



COMMERCE COMMISSION

DECISION NO. 710

Input methodologies determination applicable to electricity distribution services pursuant to Part 4 of the Commerce Act 1986 (the Act).

The **Commerce Commission**:

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## **COMMERCE ACT (ELECTRICITY DISTRIBUTION SERVICES INPUT METHODOLOGIES) DETERMINATION 2010**

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

## PART 1 GENERAL PROVISIONS

### 1.1.1 Title

This determination is the Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010.

### 1.1.2 Application

- (1) The **input methodologies** in this determination apply to **electricity distribution services**.
- (2) The **input methodologies** relating to cost allocation in Part 2 Subpart 1, Part 5 Subpart 3 Section 2 and Part 5 Subpart 4 Section 4 also apply to any **other regulated service supplied** by an **EDB**, as provided by the provision in question.
- (3) The **input methodologies** in-
  - (a) Part 2 apply in relation to information disclosure regulation under Subpart 4;
  - (b) Part 3 apply to default/customised price-quality regulation under Subpart 6;
  - (c) Part 4 apply in relation to default price-quality paths under sections 53O and 53P of Subpart 6; and
  - (d) Part 5 apply in relation to customised price-quality paths under sections 53Q to 53ZA of Subpart 4,of Part 4 of the **Act**.

### 1.1.3 Commencement

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

### 1.1.4 Interpretation

- (1) In this determination-
  - (a) unless otherwise stated, references to-
    - (i) 'Sections' are to sections within the same subpart; and
    - (ii) 'Subparts' are to Subparts within the same part,in which the reference is made;
  - (b) unless stated otherwise, references to Parts, Subparts and Sections are to named and numbered parts, subparts and sections of the determination;
  - (c) unless the context otherwise requires, a word which denotes the singular also denotes the plural and vice versa; and
  - (d) unless stated otherwise, any reference to an allowance, amount, cost, sum or value is a reference to an allowance, amount, cost, value or sum calculated in relation to an **EDB** in respect of a **disclosure year**.
- (2) In this determination, including in the schedules, the words or phrases in bold type bear the following meanings:

**75th percentile estimate of WACC** means, estimate, made in accordance with, for the purpose of-

- (a) Part 2, clause 2.4.7(3)(b)(i), of the 75th percentile for the post-tax **mid-point estimate of WACC**;
- (b) Part 4, clause 4.1.7(2), of the 75th percentile for the **mid-point estimate of WACC**; and
- (c) Part 5, clause 5.3.28, of the 75th percentile for the **mid-point estimate of WACC**;

**2009 disclosed asset** means an asset included by the **EDB** in question in the 'Total Regulatory Asset Base Value (Excluding FDC)' category for the **disclosure year** in the **2009 disclosure reports**;

**2009 disclosure reports** means the reports disclosed by the **EDB** in question in accordance with the Electricity Distribution (Information Disclosure) Requirements 2008 for the **disclosure year 2009**;

## A

**ABAA** means accounting-based allocation approach, as described in, in the case of -

- (a) **operating costs**, clause 2.1.3(1); and
- (b) **regulated service asset values**, clause 2.1.3(2);

**ACAM** means avoidable cost allocation methodology, as described in clause 2.1.4;

**Act** means the Commerce Act 1986;

**adjusted tax value** has the same meaning as in the **tax depreciation rules**;

**actual controllable opex** means the amount of **operating expenditure** made by the **EDB** in the categories to which **allowed controllable opex** relates;

**adjusted depreciation** means **total depreciation** for all assets calculated as if no amount of **revaluation** had been included in the calculation of any **opening RAB value** following the determination of the **intial RAB**;

**allocation methodology type** means one of **ACAM**, **ABAA** or **OVABAA**;

**allocator metric** means the value in units (e.g., number of employees or kilometres of cable) for each **cost allocator** or **asset allocator** used to calculate the proportion of **operating costs** or **regulated service asset values** to be allocated to each of-

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

**allocator type** means the basis for the attribution or allocation of an **operating cost** or **regulated service asset value** to **electricity distribution services** and **other regulated services**, *viz.* '**directly attributable**', '**causal**' or '**proxy**';

**allowable notional revenue** has the meaning specified in clause 3.1.1(2);

**allowed controllable opex** means means the allowance (which is reasonable in light of the **expenditure objective**) specified in a **CPP determination** for **operating expenditure** in categories specified as controllable;

**amalgamate** means amalgamate in accordance with Part 13 of the Companies Act 1993 and **amalgamation** is to be construed accordingly;

**amortisation of initial differences in asset values** means the amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.3.5; and
- (b) Part 5, clause 5.3.17;

**amortisation of revaluations** means the amount determined in accordance with, for the purpose of-

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

**arm's-length deduction** means in respect of-

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

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

**arm's-length transaction** means a dealing or transaction that does not -

- (a) include terms that parties in their respective positions would usually omit; and
- (b) omit terms that parties in their respective positions would usually include,

if the parties were-

- (c) connected or related only by the dealing or transaction in question;
- (d) acting independently; and
- (e) each acting in its own best interests;

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

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

**asset adjustment process** has the meaning specified in clause 2.2.1;

**asset allocator** means a proportion of a quantifiable measure used to allocate **regulated service asset values** that are not **directly attributable** and whose quantum is-

- (a) based on a **causal relationship**; or
- (b) equal to a **proxy asset allocator**;

**asset category** has the meaning specified in Schedule D;

**asset life** means a finite period in respect of an asset, being-

- (a) its **physical asset life**; or
- (b) where an alternative asset life to the **physical asset life** is sought for the purpose of a **CPP** pursuant to clause 5.4.12(2)(b), the alternative asset life determined pursuant to clause 5.3.8;

**auditor** means-

- (a) where the **EDB** is a public entity (as defined in s 4 of the Public Audit Act 2001), the Auditor-General; or
- (b) a **person** who-
  - (i) is qualified for appointment as auditor of a company under the Companies Act 1993;
  - (ii) is **independent**; and

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

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

## **B**

**building blocks allowable revenue after tax** means the amount determined in accordance with clause 5.3.3;

**building blocks allowable revenue before tax** means the amount determined in accordance with clause 5.3.2;

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

**business day** means any day on which statistics relating to trading in New Zealand government bonds are published by a financial information service such as Bloomberg or Reuters;

## **C**

**capex** means **capital expenditure**;

**capex forecast** means the part of the **CPP proposal**, provided pursuant to clause 5.4.29, that forecasts **capex** for the **next period**;

**capital contributions** means, for the purpose of-

- (a) Part 2, money or the monetary value of other consideration charged to or received from **consumers** or other parties for the purposes of asset construction or enhancement; and

- (b) Part 5, money or the monetary value of other consideration forecast to be charged to or received from **consumers** or other parties for the purposes of asset construction or enhancement;

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

**capital expenditure** means costs, for the purposes of-

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

**catastrophic event** has the meaning specified in clause 5.6.1;

**causal relationship** means, in relation to-

- (a) **operating costs**, 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 cost allocation is carried out; and
- (b) **regulated service asset values**, 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 asset allocation is carried out;

**change event** has the meaning specified in clause 5.6.2;

**closing RAB value** means the value determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.2.4(4); and
- (b) Part 5, clause 5.3.6(3);

**closing works under construction** means the amount determined in accordance with clause 5.3.12(3);

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

**commissioned** means used by an **EDB** to provide **electricity distribution services** and **commission** shall be construed accordingly;

**commissioning date** means the date that an asset is or is forecast to be first **commissioned**, as the case may be;

**consumer** has the same meaning as defined in s 2(1) of the Electricity Act 1992;



**consumer-owned** has the same meaning as defined in s 54D of the **Act**;

**corporate tax rate** means the rate of income taxation applying to companies as specified in the **tax rules**;

**cost allocator** means a proportion of a quantifiable measure used to allocate **operating costs** that are not **directly attributable**, and whose quantum is-

- (a) based on a **causal relationship**; or
- (b) equal to a **proxy cost allocator**;

**cost of debt** means the amount specified for  $r_d$  in, for the purpose of-

- (a) Part 2, clause 2.4.1(4); and
- (b) Part 5, clause 5.3.22(3);

**cost of executing an interest rate swap** has the meaning specified in, for the purpose of-

- (a) Part 2, clause 2.4.9(3); and
- (b) Part 5, clause 5.3.30(3);

**CPI** means-

- (a) subject to paragraph (c), in respect of the December 2010 quarter and subsequent quarters, the consumer price index stipulated in the 'All Groups Index SE9A' as published by Statistics New Zealand;
- (b) subject to paragraph (c) in respect of each quarter prior to the December 2010 quarter, the same index as described in paragraph (a) multiplied by 1.02; and
- (c) in respect of quarters prior to any quarter in which the rate of **GST** is amended after this determination comes into force, the same index as described in paragraph (a), multiplied by the Reserve Bank of New Zealand's forecast change in that index (expressed as a decimal) arising from the amendment;

**CPP** means customised price-quality path;

**CPP applicant** means an **EDB** who-

- (a) is preparing a **CPP proposal**; or
- (b) has made a **CPP proposal** that has not been determined;

**CPP application** has the meaning specified in clause 5.1.1(2);

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

**CPP proposal** means a proposal made by an **EDB** to the **Commission** for a **CPP** comprising the information specified in Part 5 Subpart 4;

**CPP regulatory period** means-

- (a) in relation to a **CPP proposal**, the 5 **disclosure years** following the **assessment period**; and
- (b) in relation to a particular **CPP**, the period to which the relevant **CPP determination** relates;

**current period** means the 5 **disclosure years** preceding the **disclosure year** in which the **CPP application** is submitted;

## D

**debt premium** has the meaning specified in and is the amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.4.4;
- (b) Part 4, clause 4.1.4; and
- (c) Part 5, clause 5.3.25;

**demand group** means a pricing category (irrespective of the pricing methodology used) that has a discrete rate of growth in the demand for **electricity distribution services** over the **CPP regulatory period**;

*Examples: industrial consumers, commercial consumers, residential consumers, non-standard consumer groups, irrigation connections, large capacity connections, or a combination or sub-group of each of these;*

**depreciation** means an allowance to account for the diminution in an asset's remaining service life potential in the **disclosure year** in question with respect to its **opening RAB value**, and the amount of such allowance is determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.2.5(2); and
- (b) Part 5, clause 5.3.7(2);

**designated individual** means an individual who is-

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

**directly attributable** means, in relation to-

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

**director** means, in the case of an **EDB** that is -

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

**disclosure year** shall be construed as a 12 month period ending on the date specified in-

- (a) whilst they are in force, the Electricity Distribution (Information Disclosure) Requirements 2008; or

(b) thereafter, an **ID determination**,

as the last date in the period to which annual disclosure relates;

*Example: under clause 1(3) of the Electricity Distribution (Information Disclosure) Requirements 2008, the Requirements apply in respect of the financial year ending on 31 March. Until an **ID determination** is made, 'disclosure year' means 12 month period ending on 31 March, and 'disclosure year 2010' means 12 month period ending on 31 March 2010.*

**discretionary discounts and customer rebates** has the meaning specified in clause 2.3.3(6);

**disposed asset** means, for the purpose of-

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

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

**DPP** means default price-quality path;

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

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

## **E**

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

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

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

**EDB** means a supplier of **electricity distribution services**;

**electricity distribution services** means all **electricity lines services**, other than those **supplied** by **Transpower** or any subsidiary of, or successor to **Transpower**;

**Electricity Information Disclosure Requirements 2004** means the Electricity Information Disclosure Requirements 2004 as were originally published by the **Commission** on 31 March 2004 and consolidating all amendments to 7 May 2004;

**electricity lines services** has the same meaning as defined in s 54C of the **Act**;

**engineer** means an individual who is-

- (a) a chartered professional engineer as defined in s 6 of the Chartered Professional Engineers Act 2002;
- (b) acting in that professional capacity; and
- (c) **independent**;

**error** has the meaning specified in, for the purpose of-

- (a) Part 4, clause 4.2.1; and
- (b) Part 5, clause 5.6.3;

**excluded asset** means an asset that is-

- (a) not used to **supply electricity distribution services** as on the last day of the **disclosure year 2009**;
- (b) designated as 'excluded' type as a result of the **asset adjustment process**; or
- (c) **easement land**;

**expenditure objective** means objective that **capital expenditure** and **operating expenditure** reflect the efficient costs that a prudent **non-exempt EDB** would require to-

- (a) meet or manage the expected demand for **electricity distribution services**, at appropriate service standards, during the **CPP regulatory period** and over the longer term; and
- (b) comply with applicable regulatory obligations associated with those **services**;

## F

**finance lease** has the same meaning as under **GAAP**;

**fixed life easement** means an **easement** that-

- (a) is of fixed duration; or
- (b) whilst of indefinite duration, is to be held for a fixed period;

**forecast CPI** means **CPI**, unless **CPI** does not apply to the period in question, in which case it means the most recent **CPI** extended by-

- (a) in the case of a quarter for which a forecast of the annual percent change in the headline **CPI** contained in the current Monetary Policy Statement issued by the Reserve Bank of New Zealand has been made, that forecast; and
- (b) in respect of later quarters, a constant annual percent change equal to the arithmetic average of the values forecast in the most recent four quarters in respect of which a forecast described in paragraph (a) has been made;

**forecast operating expenditure** has the meaning specified in clause 5.3.2(6);

**forecast regulatory tax allowance** has the meaning specified in clause 5.3.13;

**forecast value of commissioned asset** means the value determined in accordance with clause 5.3.11;

**found asset** has the meaning specified in clause 2.2.12(1);

## G

**GAAP** means generally accepted accounting practice in New Zealand, save that, where the cost of an asset is being determined in accordance with this determination, only the cost model of recognition is applied insofar as an election may be made between the cost model of recognition and the fair value model of recognition;

**GPB** means GDB (as 'GDB' is defined in the Commerce Act (Gas Distribution Input Methodologies) or GTB (as 'GTB' is defined in the Commerce Act (Gas Transmission Input Methodologies) Determination 2010);

**GST** has the same meaning as defined in s YA 1 of the Income Tax Act 2007 as amended from time to time, and any equivalent legislation that supplements or replaces that definition;

## H

**highly probable** means one in respect of which the following conditions have been met at the time the **CPP application** is made:

- (a) the **directors** have approved a plan to sell either or both the **other regulated service** or **unregulated service**, as the case may be;
- (b) the **EDB** is taking active steps to-
  - (i) locate a buyer for the assets; and
  - (ii) complete the plan,
 referred to in paragraph (a);
- (c) the **EDB** is actively marketing the assets for sale at a price that is reasonable;
- (d) the **directors** expect the sale to complete within 12 months of the **CPP application** being made; and
- (e) actions to date do not contemplate that significant amendment to the plan may be made or that it will be withdrawn.

## I

**ID determination** means an information disclosure determination in relation to an **EDB** made by the **Commission** under s 52P of the **Act**;

**identifiable non-monetary asset** has the same meaning as under **GAAP** save that goodwill is excluded;

**identified programme** has the meaning specified in clause D1;

**included asset** means an asset which, as a result of the **asset adjustment process**, is designated as 'included';

**included value** means value assigned to an **included asset**;

**incremental adjustment term** means the amount determined in accordance with clause 3.3.1(4);

**independent** means neither in a relationship with, nor having an interest in, the **EDB** in question that is likely to involve him her or it in a conflict of interest between his, her or its duties to the **EDB** and his, her or its duties to the **Commission**;

**inflation rate** has the meaning specified in clause 3.3.1(5);

**initial RAB** has the meaning specified in clause 2.2.2;

**initial RAB value** means value of an asset in the **initial RAB** determined in accordance with clause 2.2.3(4);

**input methodology** has the same meaning as defined in s 52C of the Act;

**investment grade credit rated** means endorsed with a credit rating by an established credit rating agency (such as Standard and Poor's) of "investment grade" on that agency's credit rating scale applicable to long-term investments;

## L

**land** excludes **easements**;

**leverage** means the ratio of debt capital to total capital and is the amount specified in, for the purpose of-

- (a) Part 2, clause 2.4.2(1);
- (b) Part 4, clause 4.1.2(1); and
- (c) Part 5, clause 5.3.23(1);

**levy** means a tax, charge or fee directly imposed by or under legislation-

- (a) on-
  - (i) **EDBs** alone; or
  - (ii) a class of persons (other than the general public or businesses in general) that includes **EDBs**; or
- (b) in relation to **electricity distribution services**;

**line item** means, in respect of-

- (a) assets, a group of assets within an **asset category** for which the same **asset allocator** is used to allocate their **regulated service asset values**; and
- (b) costs, a group of **operating costs** within an **opex category** for which the same **cost allocator** is used to allocate them,

to **electricity distribution services** and **other regulated services**;

**lines** has the same meaning as defined in s 2 of the Electricity Act 1992;

**local authority** has the same meaning as defined in s 5(1) of the Local Government Act 2002;

**lost asset** means an asset-

- (a) not included in the **initial RAB**; and
- (b) having, in relation to the **disclosure year in question**, an **unallocated opening RAB value**,

but determined by the **EDB** in that **disclosure year** never to have been used to provide **electricity distribution services**;

## M

**maximum allowable revenue after tax** means the amount determined in accordance with clause 5.3.4;

**maximum allowable revenue before tax** means the amount determined in accordance with clause 5.3.4;

**mid-point estimate of WACC** means, for the purpose of-

- (a) Part 2, the mid-point estimate of-
  - (i) vanilla **WACC** as estimated in accordance with clause 2.4.1(1); or
  - (ii) post-tax **WACC** as estimated in accordance with clause 2.4.1(2),
 as the case may be;
- (b) Part 4, the mid-point estimate of vanilla **WACC**, as estimated in accordance with clause 4.1.1; and
- (c) Part 5, the mid-point estimate of vanilla **WACC** for a-
  - (i) 3 year period;
  - (ii) 4 year period; or
  - (iii) 5 year period,
 as the case may be, as each is estimated in accordance with clause 5.3.22;

