following sectors:	Transpower
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Decision TC39 Major capex – approval process – Criteria for evaluating major capex proposals	<p><b>Original decision</b></p> <p>Where applicable, the Commission will evaluate the proposed components of a proposal, such as the Major capex allowance, maximum recoverable costs and recovery scheme, the proposed Major capex project outputs, and all other relevant assumptions.</p> <p>The Commission may not approve a proposed investment if we are not satisfied with:</p> <ol style="list-style-type: none"> <li>a. any one or more of the proposed components in the above paragraph;</li> <li>b. the proposed investment in whole or in part; or</li> <li>c. if the investment test is not satisfied.</li> </ol> <p>See section 6.10, paragraphs 6.10.1-6.10.15 of 2010 Transpower capex IM reasons paper of <a href="#">2012 Capex IM Reasons Paper</a>.</p>
This decision applies to the following sectors:	Transpower

## Final decision

11.13 We are making an implementation change to:

11.13.1 IM decision TC20 to provide greater flexibility in the Capex IM regime in respect of Major Capex Outputs by providing 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;<sup>139</sup> and

11.13.2 IM decisions TC36 and TC39 to allow us to approve some but not all proposed Major Capex Project outputs.<sup>140</sup>

## Why we are making this change

11.14 Our reasons for making this change are discussed in Chapter 8 of the Transpower investment topic paper.

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<sup>139</sup> Please note, other aspects of IM decision TC20 have been referred to in Part 3 of this report (IM decisions that we are not changing and found no reason to consider changing).

<sup>140</sup> Please note, other aspects of IM decision TC36 have been referred to in Part 3 of this report (IM decisions that we are not changing and found no reason to consider changing).

## Current Transpower Capex IM decision TC24

<p>Decision TC24</p> <p>Major Capex Allowance</p>	<p><b>2018 decision</b></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 <a href="#">2018 Capex IM Reasons Paper</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Final decision

- 11.15 We are making 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.<sup>141</sup>
- 11.16 Our 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 making this change

- 11.17 Our reasons for making this change are discussed in Chapter 3 of the Transpower Investment topic paper.

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<sup>141</sup> Please note, other aspects of IM decision TC24 have been referred to in Part 3 of this report - IM decisions that we are not changing and found no reason to consider changing.

## Current Transpower Capex IM decision TC33

<p>Decision TC33</p> <p>Major capex – approval process – Transpower’s consultation requirements</p>	<p><b>Original 2012 decision</b></p> <p>We set out requirements for Transpower to consult with interested parties on proposed transmission investments and non-transmission solutions prior to submitting a major capex proposal for approval.</p> <p>See Chapter 6: Major capex approval process, paragraphs 6.4.1-6.4.16 of Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p> <p><b>2018 Amendment</b></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 Chapter 3: Process matters, paragraphs 244-266 of <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Final decision

- 11.18 We are making a change to IM decision TC33 to amend the threshold for consultation on MCP proposals from a requirement to satisfy the Commission that a certain step is “unreasonable to include” to a lesser standard such as “reasonable to exclude”.
- 11.19 When Transpower notifies us that it intends to submit an MCP, subject to the Capex IM cl. 3.3.1(3) requirements, it will be able to submit the consultation programme it intends to follow and the reasonableness of any departure from the Schedule I requirements.
- 11.20 We have aligned the implementation of this change in cl 8.1.3(2)(b), cl I1(1) and cl I3(1) in Schedule I.

### Why we are making this change

- 11.21 Our reasons for making this change are discussed in Chapter 3 of the Transpower Investment topic paper.

## Current Transpower Capex IM decision TC35

<p>Decision TC35</p> <p>Major capex – approval process – rules for submitting a major capex proposal</p>	<p><b>Original 2012 decision</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p> <p><b>2018 Amendment</b></p> <p>We updated the Major capex approval process to incorporate project staging.</p> <p>See Chapter 3: Process matters, paragraphs 244-265 of <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Final decision

- 11.22 We are making an implementation change to IM decision TC35 to support interpretation clarity.
- 11.23 We are amending the ‘for avoidance of doubt’ provision in clause 3.3.3(1) of the Capex IM to support the original policy intent that Transpower is not required to undertake a full MCP analysis and consultation when it submits a subsequent stage of an MCP (staged).

### Why we are making this change

- 11.24 Our reasons for making this change are discussed in Chapter 5 of the Transpower Investment topic paper.

## Current Transpower Capex IM decision TC37

<p>Decision TC37</p> <p>Major capex – approval process – rules for submitting a major capex proposal</p>	<p><b>Original 2012 decision</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p> <p><b>2018 Amendment</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
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This decision applies to the following sectors:	Transpower
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### Final decision

11.25 We have decided to make an implementation change to IM decision TC37 for consistency with the new TPM.

11.26 We are 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 making this change

11.27 Our reasons for making this change are discussed in Chapter 12 the Transpower investment topic paper.

### Current Transpower Capex IM decisions TC41, TC44 and TC48

Decision TC41  Major capex – investment test – application of the investment test – Calculation of expected net electricity market benefit using scenarios	<p><b>Original 2012 decision</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
This decision applies to the following sectors:	Transpower

Decision TC44  Major capex – investment test – implementation of the investment test – costs and benefits	<p><b>Original 2012 decision</b></p> <p>When calculating the expected net electricity market benefits, the costs and benefits are limited to:</p> <ul style="list-style-type: none"> <li>• benefits accruing to participants in the electricity market; and</li> <li>• the project costs of the investment option.</li> </ul>
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	<p>Costs and benefits accruing to participants in the electricity market are any of the following:</p> <ul style="list-style-type: none"> <li>• fuel costs incurred by generators in relation to existing assets, committed projects and modelled projects;</li> <li>• the cost of involuntary demand curtailment borne by end users of electricity;</li> <li>• the costs of demand-side management;</li> <li>• capital costs of modelled projects;</li> <li>• costs resulting from operations and maintenance expenditure on committed projects, existing assets and modelled projects;</li> <li>• the cost of ancillary services including system operator costs;</li> <li>• the cost of losses, including local losses;</li> <li>• any real option value;</li> <li>• 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);</li> <li>• subsidies or other benefits: <ul style="list-style-type: none"> <li>○ relating to anything listed in the above paragraphs; and</li> <li>○ provided under or arising from all electricity-related legislation and electricity-related administrative determinations;</li> </ul> </li> <li>• competition effects (in the electricity market); and</li> <li>• 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.</li> </ul> <p>See Chapter 7 – Major capex – investment test, paragraphs 7.4.3 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
This decision applies to the following sectors:	Transpower
<p>Decision TC48</p> <p>Major capex - investment test - implementation of the investment test - demand and generation scenarios</p>	<p><b>Original 2012 decision</b></p> <p>After Ministry of Economic Development scenarios are published, Transpower must use these scenarios in its investment analysis or those published by any other agency, which subsequently assumes this responsibility, should the Ministry stop producing the scenarios. Until scenarios are published by the Ministry, Transpower must apply the scenarios specified as 'market development scenarios' in the statement of opportunities published by the Electricity Commission in 2010.</p> <p>Transpower may vary the Ministry's scenarios or market development scenarios after having reasonable regard to the views of interested persons.</p> <p>See Chapter 7: Major Capex - Investment test, paragraphs 7.4.40-7.4.42 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
This decision applies to the following sectors:	Transpower

## Final decision

- 11.28 We are making an implementation change to IM decisions TC41, TC44 and TC48 with respect to scenarios to:<sup>142</sup>
- 11.28.1 amend the Capex IM to remove any ambiguity as to the extent of modelling Transpower must carry out in respect of the Ministry of Business, Innovation and Employment (**MBIE**) Electricity Demand and Generation Scenarios (**EDGS**); and
  - 11.28.2 clarify how the analysis of the counterfactual should be conducted.
- 11.29 Where Transpower varies one of the MBIE EDGS scenarios, we consider that it is not required to also model and analyse the equivalent unvaried scenario. In other words, the variation is a replacement for, not an addition to the EDGS scenario. It is our expectation that there will be a total of five scenarios (either EDGS or a variation) analysed unless Transpower can provide justification for why narrowing the scenarios it applies is appropriate.
- 11.30 Transpower should use a counterfactual scenario to enable it to economically justify transmission that facilitates renewables generation on the grid. The counterfactual scenario:
- 11.30.1 will be relevant when Transpower applies the economic limb of the investment test in an MCP;
  - 11.30.2 must be a reasonable hypothetical future of demand and generation that avoids major capex investment; and
  - 11.30.3 must be consulted on and reasonably have regard to the views of interested persons prior to Transpower carrying out its analysis in support of a proposal.
- 11.31 We considered, and have decided to make no change to, other elements of this decision, as discussed in Chapter 21 of this report.

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<sup>142</sup> Please note, other aspects of IM decision TC44 have been referred to in Part 2 of this report (IM decisions that we are not changing) and in Part 3 of this report (IM decisions that we are not changing and found no reason to consider changing).

Other aspects of IM decision TC48 have been referred to in Part 2 of this report (IM decisions that we are not changing).



### Why we are making this change

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

### Current Transpower Capex IM decision TC46

Decision TC46  Investment test default discount rate	<p><b>Original decision</b></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 <a href="#">2012 Capex IM Reasons Paper</a>.</p>
This decision applies to the following sectors:	Transpower

### Final decision

11.33 Our final decision is to make a change to IM decision TC46 to ensure that the default discount rate reflects current market conditions. To do this, we are changing the default discount rate to be used for the investment test to a 5% real post-tax rate with default sensitivities of 3% and 7%.

### Why we are making this change

11.34 Our reasons for making this change are set out in Chapter 3 of the Transpower Investment topic paper.

### Current Transpower Capex IM decision TC55

Decision TC55  Independent Verification requirements	<p><b>Original 2012 decision</b></p> <p>Transpower would not be required to obtain independent verification or audit.</p> <p>See paragraph 9.2.1 of the <a href="#">2012 Capex IM reasons paper</a>.</p> <p><b>2018 decision</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
This decision applies to the following sectors:	Transpower

### Final decision

11.35 Our final decision is to change IM decision TC55 to codify a requirement for Transpower to undertake an independent verification of its IPP proposal.

## Why we are making this change

11.36 Our reasons for making this change are discussed in Chapter 9 of the Transpower Investment topic paper.

## Current Transpower Capex IM decision TC63

<p>Decision TC63</p> <p>Listed Project categories</p>	<p><b>2014 Original decision</b></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"> <li>• the Commission considers the project or programme will require capital expenditure of greater than \$20 million;</li> <li>• 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;</li> <li>• the base capex forecast to be incurred is in relation to asset replacement and/or asset refurbishment;</li> <li>• a project or programme commencement date within the regulatory period is anticipated but cannot be forecast with specificity; and</li> <li>• the project or programme is not already accommodated in the base capex allowance for the regulatory period.</li> </ul> <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: <a href="#">Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

## Final decision

11.37 Our final decision is to make a change to IM decision TC63 to extend the categories of projects that can be ‘listed’ to reduce the regulatory cost and complexity.

11.38 We are amending the Listed Project mechanism to:

11.38.1 allow Transpower to include:

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

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

11.38.2 extend the Listed Project mechanism uncertainties to include project scope, cost, and commencement dates; and

11.38.3 clarify the Listed Project mechanism can be delivered over two or more RCPs to better give effect to our intended policy and allow all Listed Projects (including IST Listed Projects) to be delivered over two or more regulatory control periods (RCPs).

### Why we are making this change

11.39 Our reasons for making this change are set out in Chapter 4 of the Transpower Investment topic paper.

### Current Transpower Capex IM decision TC66

<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><b>2018 amendment to this decision</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Final decision

11.40 Our final decision is to amend IM decision TC66. We are amending the Capex IM to further clarify the Listed Project assessment criteria is clause A2 of the Capex IM.

### Why we are making this change

11.41 Our reasons for making this change are discussed in Chapter 4 of the Transpower Investment topic paper.

## New Transpower Capex IM decision code TC69

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

### Final decision

11.42 Our final decision is to create a new IM decision code TC69, which introduces provisions to the Capex IM to allow Anticipatory Connection Asset (**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.

11.43 In particular, we have decided that:

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

11.43.1.1 is only required to perform a shortlist consultation; and

11.43.1.2 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;

11.43.2 when ACA capacity is being proposed in a base capex proposal as E&D capex:

11.43.2.1 those investments proposed as E&D base capex should be identified through ID requirements anticipatory capacity investments;

11.43.2.2 Transpower may recover the E&D base capex by including the expenditure in an IPP proposal, through the mid-period E&D reopener or through the ‘anytime’ ACA capacity reopener where the investment is for a single ACA capacity project over \$10 million but below the base capex threshold;

- 11.43.3 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;
- 11.43.4 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
- 11.43.5 when ACA capacity investment assets transition from the RAB, which happens when it is subject to an NIC, we will use a 'nil valuation' accounting approach.

**Why we are making these changes**

- 11.44 Our reasons for making these changes are discussed at Chapter 6 of the Transpower Investment topic paper.

## Chapter 12 Gas pricing IM decisions that we are changing

### Current gas pricing IM decision GP01

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

### Final decision

12.1 Our final decision is to make a minor implementation change to IM decision GP01 by amending the chapeau of clause 2.5.1 of the GDB and GTB IMs. This confirms our draft decision.

### Why we are making this change

- 12.2 Clause 2.5.1 of the GDB and GTB IMs does not make sense grammatically.
- 12.3 Our draft decision proposed amending this clause to remedy the error and therefore better promote s 52R by providing greater certainty as to the requirement under this clause.
- 12.4 We received no submissions on this. Accordingly, for the reasons outlined above, we have decided to confirm our draft decision.

## Chapter 13 Definition decisions that we are changing

### New IM decision code DP01

<p>Decision DP01</p> <p>Exclusions from operating costs – pecuniary penalties</p>	<p><b>2019 decision (EDBs)</b></p> <p>Our decision is to introduce an additional exclusion in the definition of ‘operating costs’ for the “payment of any pecuniary penalties”, and a new defined term ‘pecuniary penalties’.</p> <p>See paragraphs 3.129 – 3.150 of the <a href="#">Amendments to the Electricity Distribution Service Input Methodologies Determination Reasons paper (26 November 2019)</a>.</p> <p><b>2019 decision (Transpower)</b></p> <p>We introduced an additional exclusion in the definition of 'operating costs' for "the payment of any pecuniary penalties", and a new defined term 'pecuniary penalties'.</p> <p>See paragraphs 2.97 – 2.112 of Chapter 2: Amendments to the Transpower IM Determination, <a href="#">Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB/Transpower/Airports</p>

### Final decision

- 13.1 Our final decision is to create a new IM decision code DP01 to exclude pecuniary penalties from the definition of ‘operating costs’ in the GDB, GTB and Airports IMs.
- 13.2 In the draft report, we categorised our draft decision about pecuniary penalties as a cost allocation decision code and created a new decision code (CA14). However, the definition of ‘operating costs’ goes beyond cost allocation and impacts other IMs. Therefore, we consider it more accurate to classify our final decision as a change to the definitions provision, and we have created a new decision code (DP01) to reflect this.
- 13.3 For this reason, and for ease of reference in the future, we are grouping together all of our decisions on the exclusion of pecuniary penalties from the definition of ‘operating costs’ under the DP01 decision code. This includes our 2019 decisions in relation to Transpower (previously included in IM decision code SP08) and EDBs (previously included in IM decision code IR01).

## Why we are making these changes

### *Draft decision*

- 13.4 Our draft decision was to create a new IM decision code (CA14) to exclude pecuniary penalties from the definition of ‘operating costs’ in the GDB, GTB and Airports IMs.

### *Reasons for our draft decision*

- 13.5 Under the current IMs, regulated suppliers in the gas pipeline and airports sectors may be able to recover the cost of any pecuniary penalties from their consumers via the regulatory opex.
- 13.6 As discussed below, our draft decision to exclude pecuniary penalties from operating costs in the GDB, GTB and Airports IMs was intended to:
- 13.6.1 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
  - 13.6.2 better promote the IM purpose in s 52R, by removing ambiguity about the treatment of these costs.

### Limits on excess profits

- 13.7 As we stated when amending the EDB IM in 2019:<sup>143</sup>

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.

...

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.

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<sup>143</sup> Commerce Commission “[Amendments to electricity distribution services input methodologies determination – Reasons paper](#)” (26 November 2019), para 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.



- 13.8 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.
- 13.9 Additionally, where the penalties involved are imposed for a breach of Part 4 (such as for failing to meet quality standards), the ability to recover such penalties from consumers undermines the effectiveness of the Part 4 regime.

#### Promoting certainty

- 13.10 The treatment of pecuniary penalties under the current GDB, GTB and Airport IMs is ambiguous. Clarifying their exclusion will improve certainty for suppliers and end users.
- 13.11 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.

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

#### *Stakeholder views*

- 13.13 Our draft decision was supported by IATA, First Gas Limited, Wellington International Airport Limited and Christchurch International Airport Limited.<sup>144</sup>
- 13.14 Christchurch International Airport Limited noted that:<sup>145</sup>

If consumers are required to reimburse suppliers for pecuniary penalties then those penalties will not have the necessary deterrent effect.

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<sup>144</sup> [International Air Transport Association \(IATA\) "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\), p. 3](#); [First Gas Ltd "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\), p. 35](#); [Wellington International Airport Limited \(WIAL\) "Cross Submission on 2023 Input Methodologies Review Draft Decisions" \(9 August 2023\), p. 12](#); [Christchurch International Airport Limited "2023 Input Methodologies Review – Cross Submission on the Commerce Commission's Draft Decisions" \(9 August 2023\), p. 3](#).

<sup>145</sup> [Christchurch International Airport Limited "2023 Input Methodologies Review – Cross Submission on the Commerce Commission's Draft Decisions" \(9 August 2023\), p. 3](#).

### *Analysis and final decision*

- 13.15 Based on the support received on the draft decision, and for the reasons outlined above, our final decision is to confirm our draft decision to exclude pecuniary penalties from the definition of ‘operating costs’ in the GDB, GTB and Airport IMs.

### **New IM decision code DP02**

<p>Decision DP02</p> <p>Exclusions from operating costs – removal of references to pass-through costs and recoverable costs</p>	<p>No current IM decision code as this is a new decision code.</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

### **Final decision**

- 13.16 Our final decision is to create a new IM decision code DP02 to make a technical correction to the Airports IM to remove the erroneous reference to pass-through costs and recoverable costs in the list of exclusions in the definition of operating costs.
- 13.17 In the draft report, we categorised our draft decision as a cost allocation decision code and created a new decision code (CA14). However, the definition of ‘operating costs’ goes beyond cost allocation and impacts other IMs. Therefore, we consider it more accurate to classify our final decision for this technical correction as a change to the definition provisions, and we have created a new decision code (DP02) to reflect this.

### **Why we are making this change**

- 13.18 Our draft decision was to remove the erroneous reference to pass-through costs and recoverable costs in the list of exclusions in the definition of operating costs in the Airports IM.
- 13.19 Pass-through costs and recoverable costs being excluded from operating costs in the Airports IM is an error, as there is no concept of these costs in the Airports IM. Therefore, we considered that the removal of these references reduces the complexity of the Airports IM and promotes greater certainty as to the scope of operating costs.
- 13.20 We received no submissions on our draft decision. Therefore, for the reasons above, we have decided to confirm our draft decision.

## New IM decision code DP03

Decision DP03 Costs associated with large connection contracts – EDBs	No current IM decision code because this is a new decision code.
This decision applies to the following sectors:	EDBs

### Final decision

- 13.21 Our final decision is to create a new IM decision code DP03, which relates to the introduction of a ‘large connection contract’ (LCC) mechanism in the EDB IM.
- 13.22 Our final decision excludes costs associated with assets funded under LCCs from ‘operating costs’.<sup>146</sup>
- 13.23 In the draft report, we categorised our draft decision about LCCs as a cost allocation decision code and created a new decision code (CA13). However, the definition of ‘operating costs’ goes beyond cost allocation and impacts other IMs. We therefore consider it more accurate to classify our final decision as a change to the definitions provision, and we have created a new decision code (DP03) to reflect this.

### Why we are making this new IM decision

- 13.24 Our reasons for making this decision are discussed in Chapter 8 of the CPP and In-Period Adjustment Mechanisms topic paper.

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<sup>146</sup> Refer to IM decision AV56 in Chapter 4 of this report for our decision to nil value assets associated with LCCs.

## **Part 2: IM decisions that we are not changing**

### **Chapter 14 Introduction to Part 2**

- 14.1 Part 2 of this report lists the current IM decisions that, in light of our Framework, submissions on the IM Review and draft decisions, and all other relevant information before us, we considered changing but for the reasons presented in this Part, we have decided not to change. We have decided not to make a change at either a policy level or in terms of the implementation of the decision.
- 14.2 For each current IM decision, Part 2 of this report states the current IM decision and explains why we have decided not to change it as part of this IM Review. Where relevant, we reference the topic paper which sets out the reasoning.
- 14.3 Part 2 is structured based on the categories of current IM decisions described in the 'Introduction' chapter of this report.
- 14.4 Attachment C of this report sets out our responses to issues relating to asset valuation, treatment of taxation and amalgamations raised by ENA in its "IM Practicality Issues Log". We have considered the points raised in the Log and provided responses, where clarification would be useful. As set out in Attachment C, we have decided to make no change to the current IM decisions in response to these points raised by ENA.

## Chapter 15 Asset valuation decisions that we are not changing

### Current risks and incentives IM decision AV03

<p>Decision AV03</p> <p>RAB roll forward with indexation</p>	<p><b>Original 2010 decision</b></p> <p>EDBs and GPBs must roll forward the RAB values of their assets using CPI-indexation. For this purpose EDBs and GPBs must use the 'All Groups Index SE9A' published by Statistics New Zealand.</p> <p>See section 4.3, Appendix E, section E12 of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 IM Review</b></p> <p>Our decision in respect of IM decision AV03 was to make no change. Our reasons for deciding not to change this IM decision AV03 are discussed in:</p> <p><a href="#">Topic paper 1: Form of control and RAB indexation.</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

### Final decision

15.1 Our final decision is to make no change to IM decision AV03. This confirms our draft decision.

### Why we are making no change to this decision

15.2 Our reasons for making no change are discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

### Current risks and incentives IM decision AV03/SP01

<p>Decision AV03/SP01</p> <p>Inflation forecasting method</p>	<p><b>Current IM</b></p> <p>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).</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GPBs/Transpower</p>

### Final decision

15.3 Our final decision is to make no change to IM decision AV03/SP01. This confirms our draft decision.

## Why we have not changed this decision

- 15.4 Our reasons for making no change are discussed in Chapter 4, of the Financing and incentivising efficient expenditure during the energy transition topic paper.

## Current asset valuation IM decision AV05

<p>Decision AV05</p> <p>Finance leases and intangible assets</p>	<p><b>Original 2010 decision</b></p> <p>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.</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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment to this decision</b></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: <a href="#">Input methodologies review decisions: Report on the IM Review (20 December 2016)</a></p> <p><b>2019 amendment to this decision (1)</b></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: <a href="#">Treatment of operating leases: Final decisions paper (13 November 2019)</a>.</p> <p><b>2019 amendment to this decision (2)</b></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><b>2019 amendment to this decision (3)</b></p> <p>We decided to amend the IMs so that operating leases continue to be treated as opex for IRIS purposes.</p>
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	<p><b>2022 amendment to this decision</b></p> <p>We made amendments such that:</p> <ul style="list-style-type: none"> <li>• a GAAP-base life can be assigned to depreciate right of use assets by GDBs and the GTB; and</li> <li>• 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.</li> </ul> <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 <a href="#">Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths: Reasons paper (30 May 2022)</a>.</p>
This decision applies to the following sectors:	EDB/GDB/GTB

### Final decision

15.5 Our final decision is to make no change to IM decision AV05 in relation to intangible assets or 'knowledge assets'. This confirms our draft decision.

### Why we are making no change to this decision

15.6 In our draft decision, we proposed 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 benefits.

15.7 Our reason for proposing no change is 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.

15.8 We received no submissions for this draft decision. Therefore, for the reasons above, we have decided to confirm our draft decision to make no change to IM decision AV05 in relation to intangible assets or 'knowledge assets'.

## Current risks and incentives IM decision AV16

<p>Decision AV16</p> <p>Straight line depreciation applies</p>	<p><b>Current IM decision</b></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:  <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010).</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

### Final decision

- 15.9 Our final decision is to make no change to the underlying depreciation method that applies in DPPs for both EDBs and GPBs (straight line depreciation). This confirms our draft decision.
- 15.10 However, we have made changes to the weighted average value of the remaining asset life that applies under the straight line depreciation method in DPPs. See IM decision AV16 in Part 1 of this report.

### Why we are making no change to this part of decision AV16

- 15.11 Our reasons for retaining the current depreciation method in DPPs is discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper (topic 3a for EDBs and topic 3d for GPBs). Alternative depreciation methods remain available in CPPs.

## Current risks and incentives IM decision AV17

<p>Decision AV17</p> <p>Standard asset lives apply – with listed exceptions</p>	<p><b>Original 2010 decision</b></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"> <li>• EDBs and GPBs must depreciate fixed life easements over the expected term of the easement;</li> <li>• For dedicated assets, EDBs and GPBs may assign an asset life equal to the life of the supporting customer contract;</li> <li>• 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;</li> </ul>
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- EDBs and GPBs may reduce an asset life, provided the reduced asset life is supported to 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.

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><b>2018 amendment to this decision (2)</b></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 <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation: Reasons paper (8 November 2018)</a>.</p> <p><b>2022 amendment to this decision</b></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 <a href="#">Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths: Reasons paper (30 May 2022)</a>.</p>
This decision applies to the following sectors:	EDB/GDB/GTB

### Final decision

- 15.12 Our final decision is to make no change to the following parts of IM decision AV17:
- 15.12.1 We are making no change to the current asset life adjustment mechanism for GPBs; and
  - 15.12.2 We are making no change to the DPP's 45-year standard lifetime for additional assets (EDB/GDB/GTB) which confirms our draft decision.
- 15.13 We also considered whether 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. We decided to make this change, as set out under IM decision AV17 in Part 1 of this report.

### Why we are making no change to these parts of the decision

- 15.14 Our reasons for making no change to the asset life adjustment mechanism for GPBs can be found in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper (Topic 3d).
- 15.15 Our reason for making 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 our Framework’s overarching objectives (and it could, in fact, be detrimental to the promotion of those objectives).

### Stakeholder views

- 15.16 Stakeholder views on our decision on the asset life adjustment mechanism for GPBs are discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper (Topic 3d).
- 15.17 We received no submissions on the draft decision in relation to the DPP’s 45-year standard lifetime for additional assets.

### Current risks and incentives IM decision AV18

<p>Decision AV18</p> <p>Keeping stranded assets in the RAB</p>	<p><b>Original 2010 decision</b></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><a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

### Final Decision

- 15.18 Our final decision is to make no change to IM decision AV18.<sup>147</sup> Assets will continue to remain in the RAB when capacity exceeds consumer demand rather than becoming economically stranded.

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<sup>147</sup> We found no reason to consider changing IM decision AV18 for EDBs. See IM decision AV18 in Part 3 of this report.

### Why we are making no change to this decision

- 15.19 Our reasons for making no change can be found in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper (Topic 3d). Our analysis was specific to GDBs and the GTBs.

### Current asset valuation IM decision AV27

<p>Decision AV27</p> <p>Commissioned assets added to RAB – Transpower</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision</b></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: <a href="#">Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Final decision

- 15.20 Our final decision is to make no change to IM decision AV27 in relation to the accounting treatment of the capital contributions that Transpower receives from third parties. This confirms our draft decision.

### Why we are making no change to this decision

- 15.21 Our reasons for making no change are discussed in chapter 10 of the Transpower investment topic paper.

## Current asset valuation IM decision AV42

<p>Decision AV42</p> <p>RAB exclusions – Airports</p>	<p><b>Original 2010 decision</b></p> <p>Airports should exclude from their RAB values:</p> <ul style="list-style-type: none"> <li>• any assets not used to provide specified airport services, as defined in s 56A;</li> <li>• future development land;</li> <li>• any asset that is part of works under construction;</li> <li>• working capital;</li> <li>• goodwill; and</li> <li>• easement land, that is land acquired for the purpose of creating an easement, and with the intention of subsequently disposing of the land.</li> </ul> <p>See section 4.3; Appendix C, sections C3, C4, C5, C10 of 2010 Airports IM reasons paper: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision</b></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).</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><b>2016 amendment to this decision</b></p> <p>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 <a href="#">Topic paper 5: Airports profitability assessment (20 December 2016)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

### Final decision

15.22 Our final decision is to make no change to IM decision AV42 in relation to the treatment of taxation for “assets held for future use”. This confirms our draft decision.

## Why we are making no change to this decision

### *Reasons for our draft decision*

- 15.23 Revenues derived from “assets held for future use” prior to commissioning are netted off the commissioning values of those assets, reducing their value.
- 15.24 Auckland Airport submitted that any tax paid on this revenue (that would partially offset reductions in commissioning value) is not acknowledged in the IMs:<sup>148</sup>

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.

- 15.25 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:<sup>149</sup>

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

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<sup>148</sup> Auckland International Airport Ltd “[Input Methodologies Review – response to Process and issues paper](#)” (11 July 2022), p. 4.

<sup>149</sup> Commerce Commission “[Airport Services Input Methodologies Determinations 2010](#)” (20 December 2016), clause 3.11(6)(c).

- 15.26 The intent of the “excluded assets” (the term that includes assets held for future use) provisions in the Airport IMs is to:
- 15.26.1 promote the Part 4 purpose, supporting incentives for airports to invest efficiently by:
    - 15.26.1.1 avoiding incentives to unnecessarily acquire assets held for future use;
    - 15.26.1.2 creating incentives to find alternate sources of revenue prior to commissioning the assets; and
    - 15.26.1.3 sharing the benefits of these efficiencies with consumers; and
  - 15.26.2 assist in promoting the ID purpose, by ensuring that interested persons can accurately assess the impact of “excluded assets” on airport profitability.
- 15.27 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.

*Stakeholder views and analysis*

- 15.28 We have received no submissions on this draft decision.
- 15.29 Therefore, for the reasons set out above, we have decided to confirm our draft decision.

## Chapter 16 Cost of Capital decisions that we are not changing

### Current cost of capital IM decision CC08

<p>Decision CC08</p> <p>Corporate tax rate in WACC estimates</p>	<p><b>Current IM decision</b></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><a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

### Why we are making no change to this decision

- 16.1 Our final decision is to make no change to IM decision CC08.
- 16.2 Our reasons for this decision are set out in Chapter 5 of the Cost of Capital topic paper.

### Current cost of capital IM decision CC09

<p>Decision CC09</p> <p>Commercially realistic estimates of WACC</p>	<p><b>Current IM decision</b></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><a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

### Why we are making no change to this decision

- 16.3 Our final decision is to make no change to IM decision CC09.
- 16.4 Our reasons for this decision are set out in Chapter 7 of the Cost of Capital topic paper.



## Current cost of capital IM decision CC18

<p>Decision CC18</p> <p>Corporate tax rate in WACC estimates – Transpower</p>	<p><b>Current IM decision</b></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 <a href="#">2010 Transpower IM Reasons Paper</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Why we are making no change to this decision

16.5 Our final decision is to make no change to IM decision CC18.

16.6 Our reasons for this decision are discussed in Chapter 5 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC22

<p>Decision CC22</p> <p>Cost of debt in WACC estimates - airports</p>	<p><b>Original 2010 decision</b></p> <p>For all regulated suppliers of airport services, 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"> <li>• 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);</li> <li>• 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&amp;P long-term credit rating of A- and a term to maturity which matches the pricing period (typically 5 years); and</li> <li>• Debt issuance costs are 35 basis points (0.35%) p.a.</li> </ul> <p>See sections 6.3, E2, E4, E5, E14 of 2010 Airports IM reasons paper:</p> <p><a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendments</b></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"> <li>• Use 12 months of bond data instead of one month;</li> <li>• Modify the government ownership limitation so that only bonds from 100% government owned entities are subject to the limitation; and</li> </ul>
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	<ul style="list-style-type: none"> <li>Reference the 'Nelson-Siegel-Svensson curve' (NSS curve) as something we will consider when estimating the debt premium;</li> </ul> <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 making no change to this decision

16.7 Our final decision is to make no change to IM decision CC22.

16.8 Our reasons for this decision are set out in Chapter 3 of the Cost of Capital topic paper.

### Current cost of capital IM decision CC23

<p>Decision CC23</p> <p>Term credit spread differential allowance does not apply – Airports</p>	<p><b>Original 2010 decision</b></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><a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment to this decision</b></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 <a href="#">Topic paper 4: Cost of capital issues.</a></p>
This decision applies to the following sectors:	Airports

### Why we are making no change to this decision

16.9 Our final decision is to make no change to IM decision CC23.

16.10 Our reasons for this decision are set out in Chapter 3 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC25

<p>Decisions CC25</p> <p>Corporate tax rate in WACC estimate – airports</p>	<p><b>Current IM decision</b></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><a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

### Why we are making no change to this decision

- 16.11 Our final decision is to make no change to IM decision CC25.
- 16.12 Our reasons for this decision are discussed in Chapter 5 of the Cost of Capital topic paper.

## Current cost of capital IM decision CC26

<p>Decisions CC26</p> <p>Commercial realistic estimates of WACC – airports</p>	<p><b>Original 2010 decision</b></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><a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

### Why we are making no change to this decision

- 16.13 Our final decision is to make no change to IM decision CC26.
- 16.14 Our reasons for this decision are discussed in Chapter 7 of the Cost of Capital topic paper.

## Chapter 17 Specification of price decisions that we are not changing

### Current reconsideration of price-quality path IM decision SP01

Decision SP01 Contingent expenditure allowance	<b>Current IM decision</b> 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 making no change to this decision

- 17.1 Our final decision in respect of IM decision SP01 is to make no change to incorporate new contingent expenditure allowances as recoverable costs.
- 17.2 Our reasons for making no change are discussed in Chapter 9 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision SP01

Decision SP01 Use-it-or-lose-it allowance	<b>Current IM decision</b> 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 making no change to this decision

- 17.3 Our final decision in respect of IM decision SP01 is to make no change to incorporate use-it-or-lose-it allowances.
- 17.4 Our reasons for making no change are discussed in Chapter 9 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current risks and incentives IM decision SP01

<p>Decision SP01</p> <p>Revenue wash-ups – EDB</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment to this decision</b></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 <a href="#">Topic paper 1: Form of control and RAB indexation</a>, and Chapter 7, paragraphs 268-272 of the <a href="#">2016 Report on the IM Review</a>.</p> <p><b>2019 amendment to this decision</b></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 <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB</p>

### Why we are making no change to this decision

- 17.5 Our final decision in respect of IM decision SP01 is to not to introduce a cost of debt wash-up to the EDB and GTB IMs. This is a change to our draft decision. Following extensive consultation, the main reason supporting our final decision is that the status quo protects both consumers and suppliers from inflation risk. We have decided to maintain the status quo where the annual revenue washup is fully adjusted for CPI inflation.

## Current risks and incentives IM decision SP01

<p>Decision SP01</p> <p>Weighted average price cap applies – GDBs</p>	<p><b>Current IM decision</b></p> <p>The current 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.</p>
<p>This decision applies to the following sectors:</p>	<p>GDBs</p>

### Why we are making no change to this decision

- 17.6 Our final decision in respect of IM decision SP01 is to make no change. We are retaining the current form of control for GDBs, ie, the weighted average price cap (**WAPC**) for GDBs.
- 17.7 Our reasons for making no change are discussed in Chapter 3 of the Financing and incentivising efficient expenditure during the energy transition topic paper (Topic 3e).

### Current risks and incentives IM decision AV03/SP01

Decision AV03/SP01	<b>Current IM</b>
Inflation forecasting method	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 making no change to this decision

- 17.8 Our final decision is to make no change to IM decision AV03/SP01.
- 17.9 Our reasons for making no change are discussed in Chapter 4 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

### Current specification of price IM decision SP03

Decision SP03	<b>Current IM decision</b>
Pass-through costs – EDBs and GPBs	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 making no change to this decision

- 17.10 Our final decision in respect of IM decision SP03 is to make no change to increase the scope of pass-through costs or recoverable costs.
- 17.11 We considered two issues relating to this decision:
- 17.11.1 dealing with forecast uncertainty; and
  - 17.11.2 incentives for efficient insurance cover.

*Dealing with forecast uncertainty*

17.12 Our reasons for making no change to deal with forecast uncertainty are discussed in Chapter 8 of the CPP and In-Period Adjustment Mechanisms topic paper.

*Incentives for efficient insurance cover*

17.13 Several submissions to our Process and issues paper stated that it is becoming harder and more costly to insure assets against risks relating to climate change and/or natural disasters.<sup>150</sup>

17.14 Submissions suggested changing the regulatory settings for self-insurance.

17.14.1 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".<sup>151</sup>

17.14.2 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."<sup>152</sup>

17.15 We are making no change to IMs relating to insurance (including self-insurance) for EDBs or GPBs. In response to our draft decision (which also proposed no change), Wellington Electricity submitted that "we think insurance costs should be pass-through. Insurance cost fluctuations are generally outside of the control of the supplier as they are dictated by the wider insurance market. Yes, effective procurement will ensure the lowest cost is selected from offers at the time, however, the underlying price change is the same across all providers. The cost savings from efficient procurement are immaterial compared to cost changes from the overall market movement."<sup>153</sup>

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<sup>150</sup> 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.

<sup>151</sup> [Unison – "Submission on IM Review Process and issues paper and draft Framework paper" \(11 July 2022\)](#), p. 15.

<sup>152</sup> [Electricity Networks Association "Submission on IM Review Process and issues paper and draft Framework paper" \(11 July 2022\)](#), p. 17.