**modified value** means the value of a **value modified asset** assigned in accordance with clause 2.2.1;

**multi-rate PIE** has the same meaning as defined in s YA 1 of the Income Tax Act 2007;

## N

**network spare** means an asset that is held by an **EDB** to replace any other asset it holds should that other asset be withdrawn from use owing to failure or damage;

**next period** means the period commencing on the first day of the **disclosure year** during which the **CPP application** is submitted and terminating on the last day of the 5 **disclosure years** following the **assessment period**;

**non-exempt EDB** means an **EDB** other than a **consumer-owned EDB** exempt under s 54G(2) of the **Act**;

**notional revenue** has the meaning specified in clause 3.1.1(3);

## O

**ODV handbook** means Handbook for Optimised Deprival Valuation of System Fixed Assets of Electricity Lines Businesses published by the Commerce **Commission** on 30 August 2004 and effective 31 August 2004;

**ODV valuation** means valuation of an asset as of 31 March 2004 in accordance with the **Electricity Information Disclosure Requirements 2004** and the **ODV handbook**;

**opening deferred tax** has the meaning specified in, for the purpose of-

- (a) Part 2, clause 2.3.7; and
- (b) Part 5, clause 5.3.19;

**opening RAB value** means the value determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.2.4(3); and
- (b) Part 5, clause 5.3.6(1);

**opening tax losses** means the amount determined in accordance with clause 5.3.14(3);

**opening works under construction** has the meaning specified in clause 5.3.12(1);

**operating cost** means a cost incurred by the **EDB** in question relating to the **supply** of-

- (a) **regulated services** alone; or
- (b) **regulated services** and one or more **unregulated service**,

and excludes-

- (c) a cost that is treated as a cost of an asset by **GAAP**;
- (d) amounts that are depreciation, tax, subvention payments, revaluations or an interest expense, in accordance with their meanings under **GAAP**;
- (e) **pass-through costs**; and
- (f) **recoverable costs**;

**operating expenditure** means **operating costs** after application of clause 5.3.5;

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

**opex category** has the meaning specified in Schedule D;

**opex forecast** means the part of a **CPP proposal**, provided pursuant to clause 5.4.29, that forecasts **operating expenditure** for the **next period**;

**other regulated income** has the meaning specified in clause 5.3.2(7);

**other regulated service** means a **regulated service**, other than **electricity distribution services**, **supplied** by the **EDB** in question;

**OVABAA** means the optional variation to accounting-based allocation approach, as described in clause 2.1.5;

**OVABAA allocation increase** means, in respect of either or both-

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

not **directly attributable**, as the case may be, allocated to **electricity distribution services**, the dollar difference between the amount determined pursuant to the last application of clause 2.1.5(7)(c) and the application of clause 2.1.5(2)(a) or 2.1.5(3)(a), as the case may be;

## P

**pass-through cost** has the meaning specified in clause 3.1.2(1);

**permanent differences** means the amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.3.3; and
- (b) Part 5, clause 5.3.15;



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

**physical asset life** has the meaning specified in clause 2.2.8;

**positive permanent differences** has the meaning specified in clause 5.3.15(2);

**prescribed investor rate** has the same meaning as defined in the Income Tax Act 2007 or any subsequent legislation that supplements or replaces the provisions relating to prescribed investor rate in the Income Tax Act 2007;

**prices** has the meaning specified in clause 3.1.1(4);

**programme** means a group of related **projects** with a common purpose;

**project** means a temporary endeavour requiring concerted effort, undertaken to create a defined outcome;

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

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

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

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

## Q

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

- (a) Part 2, clause 2.4.9(1); and
- (b) Part 5, clause 5.3.30(1);

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

- (a) that-
  - (i) undertakes the majority of its business activities in Australia and New Zealand; or
  - (ii) is part of a corporate group that undertakes the majority of its business activities in Australia and New Zealand;
- (b) that-
  - (i) does not operate predominantly in the banking or finance industries; or
  - (ii) is part of a corporate group that does not operate predominantly in the banking or finance industries; and
- (c) that issues **vanilla NZ\$ denominated bonds** that are publicly traded;

**qualifying rating** means-

- (a) a Standard and Poor's long term credit rating of the specified grade; or
- (b) an equivalent long term credit rating of another internationally recognised rating agency;

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

- (a) Part 2, clause 2.4.9(2); and
- (b) Part 5, clause 5.3.30(2);

**quality standard variation** means variation to any standard-

- (a) specified in a **DPP determination**; and
- (b) which prescribes the use by an **EDB** of an historic time series of data relating to service quality measured in accordance with a specified metric or metrics,

where the effect of the variation is limited to a changed outcome of the metric or metrics by which such quality standards are specified but not the metric itself or metrics themselves;

## R

**recoverable cost** has the meaning specified in clause 3.1.3;

**regulated goods or services** has the same meaning as defined in s 52C of the **Act**;

**regulated service** means a type of service **supplied** by an **EDB** pursuant to the **supply** of a **regulated good or service**, which, for the avoidance of doubt, includes the following types of services-

- (a) **electricity distribution services**;
- (b) gas distribution services as defined in the Commerce Act (Gas Distribution Services Input Methodologies) Determination 2010; and
- (c) gas transmission services as defined in the Commerce Act (Gas Transmission Services Input Methodologies) Determination 2010);

**regulated service asset value** means, in respect of an asset-

- (a) used by an **EDB** in the **supply** of-
  - (i) one or more **regulated service**; or
  - (ii) one or more **regulated service** and one or more **unregulated service**;

where at least one of those **regulated services** is an **electricity distribution service**-

- (iii) in the **disclosure year** 2009, its **unallocated initial RAB value**; and
- (iv) in all other **disclosure years**, its **unallocated closing RAB value**; and
- (b) used by an **EDB** only in the **supply** of-
  - (i) one or more **other regulated service**; or
  - (ii) one or more **other regulated service** and one or more **unregulated service**;

in-

- (iii) the **disclosure year** 2009, its unallocated initial RAB value; and
  - (iv) all other **disclosure years**, its unallocated closing RAB value,
- determined in accordance with the **input methodologies** applicable to the **other regulated service**.

**regulated supplier** means a supplier of **regulated goods or services**;

**regulatory investment value** has the meaning specified in clause 5.3.2(2);

**regulatory net taxable income** has the meaning specified in, for the purpose of-

- (a) Part 2, clause 2.3.1(2); and
- (b) Part 5, clause 5.3.13(2);

**regulatory period** means the regulatory period for default/customised price-quality regulation applicable to an **EDB** as specified in a determination made under s 52P of the **Act**;

**regulatory profit / (loss) before tax** has the meaning specified in, for the purpose of-

- (a) Part 2, clause 2.3.1(4); and
- (b) Part 5, clause 5.3.13(4);

**regulatory taxable income** means the amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.3.1(3); and
- (b) Part 5, clause 5.3.13(3);

**regulatory tax adjustments** means the amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.3.4; and
- (b) Part 5, clause 5.3.16;

**regulatory tax asset value** has the meaning specified in, for the purpose of-

- (a) Part 2, clause 2.3.9; and
- (b) Part 5, clause 5.3.21;

**regulatory templates** has the meaning specified in clause 5.4.29(2);

**related party** means-

- (a) a **person** that, in accordance with **GAAP**, is related to the **EDB** in question; or
- (b) any part of the **EDB** in question that does not **supply electricity distribution services**;

**remaining asset life** means term remaining of an asset's **asset life** at the commencement of the **disclosure year** in question;

**revaluation** means the amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.2.9(2); and
- (b) Part 5, clause 5.3.10(2);

which, for the avoidance of doubt, may be a negative number;

**revaluation rate** has the meaning specified in, for the purpose of-

- (a) Part 2, clause 2.2.9(4); and
- (b) Part 5, clause 5.3.10(4);

**reversal** and **reverse** have the same meanings as under **GAAP**;

## S

**selection rationale** means a description of either or both of the-

- (a) criteria applied; and
- (b) fundamental reasons used,

for, either or both-

- (c) determining; and
- (d) selecting,

each-

- (e) **asset allocator** and associated **allocator metric**; and
- (f) **cost allocator** and associated **allocator metric**;

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

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

**standard error** means estimated standard deviation;

**standard physical asset life** means life for an asset as specified in Schedule A;

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

## T

**tax asset value** means the value determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.3.9(2); and
- (b) Part 5, clause 5.3.21(2);

**tax depreciation rules** means the **tax rules** that relate to the determination of depreciation allowances for tax purposes;

**tax effect** means the product of multiplication by the **corporate tax rate**;

**tax rules** means the rules applicable to an **EDB** for determining income tax payable in the Income Tax Act 2007 (as amended from time to time, and any equivalent preceding legislation, or any subsequent legislation that supplements or replaces that Act);

**temporary differences** means the amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.3.8; and
- (b) Part 5, clause 5.3.20;

**term credit spread difference** means the amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.4.10; and
- (b) Part 5, clause 5.3.31;

**term credit spread differential** is determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.4.11(3); and
- (b) Part 5, clause 5.3.32(3);

**term credit spread differential allowance** means the sum of **term credit spread differentials**;

**total depreciation** means the sum of **depreciation** for all assets;

**total opening RAB value** has the meaning specified in clause 5.3.6(7);

**total revaluation** means the sum of **revaluation** for all assets;

**Transpower** has the same meaning as defined in s 54B of the Act;

## U

**unallocated closing RAB value** means value determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.2.4(2); and
- (b) Part 5, clause 5.3.6(6);

**unallocated depreciation** means an allowance to account for the diminution in an asset's remaining service life potential in the **disclosure year** in question with respect to its **unallocated opening RAB value** and the amount of such allowance is determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.2.5(1); and
- (b) Part 5, clause 5.3.7(1);

**unallocated initial RAB value** means value of an asset in the **initial RAB** determined in accordance with clause 2.2.3(1);

**unallocated opening RAB value** means value determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.2.4(1); and
- (b) Part 5, clause 5.3.6(5);

**unallocated revaluation** means amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.2.9(1); and
- (b) Part 5, clause 5.3.10(1);

**unduly deterred** means, solely as a result of an allocation to the **unregulated service** in question of either or both of-

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

the **operating costs** not **directly attributable** or **capital costs** associated with the **regulated service asset values** not **directly attributable** (as the case may be) to be borne by that **unregulated service** would cause that **unregulated service** to be-

- (a) discontinued; or
- (b) not provided,

and '**unduly deter**' must be construed accordingly;

**unregulated service** means any good or service **supplied** by the **EDB** that is not a **regulated service**;

**utilised tax losses** means the amount determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.3.2; and
- (b) Part 5, clause 5.3.14;

## V

**value modified asset** means an asset which, as a result of the **asset adjustment process**, is designated as 'value modified' type;

**value of commissioned asset** means the value determined in accordance with clause 2.2.11;

**value of found asset** means the value of a **found asset** determined in accordance with clause 2.2.12(2);

**valuer** means an individual who-

- (a) is registered as a valuer under the Valuers Act 1948;
- (b) holds a current practising certificate issued by-
  - (i) the Property Institute of New Zealand; or
  - (ii) the New Zealand Institute of Valuers;
- (c) has been engaged to act in his or her professional capacity as a valuer; and
- (d) is **independent**;

**vanilla NZ\$ denominated bonds** means senior unsecured nominal debt obligations denominated in New Zealand dollars without callable, puttable, conversion, profit participation, credit enhancement or collateral features;

**verification report** means a report prepared by a **verifier** in accordance with Schedule G;

**verifier** means-

- (a) a **person** who-
  - (i) is **independent**; and

(ii) has been engaged to verify the **CPP applicant's CPP proposal** in accordance with Schedule G; or

(b) a **designated individual** of a **person** described in paragraph (a);

**vested asset** means an asset associated with the **supply of electricity distribution services** received by an **EDB**-

- (a) without provision of consideration; or
- (b) with provision of nominal consideration;

## **W**

**WACC** means weighted average cost of capital;

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

**works under construction** means an asset, or a collection of assets that-

- (a) has been or is being or is forecast to be constructed by, or on behalf of, an **EDB**;
- (b) has not been **commissioned**; and
- (c) the **EDB** intends to **commission**.

## PART 2 INPUT METHODOLOGIES FOR INFORMATION DISCLOSURE

### SUBPART 1 Cost allocation

#### 2.1.1 Cost allocation process

(1) Any-

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

that are **directly attributable to electricity distribution services supplied** by the **EDB** must be allocated to **electricity distribution services**.

(2) Any-

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

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

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

- (a) **ABAA**; or
- (b) subject to clause 2.1.2, another **allocation methodology type**.

#### 2.1.2 Allocation approaches

(1) For the purpose of clause 2.1.1(3)(b), whether the supplier may elect to use **ACAM** or **OVABAA** to allocate-

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

not **directly attributable**, must be determined in accordance with this clause.

(2) Where, in respect of a **disclosure year**, revenues received by an **EDB** from the **supply** of all **unregulated services** by that **EDB** are-

- (a) less than 20% of revenues received from the **supply** of all **regulated services supplied** by the **EDB**, subclause (3) applies; and
- (b) in all other cases, subclause (4) applies.

(3) Where this subclause applies-

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

not **directly attributable** may be allocated to **regulated services**, in aggregate, using **ACAM**.



- (4) Where this subclause applies-
- (a) where, in a **disclosure year**, **operating costs** not **directly attributable** less any **arm's-length deduction** are less than 15% of **operating costs**, **ACAM** may be applied to the allocation of **operating costs** not **directly attributable**;
  - (b) where, in a **disclosure year**, the total value of **regulated service asset values** not **directly attributable** less any **arm's-length deduction** is less than 10% of the aggregated unallocated closing RAB value, **ACAM** may be applied to the allocation of **regulated service asset values** not **directly attributable**; and
  - (c) in all other cases, **ABAA** or **OVABAA**, at the supplier's election, may be applied to the allocation of either or both-
    - (i) **operating costs** not **directly attributable**; or
    - (ii) **regulated service asset values** not **directly attributable**,
 as the case may be.
- (5) For the purpose of subclause (4)(b) 'aggregated unallocated closing RAB value' means the sum of, in respect of assets used to **supply**-
- (a) **electricity distribution services**, **unallocated closing RAB values**; and
  - (b) any **other regulated service**, unallocated closing RAB values as determined in accordance with **input methodologies** applicable to that **other regulated service**;

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

- (1) **Cost allocators** must be used to allocate **operating costs** not **directly attributable**, less any **arm's-length deduction**, to-
- (a) **electricity distribution services**; and
  - (b) **other regulated services**.
- (2) **Asset allocators** must be used to allocate **regulated service asset values** not **directly attributable**, less any **arm's-length deduction**, to-
- (a) **electricity distribution services**; and
  - (b) **other regulated services**.

### 2.1.4 Avoidable cost allocation methodology (ACAM)

- (1) In respect of-
- (a) **operating costs**; and
  - (b) **regulated service asset values**,
- not **directly attributable**, less any **arm's-length deduction**, an assessment must be made as to the proportion of each that would be non-avoidable were the **EDB** not to **supply unregulated services**.
- (2) The amounts of non-avoidable-
- (a) **operating costs**; or
  - (b) **regulated service asset values**,

not **directly attributable**, assessed in accordance with subclause (1), must be allocated to **regulated services** in aggregate.

- (3) Where the **EDB** supplies **other regulated services**, the amounts allocated in accordance with subclause (2) must be allocated to each **regulated service supplied** by the **EDB** using the **ABAA**.

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

- (1) This clause applies to the allocation of-
- (a) only **operating costs** not **directly attributable**;
  - (b) only **regulated service asset values** not **directly attributable**; or
  - (c) **operating costs** not **directly attributable** and **regulated service asset values** not **directly attributable**,
- as elected in accordance with clause 2.1.2(4)(c).
- (2) **Operating costs** not **directly attributable** less any **arm's-length deduction** must be initially allocated to-
- (a) **electricity distribution services**;
  - (b) **other regulated services**; and
  - (c) each **unregulated service**,
- using **cost allocators**.
- (3) **Regulated service asset values** not **directly attributable** less any **arm's-length deduction** must be initially allocated to-
- (a) **electricity distribution services**;
  - (b) **other regulated services**; and
  - (c) each **unregulated service**,
- using **asset allocators**.
- (4) Where, after application of-
- (a) subclause (2)(c);
  - (b) subclause (3)(c); or
  - (c) subclauses (2)(c) and (3)(c),
- an **unregulated service** would-
- (d) be **unduly deterred**, subclause (5) applies; and
  - (e) not be **unduly deterred**, the allocation of either or both of-
    - (i) **operating costs** not **directly attributable**; and
    - (ii) **regulated service asset values** not **directly attributable**
- as the case may be, must remain as carried out in accordance with either or both of subclauses (2)(c) and (3)(c), as the case may be.
- (5) Where this subclause applies, any-
- (a) **operating costs**; and
  - (b) **regulated service asset values**,

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

- (6) For the avoidance of doubt, the adjusted amounts determined in accordance with subclause (5) must be treated as the share of either or both, as the case may be, of-
- (a) **operating costs**; and
  - (b) **regulated service asset values**,
- not **directly attributable** to be borne by the **unregulated service** in question.
- (7) The adjusted amounts determined in accordance with subclause (5) must be deducted from either or both the-
- (a) **operating costs** not **directly attributable**; and
  - (b) **regulated service asset values** not **directly attributable**,
- as the case may be, to which subclause (2) or (3) applied after any **arm's-length deduction** was made, and the remaining costs or values reallocated between-
- (c) **electricity distribution services**;
  - (d) **other regulated services**; and
  - (e) each remaining **unregulated service**,
- in accordance with subclauses (2) and (3), as the case may be.
- (8) Where, after application of subclause (7), the-
- (a) **operating costs**; and
  - (b) **regulated service asset values**,
- not **directly attributable** allocated to another **unregulated service unduly deter** that **unregulated service**, the process in subclauses (5) and (7) may be repeated subject to the modifications specified in subclause (9).
- (9) When re-applying-
- (a) subclause (5) to another **unregulated service**, the starting values of-
    - (i) **operating costs**; and
    - (ii) **regulated service asset values**,

not **directly attributable** allocated to that **unregulated service** must be the values obtained in relation to that **unregulated service** as a result of the previous application of subclause (7); and
  - (b) subclause (7), for "to which subclause (2) or (3) applied after any **arm's-length deduction** was made", substitute "to which this subclause previously applied".
- (10) Subclauses (5) and (7) may be re-applied sequentially in respect of each **unregulated service** which is **unduly deterred** until any remaining **regulated service asset values** or **operating costs** or both are of such quantum that their allocation to the remaining **unregulated services** does not result in any of those **services** being **unduly deterred**.