<sup>153</sup> [Wellington Electricity "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 51

- 17.16 We consider that an efficient insurance cover may include insurance from third party insurance providers or self-insurance. Formal 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 formal self-insurance, this could include the use of formal captive insurance providers, whereby suppliers own the insurance company or mutuals.<sup>154</sup>
- 17.17 Different sources of insurance may be appropriate for different risks, and different suppliers may have different needs.<sup>155</sup> 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).
- 17.18 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.
- 17.19 As part of our final decision, we are keeping the current suite of expenditure incentive schemes, with some refinements. This is discussed in Chapter 5 of the Financing and incentivising efficient expenditure during the energy transition topic paper.
- 17.20 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.<sup>156</sup> 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.
- 17.21 We do not consider this issue applies to CPPs, which provide scope to consider supplier-specific circumstances, including with respect to insurance.

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<sup>154</sup> We note that an efficient insurance portfolio would include some risks not being insured by either third party insurance or formal self-insurance.

<sup>155</sup> 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%.

<sup>156</sup> 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.



## Current risks and incentives IM decision SP05

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

### Why we are making no change to this decision

- 17.22 Our final decision in respect of IM decision SP05 is to make no change to specifically provide for regulatory sandboxes in the IMs.
- 17.23 Our reasons for making 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.

## Current Transpower Capex IM decision TC01 and specification of price IM decision SP08

Decision TC01  Capex IM framework – interaction with IPP determination  Decision SP08  Price specified by revenue cap – Transpower	<p><b>Original 2012 decision (TC01)</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p> <p><b>Original 2010 decision (SP08)</b></p> <p>Price for Transpower will be specified by a total revenue cap.</p> <p>See section 7.3 of <a href="#">2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
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<p>Decision TC01</p> <p>Capex IM framework – interaction with IPP determination</p> <p>Decision SP08</p> <p>Price specified by revenue cap – Transpower</p> <p>Contd...</p>	<p><b>2019 amendment to this decision (1) (SP08)</b></p> <p>We introduced a new provision to allow an economic value (EV) 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 paragraph 3.1.1(5) of Transpower IM Amendments Determination 2019: <a href="#">Transpower Input Methodologies Amendments Determination [2019] NZCC 10</a> and paragraphs 2.19-2.48 of <a href="#">Amendments to the Transpower IM Determination, Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019)</a>.</p> <p>This amendment is related to decision RP07, and specifically, a 2019 amendment which provides that Transpower's IPP may be reconsidered to take into account a large buildup in the EV account balance in certain circumstances.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Why we are making no change to this decision

17.24 Our final decision in respect of IM decision TC01/SP08 is to make no change.

#### *Draft decision*

17.25 Our draft decision was to make no change, and we saw no need for a change on two related decisions:

17.25.1 decision SP08, which provides for how Transpower may draw down the EV account balance as allowable revenue; and

17.25.2 decision RP07, which, among other things, includes the threshold for the large buildup in EV account balance.

#### *Final decision*

17.26 We have decided to not change TC01/SP08, as per the draft decision, but to make a change to RP07. Our reasons for making no change to decision SP08, but making a change to decision RP07, are discussed at para 8.488 to 8.578 of this report.

## Current specification of price IM decision SP09

<p>Decision SP09</p> <p>Pass-through costs - Transpower</p>	<p><b>Original 2010 decision</b></p> <p>The IM includes a list of pass-through costs and a process for adding new pass-through costs.</p> <p>The list of path-through costs includes local authority rates and regulatory levies.</p> <p>See section 7.3 of <a href="#">2010 Transpower IM reasons paper: Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2019 amendment to this decision</b></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: <a href="#">Amendments to the Transpower IM Determination, Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Final decision

17.27 Our final decision with respect to IM decision SP09 is to make no change to the Transpower IM and not allow for insurance payments to be a pass-through cost.

### Why we are making no change to this decision

17.28 Our reasons for making no change are discussed in Chapter 10 of the Transpower investment topic paper.

## Chapter 18 CPP decisions that we are not changing

### Current CPP IM decision CP01.1

Decision CP01 CPP streamlining	<b>Current IM decision</b> 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 making no change to this decision

- 18.1 Our final decision in respect of IM decision CP01.1 is to make no change to our current CPP IMs for the purposes of streamlining CPPs.
- 18.2 Our reasons for making no change are discussed in Chapter 4 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision CP01.2

Decision CP01.2 Single CPP to cover multiple parties	<b>Current IM decision</b> 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 making no change to this decision

- 18.3 Our final 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.
- 18.4 Our reasons for making no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current CPP IM decision CP19

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

**Why we are making no change to this decision**

- 18.5 Our final decision in respect of IM decision CP19 is to make no change to our current CPP IMs to allow for a single issue CPP.
- 18.6 Our reasons for making no change are discussed in Chapter 4 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Chapter 19 Reconsideration of price-quality path decisions that we are not changing

### Current reconsideration of price-quality path IM decision RP01.1

<p>Decision RP01.1</p> <p>System growth capex</p>	<p><b>Current IM decision</b></p> <p>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.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB</p>

### Why we are making no change to these decisions

- 19.1 Our final decision in respect of IM decision RP01.1 is not to change the IM decision to:
- 19.1.1 define “general growth” within system growth; or
  - 19.1.2 specify the treatment of general growth in the Unforeseeable large project reopener or the Foreseeable large project reopener.
- 19.2 Our reasons for making no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current Transpower IM decision RP05

<p>Decision RP05</p> <p>Reconsideration of IPP</p>	<p><b>Original 2010 decision</b></p> <p>Transpower's IPP may be reconsidered if one of the following events has occurred:</p> <ul style="list-style-type: none"> <li>• a catastrophic event, for which the costs of rectifying the impact of the event is material; or</li> <li>• a material error is discovered in the determination; or</li> <li>• Transpower has provided false or misleading information, which the Commission has relied upon in making its determination; or</li> <li>• a change in legislative or regulatory requirements that has a material impact on Transpower's costs.</li> </ul> <p>See section 7.4 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
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	<p><b>2014 amendment to this decision</b></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: <a href="#">Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</a></p> <p>Also see Chapter 7 - Major capex - investment test, paragraphs 7.3.2-7.3.8 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
This decision applies to the following sectors:	Transpower

### Why we are making no change to this decision

- 19.3 Our final decision in respect of IM decision RP05 is to:
- 19.3.1 make no change to the Transpower IM to implement automatic price path adjustment; and
  - 19.3.2 not amend the wording in clauses 3.7.4 and 3.7.5 of the Transpower IM.
- 19.4 Our reasons for making no change are discussed in Chapter 12 of the Transpower Investment topic paper.

### Current 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	<p><b>Current IM decision</b></p> <p>The current IMs do not prescribe a timeframe for the Commission to evaluate reopener applications.</p>
This decision applies to the following sectors:	EDB/GDB/GTB/Transpower

### Why we are making no change to these decisions

- 19.5 Our final 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.
- 19.6 Our reasons for making no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current 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	<b>Current IM decision</b>  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 making no change to these decisions

- 19.7 Our final 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, such as templates for reopener applications.
- 19.8 Our reasons for making no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current 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	<b>Current IM decision</b>  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 making no change to these decisions

- 19.9 Our final decision in respect of IM decisions RP01.14, RP02.14 and RP05.14 is to make no change to include application windows for reopeners.
- 19.10 Our reasons for making no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.



## Current reconsideration of price-quality path IM decisions RP01.15, RP02.15 and RP05.15

Decisions RP01.15, RP02.15 and RP05.15 Consultation requirements	<b>Current IM decision</b> 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 making no change to these decisions

- 19.11 Our final 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.
- 19.12 Our reasons for making no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current 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	<b>Current IM decision</b> 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 making no change to this decision

- 19.13 Our final 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.
- 19.14 Our reasons for making no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current 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	<b>Current IM decision</b>  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 making no change to this decision

- 19.15 Our final 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.
- 19.16 Our reasons for making no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current 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	<b>Current IM decision</b>  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 making no change to these decisions

- 19.17 Our final 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.
- 19.18 Our reasons for making no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current 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	<b>Current IM decision</b> 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 making no change to these decisions

- 19.19 Our final 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.
- 19.20 Our reasons for making no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current reconsideration of price-quality path IM decision RP01.20

Decision RP01.20 Single reopener application to cover multiple parties	<b>Current IM decision</b> 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 making no change to this decision

- 19.21 Our final decision in respect of IM decision RP01.20 is to make no change to allow a single reopener application to cover multiple parties.
- 19.22 Our reasons for making no change are discussed in Chapter 5 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current reconsideration of price-quality path IM decision RP01.21

Decision RP01.21 Contingent projects reopener	<b>Current IM decision</b> 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 making no change to this decision

- 19.23 Our final decision is to make no change to IM decision RP01.21.
- 19.24 Our reasons for making no change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision RP01.22 and RP02.22

Decisions RP01.22 and RP02.22 Government policy changes	<b>Current IM decision</b> 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 making no change to these decisions

- 19.25 Our final decision in respect of IM decisions 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.
- 19.26 Our reasons for making no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current 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	<b>Current IM decision</b> 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 making no change to these decisions

- 19.27 Our final decision in respect of IM decisions RP01.23, RP02.23 and RP05.23 is to make no change.
- 19.28 Our reasons for making no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current reconsideration of price-quality path IM decisions RP01.25 and RP02.24

<p>Decision RP01.25 and RP02.24</p> <p>Categories of expenditure</p>	<p><b>Current IM decision</b></p> <p>The current IMs do not include a reopener for the following specific categories of cost:</p> <ul style="list-style-type: none"> <li>• digitalisation and data;</li> <li>• monitoring of Low Voltage networks;</li> <li>• changes to a system operator’s approach to security;</li> <li>• software as a service;</li> <li>• avoided cost of distribution payments;</li> <li>• increased insurance premiums; and</li> <li>• Distributed System Operator type services.</li> </ul>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

### Why we are making no change to these decisions

19.29 Our final decision in respect of IM decisions RP01.25 and RP02.24 is to make no change to include specific categories of cost.

19.30 Our reasons for making no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms topic paper.

## Current reconsideration of price-quality path IM decision RP03.8

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

### Why we are making no change to this decision

19.31 Our final decision in respect of IM decision RP03.8 is to make no change to the method for calculating the threshold for Error events.

19.32 Our reasons for making no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision RP03.9

<p>Decision RP03.9</p> <p>Retain the 1% threshold for Foreseeable and Unforeseeable large project reopeners</p>	<p><b>Current IM decision</b></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>

#### Why we are making no change to this decision

- 19.33 Our final 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.
- 19.34 Our reasons for making no change are discussed in Chapter 6 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision RP03.10

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

#### Why we are making no change to this decision

- 19.35 Our final decision in respect of IM decision RP03.10 is to make no change to the \$100,000 or \$2 million lower threshold.
- 19.36 Our reasons for making no change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision RP03.11

Decision RP03.11 Lower threshold for high consumer benefit projects	<b>Current IM decision</b> 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 making no change to this decision

- 19.37 Our final decision in respect of IM decision RP03.11 is to make no change to introduce a lower reopener threshold for high consumer benefit projects.
- 19.38 Our reasons for making no change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current reconsideration of price-quality path IM decision RP03.12

Decision RP03.12 Not allow for the cumulative application of any of the lower thresholds	<b>Current IM decision</b> 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 making no change to this decision

- 19.39 Our final 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.
- 19.40 Our reasons for making no change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.

### Current 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	<b>Current IM decision</b> 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 making no change to this decision**

- 19.41 Our final 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.
- 19.42 Our reasons for making no change are discussed in Chapter 7 of the CPP and In-Period Adjustment Mechanisms topic paper.



## Chapter 20 IRIS decisions that we are not changing

### IRIS IM decision codes IR01, IR13 and IR14

<p>Decision IR01, IR13, IR14</p> <p>IRIS applies - EDBs</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2015 amendment to this decision (2)</b></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>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"> <li>• Under Scenarios 3 and 5 it is defined under clause 3.3.7 (1) of the IMs; and</li> <li>• Under Scenario 6 it is defined under clause 3.3.7 (2) of the IMs.</li> </ul> <p>See: <a href="#">Further amendments to input methodologies for electricity distributors subject to price-quality regulation - Incremental Rolling Incentive Scheme (IRIS) (25 November 2015)</a></p>
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	<p><b>2016 amendment to this decision</b></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> <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:  <a href="#">Input methodologies review decisions: Report on the IM Review (20 December 2016)</a>.</p> <p><b>2019 amendment</b></p> <p>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 making no change to these decisions

- 20.1 Our final decision in respect of IRIS IM decision codes IR01, IR13 and IR14 is to make no change,<sup>157</sup> and specifically:
- 20.1.1 to not allow certain categories of expenditure to be excluded from IRIS at an EDB DPP reset or IPP reset;
  - 20.1.2 to not introduce a total expenditure (**totex**) incentive scheme;
  - 20.1.3 to make no change to the treatment of operating leases for the purposes of IRIS in the IMs; and
  - 20.1.4 to not introduce any tools for altering the cashflow timing, specifically, for IRIS.
- 20.2 Our reasons for making no change are discussed in Chapter 3 (Topic 3b Implications of IRIS for cashflow timing) and Chapter 5 in the Financing and incentivising efficient expenditure during the energy transition topic paper.

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<sup>157</sup> We created new decision codes IR01, IR13 and IR14 because these no change decisions do not fit well under the existing decision codes from the 2016 Report on the IM Review.

## Current IRIS IM decision IR02

<p>Decision IR02</p> <p>Treatment of IRIS balances - EDBs</p>	<p><b>Original 2010 decision</b></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> <p><a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision (1)</b></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"> <li>• 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.</li> <li>• 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.</li> </ul> <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: <a href="#">Amendments to input methodologies for electricity distribution services and Transpower New Zealand: Incremental Rolling Incentive Scheme (27 November 2014)</a></p> <p><b>2015 amendment to this decision (2)</b></p> <p>We made further amendments intended to address situations in which a distributor transitions back and forth between DPPs 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"> <li>• 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.</li> <li>• Under the Powerco approach, the correct adjustments are made through the baseline adjustment term for any temporary savings in the penultimate year (ie year 4).</li> </ul> <p>See: <a href="#">Further amendments to input methodologies for electricity distributors subject to price-quality regulation - Incremental Rolling Incentive Scheme (IRIS) (25 November 2015)</a></p>
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	<p><b>2016 amendment</b></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 making no change to this decision

20.3 Our final decision in respect of IM decision IR02 is to make no change. This confirms our draft decision.

20.4 Our reasons for making no change are discussed in Chapter 5, Financing and incentivising efficient expenditure during the energy transition topic paper.

### Current IRIS IM decision IR03

<p>Decision IR03</p> <p>Opex and capex IRIS incentive rates</p>	<p><b>Current IM decision</b></p> <p>Currently, the opex incentive rate (which is a function of the length of retention period, ie, the length of time over which incentive amounts are held by the business, with 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>
This decision applies to the following sectors:	EDBs

### Why we are making no change to this decision

20.5 Our final decision in respect of IM decision IR03 is to make no change to how we determine the opex incentive rate. This confirms our draft decision.

20.6 Our reasons for making no change are discussed in Chapter 5 of the Financing and incentivising efficient expenditure during the energy transition topic paper.

## Current IRIS IM decision IR05

<p>Decision IR05</p> <p>Treatment of IRIS balances – Transpower</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision</b></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: <a href="#">Amendments to input methodologies for electricity distribution services and Transpower New Zealand: Incremental Rolling Incentive Scheme (27 November 2014)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Why we are making no change to this decision

- 20.7 Our final decision in respect of IM decision IR05 is to not calculate the IRIS incentive amounts based on CPI adjusted allowances for opex to remove the impact of economy wide inflation.
- 20.8 Our reasons for not making this change are set out in the Financing and incentivising efficient expenditure during the energy transition topic paper (Chapter 5c).

## Chapter 21 Transpower investment IM decisions that we are not changing

### Current Transpower Capex IM decision TC03

<p>Decision TC03</p> <p>Capex IM framework – categories and definitions for capital expenditure</p>	<p><b>Original 2012 decision</b></p> <p>The criteria classified base capex as R&amp;R projects and E&amp;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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Why we are making no change to this decision

- 21.1 Our final decision is to make no change to IM decision TC03 in respect of criteria for enhancements and development (**E&D**) and replacement and renewal (**R&R**) base capex definitions, as they are flexible enough to support resilience expenditure proposals.
- 21.2 Our reasons for making no change are discussed in Chapter 3 (issue 5) of the Transpower Investment topic paper.

### Current 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><b>Original 2012 decision</b></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 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: <a href="#">Transpower capex input methodology reasons paper (31 January 2012)</a>.</p> <p><b>2018 amendment to this decision</b></p> <p>The 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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</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><b>Original 2012 decision</b></p> <p>Transpower will be required to provide qualitative information when submitting a Base capex proposal including detailed information on projects and programmes, 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: <a href="#">Transpower capex input methodology reasons paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Why we are making no change to this decision

21.3 Our final decision in respect of IM decisions TC16 and TC27 is to make no change.<sup>158</sup>

21.4 Our reasons for making no change are discussed in Chapter 12 (issue 2) of the Transpower Investment topic paper.

### Current Transpower Capex IM decision TC30

<p>Decision TC30</p> <p>Base capex allowance – approval process – criteria for evaluating and approving base capex</p>	<p><b>Current IM decision</b></p> <p>The Commission’s evaluation criteria for 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"> <li>a. the level of focus directed towards achieving cost-effective and efficient solutions</li> <li>b. Transpower’s process, including its use of cost-benefit analyses, to determine the identified programme’s reasonableness and cost-effectiveness</li> <li>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</li> <li>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</li> <li>e. Transpower’s approach to prioritisation and risk-based asset management practice</li> <li>f. the overall deliverability of the Base capex proposal</li> <li>g. Transpower’s internal processes for assessing the need for an identified programme and the possible alternative solutions</li> </ol>
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<sup>158</sup> Please note, other aspects of IM decision TC16 have been referred to in Part 3 of this report - IM decisions that we are not changing and found no reason to consider changing.

Please note, other aspects of IM decision TC27 have been referred to in Part 3 of this report - IM decisions that we are not changing and found no reason to consider changing.

	<p>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</p> <p>i. how grid outputs, key drivers, assumptions, and cost modelling were used to determine forecast capital expenditure</p> <p>j. mechanisms for controlling actual capital expenditure for the proposed Base capex allowances and ensuring performance of proposed grid output targets.</p> <p>See section 5.7, paragraphs 5.7.1-5.7.5 of 2010 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
This decision applies to the following sectors:	Transpower

### Why we are making no change to this decision

- 21.5 Our final decision in respect of IM decision TC30 is to make no changes to the Base capex proposal evaluation criteria to include an opex evaluation criteria.
- 21.6 Our reasons for making no change are set out in Chapter 9 of the Transpower Investment topic paper.

### Current Transpower Capex IM decision TC33

<p>Decision TC33</p> <p>Major capex – approval process – Transpower’s consultation requirements</p>	<p><b>Original 2012 decision</b></p> <p>We decided to require Transpower to consult with interested parties on proposed transmission investments and non-transmission solutions prior to submitting a major capex proposal for approval.</p> <p>See Chapter 6: Major capex – approval process, paragraphs 6.4.1-6.4.16 of Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p> <p><b>2018 amendment to this decision</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
This decision applies to the following sectors:	Transpower



### Why we are making no change to this decision

- 21.7 Our final decision is to make no change to IM decision TC33 in respect of consultation requirements for Major Capex projects under \$100 million.
- 21.8 Our reasons for making no change are discussed in Chapter 3 (issue 6) of the Transpower Investment topic paper.