- (11) For the avoidance of doubt, the reallocation undertaken in accordance with subclause (7) is carried out by grossing up allocation percentages used to make allocations to **electricity distribution services**, **other regulated services** and each remaining **unregulated service** based on the same **cost allocators** or **asset allocators**, as the case may be, used under subclauses (2) and (3), to take into account the omission of the allocation percentages for the **unregulated service** to which allocation has already been made under subclause (5).

#### 2.1.6 Allocation constraints

- (1) For the avoidance of doubt, all allocations of-
- (a) **operating costs**; and
  - (b) **regulated service asset values**,
- not **directly attributable** to **other regulated services supplied** by the **EDB** must be consistent with allocations made in accordance with **input methodologies** relating to cost allocation applying to those **other regulated services**.
- (2) Where the **OVABAA** is applied to both **operating costs** not **directly attributable** and **regulated service asset values** not **directly attributable**, the combined amount of such costs and values that is re-allocated in accordance with clause 2.1.5(5) must not exceed the amount required to ensure that the **unregulated service** is not **unduly deterred**.
- (3) For the avoidance of doubt, after application of this subpart, notwithstanding anything else that may suggest otherwise, each **unregulated service** must bear at least the total-
- (a) **operating costs**; and
  - (b) value of assets,
- directly attributable** to that **unregulated service**.
- (4) Notwithstanding anything else in this Subpart, the maximum value of-
- (a) **operating costs** that may be allocated to **electricity distribution services** and **other regulated services**, in aggregate, must not exceed the total value of **operating costs**; and
  - (b) **regulated service asset values** that may be allocated to **electricity distribution services** and **other regulated services**, in aggregate, must not exceed the total **regulated service asset values**,
- that would be allocated to **electricity distribution services** and **other regulated services**, in aggregate, using **ACAM**.

## SUBPART 2      **Asset valuation**

### 2.2.1 Asset adjustment process for setting initial RAB

- (1) Asset adjustment process means the process of assets-
- (a) being designated as one of the following asset types:
    - (i) 'excluded';
    - (ii) 'included'; or
    - (iii) 'value modified';

- (b) of 'included' type being assigned an **included value**; and
  - (c) of 'value modified' type being assigned a **modified value**.
- (2) Subject to subclauses (3) to (5), under the asset adjustment process, an **EDB** may elect to undertake none, some or all of the following things:
- (a) designate a load control relay asset owned by an **EDB**, except a **2009 disclosed asset**, as of 'included' type;
  - (b) correct the following types of error found in an **EDB's** asset register where the error relates to **2009 disclosed assets**:
    - (i) assets omitted in error, which assets are treated as of 'included' type;
    - (ii) assets included in error, which assets are designated as of 'excluded' type; and
    - (iii) assets allocated to the incorrect asset category, or given an estimation of quantity, age, category or location now known to be incorrect, which assets are designated as of 'value modified' type;
  - (c) re-apply a multiplier in an **ODV valuation** which affects a **2009 disclosed asset**, where more accurate information relating to application of the multiplier has subsequently become available, which asset is designated as of 'value modified' type;
  - (d) re-apply, in an **ODV valuation** which affects a **2009 disclosed asset**, one of the following types of multiplier in the manner described, which asset is designated as of 'value modified' type:
    - (i) the rugged terrain multiplier in paragraph A.9 of the **ODV handbook** may be amended to a range of 1.2 - 1.8 times, and, in addition to the circumstances cited in the **ODV handbook** for its application, that multiplier may also be applied to non-standard designs of overhead line networks that accommodate difficult physical or climatic conditions involving swampy ground, high winds or snow;
    - (ii) the business district multiplier in paragraph A.14 of the **ODV handbook** may be amended to a range of 1.15 - 2.5 times; and
    - (iii) the rocky ground multiplier in paragraph A.15 of the **ODV handbook** may be amended to a range of 1.0 - 2.0 times, and, in addition to the circumstances cited in the **ODV handbook** for its application, that multiplier may also be applied to cables laid in loose rock or sand; and
  - (e) in respect of a **2009 disclosed asset** whose value in an **ODV valuation** was affected by the application of an optimisation or economic value test, do one of the following things:
    - (i) designate it as of 'included' type and give it an included value;
    - (ii) designate it as of 'excluded' type; or
    - (iii) modify its value,  
consistent with re-applying the optimisation or economic value test previously applied in the **ODV valuation**.
- (3) The included value of an asset to which subclause (2)(a) is applied is-

- (a) its depreciated historic cost determined by applying **GAAP** as of the last day of the **disclosure year 2009**; or
  - (b) where sufficient records do not exist to establish this cost, its depreciated carrying value in the general purpose financial statements of the **EDB**.
- (4) The included value or modified value, as the case may be, of an asset to which subclause (2)(b), (2)(c) or (2)(d) is applied, is determined by-
  - (a) taking its-
    - (i) **ODV valuation**; or
    - (ii) where an **ODV valuation** is not applicable in respect of that asset under the **Electricity Information Disclosure Requirements 2004**, its value that resulted, or, for an omitted asset, would have resulted, from application of those requirements as of the day on which the asset was first **commissioned** after the **disclosure year 2004**;
  - (b) implementing the corrections or modifications required to account for the matters specified in subclauses (2)(b) - (2)(d) as the case may be; and
  - (c) adjusting that value to the value as of 31 March 2009 by taking account of-
    - (i) **unallocated depreciation** in accordance with the **standard depreciation method**, where the total asset life used for the purpose of that method is the total asset life used for the purpose of the **2009 disclosure reports**; and
    - (ii) revaluation to account for consumer price index changes using a method consistent with that used to account for such revaluation in the **2009 disclosure reports**.
- (5) The included value or modified value, as the case may be, of an asset to which subclause (2)(e) is applied is determined by-
  - (a) taking its **ODV valuation** had the assets not been-
    - (i) optimised in accordance with paragraphs 2.18 - 2.47 and Appendix B of the **ODV handbook**; or
    - (ii) subject to the economic value test in accordance with paragraph 2.59 - 2.65 of the **ODV handbook**;
  - (b) re-applying the sub-paragraphs of paragraph (a) in light of more up-to-date information relating to optimisation or economic value that has subsequently become available; and
  - (c) adjusting that value to the value as of 31 March 2009 by taking account of-
    - (i) **unallocated depreciation** in accordance with the **standard depreciation method**, where the asset life used for the purpose of that method is the asset life used for the purpose of the **2009 disclosure reports**; and
    - (ii) revaluation to account for consumer price index changes using a method consistent with that used to account for such revaluation in the **2009 disclosure reports**.

### 2.2.2 Composition of initial RAB

Initial RAB means-

- (a) **2009 disclosed assets**; and
- (b) **included assets**,

less-

- (c) **excluded assets**;
- (d) intangible assets, unless they are-
  - (i) **finance leases**; or
  - (ii) **identifiable non-monetary assets**; and
- (e) **works under construction**.

### 2.2.3 Initial RAB values for assets

- (1) Subject to subclause (3), the unallocated initial RAB value of-
  - (a) an **included asset** or **value modified asset**, is its **included value** or **modified value**, as the case may be; and
  - (b) any other asset is-
    - (i) where the asset is included in the value of 'Regulatory Value of System Fixed Assets', its value as on the last day of the **disclosure year 2009** included in 'Total Regulatory Asset Base Value (Excluding FDC)' in the **2009 disclosure reports** multiplied by 1.0245; and
    - (ii) where the asset is included in the value of 'Regulatory Value of Non-System Fixed Assets', its value as on the last day of the **disclosure year 2009** included in 'Total Regulatory Asset Base Value (Excluding FDC)' in the **2009 disclosure reports**.
- (2) For the purpose of subclause (1)(a), in the case of a system fixed asset valued in accordance with one of paragraphs (b) to (e) of clause 2.2.1(2), unallocated initial RAB value is its **included value** or **modified value** (as the case may be) multiplied by 1.0245.
- (3) For the purpose of subclause (1), where an asset is used by an **EDB** in the **supply** of-
  - (a) one or more **regulated service**; or
  - (b) one or more **regulated service** and one or more **unregulated service**,

where at least one of those **regulated services** is an **electricity distribution service**, the unallocated initial RAB value is the value of the asset had no allocation of asset value relevant to regulatory disclosures been undertaken.
- (4) The initial RAB value of an asset is determined as the value allocated to **electricity distribution services** as a result of-
  - (a) adopting its **unallocated initial RAB value**; and
  - (b) applying clause 2.1.1 to it.
- (5) In this clause, 'system fixed asset' has the same meaning as defined in the **Electricity (Information Disclosure) Requirements 2004**.

#### 2.2.4 RAB roll forward

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

#### 2.2.5 Depreciation

- (1) Unallocated depreciation, in the case of an asset with an **unallocated opening RAB value**, is determined, subject to subclause (3) and clauses 2.2.6 and 2.2.7, in accordance with the formula-
- $$[1 \div \text{remaining asset life}] \times \text{unallocated opening RAB value}.$$
- (2) Depreciation, in the case of an asset with an **opening RAB value**, is determined, subject to subclause (3) and clause 2.2.6, in accordance with the formula-
- $$[1 \div \text{remaining asset life}] \times \text{opening RAB value}.$$
- (3) For the purposes of subclauses (1) and (2)-
- (a) unallocated depreciation and depreciation are nil in the case of-
    - (i) **land**;
    - (ii) an **easement** other than a **fixed life easement**; and
    - (iii) a **network spare** in respect of the period before which depreciation for the **network spare** in question commences under **GAAP**; and



- (b) in all other cases, where the asset's **physical asset life** at the end of the **disclosure year** is nil-
  - (i) unallocated depreciation is the asset's **unallocated opening RAB value**;  
and
  - (ii) depreciation is the asset's **opening RAB value**.

#### 2.2.6 Depreciation - alternative method

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

#### 2.2.7 Unallocated depreciation constraint

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

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

#### 2.2.8 Physical asset life

(1) Physical asset life means, subject to subclauses (2) and (4), in the case of-

- (a) a **fixed life easement**, the fixed duration or fixed period (as the case may be) referred to in the definition of **fixed life easement**;
- (b) an extended life asset or a refurbished asset, its physical service life potential as determined by the **EDB**;
- (c) a reduced life asset, its physical service life potential determined by an **engineer**, subject to subclause (3);
- (d) a **found asset** for which a similar asset exists as described in subclause 2.2.12(2)(b)(i), the **asset life** applying to the similar asset;
- (e) an asset not referred to in paragraphs (a) - (d)-
  - (i) in the **initial RAB** and an **included asset**; or
  - (ii) not in the **initial RAB**,
 and-
  - (iii) having a **standard physical asset life**, its **standard physical asset life**;
  - (iv) not having a **standard physical asset life**, the **asset life** applying to an asset with an **unallocated opening RAB value** that is similar in terms of asset type; and
  - (v) in all other cases, the physical service life potential determined by an **engineer**, subject to subclause (3);

- (f) an asset (other than a composite asset) not referred to in paragraphs (a)-(e), its remaining physical service life potential as on the last day of the **disclosure year 2009** as determined in accordance with the method used to determine **depreciation** for the purpose of the **2009 disclosure reports**;
  - (g) a composite asset, the average asset life of the assets comprising it determined in accordance with paragraphs (a)-(f), with the modification that each such asset life must be weighted with respect to the proportion of its respective **opening RAB value** to the sum of the **opening RAB values** of the components in the earliest **disclosure year** in which all component assets were held by the **EDB**.
- (2) For the purpose of subclause (1), physical asset life means, in the case of a dedicated asset which is not expected to be used by the **EDB** to provide **electricity distribution services** beyond the term of the fixed term agreement relating to the asset between the **EDB** and the **consumer**, at the **EDB's** election, the term of that agreement instead of the physical asset life that would otherwise apply under that subclause.
- (3) For the purpose of subclauses (1)(c) and (1)(e)(v), a determination made in accordance with this clause by an **engineer** of physical service life potential-
- (a) in relation to an asset with an **unallocated opening RAB value** is deemed applicable to all assets of similar asset type for which there is a requirement in this clause for an **engineer's** determination of physical service life potential; and
  - (b) must be evidenced by a report written by the **engineer** in question that includes an acknowledgement by the **engineer** that the report may be publicly disclosed by an **EDB** pursuant to an **ID determination**.
- (4) In the case of an **EDB** subject to a **CPP**, the physical asset life at the start of a **CPP regulatory period** of an asset that would, in accordance with subclause (1), become fully depreciated during that **regulatory period**, is equal to the duration of the **CPP regulatory period**.
- (5) In this clause-
- (a) 'dedicated asset' means an asset operated for the benefit of a particular **consumer** pursuant to a fixed term agreement for the **supply of electricity distribution services** between the **EDB** in question and that **consumer**;
  - (b) 'extended life asset' means an asset whose physical service life potential is greater than its **standard physical asset life**;
  - (c) 'refurbished asset' means an asset on which work (other than maintenance) has been carried out resulting in an extension to its physical service life potential;
  - (d) 'reduced life asset' means an asset determined by the **EDB** to have a physical service life potential shorter than its **standard physical asset life**;
  - (e) 'composite asset' means a configuration of two or more assets that is not capable of operation in the absence of any of those assets.

### 2.2.9 Revaluation

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

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

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

**opening RAB value × revaluation rate.**

- (3) For the purposes of subclauses (1) and (2), where-
- (a) the asset's **physical asset life** at the end of the **disclosure year** is nil; or
  - (b) the asset is a-
    - (i) **disposed asset**; or
    - (ii) **lost asset**,

unallocated revaluation and revaluation are nil.

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

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

where-

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

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

2.2.10 Revaluation treated as income

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

2.2.11 Value of Commissioned assets

- (1) Value of **Commissioned** asset, in relation to an asset (including an asset in respect of which **capital contributions** were received or a **vested asset**), is the cost of the asset to an **EDB** determined by applying **GAAP** to the asset as on its **commissioning date**, except that, subject to subclause (2), the cost of-
- (a) an intangible asset, unless it is-
    - (i) a **finance lease**; or
    - (ii) an **identifiable non-monetary asset**,
 is nil;
  - (b) an **esement**, is limited to its market value as on its **commissioning date** as determined by a **valuer**;
  - (c) **esement land** is nil;
  - (d) a **network spare**-
    - (i) which is not required, in light of the historical reliability and number of the assets it is held to replace; or
    - (ii) whose cost is not treated wholly as or part of the cost of an asset under **GAAP**,

is nil;

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

is limited to the unallocated opening RAB value of the asset for the **regulated supplier** as on the the day before the **commissioning date** (as 'unallocated opening RAB value' is defined in the **input methodologies** applying to the **regulated goods or services supplied** by the **regulated supplier**);

- (f) an asset that was previously used by an **EDB** in its **supply of other regulated services** is limited to the unallocated opening RAB value of the asset in relation to those **other regulated services** as on the day before the **commissioning date** (as 'unallocated opening RAB value' is defined in the **input methodologies** applying to the **regulated goods or services supplied** by the **EDB**);
- (g) an asset acquired from a **related party** other than an asset to which paragraphs (e) or (f) apply is-
  - (i) its depreciated historic cost in respect of the **related party** determined by applying **GAAP** as on the day before the acquisition by the **EDB**; or
  - (ii) where sufficient records do not exist to establish this cost, its market value as at its **commissioning date** as determined by a **valuer**;
- (h) an asset in respect of which **capital contributions** were received where such contributions do not reduce the cost of the asset when applying **GAAP**, is the cost of the asset by applying **GAAP** reduced by the amount of the **capital contributions**; and
- (i) a **vested asset** in respect of which its fair value is treated as its cost under **GAAP**, must exclude any amount of the fair value of the asset determined under **GAAP** that exceeds the amount of consideration provided by the **EDB**.

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

- (a) applicable only in respect of the period commencing on the date the asset becomes a **works under construction** and terminating on its **commissioning date**; and
- (b) calculated for a-
  - (i) **non-exempt EDB**, using, subject to subclause (3), a rate no greater than the **75th percentile estimate of WACC** applying in respect of the relevant date for its calculation under **GAAP**; and
  - (ii) **consumer-owned EDB**, using a rate no greater than the **EDB's** estimate of its post-tax **WACC** as at the relevant date for its calculation under **GAAP**.

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

- (a) where no **WACC** in respect of the relevant date has been published pursuant to clause 2.4.8, the rate is calculated using a rate no greater than the **EDB's**

estimate of its post-tax **WACC** as at the relevant date for its calculation under **GAAP**; and

- (b) where an asset has not been **commissioned** within the period to which the **75th percentile estimate of WACC** referred to in subclause (2)(b)(i) applied, the cost of financing after that period is calculated using a rate no greater than the **75th percentile estimate of WACC** applying to that later period.