### Current Transpower Capex IM decision TC35

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

### Why we are making no change to this decision

- 21.9 Our final decision in respect of IM decision TC35 is to make no change.
- 21.10 Our reasons for making no change are discussed in Chapter 5 of the Transpower Investment topic paper.

### Current Transpower Capex IM decision TC39

Decision TC39 Major capex – approval process – criteria for evaluating major capex proposals	<b>Original 2012 decision</b> The Commission will evaluate each major capex proposal in accordance with Schedule C of the Capex IM See section 6.10 of the 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a> .
This decision applies to the following sectors:	Transpower

### Why we are making no change to this decision

- 21.11 Our final decision in respect of IM decision TC39 is to make no change.
- 21.12 Our reasons for making no change are discussed in Chapter 3 (issue 5) of the Transpower Investment topic paper.

## Current Transpower Capex IM decisions TC41, TC44 and TC48

<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><b>Original 2012 decision</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>Original 2012 decision</b></p> <p>When calculating the expected net electricity market benefits, the costs and benefits are limited to:</p> <ul style="list-style-type: none"> <li>• benefits accruing to participants in the electricity market, and</li> <li>• the project costs of the investment option.</li> </ul> <p>Costs and benefits accruing to participants in the electricity market are any of the following:</p> <ul style="list-style-type: none"> <li>• fuel costs incurred by generators in relation to existing assets, committed projects and modelled projects;</li> <li>• the cost of involuntary demand curtailment borne by end users of electricity;</li> <li>• the costs of demand-side management;</li> <li>• capital costs of modelled projects;</li> <li>• costs resulting from operations and maintenance expenditure on committed projects, existing assets and modelled projects;</li> <li>• the cost of ancillary services including system operator costs;</li> <li>• the cost of losses, including local losses;</li> <li>• any real option value;</li> <li>• 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);</li> </ul>
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	<ul style="list-style-type: none"> <li>• subsidies or other benefits – <ul style="list-style-type: none"> <li>○ relating to anything listed in the above paragraphs; and</li> <li>○ provided under or arising pursuant to all electricity-related legislation and electricity-related administrative determinations.</li> </ul> </li> <li>• competition effects (in the electricity market);</li> <li>• 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.</li> </ul> <p>See Chapter 7 – Major capex – investment test, paragraphs 7.4.3 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC48</p> <p>Major capex - investment test - implementation of the investment test - demand and generation scenarios</p>	<p><b>Original 2012 decision</b></p> <p>After Ministry of Economic Development scenarios are published, Transpower must use these scenarios in its investment analysis or those published by any other agency, which subsequently assumes this responsibility, should the Ministry stop producing the scenarios. Until scenarios are published by the Ministry, Transpower must apply the scenarios specified as 'market development scenarios' in the statement of opportunities published by the Electricity Commission in 2010.</p> <p>Transpower may vary the Ministry's scenarios or market development scenarios after having reasonable regard to the views of interested persons.</p> <p>See Chapter 7: Major Capex - Investment test, paragraphs 7.4.40-7.4.42 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
This decision applies to the following sectors:	Transpower

### Why we are making no change to these decisions

- 21.13 Our final decision in respect of IM decisions TC41, TC44 and parts of TC48 is to make no change.<sup>159</sup>
- 21.14 Our reasons for making no change are discussed in Chapter 3 (issues 1, 2 and 5) and Chapter 12 (issue 2) in the Transpower Investment topic paper.
- 21.15 We considered and have changed other elements of this decision, as discussed in Chapter 11 of this report.

### Current 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><b>Original 2012 decision</b></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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p> <p>See Chapter 7 – Major capex – investment test, paragraphs 7.3.17-7.3.26 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Why we are making no change to this decision

- 21.16 Our final decision in respect of IM decision TC43 is to make no change.<sup>160</sup>
- 21.17 Our reasons for making no change are discussed in Chapter 3 – (issue 5) of the Transpower Investment topic paper.

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<sup>159</sup> Please note, other aspects of IM decision TC44 have been referred to in Part 1 of this report (IM decisions that we are changing) and in Part 3 of this report (IM decisions that we are not changing and found no reason to consider changing).

Please note, other aspects of IM decision TC48 have been referred to in Part 1 of this report (IM decisions that we are changing).

<sup>160</sup> Please note, other aspects of IM decision TC43 have been referred to in Part 3 of this report (IM decisions that we are not changing and found no reason to consider changing).

## Current Transpower Capex IM decision TC49

<p>Decision TC49</p> <p>Major capex – investment test – implementation of the investment test – sensitivity analysis</p>	<p><b>Original 2012 decision</b></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"> <li>• forecast demand;</li> <li>• size, timing, location, fuel costs and operating and maintenance costs (relevant to existing assets), committed projects, modelled projects and the investment option in question;</li> <li>• capital cost of the investment option in question (including variations up to proposed Major capex allowance) and modelled projects;</li> <li>• timing of decommissioning, removing or de-rating decommissioned assets;</li> <li>• the value of expected unserved energy;</li> <li>• discount rate;</li> <li>• range of hydrological inflow sequences;</li> <li>• relevant demand and generation scenario probability weightings; and</li> <li>• any other variables that Transpower considers to be relatively uncertain.</li> </ul> <p>See Chapter 7: Major Capex – Investment test, paragraphs 7.4.49-7.4.50 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p> <p>See Chapter 7 – Major capex – investment test, paragraphs 7.3.2-7.3.8 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

### Why we are making no change to this decision

21.18 Our final decision in respect of IM decision TC49 is to make no change.

21.19 Our reasons for making no change are discussed in Chapter 3 – (issue 5) of the Transpower Investment topic paper.

## Chapter 22 Treatment of taxation decisions that we are not changing

<p>Decision TX19</p> <p>Tax losses ignored – Airports</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

### Final decision

22.1 Our final 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 confirms our draft decision.

### Why we are making no change to this decision

#### *Reasons for our draft decision*

- 22.2 This issue was raised by Auckland International Airport Limited in its submission on the Process and issues paper.<sup>161</sup>
- 22.3 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.
- 22.4 Our reason for proposing no change was 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 did 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.

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<sup>161</sup> Auckland International Airport Ltd “[Input Methodologies Review – response to Process and issues Paper](#)” (11 July 2022), pp. 3-4.

*Stakeholder views and analysis*

- 22.5 We received no submissions on this draft decision. Therefore, for the reasons set out above, we have decided to confirm our draft decision to make no change to how the Airports IM treats tax losses to deal with the impact of COVID-19 on Airports' revenues.

## Chapter 23 Definition changes that we have not proceeded with

- 23.1 This chapter sets out changes to the definitions provision which we proposed in our draft decisions that we have decided not to proceed with. The relevant IM decisions outlined in this chapter relate to:
- 23.1.1 the treatment of appeal costs in the definition of ‘operating costs’; and
  - 23.1.2 the treatment of awards of costs following a successful appeal in the definition of ‘other regulated income’.
- 23.2 In our draft Report on the IM Review, we presented our draft decisions on the treatment of appeal costs as a new cost allocation decision (CA14) and the treatment of awards of costs as a specification of price decision (SP01).<sup>162</sup> However, the definitions of ‘operating costs’ and ‘other regulated income’ impact multiple IMs. Therefore, we consider it more accurate to present our final decisions on these matters as relating to the definitions provision of the IMs.<sup>163</sup>

### Final decision

- 23.3 Our final decision is:
- 23.3.1 for all sectors, not to exclude the costs of appeals under sections 52Z, 91 or 97 of the Act from the definition of ‘operating costs’ in the IMs; and
  - 23.3.2 for EDBs, GDBs and GTBs, not to exclude awards of costs following a successful appeal under sections 52Z, 91 or 97 of the Act from the definition of ‘other regulated income’ in the IMs.<sup>164</sup>
- 23.4 Instead, where appropriate, the Commission *may* use its existing discretion in setting price paths and/or assessing profitability under ID to deal with the treatment of appeal costs and any resulting awards of costs.

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<sup>162</sup> Commerce Commission “Report on the IM Review 2023: Part 4 Input Methodologies Review 2023 – Draft decision” (14 June 2023), pp. 23 to 27 and pp. 61 to 63.

<sup>163</sup> This is consistent with our approach about the treatment of pecuniary penalties in the definition of operating costs, as set out in IM decision DP01 in Chapter 13 of this report.

<sup>164</sup> The Transpower and Airports IMs do not set out the definition of ‘other regulated income’ or ‘other income’ (as applicable). Instead, these definitions are set out in the PQ/ID relevant determinations.



## Draft decision

23.5 Our draft decision proposed to:

23.5.1 for all sectors, exclude the cost of appeals under sections 52Z, 91 or 97 of the Act from the definition of ‘operating costs’;<sup>165</sup> and

23.5.2 for EDBs, GDBs and GTBs, exclude awards of costs following a successful appeal under sections 52Z, 91 or 97 of the Act from the definition of ‘other regulated income’.<sup>166</sup>

## Why we proposed these changes

23.6 Our draft decision noted the problem that currently regulated suppliers in all sectors can potentially recover the cost of any appeals against the IMs or other determinations from their consumers via regulatory opex.

23.6.1 Costs of appeals against the IMs and other determinations are not excluded from the IM definition of “operating costs” (the unallocated term) and “operating expenses” (the allocated term).

23.6.2 This had the potential to result in the costs of an appeal being recovered from consumers (depending on the sector and timing of the cost during a regulatory period) or present in our assessment of profitability.

23.7 Our draft decision to exclude the cost of appeals under sections 52Z, 91 and 97 of the Act in these IM definitions was intended to:

23.7.1 better promote the Part 4 purpose and provide consistency with our risk allocation principle;

23.7.2 better promote the IM purpose in s 52R, by removing ambiguity about the treatment of these costs; and

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<sup>165</sup> Commerce Commission “Report on the IM Review 2023: Part 4 Input Methodologies Review 2023 – Draft decision” (14 June 2023), para 3.22 and 3.31 to 3.42.

<sup>166</sup> Commerce Commission “Report on the IM Review 2023: Part 4 Input Methodologies Review 2023 – Draft decision” (14 June 2023), para 7.5 and 7.8.

23.7.3 give effect to the intent of s 52T(1)(c)(i) of the Act, under which the Commission is required to set IMs for “regulatory processes and rules”, such as (emphasis added):

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)

23.8 Where an appeal is successful, a regulated party may be entitled to an award of costs.<sup>167</sup> For consistency with our draft decision in relation to the treatment of appeal costs, we proposed amending the definition of ‘other regulated income’ to specifically exclude awards of costs, so that suppliers do not have to offset that income against allowable revenue.

### Stakeholder views

23.9 While there was some support for our draft decision to exclude appeal costs, most submitters expressed opposition to our draft decision.<sup>168</sup>

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<sup>167</sup> 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.

<sup>168</sup> Our draft decision was supported by the [Major Gas Users Group \(MGUG\) "Cross-submission on IM Review 2023 Draft Decisions" \(9 August 2023\)](#) and the [International Air Transport Association \(IATA\) "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#).

Our draft decision was opposed by the following regulated suppliers: [Electricity Networks Aotearoa \(ENA\) "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#); [Vector "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#); [PowerNet "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#); [First Gas Ltd "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#); [Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#); [Wellington Electricity "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#); [Unison "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#); [Wellington International Airport "Cross submission on IM Review 2023 Draft Decisions" \(9 August 2023\)](#); and [Christchurch International Airport "Cross-submission on IM Review 2023 Draft Decisions" \(9 August 2023\)](#).

- 23.10 In support of our draft decision, the Major Gas Users Group (**MGUG**) considered that:<sup>169</sup>
- 23.10.1 it is inappropriate to allocate the risk and cost of an appeal (which could be lost by a regulated supplier) to consumers, where the appeal is against the interests of consumers; and
- 23.10.2 if appeal costs can be included in operating costs, then there is no cost risk of filing “meritless” appeals, providing the wrong incentives to suppliers.
- 23.11 There were two key themes from the submissions that opposed our draft decision about the treatment of appeal costs:
- 23.11.1 The Commission should be held accountable for the quality of its decision-making. For example, ENA submitted that:<sup>170</sup>
- ENA believes the Commission is trying to reduce the chance of appeals against its decisions and the draft decision is against the long-term benefit of consumers.
- 23.11.2 Appeals against the Commission’s decisions could ultimately generate long-term benefits for consumers (through improvements to the regulatory rules), and therefore the cost of such appeals should be shared with consumers.<sup>171</sup>
- 23.12 Orion suggested that, as an alternative to the Commission’s draft decision, the costs of successful appeals should be included in the operating costs of a regulated supplier.<sup>172</sup>
- 23.13 We received no submissions on our draft decision to exclude awards of costs from ‘other regulated income’. But, as this is linked to our draft decision on the treatment of appeal costs, the submissions discussed above are relevant.

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<sup>169</sup> [Major Gas Users Group \(MGUG\) "Cross-submission on IM Review 2023 Draft Decisions" \(9 August 2023\)](#), p. 21.

<sup>170</sup> [Electricity Networks Aotearoa \(ENA\) "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 15.

<sup>171</sup> See, for example: [Electricity Networks Aotearoa \(ENA\) "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 15.

[Vector "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 60.

[Wellington Electricity "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), pp. 53-54.

<sup>172</sup> [Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), para 19.

- 23.14 The International Air Transport Association (**IATA**) proposed a list of further exclusions from the definition of ‘operating cost’, including, for example, costs related to investor relations activities, corporate social responsibility activities, and bonuses for staff and dividends.<sup>173</sup> The IATA submitted that these costs should not be recovered from airport users because they have no direct links to the provision of specified airport services. Christchurch International Airport disagreed, submitting that “these costs are all properly part of the regulated service”.<sup>174</sup>

### **Analysis and final decision**

- 23.15 We have decided not to expressly exclude appeal costs from the IMs’ definition of ‘operating costs’ and any awards of costs following an appeal from the IMs’ definition of ‘other regulated income’.
- 23.16 We consider that assessing the treatment of appeal costs and any resulting awards of costs on a case-by-case basis (as opposed to setting a fixed rule in the IMs) enables us to make decisions about the treatment of appeal costs that better promote the s 52A purpose.
- 23.17 Under this approach, we *may* use the Commission’s existing discretion in setting price paths and/or assessing profitability under ID to exclude these costs, where we consider that the particular facts and circumstances are such that it better promotes the Part 4 purpose for suppliers to bear a greater proportion of (or the full) cost of an appeal.

### *Assessment of stakeholder submissions relating to the treatment of appeal costs*

- 23.18 Suppliers argued that by not allowing appeal costs to be recovered from consumers, the Commission would be inhibiting suppliers’ appeal rights and subverting the Commission’s own accountability. We hold the view that preventing appeal costs from being recovered from consumers (in full or in part) would not, in principle, deter suppliers from filing appeals. Even where suppliers bear the cost of an appeal, they would be likely to receive the benefits of a successful appeal through changes to the regulatory rules.

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<sup>173</sup> [International Air Transport Association \(IATA\) "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), p. 3.

<sup>174</sup> [Christchurch International Airport "Cross-submission on IM Review 2023 Draft Decisions" \(9 August 2023\)](#), p. 3.

- 23.19 However, we agree with suppliers that in some cases appeals can lead to improvements in the regulatory regime, which ultimately promotes the long-term benefit of consumers. As suggested by Orion, where an appeal is successful it may be appropriate for consumers to bear some or all of the cost of the appeal.<sup>175</sup>
- 23.20 Therefore, we consider that there is a balance to be struck in which excluding appeal costs in all cases using a fixed rule in the IMs may not better promote the s 52A purpose, in comparison to the current IMs under which:
- 23.20.1 our current approach to setting opex allowances for price-quality paths means that, in effect, those costs will be shared to some extent between suppliers and consumers;<sup>176</sup> and
- 23.20.2 where we consider the particular facts and circumstances are such that an alternative allocation (such as suppliers bearing a greater proportion or the full amount of these costs) would better promote the Part 4 purpose, we may use existing discretion in setting price paths and/or assessing profitability to give effect to that alternative allocation.
- 23.21 We consider that this approach still enables us to give effect to the statutory intent expressed in s 52T(1)(c)(i) of the Act, by enabling us to prevent suppliers from recovering appeal costs (in full or in part) from consumers where this better promotes the Part 4 purpose.
- 23.22 The Commission has previously used its discretion in setting price paths to deal with the treatment of appeal costs. 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).<sup>177</sup> This was prior to the introduction of the IRIS mechanism (there is no IRIS mechanism for GPBs).<sup>178</sup>

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<sup>175</sup> [Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), pp. 6-7.

<sup>176</sup> For GDBs and GTBs, opex falling within a ‘base year’ is used in resetting the price path. Under the IRIS mechanism for EDBs and Transpower, the costs are shared using a fixed ratio between suppliers and consumers over time.

<sup>177</sup> Commerce Commission “[Setting Default Price-Quality Paths for Suppliers of Gas Pipeline Services](#)” (28 February 2013), para C10-C13; Commerce Commission “[Low cost forecasting approaches – Final decision – EDB DPP 2015 to 2020](#)” (28 November 2014), para 3.14, 3.46-3.48, B14-B17.

<sup>178</sup> When the Commission made the adjustments to remove appeal costs from the year that they were incurred, the supplier bore all of the cost. This is because the IRIS mechanism was not introduced at that time. However, with the IRIS mechanism, consumers will bear most of these costs over time (~76.5% under the DPP3 opex IRIS retention factor).

- 23.23 In future, if we consider excluding the costs of appeals would better promote the Part 4 purpose, the Commission could use its existing discretion to:
- 23.23.1 For suppliers subject to price-quality (PQ) regulation, adjust starting prices when the Commission sets opex allowances for PQ paths.<sup>179</sup>
  - 23.23.2 For suppliers subject to ID regulation, where the Commission considers it supports the s 53A purpose, require information about the costs of appeals to be disclosed as a separate line item in order to assist with the assessment of profitability.
- 23.24 While setting a fixed rule in the IMs would create greater regulatory certainty, we consider that maintaining flexibility to assess the treatment of appeal costs and any resulting awards of costs on a case-by-case basis and, where appropriate, using our discretion discussed above, enables us to better promote the Part 4 purpose.

#### **IATA's proposed costs for exclusion from the definition of 'operating costs'**

- 23.25 The costs that the IATA had proposed to be excluded from operating costs, such as costs relating to investor relations activities, corporate social responsibility activities, staff bonuses and dividends are generally accepted as the normal costs of conducting business.
- 23.26 While we recognise that, under particular circumstances, certain costs within these categories (and others) may not be attributable to the regulated services, a general exclusion of costs in the categories proposed by the IATA is not justified or practical. There is no evidence that a blanket exclusion of these costs would always be in the long-term benefit of consumers.
- 23.27 The existing cost allocation IM already allows for the direct attribution of costs to regulated and unregulated activities or the allocation of shared costs between activities. This can be applied to exclude costs not attributable to the regulated services.
- 23.28 Therefore, we consider that the costs set out by IATA should not be excluded from the definition of operating costs.

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<sup>179</sup> The precise details of how the Commission could deal with the treatment of appeal costs depends somewhat on the sector and the timing of the appeal.

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

### **Chapter 24: Introduction to Part 3**

23.4 This Part of the report lists the current IM decisions that:

24.1.1 in light of our Framework, submissions on the IM Review and draft decisions, and all other relevant information before us, we found no reason to consider changing;<sup>180</sup> and

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

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<sup>180</sup> 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 25 Decisions that we are not changing, 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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</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><b>Current IM decision</b></p> <p>EDBs and GPBs must establish their initial RAB values from existing regulatory valuations, namely:</p> <ul style="list-style-type: none"> <li>• the regulatory asset values disclosed in 2009 in accordance with applicable ID requirements; or</li> <li>• 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.</li> </ul> <p>See section 4.3 of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</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><b>Current IM decision</b></p> <p>EDBs and GPBs to adjust their initial RAB values to:</p> <ul style="list-style-type: none"> <li>• 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);</li> <li>• 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;</li> <li>• in the case of EDBs: <ul style="list-style-type: none"> <li>○ 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);</li> <li>○ 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;</li> <li>○ ensure finance during construction (FDC) costs are accounted for in establishing the initial RAB value of assets; and</li> </ul> </li> <li>• 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.</li> </ul> <p>See section 4.3, Appendix E, section E2 of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision AV04</p> <p>RAB exclusions</p>	<p><b>Current IM decision</b></p> <p>EDBs and GPBs should exclude from their RAB values:</p> <ul style="list-style-type: none"> <li>• 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);</li> <li>• any asset that is part of a works under construction;</li> <li>• working capital;</li> <li>• goodwill; and</li> <li>• easement land, that is land acquired for the purpose of creating an easement and with the intention of subsequently disposing of the land.</li> </ul> <p>See section 4.3, Appendix E, sections E2, E3, E5, E6 of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</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><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p> <p><b>2019 amendment</b></p> <p>The definition of ‘identifiable non-monetary asset’ in clause 1.1.4(2) of <a href="#">Electricity Distribution Services IM Determination (2012)</a> 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): <a href="#">Electricity Distribution Services Input Methodologies Amendments Determination [2019] NZCC 18</a>.</p>
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	<p>See also clause 5.40.1 of <a href="#">Treatment of operating leases – Final decisions paper (2019)</a>.</p> <p>Amendments were made so that:</p> <ul style="list-style-type: none"> <li>• A GAAP-based life can be assigned to depreciate right of use assets by GDBs and the GTB; and</li> <li>• 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.</li> </ul> <p>See clauses 3.58 to 3.72 of <a href="#">IM Amendments Reasons Paper for Gas Pipeline Businesses related to the 2022 default price-quality paths (2022)</a>.</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision AV07 Network spares	<p><b>Current IM decision</b></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"> <li>• treated as the cost of an asset under GAAP (wholly or in part); and</li> <li>• held in appropriate quantities, considering the historical reliability of the equipment and the number of items installed on the network.</li> </ul> <p>See section E4, Appendix E of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision AV08 Easement rights	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision AV09</p> <p>Capital contributions</p>	<p><b>2016 amendment to this decision</b></p> <p>We made two amendments to improve the way the original 2010 decision was implemented:</p> <ul style="list-style-type: none"> <li>• we expanded the definition of ‘capital contributions’ to include money received in respect of asset acquisitions; and</li> <li>• 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.</li> </ul> <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 <a href="#">2016 Report on the IM Review</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision AV10</p> <p>Vested assets</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</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><b>Original 2010 decision</b></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 75<sup>th</sup> 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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2014 amendment to this decision</b></p> <p>Our final decision was to use the 67<sup>th</sup> percentile estimate of post-tax WACC as a limit when determining the value of commissioned assets under particular 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 <a href="#">Amendments to the WACC percentile range for information disclosure regulation for electricity lines services and gas pipeline services: Reasons Paper (12 December 2014)</a></p> <p><b>2016 amendment to this decision</b></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 <a href="#">2016 Report on the IM Review</a>.</p>
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This decision applies to the following sectors:	EDB/GDB/GTB
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Decision AV14  Financing costs on works under construction – exempt EDBs	<p><b>Original 2010 decision</b></p> <p>Exempt EDBs must capitalise financing costs on works under construction in accordance with GAAP, at a rate no greater than their own estimate of their cost of capital.</p> <p>See section E5, Appendix E of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p> <p><b>2016 amendment to this decision</b></p> <p>We amended this decision to require exempt EDBs 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. Under this approach, the cost of financing will apply for the period from when the asset becomes a works under construction until its commissioning date.</p> <p>See chapter 4, paragraphs 91-92 of 2016 Report on the IM review: <a href="#">Input methodologies review decisions: Report on the IM review (20 December 2016)</a>.</p>
This decision applies to the following sectors:	Exempt EDBs

Decision AV15  Revenues received on works under construction	<p><b>Original 2010 decision</b></p> <p>When they commission works under construction EDBs and GPBs must reduce the cost of assets, established consistent with GAAP, by the amount of any revenue derived in relation to the assets while they were works under construction (where such a reduction is not already made under GAAP, and where the revenue has not already been reported as income under ID).</p> <p>See section E5, Appendix E of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
This decision applies to the following sectors:	EDB/GDB/GTB

<p>Decision AV18</p> <p>Keeping stranded assets in the RAB</p>	<p><b>Original 2010 decision</b></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><a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB</p>

<p>Decision AV19</p> <p>Cost allocation applies to unallocated RAB</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision AV20</p> <p>Initial RAB values (Transpower)</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV21</p> <p>Pseudo asset in initial RAB (Transpower)</p>	<p><b>Current IM decision</b></p> <p>The initial value of RAB should include the remaining value of the High Voltage Alternating Current 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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

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

<p>Decision AV28</p> <p>Network spares (Transpower)</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
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This decision applies to the following sectors:	Transpower
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Decision AV29 Asset disposals (Transpower)	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
This decision applies to the following sectors:	Transpower

Decision AV30 Easements (Transpower)	<p><b>Current IM decision</b></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"> <li>• the investments have been approved under the grid investment test in Part F of the Electricity Governance Rules; and</li> <li>• 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"> <li>○ legal and administrative costs;</li> <li>○ the detrimental impact on the value of the land, as determined by a valuer; and</li> <li>○ 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.</li> </ul> </li> </ul> <p>See section 4.4, paragraphs 4.4.89 – 4.4.103 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
This decision applies to the following sectors:	Transpower

<p>Decision AV31</p> <p>Lost and found assets (Transpower)</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></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><b>2016 amendment to this decision</b></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"> <li>• so that the asset life of non-system assets is determined by applying the asset life used under GAAP;</li> <li>• to make it clear that asset lives are not reset on transfers of assets from other regulated suppliers; and</li> <li>• so the value of an asset is adjusted for depreciation applying in the year of transfer from the other regulated supplier.</li> </ul> <p>See chapter 4, paragraphs 127-128 of <a href="#">2016 Report on the IM Review</a>.</p> <p><b>2019 amendment</b></p> <p>Clause 2.2.6(1)(h) of <a href="#">Commerce Act (Transpower IM) Determination 2010 [2012] NZ CC 17</a>, 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 <a href="#">Transpower IM Amendments Determination (No. 2) [2019] NZCC 16</a>.</p> <p>The reference to ‘network’ before ‘right of use asset’ has been deleted in clause 2.2.6(1)(h) of the <a href="#">Transpower IMs</a> and clause 2.2.8(1)(f) of the <a href="#">EDB IMs</a>. 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 <a href="#">Treatment of operating leases – Final decisions paper (2019)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV36</p> <p>Stranded assets (Transpower)</p>	<p><b>Original 2010 decision</b></p> <p>In the case of stranded assets, Transpower may apply accelerated depreciation in the year in which the asset becomes stranded, where the Commission approves this in accordance with the IPP Determination.</p> <p>See section 4.4, paragraphs 4.4.130- 4.4.139 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV37</p> <p>Asset lives when asset is coming to end of life (Transpower)</p>	<p><b>2014 amendment to this decision</b></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: <a href="#">Amendments to input methodologies for Transpower 2014: Reasons paper (28 August 2014)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV38</p> <p>Cost allocation applies to unallocated RAB (Transpower)</p>	<p><b>Original 2010 decision</b></p> <p>Transpower must record the total (ie, 'unallocated') value of an asset base and roll it forward (for depreciation and 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).</p> <p>See section 4.5, Chapter 3 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision AV39</p> <p>Initial RAB values for non-land assets (Airports)</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></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><b>2016 amendment to this decision</b></p> <p>We amended IM decision AV40 to:</p> <ul style="list-style-type: none"> <li>• require airports to disclose forward-looking and backward-looking costs in a way that is most consistent with the approaches used when setting prices;</li> <li>• 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</li> <li>• allow airports to make their choice of either CPI indexation or an un-indexed approach for each subset of the asset base separately.</li> </ul> <p>See chapter 5 of <a href="#">Topic paper 5: Airports profitability assessment (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV43</p> <p>Financing costs on works under construction (Airports)</p>	<p><b>Original 2010 decision</b></p> <p>Airports must capitalise financing costs on works under construction consistent with GAAP, at a rate no greater than the Airport's estimate of its post-tax cost of capital. Airports must cease capitalising financing costs when the asset is commissioned.</p> <p>When works under construction are commissioned, airports must reduce the cost of the asset, established consistent with GAAP, by the amount of any revenue derived in relation to the assets while they were works under construction (where such a reduction is not already made under GAAP, and where the revenue has not already been reported as income under ID).</p> <p>See section 4.3, Appendix C, section C4 of 2010 Airports IM reasons paper: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV44</p> <p>Finance leases and intangible assets (Airports)</p>	<p><b>Original 2010 decision</b></p> <p>Airports 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. Airports must establish the value of permitted intangible assets added to RAB value after the last day of the disclosure year 2009 using the cost model for recognition under GAAP.</p> <p>See section 4.3, Appendix C, section C5 of 2010 Airports IM reasons paper: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></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><b>Current IM decision</b></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 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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV48</p> <p>Capital contributions and vested assets (Airports)</p>	<p><b>2016 amendment to this decision</b></p> <p>We made two amendments to improve the way the original 2010 decision was implemented:</p> <ul style="list-style-type: none"> <li>• we expanded the definition of ‘capital contributions’ to include money received in respect of asset acquisitions; and</li> <li>• 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.</li> </ul> <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 <a href="#">2016 Report on the IM Review</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV49</p> <p>Easement rights (Airports)</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV51</p> <p>Asset lives and limit on unallocated depreciation (Airports)</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision AV52</p> <p>Stranded assets (Airports)</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></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><b>Original 2013 decision</b></p> <p>Our decision in 2013 was to effect a change to PowerCo's year-end to 30 September and leave the remaining gas businesses disclosure year-ends unchanged. This ensures that that correct initial RAB value for PoweCco is established as of the commencement date of the Part 4 regulatory regime. The initial RAB values for Vector and GasNet remain unchanged.</p> <p>As discussed in our final decision, the amendments include an adjustment to PowerCo's initial RAB values for the 3-month period 30 June to 30 September 2009. The changes will take effect from the date of amendment. Calculations of RAB values and other values (such as roll forward deferred tax balances) will incorporate the effect of the changes so that, for example, the effect of the changes on RAB values will be apparent from 2009 in the upcoming 2013 gas distribution ID for Powerco.</p> <p>See: <a href="#">Implementing the change to PowerCo's disclosure year: Technical briefing paper on amendments to gas input methodologies (3 December 2013)</a></p> <p><b>2016 amendment to this decision</b></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>
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	<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> <p>See chapter 4, paragraphs 159-163 of the <a href="#">2016 Report on the IM Review</a>.</p>
This decision applies to the following sectors:	GDBs (PowerCo only)/GTBs

<p>Decision AV55</p> <p>Giving effect to IM decisions – applying alternative methodologies with equivalent effect (Airports)</p>	<p><b>Current IM decision</b></p> <p>To give effect to other IM decisions, we allow alternative methodologies with equivalent effect to be available to airports as an alternative to a number of other methodologies for disclosing information under ID, provided the alternative methodologies produce an effect that is likely to be equivalent to those other methodologies.</p> <p>Alternative methodologies can only be applied in place of the roll forward of the RAB for capex, disposals, depreciation and revaluations specified in the asset valuation IMs.</p> <p>We specified the criteria that must be met in order for alternative methodologies to be applied, and the information required to be provided by an airport to demonstrate that it meets the specified criteria.</p> <p>See <a href="#">Topic paper 5: Airports profitability assessment (20 December 2016)</a>.</p>
This decision applies to the following sectors:	Airports

## Cost allocation IM decisions

<p>Decision CA01</p> <p>Allocating directly attributable cost</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
This decision applies to the following sectors:	EDB/GDB/GTB



<p>Decision CA03</p> <p>Process for deciding allocation approach</p>	<p><b>Original 2010 decision</b></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:</p> <p><a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment</b></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 <a href="#">Input methodologies review decisions Topic paper 3: The future impact of emerging technologies in the energy sector (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CA06</p> <p>Variation to three allocation approaches</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>
<p>Decision CA08</p> <p>Operating costs must be adjusted for system operator costs – Transpower</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision CA09</p> <p>Costs associated with new investment contracts – Transpower</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision CA10</p> <p>Allocating directly attributable cost</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

## Cost of capital IM decisions

<p>Decisions CC01</p> <p>Cost of capital defined as estimate of WACC</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CC04</p> <p>Vanilla WACC and post-tax WACC estimation methodology</p>	<p><b>Current IM decision</b></p> <p>The methodology for estimating a vanilla WACC is:</p> <ul style="list-style-type: none"> <li>• <math>\text{cost of debt} \times \text{leverage} + \text{cost of equity} \times (1 - \text{leverage})</math></li> </ul> <p>The methodology for estimating a post-tax WACC is:</p> <ul style="list-style-type: none"> <li>• <math>\text{cost of debt (after corporate tax)} \times \text{leverage} + \text{cost of equity} \times (1 - \text{leverage})</math></li> </ul> <p>See sections 6.7, H2 of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CC10</p> <p>Date for determining price-quality path estimates of WACC – EDBs and Transpower</p>	<p><b>Original 2014 decision</b></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"> <li>• the date by which we estimate the WACC percentile for electricity lines businesses; and</li> <li>• 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.</li> </ul> <p>See: <a href="#">Amendment to the WACC determination date for electricity lines services, including Transpower: Reasons paper (29 September 2014)</a></p> <p><b>2016 amendment to this decision</b></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 of the <a href="#">2016 Report on the IM Review</a>.</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><b>Current IM decision</b></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><a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p> <p><a href="#">Input Methodologies (Transpower) Supplementary Reasons Paper for Leverage in Cost of Capital (29 June 2012)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision CC14</p> <p>Vanilla WACC and post-tax WACC estimation methodology – Transpower</p>	<p><b>Current IM decision</b></p> <p>The methodology for estimating a vanilla WACC is:</p> <ul style="list-style-type: none"> <li>• cost of debt × leverage + cost of equity × (1- leverage)</li> </ul> <p>The methodology for estimating a post-tax WACC is:</p> <ul style="list-style-type: none"> <li>• cost of debt (after corporate tax) × leverage + cost of equity × (1- leverage)</li> </ul> <p>See sections 6.7, H2 of 2010 Transpower IM reasons paper:</p> <p><a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision CC19</p> <p>Cost of capital defined as estimate of WACC – Airports</p>	<p><b>Original 2010 Decision</b></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 25<sup>th</sup> to 75<sup>th</sup> percentiles. In assessing profitability for the airports an appropriate starting point for any assessment is the 50<sup>th</sup> percentile (mid-point) on the range.</p> <p>See section 6.1, E1, E2 and E11 of 2010 Airports IM reasons paper:</p> <p><a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p>
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	<p><b>2016 Amendments</b></p> <p>Amended to remove the specific percentile range. Therefore, we will no longer publish the 25<sup>th</sup> and 75<sup>th</sup> percentiles, but instead publish the 50<sup>th</sup> 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 <a href="#">Topic paper 4: Cost of capital issues (2016)</a> and <a href="#">Topic paper 6 – WACC percentile for Airports (2016)</a></p>
This decision applies to the following sectors:	Airports

<p>Decision CC21</p> <p>Vanilla WACC and post-tax WACC estimation methodology</p>	<p><b>Current IM decision</b></p> <p>The methodology for estimating a vanilla WACC is:</p> <ul style="list-style-type: none"> <li>cost of debt × leverage + cost of equity × (1 – leverage)</li> </ul> <p>The methodology for estimating a post-tax WACC is:</p> <ul style="list-style-type: none"> <li>cost of debt (after corporate tax) × leverage + cost of equity × (1 – leverage)</li> </ul> <p>See section 6.7, E2 of 2010 Airports IM reasons paper: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p>
This decision applies to the following sectors:	Airports

<p>Decision CC27</p> <p>Term credit spread differential allowance may not be less than zero for a DPP</p>	<p><b>Current IM decision</b></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:</p> <p><a href="#">Specification and Amendment of Input Methodologies as Applicable to Default Price-Quality Paths: Reasons paper (28 September 2012)</a></p>
This decision applies to the following sectors:	EDB/GDB/GTB

## CPP requirements IM decisions

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

<p>Decision CP03</p> <p>Expenditure information – qualitative</p>	<p><b>2016 amendment to this decision</b></p> <p>We made implementation changes to IM decision CP03 as it applies to EDBs. We:</p> <ul style="list-style-type: none"> <li>• better aligned the Schedule E information requirements with the EDB ID determination; and</li> <li>• reduced the level of disaggregation required for certain information.</li> </ul> <p>See Chapter 5 and Attachment B, paragraphs 484-486 of Input methodologies review decisions: <a href="#">Topic paper 2: CPP requirements (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP04</p> <p>Period of information required</p>	<p><b>Current IM decision</b></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 <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP05</p> <p>Detail on material projects and programmes</p>	<p><b>2016 amendment</b></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: <a href="#">Topic paper 2: CPP requirements (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP06</p> <p>Information relevant to prices</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP07</p> <p>CPP verifier</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2019 amendment</b></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 <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

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

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

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

Decision CP11 Modification or exemption of CPP application requirements	<b>Original 2015 decision (as part of IM Review fast track)</b> 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.  See: Input methodologies review – <a href="#">Amendments to input methodologies for customised price-quality paths – Final reasons paper for Limb 1 of the CPP fast track (12 November 2015)</a>
This decision applies to the following sectors:	EDB/GDB/GTB