(4) For the avoidance of doubt-

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

#### 2.2.12 Value of found asset

(1) Found asset means, in relation to a **disclosure year**, an asset-

- (a) other than **easement land**;
- (b) other than an intangible asset, unless it is-
  - (i) a **finance lease**; or
  - (ii) an **identifiable non-monetary asset**;
- (c) not having a **commissioning date** in the **disclosure year** in question;
- (d) the value of which-
  - (i) is not included as an **unallocated opening RAB value** in the **disclosure year** in question nor was so included in any prior **disclosure year** pursuant to clause 2.2.4(1); and
  - (ii) was not included in an **unallocated closing RAB value** in any prior **disclosure year** in accordance with clause 2.2.4(2); and
- (e) first determined by the **EDB** in the **disclosure year** in question to have a **commissioning date** after the **disclosure year 2009**.

(2) The value of found asset is-

- (a) the **found asset's** cost calculated consistently with **GAAP**; or
- (b) where sufficient records do not exist to establish the **found asset's** cost for the purposes of **GAAP**-
  - (i) where an asset with an **unallocated opening RAB value** for that **disclosure year** is similar (in terms of asset type and age) to the **found asset**, the **unallocated opening RAB value** of the similar asset; and
  - (ii) in all other cases, its market value as determined by a **valuer** as at the date that the asset was first determined to have been **commissioned** in a prior **disclosure year** after the **disclosure year 2009**.

## SUBPART 3 Treatment of taxation

### 2.3.1 Regulatory tax allowance

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

### 2.3.2 Tax losses

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

### 2.3.3 Permanent differences

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

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

if the difference in treatment of amounts of-

- (c) income under paragraphs (a)(i) and paragraph (a)(ii); or
- (d) expenditure or loss under paragraph (b)(i) and paragraph (b)(ii),

is a difference that-

- (e) is not a **reversal** or partial **reversal** of a difference for a prior **disclosure year**; and
- (f) will not **reverse** in a subsequent **disclosure year**.

- (3) For the purpose of subclause (2), positive permanent differences excludes any amounts that are-

- (a) **amortisation of initial differences in asset values**; or
- (b) **amortisation of revaluations**.

- (4) For the purpose of subclause (1), 'negative permanent differences' means, subject to subclause (5), the sum of-

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

if there are differences between the values in-

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

and such differences-

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

- (5) For the purpose of subclause (4), negative permanent differences excludes amounts that are-

- (a) **discretionary discounts and customer rebates**;

- (b) expenditure or loss determined in accordance with the **tax rules** that is-
    - (i) interest; or
    - (ii) incurred in borrowing money; and
  - (c) any-
    - (i) tax losses; or
    - (ii) subvention payment made or received by an **EDB**.
- (6) Discretionary discounts and customer rebates means the expenditure or loss allowed as a deduction under the **tax rules** in respect of the-
- (a) sum of all payments made; and
  - (b) value of all credit amounts given,
- to **persons** by an **EDB** in respect of the **supply of electricity distribution services** owing to those **persons'** direct or indirect ownership interest in the **EDB**.

#### 2.3.4 Regulatory tax adjustments

- (1) Regulatory tax adjustments are determined in accordance with the formula-
- amortisation of initial differences in asset values + amortisation of revaluations - notional deductible interest.**
- (2) For the purpose of subclause (1), 'notional deductible interest' means the amount determined in accordance with the formula-
- (regulatory investment value × leverage × cost of debt) + term credit spread differential allowance.*
- (3) For the purpose of subclause (2), 'regulatory investment value' means the value for 'regulatory investment value' determined in accordance with the **ID determination** applicable to the **disclosure year** and the **regulated good or service** in question.

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

- (1) Amortisation of initial differences in asset values is, subject to subclause (4), determined in accordance with the formula-
- opening unamortised initial differences in asset values ÷ weighted average remaining useful life of relevant assets.*
- (2) For the purpose of this clause, 'opening unamortised initial differences in asset values' means, in respect of-
- (a) the **disclosure year** 2010, initial differences in asset values; and
  - (b) each **disclosure year** thereafter, subject to subclause (4), closing unamortised initial difference in asset values for the preceding **disclosure year**.
- (3) For the purpose of subclause (2)(a), 'initial differences in asset values' means, subject to subclause (4), the sum of **initial RAB values** less the sum of **regulatory tax asset values** on the first day of the **disclosure year** 2010.
- (4) For the purpose of subclauses (1) and (2)-



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

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

### 2.3.6 Amortisation of revaluations

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

### 2.3.7 Deferred tax

- (1) Opening deferred tax means, in respect of-
- (a) the **disclosure year** 2010, nil; and
  - (b) each **disclosure year** thereafter, closing deferred tax for the preceding **disclosure year**.
- (2) For the purpose of subclause (1)(b), 'closing deferred tax' is determined in accordance with the formula-
- opening deferred tax + tax effect of temporary differences - tax effect of amortisation of initial difference in asset values + deferred tax balance relating to assets acquired in the disclosure year in question + cost allocation adjustment.**
- (3) For the purpose of subclause (2), 'deferred tax balance relating to assets acquired in the **disclosure year** in question' means the amount of deferred tax associated with the assets acquired by the **EDB** from another **regulated supplier** excluding the **reversal** of temporary adjustments arising as a consequence of the sale, as determined in accordance with **input methodologies** applicable to the **regulated services** that the assets in question were used to **supply**.
- (4) For the avoidance of doubt, the amount referred to in subclause (3) must include proportionate adjustments for-
- (a) the **tax effect of temporary differences**; and
  - (b) the **amortisation of initial differences in asset values**,
- up to the date the assets in question were acquired.
- (5) For the purpose of subclause (2), 'cost allocation adjustment' means the **tax effect** of the dollar value difference between the change in the sum of **regulatory tax asset values** on the last day of the **disclosure year** and the change in the sum of **closing RAB values** as a result only of applying-
- (a) the result of the asset allocation ratios to the **tax asset value** in accordance with clause 2.3.9(1); and
  - (b) clause 2.1.1 to the **unallocated closing RAB value**.

### 2.3.8 Temporary differences

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

- (ii) not included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**,

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

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

and such differences-

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

### 2.3.9 Regulatory tax asset value

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

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

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

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

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

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

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

- (a) subclause (2)(a)(i), **adjusted tax value** of the asset in the **disclosure year** 2010 adjusted to account proportionately for the difference between the-
  - (i) sum of the **unallocated initial RAB values**; and
  - (ii) sum of the **adjusted tax values**,
 of all assets in the **initial RAB**;
- (b) subclause (2)(a)(ii), value after applying the **tax depreciation rules** to the tax asset value (as 'tax asset value' is defined in the **input methodologies** applying to the **regulated goods or services** in question) in respect of the **disclosure year** in which the asset was acquired; and
- (c) subclause (2)(a)(iii), value in respect of the **disclosure year** in which the asset was acquired or transferred that is-
  - (i) consistent with the **tax rules**; and
  - (ii) limited to its **value of commissioned asset**.

- (4) For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the **tax rules**-
- (a) has a matching asset or group of assets maintained for the purpose of Subpart 2, the value obtained in accordance with the formula-
- $$\frac{\text{opening RAB value or sum of opening RAB values, as the case may be}}{\text{unallocated opening RAB value or sum of unallocated opening RAB values, as the case may be,}}$$
- applying the formula in respect of the asset or smallest group of assets maintained for the purpose of Subpart 2 that has a matching asset or group of assets maintained under the **tax rules**; and
- (b) does not have a matching asset or group of assets maintained for the purpose of Subpart 2, the value of the asset allocated to the **supply of electricity distribution services** were clause 2.1.1 to apply to the asset or group of assets.

## SUBPART 4 **Cost of capital**

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

- (1) The **Commission** will determine a mid-point estimate of vanilla **WACC** for the **disclosure year 2011** and each **disclosure year** thereafter-
- (a) in respect of the 5 years commencing on the first day of the **disclosure year** in question;
- (b) subject to subclause (3), within 1 month of the start of the **disclosure year** in question; and
- (c) in accordance with the formula-
- $$r_d L + r_e(1 - L).$$
- (2) The **Commission** will determine a mid-point estimate of post-tax **WACC** for the **disclosure year 2011** and each **disclosure year** thereafter-
- (a) in respect of the 5 years commencing on the first day of the **disclosure year** in question;
- (b) subject to subclause (3), within 1 month of the start of the **disclosure year** in question; and
- (c) in accordance with the formula-
- $$r_d (1 - T_c)L + r_e (1 - L).$$
- (3) The **Commission** will estimate or determine, as the case may be, the amounts or values-
- (a) to which this subclause applies; and
- (b) in respect of the **disclosure year 2011**,
- as soon as practicable after this determination comes into force.
- (4) In this clause-

$L$  is **leverage**;

$r_d$  is the cost of debt and is estimated in accordance with the formula  $r_f + p + d$ ;

$r_e$  is the cost of equity and is estimated in accordance with the formula  $r_f(1 - T_i) + \beta_e TAMRP$ ;

$T_c$  is the average corporate tax rate;

$r_f$  is the risk-free rate;

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

$d$  is the debt issuance costs;

$T_i$  is the average investor tax rate;

$\beta_e$  is the equity beta; and

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

(5) For the purpose of this clause-

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

#### 2.4.2 Fixed WACC parameters

(1) Leverage is 44%.

(2) The average investor tax rate is the average of the investor tax rates that, as at the date that the estimation is made, will apply to each of the **disclosure years** in the 5 year period commencing on the first day of the **disclosure year** in question.

(3) For the purpose of subclause (2), 'investor tax rate' is-

- (a) for the **disclosure year** 2011, 29%; and
- (b) for a **disclosure year** thereafter, the maximum **prescribed investor rate** applicable at the start of that **disclosure year** to an **individual** who is-
  - (i) resident in New Zealand; and
  - (ii) an investor in a **multi-rate PIE**.

(4) The average corporate tax rate is the average of the **corporate tax rates** that, as at the date that the estimation is made, will apply during the 5 year period commencing on the first day of the **disclosure year** in question.

(5) The equity beta is 0.61.

(6) The debt issuance costs are 0.35%.

(7) The tax-adjusted market risk premium is, for a 5 year period commencing on the first day of-

- (a) the **disclosure year** 2011, 7.1%; and
- (b) a **disclosure year** thereafter, 7.0%.

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

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

- (a) for each **disclosure year**; and
- (b) subject to clause 2.4.1(3), within 1 month of the start of the **disclosure year** in question,

by-

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

#### 2.4.4 Methodology for estimating debt premium

- (1) Debt premium means the spread between-
  - (a) the bid yield to maturity on **vanilla NZ\$ denominated bonds** that-
    - (i) are issued by an **EDB** or a **GPB**;
    - (ii) are publicly traded;
    - (iii) have a **qualifying rating** of grade BBB+; and
    - (iv) have a remaining term to maturity of 5 years; and
  - (b) the contemporaneous interpolated bid yield to maturity of notional benchmark New Zealand government New Zealand dollar denominated nominal bonds having a remaining term to maturity of 5 years.
- (2) The **Commission** will estimate an amount for the debt premium-
  - (a) for each **disclosure year**; and
  - (b) subject to clause 2.4.1(3), within 1 month of the start of each **disclosure year**.
- (3) The debt premium will be estimated by-
  - (a) identifying publicly traded **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer** that are-
    - (i) **investment grade credit rated**; and
    - (ii) of a type described in the paragraphs of subclause (4);
  - (b) in respect of each bond identified in accordance with paragraph (a)-
    - (i) obtaining its wholesale market annualised bid yield to maturity;
    - (ii) calculating by linear interpolation with respect to maturity, the contemporaneous wholesale market annualised bid yield to maturity for a notional benchmark New Zealand government New Zealand dollar denominated nominal bond with the same remaining term to maturity; and
    - (iii) calculating its contemporaneous interpolated bid to bid spread over notional benchmark New Zealand government New Zealand dollar denominated nominal bonds with the same remaining term to maturity,

by deducting the yield calculated in accordance with sub-paragraph (ii) from the yield obtained in accordance with sub-paragraph (i),

for each **business day** in the month preceding the start of the **disclosure year**;

- (c) calculating, for each bond identified in accordance with paragraph (a), the un-weighted arithmetic average of the daily spreads identified in accordance with paragraph (b)(iii); and
  - (d) subject to subclause (4), estimating, by taking account of the average spreads identified in accordance with paragraph (c), the average spread that would reasonably be expected to apply to a **vanilla NZ\$ denominated bond** that-
    - (i) is issued by an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
    - (ii) is publicly traded;
    - (iii) has a **qualifying rating** of grade BBB+; and
    - (iv) has a remaining term to maturity of 5 years.
- (4) For the purpose of subclause (3)(d), the **Commission** will have regard, subject to subclause (5), to the spreads observed on the following types of **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer**:
- (a) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
  - (b) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by an entity other than an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
  - (c) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
  - (d) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by an entity, other than an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**; and
  - (e) those that are-
    - (i) **investment grade credit rated**; and
    - (ii) issued by an entity that is majority owned by the Crown or a **local authority**.
- (5) For the purpose of subclause (4)-

- (a) progressively lesser regard will ordinarily be given to the spreads observed on the bond types described in subclause (4) in accordance with the order in which the bond types are described;
- (b) the spread on any bond of the type described in subclause (4) that has a remaining term to maturity of less than 5 years will ordinarily be considered to be the minimum spread that would reasonably be expected to apply on an equivalently credit-rated bond issued by the same entity with a remaining term to maturity of 5 years; and
- (c) the **Commission** will adjust spreads observed on bonds described under subclauses (4)(b) to (4)(e) to approximate the spread that is likely to have been observed had the bonds in question been of the type described in subclause (4)(a).

#### 2.4.5 Standard error of debt premium

- (1) The **Commission** will estimate an amount for a **standard error** of a **debt premium**-
  - (a) subject to clause 2.4.1(3), within 1 month of the start of the **disclosure year** in question; and
  - (b) as either-
    - (i) the result of the formula specified in subclause (2); or
    - (ii) 0.0015,
 whichever is the greater.
- (2) For the purpose of subclause (1)(b)(i), the formula is-

$$\sqrt{\frac{1}{N-1} \sum_{i=1}^N (p_i - \bar{p})^2}$$

where-

$N$  is the number of **qualifying issuers** issuing bonds of the type described in the subparagraphs of clause 2.4.4(3)(d);

$p_i$  is each **qualifying issuer's** arithmetic average spread for its bonds of the type described in the subparagraphs of clause 2.4.4(3)(d); and

$\bar{p}$  is the **debt premium**,

provided that for the purposes of determining  $N$  and  $p_i$ , no regard may be had to any bonds of the types described in clauses 2.4.4(4)(b) to 2.4.4(4)(e).

#### 2.4.6 Methodology for estimating the WACC standard error

- (1) The **Commission** will determine an amount for a **standard error** of a **mid-point estimate of WACC**-
  - (a) subject to clause 2.4.1(3), within 1 month of the start of the **disclosure year** in question; and
  - (b) in accordance with this clause.



- (2) The **standard error** for a mid-point estimate of vanilla **WACC** determined in accordance with clause 2.4.1(1) will be determined in accordance with the formula-

$$\sqrt{0.00003 + 0.0169 E^2 (TAMRP) + 0.1936 \text{var}(\hat{p})}$$

- (3) The **standard error** for a mid-point estimate of post-tax **WACC** determined in accordance with clause 2.4.1(2) will be determined in accordance with the formula-

$$\sqrt{0.00003 + 0.0169 E^2 (TAMRP) + (1 - T_c)^2 (0.1936 \text{var}(\hat{p}))}$$

- (4) In this clause-

- (a)  $E^2 (TAMRP)$  is the square of the tax-adjusted market risk premium determined in accordance with clause 2.4.2(7);
- (b)  $\text{var}(\hat{p})$  is the square of the **standard error** of the **debt premium** determined in accordance with clause 2.4.5; and
- (c)  $T_c$  is the average corporate tax rate determined in accordance with clause 2.4.2(4).

#### 2.4.7 Methodology for estimating the WACC range

- (1) The **Commission** will determine a WACC range for each **mid-point estimate of WACC**-
  - (a) for each **disclosure year**; and
  - (b) subject to clause 2.4.1(3), within 1 month of the start of the **disclosure year** in question.
- (2) For the purpose of subclause (1), 'WACC range' means the values falling between the 25th percentile and 75th percentile inclusive of the **mid-point estimate of WACC**.
- (3) For the purpose of subclause (2)-
  - (a) the **mid-point estimate of WACC** must be treated as the 50th percentile; and
  - (b) the-
    - (i) 75th percentile must be determined in accordance with the formula-  
**mid-point estimate of WACC** +  $0.674 \times \text{standard error}$ ; and
    - (ii) 25th percentile must be determined in accordance with the formula-  
**mid-point estimate of WACC** -  $0.674 \times \text{standard error}$ ,
 where 'standard error' means the **standard error** of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 2.4.6(2) or 2.4.6(3), as the case may be.

#### 2.4.8 Publication of estimates

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

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

2.4.9 Interpretation of terms relating to term credit spread differential

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

$$A \times B,$$

where-

- (a) 'A' is the amount that is half of the New Zealand dollar wholesale bid and offer spread for a vanilla interest rate swap determined at the time of pricing the **qualifying debt**, (which, for the avoidance of doubt, is expressed in terms of basis points per annum; and
- (b) 'B' is the book value in New Zealand dollars of the **qualifying debt** at its date of issue.

2.4.10 Term credit spread difference

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

$$T \times U,$$

where-

- (a) 'T' is the amount determined in accordance with the formula-

$$(V - W) - (X - Y);$$

except that where that amount is-

- (i) less than 0.0015, T is 0.0015; and
- (ii) more than 0.006, T is 0.006; and

- (b) 'U' is the book value in New Zealand dollars of the **qualifying debt** at its date of issue.

- (2) For the purpose of subclause (1)-

- (a) 'V' is the yield shown on the Bloomberg New Zealand 'A' fair value curve for a bond with a tenor equal to, or closest to, the original tenor of the **qualifying debt**;
- (b) 'W' is the New Zealand swap rate quoted by Bloomberg for a tenor equal to the original tenor of the **qualifying debt**;
- (c) 'X' is the yield shown on the Bloomberg New Zealand 'A' fair value curve for a bond with a tenor of 5 years;
- (d) 'Y' is the New Zealand swap rate quoted by Bloomberg for a tenor of 5 years; and

- (e) V, W, X and Y are determined as at the same time on the same pricing date of the **qualifying debt**.
- (3) For the purpose of this clause, where the **qualifying debt** is issued to a **related party**, 'original tenor of the **qualifying debt**' means the-
- (a) tenor of the **qualifying debt**; or
  - (b) period from the **qualifying debt**'s date of issue to the earliest date on which its repayment is or may be required,
- whichever is the shorter.

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

- (1) This clause applies to the determination of the amount of any **term credit spread differential** in respect of a **qualifying debt** for the purpose of disclosure pursuant to an **ID determination** of a-
- (a) **term credit spread differential allowance**; or
  - (b) **term credit spread differential**.
- (2) Disclosure to which this clause applies may only be made by a **qualifying supplier**.
- (3) Term credit spread differential is the amount determined in accordance with the formula-
- $$(A \div B) \times C \times D,$$
- where-
- (a) 'A' is the sum of the-
    - (i) **term credit spread difference**;
    - (ii) **cost of executing an interest rate swap**; and
    - (iii) debt issuance cost re-adjustment;
  - (b) 'B' is the book value of the **qualifying supplier's** total interest-bearing debt as at the date to which the supplier's financial statements audited and published in the **disclosure year** in question relate;
  - (c) 'C' is **leverage**; and
  - (d) 'D' is, in relation to the **qualifying supplier**, the average of-
    - (i) the sum of **opening RAB values**; and
    - (ii) the sum of **closing RAB values**.
- (4) For the purpose of subclause (3)(a)(iii), 'debt issuance cost re-adjustment' is the amount determined in accordance with the formula-
- $$(0.0175 \div \textit{original tenor of the qualifying debt} - 0.0035) \times \textit{book value in New Zealand dollars of the qualifying debt at its date of issue},$$
- which amount, for the avoidance of doubt, will be a negative number.

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

### SUBPART 1 Specification of price

#### 3.1.1 Specification and definition of prices

- (1) For the purpose of s 53M(1)(a) of the Act, the maximum-
- (a) **price** or **prices** that may be charged; or
  - (b) revenues that may be recovered,
- by an **EDB** will be specified in a s 52P determination as a weighted average price cap applying to that **EDB** for a **regulatory period**, defined in terms of a relationship between **allowable notional revenue** and **notional revenue** whereby-
- (c) **notional revenue** must not exceed **allowable notional revenue**;
  - (d) the same quantities are used to determine **notional revenue** and **allowable notional revenue**; and
  - (e) the maximum weighted average price that may be charged during the **regulatory period** will not be affected by the actual **prices** charged by the **EDB** during that period.
- (2) Allowable notional revenue means, in respect of a 12 month period, a function of-
- (a) relevant **CPIs**;
  - (b) the X factor applicable to the **EDB**; and
  - (c) **prices** in the preceding 12 month period multiplied by quantities net of-
    - (i) the sum of relevant **pass-through costs**; and
    - (ii) the sum of relevant **recoverable costs**.
- (3) Notional revenue means, in respect of a 12 month period, **prices** in that period multiplied by quantities net of-
- (a) the sum of relevant **pass-through costs**; and
  - (b) the sum of relevant **recoverable costs**.
- (4) Prices means-
- (a) individual tariffs, fees or charges; or
  - (b) individual components thereof,
- posted in nominal terms exclusive of **GST** for the **supply** of an **electricity distribution service**, and must include a posted discount if a discount is taken up by **consumers**.
- (5) In this clause-
- (a) 'quantities' means the amounts **supplied** (other than forecast) of **electricity distribution services** corresponding to the extent practicable to **prices**,

expressed in units of kWh, kVA, kW, day or other unit applicable to such **supply**; and

- (b) 'posted discount' means a discount to charges payable for the **supply of electricity distribution services-**
  - (i) that is offered by an **EDB** in a published tariff schedule; and
  - (ii) the take-up of which is determined by **consumers**.

### 3.1.2 Pass-through costs

- (1) Subject to subclause (4), a pass-through cost is-
  - (a) a cost listed in subclause (2); or
  - (b) subject to subclause (3)-
    - (i) a **levy**, other than one listed in subclause (2), specified by way of amendment to the **DPP determination**; or
    - (ii) a cost in respect of the **EDB** in question specified in a **CPP determination**.
- (2) For the purpose of subclause (1)(a), the costs are-
  - (a) rates on system fixed assets paid or payable by an **EDB** to a **local authority** under the Local Government (Rating) Act 2002; and
  - (b) **levies** payable-
    - (i) under regulations made under s 53ZE of the **Act**;
    - (ii) under regulations made under the Electricity Industry Act 2010; or
    - (iii) by all members of the Electricity and Gas Complaints Commissioner Scheme by virtue of their membership.
- (3) For the purpose of subclause (1)(b), the **levy** or cost in question must-
  - (a) be-
    - (i) associated with the **supply of electricity distribution services**;
    - (ii) outside the control of the **EDB**;
    - (iii) not a **recoverable cost**;
    - (iv) appropriate to be passed through to **consumers**; and
    - (v) one in respect of which provision for its recovery is not otherwise made explicitly or implicitly in the **DPP** or, where applicable, **CPP**;
  - (b) come into effect during a **DPP regulatory period** or, where applicable, **CPP regulatory period**; and
  - (c) have been reasonably unforeseen at the time the **DPP determination** or, where applicable, **CPP determination**, was made.
- (4) For the purpose of subclause (1), where a cost relates to both **electricity distribution services** and other services **supplied** by the **EDB**, only the proportion of the cost attributable to the **supply of electricity distribution services** (as determined in accordance with clause 2.1.1), may be a pass-through cost.

### 3.1.3 Recoverable costs

- (1) A recoverable cost is a cost that is-

- (a) any positive net balance determined in accordance with clause 3.3.2(2), provided that any requirements pursuant to an **ID determination** regarding **auditor** certification of any value determined in accordance with Subpart 3 have been met;
  - (b) a charge payable to **Transpower** for **electricity lines services** provided to a **non-exempt EDB** in respect of the transmission system in accordance with the transmission pricing methodology **Transpower** uses to determine the prices it charges for its services, as specified in the Electricity Industry Participation Code;
  - (c) a charge payable by an **EDB** to **Transpower** in respect of a new investment contract (as 'new investment contract' is defined in the Electricity Industry Participation Code) between those parties, or an equivalent type of contract, subject to the requirement specified in subclause (2);
  - (d) a charge payable by an **EDB** for the **supply** of system operator services, where 'system operator' has the same meaning as defined in s 5 of the Electricity Industry Act 2010, to the extent that the charge is not a **pass-through cost**;
  - (e) an amount of a charge described in paragraphs (b) or (c) that the **Commission** is satisfied an **EDB** has avoided liability to pay as a result of the **EDB** having purchased transmission assets from **Transpower**, subject to-
    - (i) the requirement specified in subclause (2); and
    - (ii) subclause (4);
  - (f) an amount equal to transmission costs that an efficient market operation service provider (as 'market operation service provider' is defined in the Electricity Industry Participation Code) is able to avoid as a result of the connection of distributed generation determined in accordance with Schedule 6.4 of Part 6 of the Electricity Industry Participation Code;
  - (g) claw-back applied by the **Commission** under sections 54K(3) or 53ZB(3) of the **Act**;
  - (h) a standard application fee for a **CPP proposal** under 53Q(2)(c), subject to the proviso specified in subclause (5);
  - (i) a fee notified by the **Commission** as payable by the **EDB** in respect of the **Commission** assessing a **CPP proposal** and determining a **CPP** in accordance with s 53Y of the **Act**, subject to the proviso specified in subclause (5);
  - (j) a fee payable to a **verifier** subject to the requirement specified in subclause (3);
  - (k) any **auditor's** cost incurred for the purpose of meeting clauses 5.1.4 or 5.5.3, subject to the requirement specified in subclause (3); or
  - (l) a fee payable to an **engineer** for the purpose of meeting a requirement of clauses 5.4.5(c) or 5.4.12(4)(c), subject to the requirement specified in subclause (3).
- (2) The requirement of this subclause is that in respect of a particular **EDB**, the **Commission's** approval for the amount of cost must be obtained in accordance with any process relating to the type of cost in question specified in a **DPP determination**.
  - (3) The requirement of this subclause is that the amount that may be recovered in respect of a particular **EDB** must be specified by the **Commission** in a **CPP determination**.

- (4) For the purpose of subclause (1)(e)(ii), the amount is a recoverable cost only in the 5 **disclosure years** from and including the **disclosure year** in respect of which the **Commission** first approved the amount of the cost.
- (5) For the purpose of subclauses (1)(h) and (1)(i), the proviso is that the **CPP proposal** is not discontinued by the **Commission** under s 53S of the **Act**.
- (6) In this clause, 'Electricity Industry Participation Code' has the same meaning as 'code' is defined in the Electricity Industry Act 2010.

## SUBPART 2 **Amalgamations**

### 3.2.1 Treatment of amalgamations

- (1) The **DPPs** of **non-exempt EDBs** subject to **DPPs** that have **amalgamated** must be aggregated from the start of the **disclosure year** following the **amalgamation**.
- (2) A **DPP** for an amalgamated **EDB** formed from an **EDB** subject to a **DPP** and an **EDB** subject to a **CPP** applies at the end of the existing **CPP**.
- (3) A **DPP** for an amalgamated **EDB** formed from 2 **EDBs** each subject to a **CPP** applies at the end of the existing **CPPs**.
- (4) Nothing in subclauses (2) and (3)-
  - (a) precludes a **CPP** applying to the amalgamated **EDB** at the end of the existing **CPP** or **CPPs**, as the case may be; nor
  - (b) derogates from the application of a **DPP** to **electricity distribution services** that are-
    - (i) **supplied** by the amalgamated **EDB**; and
    - (ii) not specified services,
 pending expiry of any **DPP** or **CPP** applying to the specified services.
- (5) A **CPP** for an amalgamated **EDB** may not apply before 3 **disclosure years** of any **CPP** applying to the **EDBs** from which it was formed have been completed.
- (6) Upon the determination of a **CPP** for an amalgamated **EDB**, the termination date of any **CPP** to which the amalgamated **EDB** is subject, pursuant to subclauses (2) and (3), is treated as amended to the day before the day on which the **CPP** for the amalgamated **EDB** will apply.
- (7) Following an **amalgamation**, the **Commission** may not reset starting prices for specified services to take effect during the remainder of the **regulatory period** applicable to the specified services except-
  - (a) for the purpose of s 54K; or
  - (b) when making, upon application and in accordance with this clause, a **CPP determination** for the amalgamated **EDB**.
- (8) For the purpose of this clause, 'specified services' means **regulated goods or services supplied** by the amalgamated **EDB** that, at the time of amalgamation, were subject to a **DPP** or a **CPP**.

## SUBPART 3 Incremental rolling incentive scheme

### 3.3.1 Calculation of annual incremental changes and adjustment term

- (1) The incremental change for the first **disclosure year** of a **CPP regulatory period** is determined as the difference between **allowed controllable opex** and **actual controllable opex**.
- (2) The incremental change for a **disclosure year** of a **CPP regulatory period** other than the **first** or final **disclosure year** must be determined in accordance with the formula-

$$(\text{allowed controllable opex}_t - \text{actual controllable opex}_t) - (\text{allowed controllable opex}_{t-1} - \text{actual controllable opex}_{t-1}),$$

where-

$t$  means the **disclosure year** in question; and

$t-1$  means the **disclosure year** preceding the **disclosure year** in question.

- (3) The incremental change for the final **disclosure year** of the **CPP regulatory period** is treated as nil.
- (4) The incremental adjustment term is determined-

- (a) in the next **disclosure year** following a **CPP regulatory period**; and
- (b) by applying the **inflation rate** to the result of the formula-

$$(\text{allowed controllable opex}_{t-1} - \text{actual controllable opex}_{t-1}) - (\text{allowed controllable opex}_{t-2} - \text{actual controllable opex}_{t-2})$$

where-

$t-1$  means the final **disclosure year** of the preceding **CPP regulatory period**; and

$t-2$  means the penultimate **disclosure year** of the preceding **CPP regulatory period**.

- (5) Inflation rate means the amount determined in accordance with the formula-

$$[(CPI_1 + CPI_2 + CPI_3 + CPI_4) \div (CPI_1^{-4} + CPI_2^{-4} + CPI_3^{-4} + CPI_4^{-4})] - 1,$$

where-

$CPI_n$  means **forecast CPI** for the  $n$ th quarter of the **disclosure year** in question; and

$CPI_n^{-4}$  means **forecast CPI** for the equivalent quarter in the preceding **disclosure year**.

### 3.3.2 Determination of amount to be taken into account as a recoverable cost

- (1) Each incremental change determined in accordance with clause 3.3.1 and **incremental adjustment term** is notionally carried forward, subject to clause 3.3.3, from the **disclosure year** in respect of which it is determined into each of the subsequent 5 **disclosure years** by applying the **inflation rate**.
- (2) In each of the **disclosure years** after a **CPP regulatory period** into which an amount has been carried pursuant to subclause (1), a net balance must be determined by addition of-



- (a) any incremental changes carried into that **disclosure year** from a preceding **CPP regulatory period**; and
- (b) any **incremental adjustment term** carried into that **disclosure year**.

### 3.3.3 Calculating gains and losses after a catastrophic event

Where-

- (a) a price-quality path is amended pursuant to clause 5.6.5 by reason of a **catastrophic event**; and
- (b) incremental changes calculated in the remaining **disclosure years** of the **regulatory period** in accordance with clauses 3.3.1(1) and 3.3.1(2) are negative,

clause 3.3.2(1) does not apply to those incremental changes.

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

### SUBPART 1 Cost of capital

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

- (1) The **Commission** will determine a mid-point estimate of vanilla **WACC**-
- (a) as of the first **business day** of the month 7 months prior to the start of each **DPP regulatory period**;
  - (b) in respect of a 5 year period;
  - (c) subject to subclause (2), no later than 6 months prior to the start of each **DPP regulatory period**; and
  - (d) in accordance with the formula-
 
$$r_d L + r_e(1 - L).$$
- (2) The **Commission** will estimate or determine, as the case may be, the amounts or values-
- (a) to which this subclause applies; and
  - (b) in respect of the **DPP regulatory period** applying at the date this determination comes into force,

as soon as practicable after this determination comes into force.
- (3) In this clause-
- $L$  is **leverage**;
- $r_d$  is the cost of debt and is estimated in accordance with the formula  $r_f + p + d$ ;
- $r_e$  is the cost of equity and is estimated in accordance with the formula  $r_f(1 - T_i) + \beta_e TAMRP$ ;
- $r_f$  is the risk-free rate;
- $p$  is the **debt premium**;
- $d$  is the debt issuance costs;
- $T_i$  is the average investor tax rate;
- $\beta_e$  is the equity beta; and
- $TAMRP$  is the tax-adjusted market risk premium.
- (4) For the purpose of this clause-
- (a) the average investor tax rate, the equity beta, the debt issuance costs and the tax-adjusted market risk premium are the amounts specified in or determined in accordance with clause 4.1.2; and
  - (b) the risk-free rate must be estimated in accordance with clause 4.1.3.

#### 4.1.2 Fixed WACC parameters

- (1) Leverage is 44%.

- (2) The average investor tax rate is the average of the investor tax rates that, as at the date that the estimation is made, will apply to each of the **disclosure years** in the 5 year period commencing on the first day of the **DPP regulatory period** in question.
- (3) For the purpose of subclause (2), 'investor tax rate' is-
- (a) for the **disclosure year** 2011, 29%; and
  - (b) for a **disclosure year** thereafter, the maximum **prescribed investor rate** that will apply at the start of that **disclosure year** to **an individual** who is-
    - (i) resident in New Zealand; and
    - (ii) an investor in a **multi-rate PIE**.
- (4) The equity beta is 0.61.
- (5) The debt issuance costs are 0.35%.
- (6) The tax-adjusted market risk premium is, for a 5 year period commencing on the first day of-
- (a) the **disclosure year** 2011, 7.1%; and
  - (b) a **disclosure year** thereafter, 7.0%.

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

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

- (a) as of the first **business day** of the month 7 months prior to the start of each **DPP regulatory period**;
- (b) in respect of a 5 year period; and
- (c) subject to clause 4.1.1(2), no later than 6 months prior to the start of each **DPP regulatory period**,

by-

- (d) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds, the wholesale market linearly interpolated bid yield to maturity for a residual period to maturity equal to 5 years on each **business day** in the month 8 months prior to the start of the **DPP regulatory period**;
- (e) calculating the annualised interpolated bid yield to maturity for each **business day**; and
- (f) calculating the un-weighted arithmetic average of the daily annualised interpolated bid yields to maturity.