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

<p>Decision CP13</p> <p>Cost allocation information</p>	<p><b>2016 amendment to this decision</b></p> <p>We made changes to the way IM decision CP13 is implemented for EDBs and GPBs.</p> <p>We:</p> <ul style="list-style-type: none"> <li>• better aligned the cost allocation information requirements, including Schedules B and C, with the relevant ID Determinations;</li> <li>• added a materiality threshold that must be met, before providing certain cost allocation information; and</li> <li>• included tables in Schedules B and C requiring the applicant to provide the rationale for selecting proxy cost allocators.</li> </ul> <p>See Chapter 5 – Information requirements, and Attachment B, paragraphs 504-506 of Input methodologies review decisions: <a href="#">Topic paper 2: CPP requirements (20 December 2016)</a></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><b>2016 amendment to this decision</b></p> <p>We made changes to IM decision CP14 and its implementation, as it applies to EDBs:</p> <ul style="list-style-type: none"> <li>• We reduced the level of disaggregation of forecast depreciation. For example, by:</li> <li>• grouping projects and programmes by asset categories and simplifying the calculation of depreciation for forecast commissioned assets; and</li> <li>• amending the depreciation information requirements to reflect that depreciation is calculated using asset expenditure category which is a more aggregated category than asset types.</li> </ul> <p>See Chapter 5 – Information requirements, and Attachment B, paragraphs 507-509 of Input methodologies review decisions: <a href="#">Topic paper 2: CPP requirements (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP15</p> <p>Tax information</p>	<p><b>2016 amendment to this decision</b></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: <a href="#">Topic paper 2: CPP requirements (20 December 2016)</a></p> <p><b>2018 amendment to this decision</b></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> <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 <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation: Reasons paper (8 November 2018)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Decision CP16 Information relevant to alternative methodologies	<b>Original 2015 decision (as part of IM Review fast track)</b>  CPP application must include information demonstrating alternative methodologies have equivalent effect.  See: <a href="#">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)</a>
This decision applies to the following sectors:	EDB/GDB/GTB

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

Decision CP18 Gas pricing methodology to be submitted with CPP proposal – GDBs and GTBs	<b>Original 2010 decision</b>  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.  See section 9.3 and Appendix I of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>
This decision applies to the following sectors:	GDB/GTB

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

<p>Decision CP21</p> <p>Verification requirements</p>	<p><b>2016 amendment to this decision</b></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"> <li>• 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;</li> <li>• required the CPP applicant to provide us with a high level summary of their application by the time the verifier is engaged;</li> <li>• 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;</li> <li>• allowed the verifier greater flexibility in the number of identified programmes that are selected;</li> <li>• removed the obligation for the verifier to consider non-standard depreciation;</li> <li>• 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</li> <li>• 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.</li> </ul> <p>See Chapter 6 – Verification requirements, and Attachment B, paragraphs 520-523 of Input methodologies review decisions: <a href="#">Topic paper 2: CPP requirements (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP22</p> <p>Audit and assurance requirements</p>	<p><b>2016 amendment</b></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"> <li>• modified the audit requirements to differentiate the role of the auditor with respect to historical financial information and forecast financial information;</li> <li>• clarified that the auditor needs to provide a report as part of the audit; and</li> <li>• set out our expressly lay out our expectations in relation to cost allocation information.</li> </ul> <p>See Chapter 7 – Audit requirements, and Attachment B, paragraphs 524-527 of Input methodologies review decisions: <a href="#">Topic paper 2: CPP requirements (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP23</p> <p>Consumer consultation requirements</p>	<p><b>2016 amendment to this decision</b></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"> <li>• 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;</li> <li>• the applicant to notify consumers why any proposed quality standard variation had been chosen over alternative quality standards;</li> <li>• the verifier to report on the extent and effectiveness of the applicant’s consultation; and</li> <li>• the applicant to provide us with its planned consultation strategy early in the CPP process.</li> </ul> <p>See Chapter 8 – Consumer consultation requirements, and Attachment B, paragraphs 528-530 of Input methodologies review decisions: <a href="#">Topic paper 2: CPP requirements (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP24</p> <p>Certification requirements</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP26</p> <p>Modification or exemption of CPP application requirements</p>	<p><b>Original 2015 decision (as part of IM Review fast track)</b></p> <p>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: <a href="#">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)</a></p> <p><b>2016 amendment to this decision</b></p> <p>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: <a href="#">Topic paper 2: CPP requirements (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP27</p> <p>Evaluation criteria</p>	<p><b>Original 2010 decision</b></p> <p>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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision CP28</p> <p>Determination of annual allowable revenues</p>	<p><b>2016 amendment</b></p> <p>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"> <li>• reflected that the claw-back can be for historical over-recovery and under-recovery of revenue; and</li> <li>• 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.</li> <li>• 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 <math>\Delta Q</math> factor in the revenue setting formula in the GTB CPP IMs.</li> </ul> <p>See Attachment B, paragraphs 537-538 of Input methodologies review decisions: <a href="#">Topic paper 2: CPP requirements (20 December 2016)</a></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><b>Original 2010 decision</b></p> <p>Allocation of forecast operating costs and calculation of rolled forward asset values must largely follow rules applying to information disclosure.</p> <p>See: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
This decision applies to the following sectors:	EDB/GDB/GTB

Decision CP30 Treatment of taxation	<p><b>Original 2010 decision</b></p> <p>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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
This decision applies to the following sectors:	EDB/GDB/GTB

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

Decision CP32 Alternative methodologies with equivalent effect	<p><b>Original 2015 decision (as part of IM Review fast track)</b></p> <p>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: <a href="#">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)</a></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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></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><b>Current IM decision</b></p> <p>The IM does not apply to DPPs.</p> <p>See section 7.3 of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>GDB/GTB</p>

## IRIS IM decisions

<p>Decision IR06</p> <p>Five-year retention of efficiency gains (Transpower)</p>	<p><b>Original 2010 decision</b></p> <p>The length of time Transpower is allowed to retain the efficiency gain is 5 years.</p> <p>See section 7.5 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision IR08</p> <p>IRIS to apply under a CPP</p>	<p><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment</b></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 the <a href="#">2016 Report on the IM Review</a>.</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><b>Original 2010 decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment</b></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: <a href="#">Input methodologies review decisions: Report on the IM review (20 December 2016)</a></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><b>Original 2010 decision</b></p> <p>The length of time suppliers are allowed to retain the efficiency gain is 5 years.</p> <p>See section 8.5, Appendix J, section J3 for 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment</b></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 the <a href="#">2016 Report on the IM Review</a>.</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><b>Original 2010 decision</b></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"> <li>• 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;</li> <li>• the Commission will only reconsider the price path if the GTB satisfies the Commission that the project will proceed; and</li> </ul>
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	<ul style="list-style-type: none"> <li>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.</li> </ul> <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"> <li>it was unforeseeable to a prudent operator of gas transmission services at the time it submitted its CPP proposal; and</li> <li>it meets the same materiality threshold as a contingent project.</li> </ul> <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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment to this decision</b></p> <p>In 2016 we extended IM decision RP04 so that it applies to EDBs and GDBs, as well as GTBs.</p> <p>See <a href="#">Topic paper 2: CPP requirements</a> and Chapter 8, paragraph 359.</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><b>2016 amendment to this decision</b></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 the <a href="#">2016 Report on the IM Review</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

## Risks and incentives IM decisions

<p>Decision SP01</p> <p>Revenue cap applies – EDBs</p>	<p><b>2016 amendment to this decision</b></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>See paragraphs 3.9-3.23 of <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination: Reasons paper (26 November 2019)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDBs</p>

<p>Decision SP02</p> <p>Revenue cap applies – GTB</p>	<p><b>2016 amendment to this decision</b></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 <a href="#">Topic paper 1: Form of control and RAB indexation</a>; and Chapter 7, paragraphs 264-273 of the <a href="#">2016 Report on the IM Review</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>GTB</p>

## Other regulatory rules and processes IM decisions

<p>Decision RR01</p> <p>Treatment of periods that are not 12-month periods – DPP</p>	<p><b>Original 2012 decision</b></p> <p>Where the start or end date of any disclosure year is not aligned with the start or end date of a DPP regulatory period, the Commission may apply the input methodologies modified to the extent necessary to account for the change in length of the disclosure year.</p> <p>See p. 25 of the 2012 reasons paper: <a href="#">Specification and Amendment of Input Methodologies as Applicable to Default Price-Quality Paths - Reasons Paper (28 September 2012)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision RR02</p> <p>Availability of information - DPP</p>	<p><b>Current IM decision</b></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: <a href="#">Specification and Amendment of Input Methodologies as Applicable to Default Price-Quality Paths - Reasons Paper (28 September 2012)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

## Transpower Capex IM decisions

<p>Decision TC04</p> <p>Capex IM framework – situations in which capex may be re-categorised</p>	<p><b>Current IM decision</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>Current IM decision</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>Current IM decision</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>Current IM decision</b></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"> <li>a. electricity generation</li> <li>b. energy efficiency;</li> <li>c. demand-side management;</li> <li>d. local network augmentation;</li> <li>e. improvement to the systems and processes of the system operator; or</li> <li>f. the provision of ancillary services.</li> </ol> <p>Expenditure on transmission alternatives may meet the definition of:</p> <ol style="list-style-type: none"> <li>a. operating expenditure;</li> <li>b. Base capex; or</li> <li>c. a non-transmission solution.</li> </ol> <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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
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This decision applies to the following sectors:	Transpower
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<p>Decision TC08</p> <p>Capex IM framework – Definition of non-transmission solutions</p>	<p><b>Current IM decision</b></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"> <li>satisfied the investment test if the investment options did not include any transmission alternatives; and</li> <li>is Major capex.</li> </ol> <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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC09</p> <p>Capex IM framework – Approval and cost recovery of non-transmission solutions</p>	<p><b>Current IM decision</b></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"> <li>The asset-related portion of a non-transmission solution is approved and recovered in the same way as a Major capex transmission investment.</li> <li>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.</li> </ul> <p>We also decided that:</p> <ul style="list-style-type: none"> <li>the non-asset-related expenditure portion of a non-transmission solution is recovered as recoverable costs via a recovery scheme; and</li> <li>all cost components (asset-related and non-asset-related expenditure) of a non-transmission solution are subject to the Major capex incentives.</li> </ul> <p>See Chapter 2 - Capex IM framework, paragraphs 2.8.1-2.8.8, and 2.8.21-2.8.25 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC10</p> <p>Capex IM framework – incremental rolling incentive scheme</p>	<p><b>Current IM decision</b></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 became 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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>2018 amendment to this decision</b></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"> <li>• where expenditure on a base capex project has expanded in scope and has become a major capex project; or</li> <li>• where cost elements of base capex in the base capex allowance can vary significantly due to factors beyond the control of Transpower.</li> </ul> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B19-B28, and Chapter 2 - Incentive mechanisms, paragraphs 181-193 of <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC13</p> <p>Base capex incentive and output framework – grid output adjustment – development of output measures</p>	<p><b>2018 amendment to this decision</b></p> <p>We amended the capex IM to:</p> <ul style="list-style-type: none"> <li>• require Transpower to propose performance-based measures and asset health measures; and</li> <li>• allow us to determine asset health grid output measures and link them to revenue.</li> </ul> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B29-B36, and Chapter 2 - Incentive mechanisms, paragraphs 179-193 of <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>



<p>Decision TC14</p> <p>Base capex incentive and output framework – grid output adjustment – framework</p>	<p><b>Current IM decision</b></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 <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC15</p> <p>Base capex incentive and output framework – grid output adjustment – process</p>	<p><b>Current IM decision</b></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 <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC16<sup>181</sup></p> <p>Base capex incentive and output framework - base capex policies and processes adjustment</p>	<p><b>Original 2012 decision</b></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.</p> <p><b>2018 amendment</b></p> <p>We amended the capex IM to remove the base capex policies and processes adjustment.</p> <p>See Chapter 3: Base capex policies and processes adjustment, paragraphs 3.5.5 and 3.5.6 of <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<sup>181</sup> Please note, other aspects of IM decision TC16 have been referred to in Part 2 of this report - IM decisions that we are not changing.

<p>Decision TC17</p> <p>Base capex incentive and output framework – base capex incentive rates</p>	<p><b>2018 amendment to this decision</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p> <p><b>2019 amendment to this decision</b></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, <a href="#">Amendments to input methodologies for Transpower New Zealand Limited: Reasons paper (28 August 2019)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC18</p> <p>Major capex incentive and output framework - major capex efficiency adjustment</p>	<p><b>Original 2012 decision</b></p> <p>To make a capital expenditure revenue adjustment available to Transpower if it could demonstrate to the Commission's satisfaction that it has achieved positive net efficiencies across the portfolio of major capex projects during a given RCP.</p> <p><b>2018 amendment to this decision</b></p> <p>We amended 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 symmetric mechanism (the major capex expenditure and output adjustment).</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B45-B48, and Chapter 2 - Incentive mechanisms, paragraphs 78-93 of <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC19</p> <p>Major capex incentive and output framework - major capex project output adjustment - framework</p>	<p><b>Original 2012 decision</b></p> <p>We set an asymmetric incentive (penalty only) to incentivise Transpower to deliver outputs for each major capex project that were specified by Transpower (at the time of proposing the major capex project) and that were approved by us. We gave effect to the major capex project output adjustment through an adjustment to the economic value (EV) account calculated on an annual basis.</p> <p>See Chapter 4: Major capex incentive and output framework, paragraphs 4.3.3-4.3.8 of <a href="#">Transpower capital expenditure input methodology: Reasons paper (31 January 2012)</a>.</p> <p><b>2018 amendment to this decision</b></p> <p>We decided to combine the major capex project output adjustment with the major capex expenditure adjustment to form the 'major capex expenditure and output adjustment' mechanism (thereby removing the separate major capex project output adjustment).</p> <p>See Part 1: Capex IM decisions resulting in a change, paragraphs B49-B52, and Chapter 2: Incentive mechanisms, paragraphs 94-102 of <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC20<sup>182</sup></p> <p>Pre-approval Major Capex Output amendment mechanism</p>	<p><b>Original decision</b></p> <p>We decided that each Major capex proposal must specify the Major capex project outputs that will be delivered.</p> <p>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 paragraphs 4.3.1 - 4.3.15 of the <a href="#">2012 Capex IM Reasons Paper</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

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<sup>182</sup> Please note, other aspects of IM decision TC20 have been referred to in Part 1 of this report - IM decisions that we are changing.

<p>Decision TC21</p> <p>Major capex incentive and output framework – major capex project output adjustment – development of output measures</p>	<p><b>Current IM decision</b></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 <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>2018 amendment to this decision</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</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><b>Current IM decision</b></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> <ol style="list-style-type: none"> <li>a. the costs are sufficiently justified, an EV account entry will be made to allow Transpower to recover those justified costs</li> <li>b. a portion of those costs are not sufficiently justified, Transpower will bear those costs that are considered to be not sufficiently justified.</li> </ol> <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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC24<sup>183</sup></p> <p>Major Capex Allowance</p>	<p><b>Original 2012 decision</b></p> <p>To set the incentive rates for major capex projects at the start of each RCP, which would apply for the length of the RCP.</p> <p>See paragraphs 3.6.6 - 3.6.7 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p> <p><b>2018 amendment to this decision</b></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 <a href="#">the Transpower Capex IM Review: decisions and reasons paper (29 March 2018)</a>.</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><b>Current IM decision</b></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> <ol style="list-style-type: none"> <li>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</li> <li>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.</li> </ol> <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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<sup>183</sup> Please note, other aspects of IM decision TC24 have been referred to in Part 1 of this report - IM decisions that we are changing.

<p>Decision TC26</p> <p>Base capex allowance – approval process – timing and content requirements for each base capex proposal</p>	<p><b>2018 amendment to this decision</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC27<sup>184</sup></p> <p>Base capex allowance - approval process - base capex - qualitative information requirements</p>	<p><b>Original 2012 decision</b></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> <ol style="list-style-type: none"> <li>a. a detailed overview and commentary on the strategic vision and long-term role of the grid</li> <li>b. detail as to how the proposed projects and programmes contribute to achieving the specified goals</li> <li>c. copies of policies, processes and consultant reports relating to Base capex</li> <li>d. evidence of appropriate least-whole of life cost approaches and cost reduction strategies</li> <li>e. 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</li> <li>f. 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</li> <li>g. 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</li> <li>h. 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</li> <li>i. a description of how these estimates were produced</li> </ol>
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<sup>184</sup> Please note, other aspects of IM decision TC27 have been referred to in Part 2 of this report - IM decisions that we are not changing.

	<p>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</p> <p>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> <p>See section 5.4, paragraphs 5.4.1-5.4.2 of 2010 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a> See Section 5.4 Chapter 5: <a href="#">Transpower capex input methodology reasons paper (31 January 2012)</a>.</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC28</p> <p>Base capex allowance – approval process – Commission’s base capex determination and process requirements</p>	<p><b>Current IM decision</b></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> <ol style="list-style-type: none"> <li>a. Base capex allowances for each year of the RCP</li> <li>b. the quantum of the Base capex incentive rate</li> <li>c. the following revenue-linked grid output measures: <ol style="list-style-type: none"> <li>i. one or more asset performance measure</li> <li>ii. one or more measure of grid performance</li> <li>iii. at Transpower’s request, one or more asset capability grid output measure</li> <li>iv. at Transpower’s request, one or more asset health grid output measure, and</li> <li>v. at Transpower’s request, any other grid output measure.</li> </ol> </li> <li>d. in respect of each revenue-linked grid output measure, a: <ol style="list-style-type: none"> <li>i. cap</li> <li>ii. collar</li> <li>iii. grid output incentive rate</li> <li>iv. grid output target, and</li> </ol> </li> <li>e. none, one or more, as appropriate, of each of the following grid output measures to which the grid output mechanism will not apply: <ol style="list-style-type: none"> <li>i. measures of grid performance</li> <li>ii. asset performance measures</li> <li>iii. asset capability grid output measures</li> <li>iv. asset health grid output measures</li> </ol> </li> </ol> <p>The Commission will also specify:</p> <ol style="list-style-type: none"> <li>a. the forecast CPI used to determine the Base capex allowances</li> <li>b. the forecast FX rates used to determine the Base capex allowances, and</li> <li>c. the amount or percentage of the Base capex allowances to which the forecast FX rates may apply.</li> </ol> <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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
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This decision applies to the following sectors:	Transpower
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Decision TC29  Base capex allowance – approval process – Commission’s consultation obligations	<p><b>Current IM decision</b></p> <p>After receiving a base capex proposal, the Commission:</p> <ol style="list-style-type: none"> <li>a. must: <ol style="list-style-type: none"> <li>i. publish the proposal</li> <li>ii. publish its draft decision or decisions</li> <li>iii. seek the written views of interested persons on anything so published</li> <li>iv. seek the written views of interested persons on others’ submissions, and</li> </ol> </li> <li>b. may: <ol style="list-style-type: none"> <li>i. seek the views of any person the Commission considers has expertise on a relevant matter, and</li> <li>ii. hold a conference at which the views of some or all interested persons may be sought orally or in other forms of presentation.</li> </ol> </li> </ol> <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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
This decision applies to the following sectors:	Transpower

Decision TC31  Major capex – approval process – major capex pre-approval process requirements	<p><b>Current IM decision</b></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"> <li>a. an approach to ensure appropriate consideration of non-transmission solutions, consistent with the requirements specified in Section 6.3</li> <li>b. a consultation programme for the transmission investment or non-transmission solution, consistent with the requirements specified in Section 6.4</li> <li>c. timeframes for the Commission to make a decision on a Major capex project.</li> </ol> <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>
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	<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> <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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></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><b>2018 amendment to this decision</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a></p>
This decision applies to the following sectors:	Transpower

<p>Decision TC34</p> <p>Major capex - approval process - Commission's consultation obligations</p>	<p><b>Original 2012 decision</b></p> <p>The Commission's consultation obligations are set out in the Capex IM Determination. In summary, the Commission must, after receiving a Major capex proposal, and in accordance the timeframes and processes as it considers appropriate, publish the proposal, publish a draft decision or decisions, and consult on the information published.</p> <p>The Commission may also seek expert advice and hold a conference.</p> <p>See section 6.5, paragraphs 6.5.1-6.5.4 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
This decision applies to the following sectors:	Transpower

<p>Decision TC36<sup>185</sup></p> <p>Major capex – approval process – rules for approving or rejecting a major capex proposal</p>	<p><b>2018 amendment</b></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>See Part 1: Capex IM decisions resulting in a change, paragraphs B95-B100, and Chapter 3: Process matters, paragraphs 244-265 of <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</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><b>Current IM decision</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></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><b>Current IM decision</b></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>

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<sup>185</sup> Please note, other aspects of IM decision TC36 have been referred to in Part 1 of this report (IM decisions that we are changing).

<p>Decision TC42</p> <p>Major capex – investment test – application of the investment test – investment options</p>	<p><b>Current IM decision</b></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"> <li>a. designed to meet a particular investment need</li> <li>b. that is technically feasible</li> <li>c. 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.</li> </ol> <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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC43<sup>186</sup></p> <p>Major capex – investment test – application of the investment test – satisfying the investment test</p>	<p><b>Original 2012 decision</b></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> <ol style="list-style-type: none"> <li>1. 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</li> <li>2. be sufficiently robust under sensitivity analysis.</li> </ol> <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>
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<sup>186</sup> Please note, other aspects of IM decision TC43 have been referred to in Part 2 of this report (IM decisions that we are not changing)

	<p>See Chapter 7: Major Capex – Investment test, paragraphs 7.4.49-7.4.50 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p> <p>See Chapter 7 – Major capex – investment test, paragraphs 7.3.17-7.3.26 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
This decision applies to the following sectors:	Transpower

<p>Decision TC44<sup>187</sup></p> <p>Major capex investment test - implementation of the investment test - costs and benefits</p>	<p><b>Original 2012 decision</b></p> <p>When calculating the expected net electricity market benefits, the costs and benefits are limited to:</p> <ol style="list-style-type: none"> <li>a. costs and benefits accruing to participants in the electricity market, and</li> <li>b. the project costs of the investment option.</li> </ol> <p>Costs and benefits accruing to participants in the electricity market are any of the following:</p> <ol style="list-style-type: none"> <li>a. fuel costs incurred by generators in relation to existing assets, committed projects and modelled projects</li> <li>b. the cost of involuntary demand curtailment borne by end users of electricity</li> <li>c. the costs of demand-side management</li> <li>d. capital costs of modelled projects</li> <li>e. costs resulting from operations and maintenance expenditure on committed projects, existing assets and modelled projects</li> <li>f. the cost of ancillary services including system operator costs</li> <li>g. the cost of losses, including local losses</li> <li>h. any real option value</li> <li>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)</li> <li>j. subsidies or other benefits- <ol style="list-style-type: none"> <li>i. relating to anything listed in paragraphs a to i; and</li> <li>ii. provided under or arising pursuant to all electricity-related legislation and electricity-related administrative determinations; and</li> </ol> </li> <li>k. competition effects (in the electricity market); and</li> <li>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.</li> </ol>
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<sup>187</sup> We have not considered changing the categories of costs and benefits that are limited in calculating the net electricity market benefits.

Please note, other aspects of IM decision TC44 have been referred to in Part 1 of this report (IM decisions that we are changing) and in Part 2 of this report (IM decisions that we are not changing).

	<p>'Project cost' means any of the following:</p> <ol style="list-style-type: none"> <li>a. capital expenditure incurred, including for strategic land, prior to the commissioning date of assets associated with the investment option (the strategic land refers to land that has been purchased but not yet used to provide transmission line services as part of any other project)</li> <li>b. amounts payable to a third party in relation to testing of assets associated with the investment option</li> <li>c. an amount reasonably related to the commissioning of assets associated with the investment option</li> <li>d. operating, maintenance and dismantling costs associated with the investment option</li> <li>e. reasonable costs of complying with or arising pursuant to applicable existing and reasonably anticipated legislation relating to the approval of, and undertaking of, an investment option</li> <li>f. reasonable costs of complying with or arising pursuant to administrative requirements relating to the approval of, and undertaking of, an investment option, including costs relating to the preparation of a Major capex proposal</li> <li>g. any other reasonable costs incurred by Transpower associated with the investment option.</li> </ol> <p>See Chapter 7: Major Capex - Investment test, paragraphs 7.4.2-7.4.5 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></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><b>Current IM decision</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</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><b>Current IM decision</b></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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
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This decision applies to the following sectors:	Transpower
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<p>Decision TC50</p> <p>Major capex – investment test – implementation of the investment test – value of expected unserved energy</p>	<p><b>Current IM decision</b></p> <p>The Commission requires Transpower to use, in the investment test analysis, a value of expected unserved energy (<b>VoEUE</b>) 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: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a></p>
This decision applies to the following sectors:	Transpower

<p>Decision TC51</p> <p>Amendments to major capex approvals – process requirements for amendment applications</p>	<p><b>2018 amendment to this decision</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC52</p> <p>Amendments to major capex approvals – information requirements for amendment applications</p>	<p><b>Current IM decision</b></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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC53</p> <p>Amendments to major capex approvals – criteria for evaluating major capex amendment applications</p>	<p><b>Current IM decision</b></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> <ol style="list-style-type: none"> <li>a. whether the proposal is consistent with the Capex IM Determination and, where relevant, the 2010 TP IM Determination</li> <li>b. the extent to which the proposal promotes the purpose of Part 4</li> <li>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</li> <li>d. the extent to which each key factor relevant to the proposed amendment: <ol style="list-style-type: none"> <li>i. was reasonably foreseeable by Transpower before the Major capex project was approved by the Commission</li> <li>ii. was or is within Transpower’s control</li> </ol> </li> <li>e. for each key factor outside Transpower’s control: <ol style="list-style-type: none"> <li>i. the reasonableness of any applicable mitigation strategy devised by Transpower</li> <li>ii. the reasonableness and extent of mitigation actions taken by Transpower</li> </ol> </li> <li>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</li> <li>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.</li> </ol> <p>See section 8.4, paragraphs 8.4.1-8.4.3 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC54</p> <p>Amendments to major capex proposals – consultation requirements for amendments application</p>	<p><b>Current IM decision</b></p> <p>The Commission may take none, any or all of the actions listed below:</p> <ol style="list-style-type: none"> <li>a. publish the relevant proposal or application</li> <li>b. make and publish a draft decision or decisions</li> <li>c. seek the written views of interested persons on anything published</li> <li>d. seek the written views of interested persons on others’ submissions</li> <li>e. seek the views of any person the Commission considers has expertise on a relevant matter</li> <li>f. hold a conference at which the views of some or all interested persons may be sought orally or in other forms of presentation.</li> </ol> <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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>Current IM decision</b></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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>



<p>Decision TC57<sup>188</sup></p> <p>Certification requirements – certification of annual information</p>	<p><b>Original IM decision</b></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>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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC58</p> <p>Reporting requirements – base capex annual reporting requirements</p>	<p><b>Current IM decision</b></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"> <li>• whether it has engaged with stakeholders and, if so, how it has engaged with stakeholders;</li> <li>• how effective it considers that engagement has been; and</li> <li>• how satisfied stakeholders were with the engagement process based on the views expressed by stakeholders.</li> </ul> <p>See paragraphs 295-328 and Part 2: Capex IM decisions resulting in no change, paragraphs B144-B148 of <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

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<sup>188</sup> Please note, other aspects of IM decision TC57 have been referred to in Part 1 of this report (IM decisions that we are changing).

<p>Decision TC59</p> <p>Annual reporting requirements – major capex annual reporting requirements</p>	<p><b>Current IM decision</b></p> <p>Transpower will be required to report the following information to the Commission by the last working day of September each year:</p> <ul style="list-style-type: none"> <li>a. information on uncompleted projects, including: <ul style="list-style-type: none"> <li>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</li> <li>ii. forecast commissioning date or completion date, and explanations for any variance from the commissioning date assumption or completion date assumption specified in the Major capex project approval.</li> </ul> </li> <li>b. information for each commissioned or completed Major capex project, including: <ul style="list-style-type: none"> <li>h. 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 <ul style="list-style-type: none"> <li>ii. in the case of a transmission investment, actual expenditure, and explanations of any variance from P50</li> <li>iii. in the case of a non-transmission solution, the actual costs treated as recoverable costs, and explanations of any variance from P50</li> <li>iv. the grid outputs achieved by the project and explanations for any variances from the approved outputs</li> <li>v. analysis of lessons learned during and after the project</li> <li>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</li> <li>vii. any required adjustments resulting from project overspend relative to the Major capex allowances</li> <li>viii. any required Major capex adjustments resulting from non-delivery of Major capex project outputs.</li> </ul> </li> </ul> </li> <li>c. information for calculating the Major capex overspend adjustment and the Major capex project output adjustment, including: <ul style="list-style-type: none"> <li>i. the values or amounts for each term used to determine the quantum of the relevant adjustment, as specified in the Capex IM</li> <li>ii. all calculations and assumptions used to obtain those values or amounts</li> <li>iii. evidence in support of the actual FX rates.</li> </ul> </li> </ul> <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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC60</p> <p>Annual reporting requirements – formatting for reporting, proposal, and applications</p>	<p><b>Current IM decision</b></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> <ol style="list-style-type: none"> <li>cross-references the data or information provided to the information requirement applicable</li> <li>briefly describes the information requirement</li> <li>identifies the location in the file or document where a response to the information requirement is provided.</li> </ol> <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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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><b>Current IM decision</b></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>
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	<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 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
This decision applies to the following sectors:	Transpower

<p>Decision TC62</p> <p>Transitional provisions – Major capex transitional provisions</p>	<p><b>Current IM decision</b></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"> <li>a. any date specified as the date the approval expires will become the 'approval expiry date'</li> <li>b. the specified outputs or deliverables become 'approved Major capex project outputs'</li> <li>c. forecast costs adopted, where the probability of the actual costs being lower than the forecast is 50%, becomes the 'P50'</li> <li>d. any forecast commissioning date becomes the 'commissioning date assumption'</li> <li>e. any forecast completion date becomes the 'completion date assumption'</li> <li>f. any allocation of costs as recoverable costs, for non-transmission solutions, becomes the recovery scheme.</li> </ol> <p>Major capex projects that were approved prior to the Capex IM Determination, but are not yet commissioned, are listed in Table 11.1 in the 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</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 in the 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p> <p>See Chapter 11: Transitional provisions, paragraphs 11.3.1-11.3.3 of 2012 Transpower capex IM reasons paper: <a href="#">Transpower Capital Expenditure Input Methodology Reasons Paper (31 January 2012)</a>.</p>
This decision applies to the following sectors:	Transpower

<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><b>Current IM decision</b></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"> <li>• if approval is given prior to November, from the pricing year beginning the following April; or</li> <li>• if approval is given in or after November, from the pricing year beginning after the disclosure year in which approval is given.</li> </ul> <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 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: <a href="#">Amendments to input methodologies for Transpower to provide a listed project mechanism - Reasons paper (27 November 2014)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Transpower</p>

<p>Decision TC65<sup>189</sup></p> <p>Processes, requirements, and evaluation criteria for listed projects – requirements that must be met by Transpower</p>	<p><b>Original 2014 decision</b></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"> <li>1. the extent of consultation and agreement with consumers; and</li> <li>2. the scope and specificity of information required from Transpower.</li> </ol>
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<sup>189</sup> Please note, other aspects of IM decision TC65 have been referred to in Part 1 of this report (IM decisions that we are changing).

While the scope and specificity of information required from Transpower is comprehensive, it has the following purposes:

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.

#### **Extent of consultation and agreement with consumers**

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.

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).

#### **Other requirements that must be met by Transpower**

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.

Transpower must assess the current and future need for the applicable proposed assets by reference to the demand and generation scenarios in clause D4(1) of Schedule D of the Capex IM.

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.

Transpower must provide certification, by its chief executive officer, that:

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.

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:

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;

	<p>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</p> <p>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> <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: <a href="#">Amendments to input methodologies for Transpower to provide a listed project mechanism – Reasons paper (27 November 2014)</a>.</p>
This decision applies to the following sectors:	Transpower

<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><b>Current IM decision</b></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"> <li>1. base capex expenditure adjustment (Schedule B, clause B1 of the Capex IM); and</li> <li>2. policies and processes adjustment (Schedule B, clause B2 of the Capex IM).</li> </ol> <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>
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	<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 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: <a href="#">Amendments to input methodologies for Transpower to provide a listed project mechanism - Reasons paper (27 November 2014)</a>.</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><b>Current IM decision</b></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 <a href="#">Transpower capex input methodology review: Decisions and reasons (29 March 2018)</a>.</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><b>2016 amendment to this decision</b></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>See Chapter 5, paragraphs 170-180 of 2016 Report on the IM Review: <a href="#">Input methodologies review decisions: Report on the IM Review (20 December 2016)</a></p>
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**2019 amendments to this decision**

Clause 2.3.7(1) 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 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 \(November 2019\)](#).

	<p><b>2022 amendments</b></p> <p>Opening deferred tax means, in respect of –</p> <p>(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</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 were first commissioned.</p> <p>See clause 2.3.7(1) of <a href="#">Gas Distribution Services IM Amendment Determination (No.2) [2022] NZCC [15]</a>.</p> <p>Opening deferred tax means, for –</p> <p>(b) subject to paragraph (c), each disclosure year thereafter, closing deferred tax for the preceding disclosure year; and</p> <p>(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.</p> <p>See clause 4.3.4(1) of <a href="#">Gas Distribution Services IM Amendment Determination (No.2) [2022] NZCC [15]</a>.</p> <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 <a href="#">Gas Distribution Services IM Determination 2012 (consolidated as of September 2022)</a>.</p> <p>For treatment of operating leases: amendments were made so that:</p> <ul style="list-style-type: none"> <li>• a GAAP-based life can be assigned to depreciate right of use assets by GDBs and the GTB; and</li> <li>• 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.</li> </ul> <p>See paragraphs 3.58 to 3.72 of <a href="#">Amendments to IMs for gas pipeline businesses related to the 2022 default price-quality paths – Reasons paper (2022)</a>.</p>
This decision applies to the following sectors:	EDB/GDB

<p>Decision TX03</p> <p>Tax losses ignored</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision TX04</p> <p>Regulatory tax asset value of asset acquired</p>	<p><b>Original 2010 decision</b></p> <p>The regulatory tax asset value of acquired assets should remain unchanged in the event of an acquisition of assets used to supply services that are regulated under Part 4.</p> <p>See Appendix G of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p> <p><b>2016 amendment to this decision</b></p> <p>We made an implementation change to the original 2010 decision to address the tax effect on capital contributions in the applicable clauses of the EDB, GDB and GTB IM determinations when an asset is bought or sold between suppliers, so that those clauses include the phrase: limited to its value of commissioned asset or, if relevant capital contributions are treated for tax purposes in accordance with section CG 8 of the Income Tax Act 2007 (or subsequent equivalent provisions), limited to the value of commissioned asset plus any taxed capital contributions applicable to the asset.</p> <p>This amendment provided a common-sense adjustment where EDBs, GPBs and airports were at risk of incorrectly recovering an amount of tax.</p> <p>See Chapter 5, paragraphs 186-192 of 2016 Report on the IM review: <a href="#">Input methodologies review decisions: Report on the IM review (20 December 2016)</a></p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

<p>Decision TX05</p> <p>Initial regulatory tax asset value</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>EDB/GDB/GTB</p>

Decision TX06 Initial deferred tax balance is zero	<p><b>Current IM decision</b></p> <p>The initial deferred tax balance should be zero.</p> <p>See Appendix G of 2010 EDB-GPB IM reasons paper: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
This decision applies to the following sectors:	EDB/GDB

Decision TX07 Tax effect of discretionary discounts and rebates	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
This decision applies to the following sectors:	EDBs

Decision TX08 Tax legislation and cost allocation to be applied	<p><b>2018 amendment to this decision</b></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 <a href="#">Amendments to Electricity Distribution Services Input Methodologies Determination in relation to accelerated depreciation: Reasons paper (8 November 2018)</a>.</p>
This decision applies to the following sectors:	EDB

Decision TX09 Tax payable approach applies (GTBs)	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper (22 December 2010)</a>.</p>
This decision applies to the following sectors:	GTB

Decision TX10 Tax payable approach applies (Transpower)	<b>Current IM decision</b> Transpower's tax obligations should be estimated using a tax payable approach. See section 5.3 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a> .
This decision applies to the following sectors:	Transpower

Decision TX11 Tax legislation and cost allocation to be applied (Transpower)	<b>Current IM decision</b> 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. See section 5.3 paragraph 5.4.3 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a> .
This decision applies to the following sectors:	Transpower

Decision TX12 Notional leverage for deductible debt interest (Transpower)	<b>Current IM decision</b> Tax-deductible debt interest should be calculated using a notional leverage that is consistent with the cost of capital IM. See paragraphs 5.4.4- 5.4.7 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a> .
This decision applies to the following sectors:	Transpower

Decision TX13 Tax losses ignored (Transpower)	<b>Current IM decision</b> 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. See paragraphs 5.4.9- 5.4.12 of 2010 Transpower IM reasons paper: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a> .
This decision applies to the following sectors:	Transpower

<p>Decision TX14</p> <p>Regulatory tax asset value of asset acquired (Transpower)</p>	<p><b>Current IM decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a>.</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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Transpower) Reasons Paper (22 December 2010)</a>.</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><b>2016 amendment to this decision</b></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 the <a href="#">2016 Report on the IM Review: Input methodologies review decisions</a>.</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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a>.</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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

<p>Decision TX20</p> <p>Regulatory tax asset value of asset acquired from another supplier (Airports)</p>	<p><b>Original 2010 decision</b></p> <p>The regulatory tax asset value of assets acquired from another airport or 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 Appendix D, section D2 of 2010 Airports IM reasons paper: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a></p> <p><b>2016 amendment to this decision</b></p> <p>We made an implementation change to the original 2010 decision to address the tax effect on capital contributions in the applicable clauses of the Airport IMs Determination when an asset is bought or sold between regulated suppliers, so that the clause includes the phrase: limited to its value of commissioned asset or, if relevant capital contributions are treated for tax purposes in accordance with section CG 8 of the Income Tax Act 2007 (or subsequent equivalent provisions), limited to the value of commissioned asset plus any taxed capital contributions applicable to the asset.</p> <p>This change was consistent with and made for the same reasons as the change to IM decision s.</p> <p>See Chapter 5, paragraphs 205-208 of 2016 Report on the IM review: <a href="#">Input methodologies review decisions: Report on the IM review (20 December 2016)</a></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><b>Current IM decision</b></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: <a href="#">Input Methodologies (Airport Services): Reasons Paper (22 December 2010)</a>.</p>
<p>This decision applies to the following sectors:</p>	<p>Airports</p>

## **Attachment A IM changes to address transaction-related issues**

- A1 This Attachment explains our final decisions for changes to the valuation of assets acquired from related parties or regulated suppliers.
- A2 The final decisions set out in this Attachment relate to current IM decisions AV12 (EDBs and GPBs), AV32 (Transpower) and AV46 (Airports).