#### 4.1.4 Methodology for estimating debt premium

- (1) Debt premium means the spread between-
- (a) the bid yield to maturity on **vanilla NZ\$ denominated bonds** that-
    - (i) are issued by an **EDB** or a **GPB**;
    - (ii) are publicly traded;
    - (iii) have a **qualifying rating** of grade BBB+; and
    - (iv) have a remaining term to maturity of 5 years; and

- (b) the contemporaneous interpolated bid yield to maturity of notional benchmark New Zealand government New Zealand dollar denominated nominal bonds having a remaining term to maturity of 5 years.
- (2) The **Commission** will estimate an amount for the debt premium-
  - (a) for each **DPP regulatory period**; and
  - (b) subject to clause 4.1.1(2), no later than 6 months prior to the start of each **DPP regulatory period**.
- (3) The debt premium will be estimated as of the first **business day** of the month 7 months prior to the start of each **DPP regulatory period** by-
  - (a) identifying publicly traded **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer** that are-
    - (i) **investment grade credit rated**; and
    - (ii) of a type described in the paragraphs of subclause (4);
  - (b) in respect of each bond identified in accordance with paragraph (a)-
    - (i) obtaining its wholesale market annualised bid yield to maturity;
    - (ii) calculating by linear interpolation with respect to maturity, the contemporaneous wholesale market annualised bid yield to maturity for a notional benchmark New Zealand government New Zealand dollar denominated nominal bond with the same remaining term to maturity; and
    - (iii) calculating its contemporaneous interpolated bid to bid spread over notional benchmark New Zealand government New Zealand dollar denominated nominal bonds with the same remaining term to maturity, by deducting the yield calculated in accordance with sub-paragraph (ii) from the yield obtained in accordance with sub-paragraph (i),  
for each **business day** in the month 8 months prior to the start of the **DPP regulatory period**;
  - (c) calculating, for each bond identified in accordance with paragraph (a), the un-weighted arithmetic average of the daily spreads identified in accordance with paragraph (b)(iii); and
  - (d) subject to subclause (4), estimating, by taking account of the average spreads identified in accordance with paragraph (c), the average spread that would reasonably be expected to apply to a **vanilla NZ\$ denominated bond** that-
    - (i) is issued by an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
    - (ii) is publicly traded;
    - (iii) has a **qualifying rating** of grade BBB+; and
    - (iv) has a remaining term to maturity of 5 years.
- (4) For the purpose of subclause (3)(d), the **Commission** will have regard, subject to subclause (5), to the spreads observed on the following types of **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer**:

- (a) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
  - (b) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by an entity other than an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
  - (c) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
  - (d) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by an entity, other than an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**; and
  - (e) those that are-
    - (i) **investment grade credit rated**; and
    - (ii) issued by an entity that is majority owned by the Crown or a **local authority**.
- (5) For the purpose of subclause (4)-
- (a) progressively lesser regard will ordinarily be given to the spreads observed on the bond types described in subclause (4) in accordance with the order in which the bond types are described;
  - (b) the spread on any bond of the type described in subclause (4) that has a remaining term to maturity of less than 5 years will ordinarily be considered to be the minimum spread that would reasonably be expected to apply on an equivalently credit-rated bond issued by the same entity with a remaining term to maturity of 5 years; and
  - (c) the **Commission** will adjust spreads observed on bonds described under subclauses (4)(b) to (4)(e) to approximate the spread that is likely to have been observed had the bonds in question been of the type described in subclause (4)(a).

#### 4.1.5 Standard error of debt premium

- (1) The **Commission** will estimate an amount for a **standard error** of a **debt premium**-
- (a) subject to clause 4.1.1(2), no later than 6 months prior to the start of each **DPP regulatory period**; and
  - (b) as either-
    - (i) the result of the formula specified in subclause (2); or
    - (ii) 0.0015,

whichever is the greater.

- (2) For the purpose of subclause (1)(b)(i), the formula is-

$$\sqrt{\frac{1}{N-1} \sum_{i=1}^N (p_i - \bar{p})^2}$$

where-

$N$  is the number of **qualifying issuers** issuing bonds of the type described in the subparagraphs of clause 4.1.4(3)(d);

$p_i$  is each **qualifying issuer's** arithmetic average spread for its bonds of the type described in the subparagraphs of clause subclause 4.1.4(3)(d); and

$\bar{p}$  is the **debt premium**,

provided that for the purposes of determining  $N$  and  $p_i$ , no regard may be had to any bonds of the types described in clauses 4.1.4(4)(b) to 4.1.4(4)(e).

#### 4.1.6 Methodology for estimating the WACC standard error

The **Commission** will determine **standard errors** for **mid-point estimates of WACC-**

- (a) subject to clause 4.1.1(2), no later than 6 months prior to the start of each **DPP regulatory period**; and
- (b) in accordance with the formula-

$$\sqrt{0.00003 + 0.0169E^2(TAMRP) + 0.1936 \text{var}(\hat{p})}$$

where-

$E^2(TAMRP)$  is the square of the tax-adjusted market risk premium determined in accordance with clause 4.1.2(6); and

$\text{var}(\hat{p})$  is the square of the **standard error** of the **debt premium** determined in accordance with clause 4.1.5.

#### 4.1.7 Methodology for estimating the 75th percentile of vanilla WACC

- (1) The **Commission** will estimate a **75th percentile estimate of WACC-**

- (a) for each **DPP regulatory period**; and
- (b) no later than 6 months prior to the start of each **DPP regulatory period**.

- (2) For the purpose of subclause (1)-

- (a) the **mid-point estimate of WACC** must be treated as the 50th percentile; and
- (b) the 75th percentile must be determined in accordance with the formula-

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

where 'standard error' means the **standard error** of the **mid-point estimate of WACC**, as determined in accordance with clause 4.1.6(b).

#### 4.1.8 Publication of estimates

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

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

#### 4.1.9 Application of cost of capital methodology

- (1) Where the **Commission** takes into account the cost of capital in making a **DPP determination**, the **Commission** will use the **75th percentile estimate of WACC** most recently published in accordance with clause 4.1.8.
- (2) Where a **qualifying supplier** discloses a **term credit spread differential allowance** pursuant to an **ID determination**, the **Commission**, for the purpose of assessing the **qualifying supplier's** profitability pursuant to its powers relating to default price-quality regulation in s 53P of the **Act**, will treat such an allowance as an expense in the **disclosure year** in respect of which that allowance was disclosed.

## SUBPART 2      **Reconsideration of the default price-quality path**

### 4.2.1 Error

Error means incorrect data-

- (a) discovered in a **DPP determination** and clearly unintended by the **Commission** to be included in it; or
- (b) relied upon by the **Commission** in making or amending a **DPP determination** and clearly unintended by the **Commission** to be relied upon in making or amending it,

determined by the **Commission** to have an impact on the price path by an amount at least equivalent to 1% of the aggregated **allowable notional revenue** for the **disclosure years** of the **DPP** affected by the incorrect data.

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

- (1) An **EDB's DPP** may be reconsidered by the **Commission** if-
  - (a) the **Commission** considers; or
  - (b) the **EDB** in question satisfies it, upon application,
 that-
  - (c) there has been **error**; or
  - (d) subclause (2) applies.
- (2) This subclause applies if-
  - (a) false or misleading information relating to the making or amending of a **DPP determination** has been knowingly-
    - (i) provided by an **EDB** or its agents to the **Commission**; or

- (ii) disclosed pursuant to the Electricity Distribution (Information Disclosure) Requirements 2008 or an **ID determination**; and
- (b) the **Commission** relied on that information in making or amending a **DPP determination**.

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

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



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

### SUBPART 1 Contents of a CPP application

#### 5.1.1 Applying for a CPP

- (1) An **EDB** seeking a **CPP** in accordance with s 53Q of the **Act** must provide the **Commission** with a **CPP application**.
- (2) CPP application means the information specified in-
  - (a) this subpart; and
  - (b) Subpart 4.

#### 5.1.2 Evidence of consumer consultation

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

- (a) a description as to how the requirements of clause 5.5.1 were met;
- (b) a list of respondents to the consultation required by that clause;
- (c) a description of all issues raised by **consumers** in response to the **CPP applicant's** intended CPP proposal;
- (d) a summary of the arguments raised in respect of each issue described in accordance with paragraph (c); and
- (e) in respect of the issues described in accordance with paragraph (c), an explanation as to whether its **CPP proposal** accommodates the arguments referred to in (d); and
  - (i) if so, how; and
  - (ii) if not, why not.

#### 5.1.3 Verification-related material

- (1) For the purpose of clause 5.1.1(2)(a), in respect of verification, the specified information is-
  - (a) in the case of a **CPP proposal** seeking only a **quality standard variation**, nil; and
  - (b) in the case of any other **CPP proposal**-
    - (i) a **verification report**; and
    - (ii) any information relating to the **CPP proposal**, other than information required to be included in a **CPP proposal** by Subpart 4, provided to the **verifier** by or on behalf of the **CPP applicant**, pursuant to clause 5.5.2(3);
 

*Examples: instructions as to how to interpret information provided to the verifier; details as to the source of the information; and*
    - (iii) subject to subclause (2), a certificate signed by the **verifier** stating that the relevant parts of the **CPP proposal** were verified and **verification report** was prepared in accordance with Schedule G.

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

#### 5.1.4 Audit report

- (1) For the purpose of clause 5.1.1(2)(a), in respect of audit, the specified information is a report written by an **auditor** and signed by that **auditor** (either in an individual's name or that of a firm) in respect of an audit undertaken of the matters specified in clause 5.5.3, stating-
- (a) the work done by the **auditor**;
  - (b) the scope and limitations of the audit;
  - (c) the existence of any relationships (other than that of **auditor**) which the **auditor** has with, or any interests which the **auditor** has in, the **CPP applicant** or any of its subsidiaries;
  - (d) whether the **auditor** obtained all information and explanations that he or she required to undertake the audit, and, if not-
    - (i) details of the information and explanations not obtained; and
    - (ii) any reasons provided by the **CPP applicant** for its or their non-provision;
  - (e) the **auditor's** opinion of the matters in respect of which the audit was undertaken.
- (2) For the avoidance of doubt, an audit report of an audit undertaken other than expressly for the purpose of clause 5.5.3 is an audit report complying with subclause (1) if the report relates to an audit fulfilling the requirements of clause 5.5.3.
- (3) The **CPP applicant** must ensure that the audit report required by this clause relates to the **CPP proposal** as submitted to the **Commission**.
- (4) For the avoidance of doubt, the audit report required by this clause need not be-
- (a) prepared in advance of the **verifier** undertaking verification of the **CPP proposal**; nor
  - (b) provided to the **verifier**.
- (5) If, notwithstanding subclause (4), an audit report prepared in accordance with this clause is provided to the **verifier**, subclause (3) continues to apply.

#### 5.1.5 Certification

- (1) For the purpose of clause 5.1.1(2)(a), in respect of certification, the specified information is the certificates recording the certifications specified in clause 5.5.4.
- (2) For the avoidance of doubt, one physical **document** may contain more than one of the certifications specified in clause 5.5.4.

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

### 5.2.1 Evaluation criteria

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

- (a) whether the **CPP proposal** is consistent with the **input methodologies** specified in Part 5;
- (b) the extent to which a **CPP** in accordance with the **CPP proposal** would promote the purpose of Part 4 of the **Act**;
- (c) whether data, analysis, and assumptions underpinning the **CPP proposal** are fit for the purpose of the **Commission** determining a **CPP** under s 53V, including consideration as to the accuracy and reliability of data and the reasonableness of assumptions and other matters of judgement;
- (d) whether proposed **capital expenditure** and **operating expenditure** meet the **expenditure objective**;
- (e) the extent to which any proposed **quality standard variation** better reflects the realistically achievable performance of the **EDB** over the **CPP regulatory period**, taking into account either or both-
  - (i) statistical analysis of past SAIDI and SAIFI performance; and
  - (ii) the level of investment provided for in proposed **maximum allowable revenue before tax**,
 as the case may be; and
- (f) the extent to which-
  - (i) the **CPP applicant** has consulted with **consumers** on its **CPP proposal**; and
  - (ii) the **CPP proposal** is supported by **consumers**, where relevant.

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

#### SECTION 1 Determination of annual allowable revenues

##### 5.3.1 Annual allowable revenues

Amounts for-

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

will be determined.

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

- (1) Building blocks allowable revenue before tax for each **disclosure year** of the **next period** is determined in accordance with the formula-

(**regulatory investment value** × *cost of capital* + **term credit spread differential allowance - total revaluation**) ÷ (1- **corporate tax rate**)

+ **total depreciation**

+ **forecast operating expenditure**

**- other regulated income**

+ (**permanent differences + regulatory tax adjustments - utilised tax losses**) ×  
(**corporate tax rate ÷ (1 - corporate tax rate)**).

- (2) Regulatory investment value means the amount obtained in accordance with the formula-  
**total opening RAB value + opening deferred tax + RAB proportionate investment.**
- (3) For the purpose of subclause (2), 'RAB proportionate investment' means the sum of proportionate value of each asset forecast to be **commissioned** less the sum of proportionate value of each **disposed asset**.
- (4) For the purpose of subclause (3), 'proportionate value' means for-
- (a) an asset forecast to be **commissioned**, its **forecast value of commissioned asset** multiplied by the proportion of that **disclosure year** in question from the forecast **commissioning date** to the end of that **disclosure year** out of the whole **disclosure year**; and
  - (b) a **disposed asset**, its **opening RAB value** multiplied by the proportion of the **disclosure year** in question from the start of that **disclosure year** to the date of sale or transfer out of the whole **disclosure year**.
- (5) For the purpose of subclause (1), 'cost of capital' means the **75th percentile estimate of WACC** published most recently prior to submission of the **CPP proposal**, in respect of the term that the **Commission** has determined is the appropriate duration of the **CPP**.
- (6) Forecast operating expenditure means, in relation to a **CPP proposal** -
- (a) that has not been assessed by the **Commission**, the amount of **operating expenditure** for the relevant **disclosure year** included by the **CPP applicant** in its **opex forecast**; or
  - (b) undergoing assessment by the **Commission**, the amount of **operating expenditure** determined for the relevant **disclosure year** by the **Commission** after assessment of the amount in paragraph (a) against the **expenditure objective**.
- (7) Other regulated income means income associated with the **supply of electricity distribution services** other than-
- (a) through **prices**;
  - (b) investment-related income;
  - (c) **capital contributions**; or
  - (d) **vested assets**.
- (8) For the purpose of this clause, all values and amounts are expressed in nominal terms.

### 5.3.3 Building blocks allowable revenue after tax

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

#### 5.3.4 Price path

- (1) The present value of the series of values of maximum allowable revenues after tax must equal the present value of the series of **building blocks allowable revenues after tax** less any value of claw-back for the **CPP regulatory period**, where present values are determined in accordance with subclause (3).
- (2) In subclause (1)-
  - (a) the reference to claw-back is a reference to claw-back, determined by the **Commission** pursuant to s 53V(2)(b), in the case of a **CPP determination** made-
    - (i) after deferral of the relevant **CPP proposal** in accordance with s 53Z(2) of the **Act**; or
    - (ii) in response to a **CPP proposal** made in accordance with provisions in a **DPP determination** relating to the submission of **CPP proposals** in response to a **catastrophic event**; and
  - (b) each reference to a series of values is a reference to the value determined in respect of each **disclosure year** of the **CPP regulatory period**.
- (3) For the purpose of subclause (1), the present value of each series must be determined using a discount rate equal to the **75th percentile estimate of WACC** published most recently prior to submission of the **CPP proposal** in respect of the term that the **Commission** has determined is the appropriate duration of the **CPP**.
- (4) For the avoidance of doubt, where claw-back is determined where-
  - (a) subclause (2)(a)(i) applies, it will only be determined in respect of the period between the date when the **CPP** would have taken effect had deferral not occurred and the date the **CPP determination** will come into effect; and
  - (b) subclause (2)(a)(ii) applies, it will only be determined in respect of the period between the date of the **catastrophic event** and the date the **CPP determination** will come into effect.
- (5) The maximum allowable revenue before tax for the first **disclosure year** of the **CPP regulatory period** is the amount of maximum allowable revenue before tax in the first **disclosure year** of the **CPP regulatory period** required for subclause (1) to be satisfied.
- (6) The maximum allowable revenue before tax for each **disclosure year** of the **CPP regulatory period** except the first must equal-

$$MAR_{y-1} \times (1 + \Delta CPI) \times (1 - X) \times (1 + \Delta Q),$$

where-

$MAR_{y-1}$  is the **maximum allowable revenue before tax** in the preceding **disclosure year**;

$\Delta CPI$  is the **inflation rate**;

$X$  is the  $X$  factor for the **EDB**, being the same value in each year of the **CPP regulatory period**; and

$\Delta Q$  is the forecast weighted average growth in quantities (in percentage terms) from the preceding **disclosure year** to the current **disclosure year**.

- (7) The forecast weighted average growth in quantities (in percentage terms) for each **disclosure year** must be weighted by taking into account-
- (a) the relative growth in demand for each **demand group**; and
  - (b) the relative proportion of fixed and variable components in **prices** charged to either or both of-
    - (i) retailers; and
    - (ii) **consumers**.
- (8) Maximum allowable revenue after tax is **maximum allowable revenue before tax** less forecast regulatory tax allowance.
- (9) For the purpose of subclause (8), 'forecast regulatory tax allowance' means-
- (a) where **opening tax losses** are nil in every **disclosure year** of the **next period**, **forecast regulatory tax allowance**; and
  - (b) in all other cases, the amount calculated in accordance with clause 5.3.13 with the modification that the reference in clause 5.3.13(4) to 'building blocks allowable revenue before tax' is substituted with '**maximum allowable revenue before tax**'.