### **Our final decisions**

- A3 Our final 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 acquiring 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", 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 that would have applied for the other regulated supplier.



## Valuation of commissioned assets in related party transactions

### Draft decision

A4 Our draft decision was 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 change was 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 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 proposed amending 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.

### Reasons for our 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.<sup>190</sup>
- A9 To ensure that GAAP is correctly applied in the future, we proposed amending the relevant IM to be clearer about the application of GAAP.
- A10 It is important that GAAP applies on an arm's-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 arm's-length values.

### Stakeholder views and final decision

- A11 Our draft decision was supported by Orion.<sup>191</sup>
- A12 Accordingly, for the reasons discussed above, our final decision is to confirm our draft decision 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.

## Insert related party asset valuation rules applying to EDBs and GPBs into Airports and Transpower IMs

### Draft decision

- A13 Our draft decision was 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 arm's-length basis to the valuation of these assets.

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<sup>190</sup> Commerce Commission "[Warning letter to Vector Limited](#)" (23 December 2022).

<sup>191</sup> [Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), pp. 15-16.

- A14 These changes to the Airports and Transpower IMs were intended to introduce, with necessary amendments, the changes applied to the EDB and Gas IMs by the 2017 review of related party transactions provisions.<sup>192</sup> Those changes include:
- A14.1 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;
  - A14.2 amendments to key definitions of arm's-length transaction, related party and related party transaction; and
  - A14.3 amending the value of commissioned assets (general valuation and value limitation rules).<sup>193</sup>

## Background

- A15 The related party asset valuation rules applying to EDBs and GPBs noted above did not exist in the pre-review Airports and Transpower IMs because the amendments arising out of the 2017 Related Party Transactions IM Review were only implemented for EDBs and GPBs.<sup>194</sup>
- A16 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.
- A16.1 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.
  - A16.2 The changes were not considered relevant for Airports at that time, given the form of regulation (ID) for Airports.<sup>195</sup>

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<sup>192</sup> See Commerce Commission "[Related party transactions provisions](#)".

<sup>193</sup> 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.

<sup>194</sup> See our website for details on the 2017 Related Party Transactions IM Review: <https://comcom.govt.nz/regulated-industries/input-methodologies/input-methodologies-for-electricity-gas-and-airports/related-party-transactions-provisions>

<sup>195</sup> 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).

## Reasons for our draft decision

- A17 In making our draft decision we noted that today the context for considering related party rules is somewhat different than in 2017 because:
- A17.1 the implementation of NZ IFRS 16 changed the accounting treatment of operating leases;<sup>196</sup> and
  - A17.2 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.
- A18 Our draft decision to bring across the related party asset valuation rules for EDBs and GPBs to the Airports and Transpower IMs was intended to:
- A18.1 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
  - A18.2 better promote the s 52R purpose, by aligning the related party asset valuation rules between the IMs and improving the certainty of those rules.
- A19 The key related party IM under the current Airports and Transpower IMs requires that the value of an asset acquired from a related party is:<sup>197</sup>
- A19.1 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
  - A19.2 where sufficient records do not exist to establish this cost, its market value as of its commissioning date as determined by a valuer.
- A20 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, making the rule unworkable for ROU assets.

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<sup>196</sup> IFRS 16 had the effect of changing operating leases from an operating cost to a 'lease asset'.

<sup>197</sup> 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).

A21 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. Our draft decision therefore addressed 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*

A22 There is one key difference between the valuation of land and non-land assets acquired in related party transactions under the Airports IMs.<sup>198</sup>

A23 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.<sup>199</sup>

#### **Stakeholder views**

A24 In its submission on our draft decision, Transpower:<sup>200</sup>

A24.1 queried whether the extra compliance costs associated with adopting the related party AV rules from the EDB and GPB IMs into the Transpower IMs are warranted; and

A24.2 pointed to the fact that the Transpower IM was out of scope of the 2017 Related Party Transactions IM Review, as the high level of prescription that the review introduced for EDBs and GPBs was considered too detailed for Transpower's circumstances at the time.

#### **Analysis and final decision**

A25 We have considered Transpower's submission and decided to confirm our draft decision to add the rules for valuing assets acquired from related parties applying to EDBs and GPBs into the Airports and Transpower IMs, including the changes made in this review to ensure it is clear that GAAP applies on an arm's-length basis to the valuation of these assets.

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<sup>198</sup> For a discussion on the valuation of land for Airports, see Commerce Commission "[Input Methodologies \(Airport Services\): Reasons Paper](#)" (December 2010), Appendix C.

<sup>199</sup> 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.

<sup>200</sup> [Transpower "Input Methodologies Review 2023: Draft Decisions" \(19 July 2023\)](#), para 98-99.

- A26 As we explained when making our draft decision, the context for considering related party rules is somewhat different in 2023 than it was in 2017. In particular, the impacts of NZ IFRS 16 (which changed the accounting treatment of operating leases), and the potential for sale and leaseback transactions to pass costs on to consumers with no corresponding improvement to assets or services, need to be addressed.
- A27 While we accept that this change will result in some additional compliance costs for Transpower, we consider that such costs are justified by the promotion of the s 52A purpose. Furthermore, Transpower has not presented any evidence to suggest that the added costs outweigh the potential benefits to consumers.

## **Sale of works under construction**

### **Draft decision**

- A28 Our draft decision was 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:
- A28.1 the costs of the other regulated supplier in constructing those works; and
  - A28.2 any additional costs of the regulated supplier in constructing the asset (excluding any amount paid to the other regulated supplier).<sup>201</sup>

### **Reasons for our draft decision**

- A29 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.
- A30 As the limit 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.

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<sup>201</sup> In respect of the Airports IM, this differs for land assets which are limited to the value determined under Schedule A.

- A31 Our draft decision was 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.
- A32 The amended IM acknowledges that works under construction may require further expenditure before they are ready for commissioning.
- A32.1 As per our proposed amendment, the value of the commissioned asset includes additional costs of the regulated supplier in constructing the asset, which are to be determined in accordance with subclause (1).
- A32.2 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.

### Stakeholder views

- A33 Our draft decision was supported by Orion.<sup>202</sup> Additionally, PowerNet submitted:<sup>203</sup>

We recommend this be the price from the regulated supplier, not the cost. We determine that this would disadvantage the regulated supplier from the contracting division within a regulated supplier compared with a non-regulated contracting business.

### Final decision

- A34 Our final decision is to confirm our draft decision 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:
- A34.1 the costs of the other regulated supplier in constructing those works; and
- A34.2 any additional costs of the regulated supplier in constructing the asset (excluding any amount paid to the other regulated supplier).
- A35 We do not consider PowerNet's proposed change would better promote the Part 4 purpose compared to our draft decision.

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<sup>202</sup> [Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), pp. 15-16.

<sup>203</sup> [PowerNet "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), pp. 7-8.

- A36 Our draft decision was intended to prevent regulated suppliers from extracting excessive profits through trading works under construction with another regulated supplier at a mark-up in excess of reasonable costs. PowerNet’s suggestion for the value to be the price rather than the cost is essentially the status quo. Therefore, this approach would enable the issues described above to materialise.
- A37 It is also not clear to us, and PowerNet has not provided any details on, how the change could disadvantage the contracting division within a regulated supplier compared with a non-regulated contracting business.

## Acquiring assets from another regulated supplier

### Draft decision

- A38 Our draft decision was to 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 reference to “limited to”.

### Reasons for our draft decision

- A39 We considered that 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.<sup>204</sup>
- A40 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.
- A41 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.
- A42 This intention is reflected in our 2010 Input Methodologies (Electricity and Gas Pipeline Services) Reasons Paper:<sup>205</sup>

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.

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<sup>204</sup> The related party IM is set out in clause 2.2.11(1)(e) of the [EDB IMs](#), [GDB IMs](#) and [GTB IMs](#); clause 2.2.7(1)(f) of the [Transpower IMs](#); and clause 3.9(1)(d) of the [Airports IMs](#).

<sup>205</sup> Commerce Commission “[Input Methodologies \(Electricity and Gas Pipeline Services\) Reasons Paper](#)” (December 2010), para E8.4.



A43 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).

#### **Stakeholder views and final decision**

A44 This draft decision was supported by Orion.<sup>206</sup>

A45 In light of this, for the reasons described above, our final decision is to confirm our draft decision to 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 reference to “limited to”.

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<sup>206</sup> [Orion "Submission on IM Review 2023 Draft Decisions" \(19 July 2023\)](#), pp. 15-16.

## **Attachment B     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 model<sup>207</sup> 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.

### **Final decision**

- B4        Our final decision is to confirm our draft decision to:
- B4.1     amend clause 3.3.11(2)(b)(ii) of the current EDB IM 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
  - B4.2     introduce as part of the overall wash-up changes new drafting in clause 3.1.4(4)(f) 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 adjustment.
- B5        We will also consider updating the IRIS template model to align with this change.

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<sup>207</sup> [IRIS template model.](#)

## 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.
- B8 The IMs require EDBs to start sharing DPP2 capex over- and under-spends in the disclosure year ending 31 March 2022.<sup>208</sup> 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.<sup>209</sup>

### *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.”<sup>210</sup>
- 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.

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<sup>208</sup> Commerce Commission “[Electricity Distribution Services Input Methodologies Determination 2012](#)” (20 May 2020), clause 3.3.10(2).

<sup>209</sup> Commerce Commission “[Electricity Distribution Services Default Price-Quality Path Determination 2020](#)”, clause 11.5(d)-(e).

<sup>210</sup> Commerce Commission “[Specification and Amendment of Input Methodologies as Applicable to Default Price-Quality Paths: Reasons paper](#)” (28 September 2012), para 55.2.

*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—
- 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.<sup>211</sup>

*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.

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<sup>211</sup> 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.

*Calculation of depreciation under current 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”.
- 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.<sup>212</sup>
- 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

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<sup>212</sup> 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).

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.

### Proposed solutions

B21 In our draft decision, we proposed to amend the following clauses as set out below:

B21.1 Clause 3.3.11(2)(b)(ii) capex wash-up (added text underlined):

(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 requiring the capex wash-up adjustment to apply, in respect of any asset 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.

### Reasoning

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.

### Stakeholder views and final decision

B24 We received no submissions on this issue.

B25 Accordingly, for the reasons described above, we have decided to confirm our draft decisions to:

B25.1 introduce as part of the overall wash-up changes new drafting in clause 3.1.4 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 adjustment; and

B25.2 amend clause 3.3.11(2)(b)(ii) of the EDB IM 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.

## **Attachment C    Response to ENA’s “IM Practicality Issues Log”**

### **Introduction**

- C1    As part of ENA’s submission on our draft decisions, it provided an “IM Practicality Issues Log” (Issues Log). This Issues Log raised a number of points on practical issues with the drafting of the EDB IMs, and the interface between the IMs and ID, DPP and CPP determinations.
  
- C2    We have considered all points raised by ENA in the Issues Log that are relevant to this IM Review. This attachment responds to those issues in ENA’s Issues Log relating to asset valuation, treatment of taxation, amalgamations, and the cost of capital, where we consider that clarification would be useful.
  
- C3    We have decided to make no change to the current IM decisions in response to the points raised by ENA’s Issues Log.



**Table C1 Response to technical drafting issues raised by ENA relating to asset valuation**

Issue raised by ENA	Clause reference	Final decision	Our response
<b>Revaluation of land:</b> this clause has led to confusion about whether or not land assets should be revalued.	Clause 2.2.9(3)(a)	No change	This clause applies where the asset's physical life at the end of the disclosure year is nil. Land cannot have a nil physical life and must be revalued in accordance with revaluation provisions.
<b>Revaluation of disposed assets:</b> this clause results in assets losing a year of revaluations when they are being sold. That is, neither the buyer nor the seller include revaluations in the year of sale.	Clause 2.2.9(3)(b)(i)	No change	The concern raised by ENA is unclear. Revaluations must generally be treated as income. In the year of disposal, there is no revaluation but any gain on sale due to an increase in market value must be treated as other regulated income.
<b>44-year asset life:</b> the policy intent was for the DPP to assume that all new assets have a 45-year remaining asset life. However, the wording of this clause means that the DPP depreciation has to assume 44 years of depreciation.	Clause 4.2.2(3)(b)	No change	This is consistent with the assumption that assets are not depreciated in the year of commissioning.

**Table C2 Response to technical drafting issues raised by ENA relating to taxation treatment**

Issue raised by ENA	Clause reference	Final decision	Our response
<p><b>Deferred tax:</b> this sub-clause does not work. Deferred tax is rolled forward at a total level, but this clause is written for specific assets.</p>	<p>Clause 2.3.7(1)(c) Clause 4.3.4(1)(c)</p>	<p>No change</p>	<p>The calculation at 2.3.7(1)(b) is expressed at an aggregated level. The clause referred to (clause 2.3.7(1)(c)) simply establishes the opening deferred tax values for regulatory assets that do not have corresponding tax assets.</p>
<p><b>Tax effect of depreciation of temporary differences:</b> the DPP assumption of no temporary differences except depreciation differences causes an issue for leases. One side of the temporary difference is included in depreciation differences, but the reversal is not included.</p>	<p>Clause 4.3.4(2)</p>	<p>No change</p>	<p>When a lease is established, this will give rise to a negative deferred tax entry (liability) which will reverse out over time through the roll-forward formula which adds depreciation temporary differences (adjusted depreciation less tax depreciation).</p>
<p><b>Closing regulatory tax asset value formula:</b> the closing regulatory tax asset value formula omits forecast disposals.</p>	<p>Clause 4.3.5(3)(c)</p>	<p>No change</p>	<p>The tax effect of excluding forecast disposed tax assets is immaterial.</p>
<p><b>Notional deductible interest:</b> the CPP formula for notional deductible interest is inconsistent with the corresponding formulae for ID and DPP, because it includes the 'RAB proportionate investment' component</p>	<p>Clause 5.3.16(2)</p>	<p>No change</p>	<p>We consider this is appropriate for the greater level of detail in a CPP.</p>

<p><b>Deferred tax capital contributions:</b> there is ambiguity about the regulatory tax treatment of capital contributions, including how EDBs apply their chosen tax treatment and how regulatory tax differences are accounted for.</p>	<p>Clause 2.3.7</p> <p>Clause 4.3.4</p> <p>Clause 5.3.19</p>	<p>No change</p>	<p>Tax rules apply to determine the treatment of capital contributions for regulatory tax purposes. Where they have been deducted from asset values for tax purposes, then this will affect the adjusted tax value of those assets. Otherwise, they must be treated as income in accordance with tax rules.</p>
<p><b>Deferred tax balance for right of use assets:</b> leases are capitalised as right of use assets under RAB.</p> <p>Under IFRS 16: “the seller-lessee shall measure the right of use asset rising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee”.</p> <p>Under clause 5.3.11(1), the commissioned asset value of a right of use asset is equal to the ‘cost of the asset ... determined by applying GAAP’. This may result in the commissioned asset value for right of use assets being limited by the implementation of IFRS 16.</p>	<p>Clause 5.3.11(1)</p>	<p>No change</p>	<p>It is intended that GAAP is to be applied on an arm’s-length basis to constrain the valuation of right of use assets. See our discussion at Attachment A regarding our decisions on related party transactions.</p>

**Table C3 Response to technical drafting issues raised by ENA relating to amalgamations**

Issue raised by ENA	Clause reference	Final decision	Our response
<p><b>Amalgamations and RAB:</b> it is unclear how the RABs get combined in the event of an amalgamation, merger or major transaction. For example, are they disposed/commissioned, or simply added together? When does this occur? Does the process differ depending on the type of transaction. The IMs are silent on these points.</p>	Clause 3.2.1	No change	<p>Matters of timing and the form of transfer of assets will be determined by the specific transaction arrangements between the parties, subject to IM asset valuation rules.</p> <p>Under the Companies Act 1993, an amalgamated company succeeds to all property, rights, powers, and privileges of each of the amalgamating companies. This is reflected in the treatment of amalgamations under the IMs, which we consider are sufficiently clear. For example, where EDBs subject to a DPP have amalgamated, the IMs are clear that for the amalgamated entity, the DPPs must be aggregated from the start of the disclosure year following the amalgamation.</p>

**Table C4 Response to technical drafting issued raised by ENA regarding cost of capital**

Issue raised by ENA	Clause reference	Our response and final decision
<p><b>The proxy for the time value of money:</b> there are inconsistent values used to proxy the time value of money. For example:</p> <ul style="list-style-type: none"> <li>• CPP &amp; DPP MAR calculation uses the DPP vanilla WACC (IM 5.3.2 (4) (d), 5.3.4 (3), DPP3 Financial Model).</li> <li>• Revenue wash-up uses the DPP post-tax WACC (IM 3.1.3 (12) (e), DPP3 Sch1.7 (2)).</li> <li>• The opex IRIS, capex IRIS and capex wash-up all use the DPP vanilla WACC to calculate present values (in the 'adjustment to the opex IRIS', 'capex wash-up' and 'retention adjustment', and 'capex wash-up adjustment value' (IM 3.3.5-9, 3.3.11 (2) (a), 3.1.3 (9) (a)), and the DPP cost of debt to spread it over the years in which it is recovered (IM 3.3.2 (2) (b) (i), 3.3.10 (2) (a), 3.1.3 (1) (p)).</li> <li>• The quality incentive adjustment use the DPP post-tax WACC to inflate the amount over 2 years (DPP3 Sch4 (5) (b)).</li> </ul>	<ul style="list-style-type: none"> <li>• Clause 3.1.3(1)(p)</li> <li>• Clause 3.1.3(9)(a)</li> <li>• Clause 3.1.3(12)(e)</li> <li>• Clause 3.3.2(2)(b)(i)</li> <li>• Clause 3.3.5-9</li> <li>• Clause 3.3.10(2)(a)</li> <li>• Clause 3.3.11(2)(a)</li> <li>• Clause 5.3.2(4)(d)</li> <li>• Clause 5.3.4(3)</li> </ul>	<p>We have decided to make no change in relation to ENA’s submission point regarding the proxy for the time value of money.</p> <p>Different cost of capital values may be used for different purposes. For example:</p> <ul style="list-style-type: none"> <li>• As explained in chapter 4 of our financing and incentivising efficient expenditure during the energy transition topic paper, our best estimate of the cost of capital at the beginning of a price-quality path is the midpoint WACC.</li> <li>• We do not consider that regulated suppliers would use the rate with an uplift in respect of opex savings because this is what is applied to calculate the return on capital. The WACC uplift was introduced for the purpose of promoting investment (noting that under investment has a greater cost to consumers than overinvestment). However, this is not relevant to setting the discount rate on opex savings.</li> <li>• We propose to continue using the vanilla WACC rather than the post-tax WACC because this is consistent with how we set a WACC for DPPs.</li> <li>• The calculation of the opex IRIS as a recoverable cost is independent of the calculation of tax cash flows.</li> <li>• Applying the cost of capital value that is most appropriate for the particular purpose is consistent with ensuring that suppliers have incentives to innovate and invest (s 52A(1)(a)) and are limited in their ability to extract excessive profits (s 52A(1)(d)).</li> </ul>