## SECTION 2 Cost allocation and asset valuation

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

- (1) **Operating costs** forecast in each **disclosure year** of the **next period** must, in the case of an **operating cost** for which disclosure pursuant to an **ID determination** has-
- (a) been made for the last **disclosure year** of the **current period**, be consistent with the **operating costs** allocated to **electricity distribution services** in that disclosure; and
  - (b) not been so made, be consistent with an allocation of **operating costs** to **electricity distribution services** carried out in respect of the last **disclosure year** of the **current period** in accordance with clause 2.1.1.
- (2) Where a sale of the assets used to **supply electricity distribution services** and either or both-
- (a) an **other regulated service**; and
  - (b) an **unregulated service**,
- is
- (c) completed between the start of the **assessment period** and the time the **CPP application** is made; or
  - (d) **highly probable**,

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

### 5.3.6 RAB roll forward

- (1) The opening RAB value of an asset in relation to-

- (a) the **disclosure year 2010**, is the **initial RAB value**; and
  - (b) a **disclosure year** thereafter, is, where the **disclosure year**-
    - (i) follows a **disclosure year** in respect of which disclosure pursuant to an **ID determination** relating to that asset has been made, that asset's disclosed **closing RAB value**;
    - (ii) is the first **disclosure year** of the **next period** for which disclosure pursuant to an **ID determination** relating to that asset for the preceding **disclosure year** has not been made, determined in accordance with subclause (2); or
    - (iii) is any other **disclosure year**, the **closing RAB value** for the preceding **disclosure year**.
- (2) For the purpose of subclause (1)(b)(ii), the opening RAB value of an asset to which this subclause applies is determined as the value allocated to **electricity distribution services** as a result of applying clause 2.1.1 to its **unallocated closing RAB value** for the preceding **disclosure year**.
- (3) Closing RAB value means, subject to subclause (4), for an asset-
- (a) with an **opening RAB value**, the value determined in accordance with the formula-
 

**opening RAB value - depreciation + revaluation;**
  - (b) having or forecast to have a **commissioning date** in that **disclosure year**, where the asset-
    - (i) has been **commissioned** by the date the **CPP application** is made, its **value of commissioned asset**; or
    - (ii) has not been **commissioned** by the date the **CPP application** is made, its **forecast value of commissioned asset**,

but only to the extent that the value would be included in the closing RAB value consistent with application of clause 2.1.1; or
  - (c) that is or is forecast to be a **disposed asset**, nil.
- (4) For the purpose of subclause (3), where a sale of the assets used to **supply electricity distribution services** and either or both-
- (a) an **other regulated service**; and
  - (b) an **unregulated service**,
- is
- (c) completed between the start of the **assessment period** and the time the **CPP application** is made; or
  - (d) **highly probable**,
- closing RAB value in respect of each asset not **directly attributable** affected by the sale is determined as the value allocated to **electricity distribution services** as a result of applying clause 2.1.1 in respect of its **unallocated closing RAB value** of the last **disclosure year** of the **assessment period**.

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

### 5.3.7 Depreciation

- (1) Unallocated depreciation, in the case of an asset with an **unallocated opening RAB value**, is determined, subject to subclause (3) and clauses 5.3.8 and 5.3.9, in accordance with the formula-
- $$[1 \div \text{remaining asset life}] \times \text{unallocated opening RAB value.}$$
- (2) Depreciation, in the case of an asset with an **opening RAB value**, is determined, subject to subclause (3) and clause 5.3.8, in accordance with the formula-
- $$[1 \div \text{remaining asset life}] \times \text{opening RAB value.}$$
- (3) For the purposes of subclauses (1) and (2)-
- (a) unallocated depreciation and depreciation are nil in the case of-
    - (i) **land**; and
    - (ii) an **easement** other than a **fixed life easement**; and



- (iii) **network spare** in respect of the period before which depreciation for the **network spare** in question commences under **GAAP**; and
- (b) in all other cases, where the asset's **physical asset life** at the end of the **disclosure year** is nil-
  - (i) unallocated depreciation is the asset's **unallocated opening RAB value**; and
  - (ii) depreciation is the asset's **opening RAB value**.

#### 5.3.8 Depreciation - alternative method

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

#### 5.3.9 Unallocated depreciation constraint

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

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

#### 5.3.10 Revaluation

- (1) Unallocated revaluation, subject to subclause (3), is determined in accordance with the formula-
 
$$\text{unallocated opening RAB value} \times \text{revaluation rate.}$$
- (2) Revaluation, subject to subclause (3), is determined in accordance with the formula-
 
$$\text{opening RAB value} \times \text{revaluation rate.}$$
- (3) For the purposes of subclauses (1) and (2), where-
  - (a) the asset's **physical asset life** at the end of the **disclosure year** is nil; or
  - (b) the asset is a-
    - (i) **disposed asset**; or
    - (ii) **lost asset**,
 unallocated revaluation and revaluation are nil.
- (4) Revaluation rate means, in respect of a **disclosure year**, the amount determined in accordance with the formula-

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

where-

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

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

### 5.3.11 Forecast value of **Commissioned** assets

- (1) Forecast value of **Commissioned** asset, in relation to an asset for which **capital expenditure** is included in forecast capital expenditure (including an asset in respect of which **capital contributions** are or are forecast to be received, or a **vested asset**) is the forecast cost of the asset to an **EDB** determined by applying **GAAP** to the asset as on its forecast **commissioning date**, except that, subject to subclauses (2) and (3), the cost of-
- (a) an intangible asset, unless it is-
    - (i) a **finance lease**; or
    - (ii) an **identifiable non-monetary asset**,
 is nil;
  - (b) an **easement**, is limited to its forecast market value as on its forecast **commissioning date** as determined by a **valuer**;
  - (c) **easement land** is nil;
  - (d) a **network spare**-
    - (i) which is not required, in light of the historical reliability and number of the assets it is held to replace; or
    - (ii) whose cost is not treated as the cost of an asset under **GAAP**, whether wholly or in part,
 is nil;
  - (e) an asset-
    - (i) to be acquired from another **regulated supplier**; and
    - (ii) used by that **regulated supplier** in the **supply** of **regulated goods or services**,
 is limited to its value determined in accordance with **input methodologies** applicable to the **services supplied** by that other **regulated supplier** as on the forecast **commissioning date**;
  - (f) an asset that was previously used by an **EDB** in its **supply** of **other regulated services** is limited to its value determined in accordance with **input methodologies** applicable to those **other regulated services** as on the day before the forecast **commissioning date**;
  - (g) an asset acquired by an **EDB** from a **related party** other than an asset to which paragraphs (e) or (f) apply is-

- (i) its forecast depreciated historic cost in respect of the **related party** determined by applying **GAAP** as on the day before the acquisition by the **EDB**; or
    - (ii) where sufficient records do not exist to establish this cost, its forecast market value as at its forecast **commissioning date** as determined by a **valuer**;
  - (h) an asset in respect of which **capital contributions** are or are forecast to be received where such contributions are not taken into account when applying **GAAP**, is the cost of the asset by applying **GAAP** reduced by the amount of the **capital contributions**; and
  - (i) a **vested asset** in respect of which its fair value is or would be treated as its cost under **GAAP**, must exclude any amount of the fair value of the asset determined under **GAAP** that exceeds the amount of consideration provided or forecast to be provided by the **EDB**.
- (2) Where an **asset** forecast to be **commissioned** is forecast to be used to **supply** either or both an **other regulated service** and an **unregulated service**, its **regulated service asset value** borne by **regulated services**, in aggregate-
- (a) may not exceed the total value of the asset that would be allocated to **regulated services**, in aggregate, using **ACAM**; and
  - (b) must be based only on forecast changes in the **EDB's business of supplying electricity distribution services**.
- (3) When applying **GAAP** for the purposes of subclause (1), the cost of financing is-
- (a) applicable only in respect of the period commencing on the date the asset becomes or is forecast to become a **works under construction** and terminating on its **commissioning date** or forecast **commissioning date**, as the case may be; and
  - (b) calculated using, subject to subclause (4), a rate no greater than the 75th percentile estimate of post-tax **WACC**-
    - (i) published pursuant to clause 2.4.8 applicable in respect of the relevant date for its calculation under **GAAP**; or
    - (ii) where no estimate has been published in respect of that date, the most recently published estimate.
- (4) For the avoidance of doubt-
- (a) revenue derived or forecast to be derived in relation to **works under construction** that is not included in regulatory income under an **ID determination** or preceding regulatory information disclosure requirements reduces the cost of an asset by the amount of the revenue where such reduction is not otherwise made under **GAAP**; and
  - (b) where expenditure on an asset which forms or is forecast to form part of the cost of that asset under **GAAP** is incurred or forecast to be incurred by an **EDB** after that asset is **commissioned** or forecast to be **commissioned**, such expenditure is treated as relating to a separate asset.
- (5) In this clause, 'forecast capital expenditure' means, in relation to a **CPP proposal**-

- (a) that has not been assessed by the **Commission**, the amount of **capital expenditure** for the relevant **disclosure year** of the **next period** included by the **CPP applicant** in its **capex forecast**; and
- (b) undergoing assessment by the **Commission**, the amount of **capital expenditure** determined for the relevant **disclosure year** of the **next period** by the **Commission** after assessment of the amount in paragraph (a) against the **expenditure objective**.

### 5.3.12 Works under construction

- (1) Opening works under construction means, in respect of-
  - (a) the first **disclosure year** of the **next period** where that year is consecutive to a **disclosure year** in respect of which disclosure pursuant to an **ID determination**-
    - (i) has not been made, initial works under construction; and
    - (ii) has been made, the value of works under construction last disclosed in accordance with the **ID determination** to the extent that it is intended to be included in a **closing RAB value**; and
  - (b) any year other than the first **disclosure year** of the **next period**, **closing works under construction** of the preceding **disclosure year**.
- (2) For the purpose of subclause (1)(a)(i), 'initial works under construction' means expenditure incurred on **works under construction** as of the first day of the **disclosure year** in question, calculated in accordance with clause 5.3.11, modified in that references in that clause to "forecast **commissioning date**" are substituted with "forecast date that expenditure is incurred".
- (3) Closing works under construction is the amount determined in accordance with the formula-

**opening works under construction** + *sum of capital expenditure* - (*sum of value of commissioned assets* + *sum of forecast value of commissioned assets*),

where-

- (a) the sum of **value of commissioned assets** only includes values to the extent that they are included in **closing RAB values** disclosed pursuant to an **ID determination**; and
- (b) the sum of **forecast value of commissioned assets** only includes values to the extent that they are included in the sum of **closing RAB values** provided pursuant to clause 5.4.11(d)(ii).

## **SECTION 3 Treatment of taxation**

### 5.3.13 Forecast regulatory tax allowance

- (1) Forecast regulatory tax allowance is, where forecast **regulatory net taxable income** is-
  - (a) nil or a positive number, the **tax effect** of forecast **regulatory net taxable income**; and

- (b) a negative number, nil.
- (2) Regulatory net taxable income means **regulatory taxable income** less **utilised tax losses**.
- (3) Regulatory taxable income is determined in accordance with the formula-  

$$\text{regulatory profit / (loss) before tax} + \text{permanent differences} + \text{regulatory tax adjustments}.$$
- (4) Regulatory profit / (loss) before tax means the value determined in accordance with the formula-  

$$\text{building blocks allowable revenue before tax} + \text{other regulated income} - \text{operating expenditure} - \text{total depreciation}.$$

#### 5.3.14 Tax losses

- (1) Utilised tax losses means **opening tax losses**, subject to subclause (2).
- (2) For the purpose of subclause (1), utilised tax losses may not exceed **regulatory taxable income**.
- (3) Opening tax losses in relation to-
  - (a) the first **disclosure year** of the **next period**, is nil, subject to subclause (4); and
  - (b) subsequent **disclosure years** of the **next period**, is closing tax losses for the preceding **disclosure year**.
- (4) For the purpose of subclause (3)(a), if the **Commission** is satisfied that an **EDB** will incur forecast tax losses, opening tax losses is the amount of losses in respect of which the **Commission** is satisfied.
- (5) For the purpose of subclause (3)(b), 'closing tax losses' means the amount determined in accordance with the following formula, in which each term is an absolute value:  

$$\text{opening tax losses} + \text{current period tax losses} - \text{utilised tax losses}.$$
- (6) In this clause, 'current period tax losses' is, where **regulatory taxable income** is-
  - (a) nil or a positive number, nil; and
  - (b) a negative number, **regulatory taxable income**.

#### 5.3.15 Permanent differences

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

$$\text{positive permanent differences} - \text{discretionary discounts and customer rebates} - \text{negative permanent differences}.$$
- (2) For the purpose of subclause (1), 'positive permanent differences' means, subject to subclause (3), the sum of-
  - (a) all amounts of income-
    - (i) treated as taxable were the **tax rules** applied to determine income tax payable in respect of the **EDB's supply of electricity distribution services**; and
    - (ii) not included as amounts of income in determining **regulatory profit / (loss) before tax**; and

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

if the difference in treatment of amounts of-

- (c) income under paragraph (a)(i) and paragraph (a)(ii); or
- (d) expenditure or loss under paragraph (b)(i) and paragraph (b)(ii),

is a difference that is not -

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

- (3) For the purpose of subclause (2), positive permanent differences excludes any amounts that are-

- (a) **amortisation of initial differences in asset values**; or
- (b) **amortisation of revaluations**.

- (4) For the purpose of subclause (1), 'negative permanent differences' means, subject to subclause (5), the sum of-

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

if there are differences between the values in-

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

and such differences are not-

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

- (5) For the purpose of subclause (4), negative permanent differences excludes any amounts that are-

- (a) **discretionary discounts and customer rebates**;

- (b) expenditure or loss determined in accordance with the **tax rules** that is-
  - (i) interest; or
  - (ii) forecast to be incurred in borrowing money; and
- (c) any-
  - (i) tax losses; and
  - (ii) subvention payment made or received by an **EDB**.

#### 5.3.16 Regulatory tax adjustments

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

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

**(regulatory investment value × leverage × cost of debt) + term credit spread differential allowance.**

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

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

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

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

5.3.18 Amortisation of revaluations

Amortisation of revaluations in relation to an **EDB** for a **disclosure year** is calculated in accordance with the formula-

**total depreciation - adjusted depreciation.**

5.3.19 Deferred tax

- (1) Opening deferred tax means, in respect of-
  - (a) the **disclosure year** 2010, nil; and
  - (b) each **disclosure year** thereafter, closing deferred tax for the preceding **disclosure year**.
- (2) For the purpose of subclause (1)(b), 'closing deferred tax' is determined in accordance with the formula-
 

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

5.3.20 Temporary differences

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

*depreciation temporary differences + positive temporary differences - negative temporary differences.*
- (2) For the purpose of this clause, 'depreciation temporary differences' is **adjusted depreciation** less tax depreciation.



- (3) For the purpose of subclause (2) 'tax depreciation' is the sum of the amounts determined for all assets by application of the **tax depreciation rules** to the **regulatory tax asset value** of each asset.
- (4) For the purpose of subclause (1), 'positive temporary differences' means the sum of-
- (a) all amounts of income-
    - (i) treated as taxable if the **tax rules** were applied to determine income tax payable in respect of the **EDB's supply of electricity distribution services**; and
    - (ii) not included as amounts of income in determining **regulatory profit / (loss) before tax**; and
  - (b) all amounts of expenditure or loss-
    - (i) included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**; and
    - (ii) not treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **EDB's supply of electricity distribution services**,

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

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

and such differences-

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

- (5) For the purpose of subclause (1), 'negative temporary differences' means the sum of-
- (a) all amounts of income-
    - (i) included as amounts of income in determining **regulatory profit / (loss) before tax**; and
    - (ii) not treated as taxable were the **tax rules** applied to determine income tax payable in respect of the **EDB's supply of electricity distribution services**; and
  - (b) all amounts of expenditure or loss-
    - (i) treated as deductions were the **tax rules** applied to determine income tax payable in respect of the **EDB's supply of electricity distribution services**; and
    - (ii) not included as amounts of expenditure or loss in determining **regulatory profit / (loss) before tax**,

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

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

and such differences-

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

### 5.3.21 Regulatory tax asset value

- (1) Regulatory tax asset value, in relation to an asset, means the value determined in accordance with the formula-
- $$\text{tax asset value} \times \text{result of asset allocation ratio.}$$
- (2) Tax asset value means, in respect of-
- (a) an asset-
    - (i) in the **initial RAB** where, in the **disclosure year** 2010, the sum of **unallocated initial RAB values** is less than the sum of the **adjusted tax values** of all assets in the **initial RAB**;
    - (ii) acquired from a **regulated supplier** who used it to **supply regulated goods or services**; or
    - (iii) acquired or transferred from a **related party**,
 the value of the asset determined by applying the **tax depreciation rules** to its notional tax asset value; and
  - (b) any other asset, its forecast **adjusted tax value**.
- (3) 'Notional tax asset value' means, for the purpose of-
- (a) subclause (2)(a)(i), **adjusted tax value** of the asset in the **disclosure year** 2010 adjusted to account proportionately for the difference between the-
    - (i) sum of the **unallocated initial RAB values**; and
    - (ii) sum of the **adjusted tax values**,
 of all assets in the **initial RAB**;
  - (b) subclause (2)(a)(ii), value after applying the **tax depreciation rules** to the tax asset value (as 'tax asset value' is defined in the **input methodologies** applying to the **regulated goods or services** in question) in respect of the **disclosure year** in which the asset was acquired; and
  - (c) subclause (2)(a)(iii), value in respect of the **disclosure year** in which the asset was acquired or transferred that is-
    - (i) consistent with the **tax rules**; and
    - (ii) limited to its **value of commissioned asset**.
- (4) For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the **tax rules**-
- (a) has a matching asset or group of assets maintained for the purpose of Part 2 Subpart 2, the value obtained in accordance with the formula-
 
$$\frac{\text{opening RAB value or sum of opening RAB values, as the case may be}}{\div}$$

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

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

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

## SECTION 4 Cost of capital

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

- (1) The **Commission** will determine mid-point estimates of vanilla **WACC** for the **disclosure year** 2011 and each **disclosure year** thereafter -

- (a) in respect of a-

- (i) 3 year period;  
(ii) 4 year period; and  
(iii) 5 year period,

commencing on the first day of the September prior to the **disclosure year** in question;

- (b) subject to subclause (2), each September; and  
(c) in accordance with the formula-

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

- (2) The **Commission** will estimate or determine, as the case may be, the amounts or values-

- (a) to which this subclause applies; and  
(b) in respect of the **disclosure year** 2011,

as soon as practicable after this determination comes into force.

- (3) In this clause-

$L$  is **leverage**;

$r_d$  is the cost of debt and is estimated in accordance with the formula  $r_f + p + d$ ;

$r_e$  is the cost of equity and is estimated in accordance with the formula  $r_f(1 - T_i) + \beta_e TAMRP$ ;

$r_f$  is the risk-free rate;

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

$d$  is the debt issuance costs;

$T_i$  is the average investor tax rate;

$\beta_e$  is the equity beta; and

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

- (4) For the purpose of this clause-
- (a) the average investor tax rate, the equity beta, the debt issuance costs, and the tax-adjusted market risk premium are the amounts specified in or determined in accordance with clause 5.3.23; and
  - (b) the risk-free rate must be estimated in accordance with clause 5.3.24.

#### 5.3.23 Fixed WACC parameters

- (1) Leverage is 44%.
- (2) The average investor tax rate is the average of the investor tax rates that, as at the date that the estimation is made, will apply to each of the **disclosure years** in the **CPP regulatory period** in question.
- (3) For the purpose of subclause (2), 'investor tax rate' is-
  - (a) for the **disclosure year** 2011, 29%; and
  - (b) for a **disclosure year** thereafter, the maximum **prescribed investor rate** applicable at the start of that **disclosure year** to an **individual** who is-
    - (i) resident in New Zealand; and
    - (ii) an investor in a **multi-rate PIE**;
- (4) The equity beta is 0.61.
- (5) The debt issuance costs are, for the purpose of calculating a vanilla **WACC** to match-
  - (a) a 3 year period, 0.58%;
  - (b) a 4 year period, 0.44%; and
  - (c) a 5 year period, 0.35%.
- (6) The tax-adjusted market risk premium is, for a **CPP regulatory period** commencing on the first day of-
  - (a) the **disclosure year** 2011, 7.1%; and
  - (b) a **disclosure year** thereafter, 7.0%.

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

- (1) The **Commission** will estimate a risk-free rate for the purpose of calculating a vanilla **WACC** to match a 5 year period-
  - (a) for each **disclosure year**; and
  - (b) subject to clause 5.3.22(2), each September;
 by-
  - (c) obtaining, for notional benchmark New Zealand government New Zealand dollar denominated nominal bonds, the wholesale market linearly-interpolated bid yield to maturity for a residual period to maturity equal to 5 years on each **business day** in the preceding August;
  - (d) calculating the annualised interpolated bid yield to maturity for each **business day**; and
  - (e) calculating the un-weighted arithmetic average of the daily annualised interpolated bid yields to maturity.
- (2) The risk-free rate for the purpose of calculating a vanilla **WACC** to match a-

- (a) 3 year period must be estimated by applying subclause (1) with the modification that each reference to "5" is substituted with "3"; and
- (b) 4 year period must be estimated by applying subclause (1) with the modification that each reference to "5" is substituted with "4".

#### 5.3.25 Methodology for estimating debt premium

- (1) Debt premium means the spread between-
  - (a) the bid yield to maturity on **vanilla NZ\$ denominated bonds** that-
    - (i) are issued by an **EDB** or a **GPB**;
    - (ii) are publicly traded;
    - (iii) have a **qualifying rating** of grade BBB+; and
    - (iv) have a remaining term to maturity of 5 years; and
  - (b) the contemporaneous interpolated bid yield to maturity of notional benchmark New Zealand government New Zealand dollar denominated nominal bonds having a remaining term to maturity of 5 years.
- (2) The **Commission** will estimate an amount for the debt premium each September, subject to clause 5.3.22(2).
- (3) For the purpose of calculating a vanilla **WACC** to match a 5 year period, an amount for the debt premium will be estimated in respect of the first **business day** of each September by-
  - (a) identifying publicly traded **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer** that are-
    - (i) **investment grade credit rated**; and
    - (ii) of a type described in the paragraphs of subclause (4);
  - (b) in respect of each bond identified in accordance with paragraph (a)-
    - (i) obtaining its wholesale market annualised bid yield to maturity;
    - (ii) calculating by linear interpolation with respect to maturity, the contemporaneous wholesale market annualised bid yield to maturity for a notional benchmark New Zealand government New Zealand dollar denominated nominal bond with the same remaining term to maturity; and
    - (iii) calculating its contemporaneous interpolated bid to bid spread over notional benchmark New Zealand government New Zealand dollar denominated nominal bonds with the same remaining term to maturity, by deducting the yield calculated in accordance with sub-paragraph (ii) from the yield obtained in accordance with sub-paragraph (i),  
for each **business day** in the preceding August;
  - (c) calculating, for each bond identified in accordance with paragraph (a), the un-weighted arithmetic average of the daily spreads identified in accordance with paragraph (b)(iii); and

- (d) subject to subclause (4), estimating, by taking account of the average spreads identified in accordance with paragraph (c), the average spread that would reasonably be expected to apply to a **vanilla NZ\$ denominated bond** that-
  - (i) is issued by an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
  - (ii) is publicly traded;
  - (iii) has a **qualifying rating** of grade BBB+; and
  - (iv) has a remaining term to maturity of 5 years.
- (4) For the purpose of subclause (3)(d), the **Commission** will have regard, subject to subclause (5), to the spreads observed on the following types of **vanilla NZ\$ denominated bonds**:
  - (a) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
  - (b) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by an entity other than an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
  - (c) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**;
  - (d) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by an entity, other than an **EDB** or a **GPB** that is neither majority owned by the Crown nor a **local authority**; and
  - (e) those that are-
    - (i) **investment grade credit rated**; and
    - (ii) issued by an entity that is majority owned by the Crown or a **local authority**.
- (5) For the purpose of subclause (4)-
  - (a) progressively lesser regard will ordinarily be given to the spreads observed on the bond types described in subclause (4) in accordance with the order in which the bond types are described.
  - (b) the spread on any bond of the type described in subclause (4) that has a remaining term to maturity of less than 5 years will ordinarily be considered to be the minimum spread that would reasonably be expected to apply on an equivalently credit-rated bond issued by the same entity with a remaining term to maturity of 5 years; and

- (c) the **Commission** will adjust spreads observed on bonds described under subclauses (4)(b) to (4)(e) to approximate the spread that is likely to have been observed had the bonds in question been of the type described in subclause (4)(a).
- (6) An amount of a **debt premium** for the purpose of calculating a vanilla **WACC** to match a-
  - (a) 3 year period will be estimated by applying the preceding subclauses of this clause with the modification that each reference to "5" is substituted with "3"; and
  - (b) 4 year period will be estimated by applying the preceding subclauses of this clause with the modification that each reference to "5" is substituted with "4".

5.3.26 Standard error of debt premium

- (1) The **Commission** will make all estimates of **standard errors of debt premiums-**
  - (a) in accordance with this clause; and
  - (b) subject to clause 5.3.22(2), each September.
- (2) The **Commission** will estimate an amount for a **standard error of a debt premium** for the purpose of calculating a vanilla **WACC** to match a 5 year period as either-
  - (a) the result of the formula-

$$\sqrt{\frac{1}{N-1} \sum_{i=1}^N (p_i - \bar{p})^2}$$

where-

$N$  is the number of **qualifying issuers** issuing bonds of the type described in the subparagraphs of clause 5.3.25(3)(d);

$p_i$  is each **qualifying issuer's** arithmetic average spread for its bonds of the type described in the subparagraphs of clause subclause 5.3.25(3)(d); and

$\bar{p}$  is the **debt premium** obtained in accordance with clause 5.3.25(3),

provided that for the purposes of determining  $N$  and  $p_i$ , no regard may be had to any bonds of the types described in clauses 5.3.25(4)(b) to 5.3.25(4)(e); or

- (b) 0.0015,

whichever is the greater.

- (3) The **Commission** will estimate an amount for a **standard error of a debt premium** for the purpose of calculating a vanilla **WACC** to match a 3 year period as either-
  - (a) the result of the formula-

$$\sqrt{\frac{1}{N-1} \sum_{i=1}^N (p_i - \bar{p})^2}$$

where-

$N$  is the number of **qualifying issuers** issuing bonds of the type described in the subparagraphs of clause 5.3.25(3)(d) as modified by clause 5.3.25(6)(a);

$p_i$  is each **qualifying issuer's** arithmetic average spread on its bonds of the type described in the subparagraphs of clause 5.3.25(3)(d) as modified by clause 5.3.25(6)(a); and

$\bar{p}$  is the **debt premium** obtained in accordance with clause 5.3.25(3) as modified by clause 5.3.25(6)(a),

provided that for the purposes of determining  $N$  and  $p_i$ , no regard may be had to any bonds of the types described in clauses 5.3.25(4)(b) to 5.3.25(4)(e) as modified by clause 5.3.25(6)(a); or

(b) 0.0015,

whichever is the greater.

(4) The **Commission** will estimate an amount for a **standard error** of a **debt premium** for the purpose of calculating a vanilla **WACC** to match a 4 year period as either-

(a) the result of the formula-

$$\sqrt{\frac{1}{N-1} \sum_{i=1}^N (p_i - \bar{p})^2}$$

where-

$N$  is the number of **qualifying issuers** issuing bonds of the type described in the subparagraphs of clause 5.3.25(3)(d) as modified by clause 5.3.25(6)(b);

$p_i$  is each **qualifying issuer's** arithmetic average spread for its bonds of the type described in the subparagraphs of clause 5.3.25(3)(d) as modified by clause 5.3.25(6)(b); and

$\bar{p}$  is the **debt premium** obtained in accordance with clause 5.3.25(3) as modified by clause 5.3.25(6)(b),

provided that for the purposes of determining  $N$  and  $p_i$ , no regard may be had to any bonds of the types described in clauses 5.3.25(4)(b) to 5.3.25(4)(e) as modified by clause 5.3.25(6)(b); or

(b) 0.0015,

whichever is the greater.

### 5.3.27 Methodology for estimating the WACC standard error

(1) The **Commission** will determine **standard errors** for **mid-point estimates of WACC-**

(a) to match periods of-

(i) 3 years;

(ii) 4 years; and

(iii) 5 years;



- (b) subject to clause 5.3.22(2), each September; and
- (c) in accordance with the formula-

$$\sqrt{0.00003 + 0.0169E^2(TAM\hat{R}P) + 0.1936 \text{ var}(\hat{p})}$$

(2) In this clause-

- (a)  $E^2(TAM\hat{R}P)$  is the square of the tax-adjusted market risk premium determined in accordance with clause 5.3.23(6); and
- (b)  $\text{var}(\hat{p})$  is the square of the **standard error** of the **debt premium** determined in accordance with clause 5.3.26(3), 5.3.26(3)(b) or 5.3.26(1) to match a term of 3 years, 4 years or 5 years, as the case may be.

### 5.3.28 Methodology for estimating the 75th percentile of the vanilla WACC

(1) The **75th percentile estimates** of the **WACC** will be estimated by the **Commission**, subject to clause (2), in respect of **mid-point estimates of WACC**-

- (a) to match terms of-
  - (i) 3 years;
  - (ii) 4 years; and
  - (iii) 5 years; and
- (b) subject to clause 5.3.22(2), each September.

(2) For the purpose of subclause (1)-

- (a) a **mid-point estimate of WACC** must be treated as the 50th percentile; and
- (b) its corresponding 75th percentile must be determined in accordance with the formula-

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

where 'standard error' means the **standard error** of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 5.3.27.

### 5.3.29 Publication of estimates

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

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

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

(1) Qualifying debt means a line of debt-

- (a) with an original tenor greater than, for the purpose of calculating a vanilla **WACC** to match a-
  - (i) 3 year period, 3 years;
  - (ii) 4 year period, 4 years; or
  - (iii) 5 year period, 5 years; and

- (b) issued by a **qualifying supplier**.
- (2) Qualifying supplier means a **CPP applicant** whose debt portfolio, as at the date of that supplier's audited financial statements published most recently prior to making the **CPP application**, has a weighted average original tenor greater than, for the purpose of calculating a vanilla **WACC** to match a-
- 3 year period, 3 years;
  - 4 year period, 4 years; and
  - 5 year period, 5 years.
- (3) Cost of executing an interest rate swap means the amount determined in accordance with the formula-
- $$A \times B,$$
- where-
- 'A' is the amount that is half of the New Zealand dollar wholesale bid and offer spread for a vanilla interest rate swap determined at the time of pricing the **qualifying debt** (which, for the avoidance of doubt, is expressed in terms of basis points per annum); and
  - 'B' is the book value in New Zealand dollars of the **qualifying debt** at its date of issue.

#### 5.3.31 Term credit spread difference

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

$$T \times U,$$

where-

- 'T' is the amount determined in accordance with the formula-
 
$$(V - W) - (X - Y);$$
 except that where that amount is-
    - less than 0.0015, T is 0.0015; and
    - more than 0.006, T is 0.006; and
  - 'U' is the book value in New Zealand dollars of the **qualifying debt** at its date of issue.
- (2) For the purpose of subclause (1)-
- 'V' is the yield shown on the Bloomberg New Zealand 'A' fair value curve for a bond with a tenor equal to, or closest to, the original tenor of the **qualifying debt**;
  - 'W' is the New Zealand swap rate quoted by Bloomberg for a bond with a tenor equal to the original tenor of the **qualifying debt**;
  - 'X' is the yield shown on the Bloomberg New Zealand 'A' fair value curve for a bond with a tenor of 5 years;
  - 'Y' is the New Zealand swap rate quoted by Bloomberg for a bond with a tenor of 5 years; and

- (e) V, W, X and Y are determined as at the same time on the same pricing date of the **qualifying debt**.
- (3) For the purpose of this clause, where the **qualifying debt** is issued to a **related party**, 'original tenor of the **qualifying debt**' means the-
- tenor of the **qualifying debt**; or
  - period from the **qualifying debt's** date of issue to the earliest date on which its repayment is or may be required,
- whichever is the shorter.
- (4) The term credit spread difference for the purpose of calculating a vanilla **WACC** to match a-
- 3 year period will be estimated by applying the preceding subclauses of this clause with the modification that each reference to '5 years' is substituted with '3 years'; and
  - 4 year period will be estimated by applying the preceding subclauses of this clause with the modification that each reference to '5 years' is substituted with '4 years'.

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

- This clause applies to the determination of the amount of any **term credit spread differential** in respect of a **qualifying debt** proposed in a **CPP proposal**.
- Term credit spread differentials** may only be determined in respect of a **qualifying supplier**.
- Term credit spread differential is the amount determined in accordance with the formula-  

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

where-

  - 'A' is the sum of the-
    - term credit spread difference**;
    - cost of executing an interest rate swap**; and
    - debt issuance cost re-adjustment, as determined in accordance with subclause (4);
  - 'B' is the book value of the **qualifying supplier's** total interest-bearing debt as at the date to which the supplier's financial statements audited and published most recently before the **CPP proposal** is made relate;
  - 'C' is **leverage**; and
  - 'D' is, in relation to the **qualifying supplier**, the average of-
    - the sum of **opening RAB values**; and
    - the sum of **closing RAB values**.
- For the purpose of subclause (3)(a)(iii), the amount of the debt issuance cost re-adjustment is determined in accordance with the formula-

$(0.0175 \div \text{original tenor of the qualifying debt}) - (0.0175 \div \text{years in the CPP regulatory period}) \times \text{book value in New Zealand dollars of the qualifying debt at its date of issue,}$

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

## SUBPART 4 Information required in a CPP proposal

### SECTION 1 General matters

#### 5.4.1 Application of this subpart

- (1) Subject to subclause (2), a **CPP proposal** must contain at least the information specified in this subpart.
- (2) For the purpose of subclause (1)-
  - (a) where a **CPP applicant** seeks only a **quality standard variation**, its **CPP proposal** need only contain the information specified in clauses 5.4.2, 5.4.3, 5.4.4 and 5.4.5; and
  - (b) where a **CPP proposal** is made in accordance with provisions in a **DPP determination** relating to the submission of **CPP proposals** in response to a **catastrophic event**, the information specified in clause 5.4.3 is not required.

#### 5.4.2 Reasons for the proposal

A **CPP proposal** must contain a-

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

#### 5.4.3 Information regarding priority of proposal

- (1) A **CPP proposal** must contain an explanation as to why the proposal deserves to be prioritised for assessment before other **CPP proposals**, were the **Commission** to exercise its prioritisation powers under s 53Z of the **Act**.
- (2) For the purpose of subclause (1), a **CPP applicant** must address the prioritisation criteria specified in paragraphs (b) and (c) of s 53Z(3) of the **Act**, viz.-
  - (a) urgency of any proposed additional investment (compared to historic rates of investment) required to meet **consumer** requirements on quality, in accordance with subclause (3); and
  - (b) materiality of the proposal relative to the size and revenues of the applicant in accordance with subclause (4).
- (3) For the purpose of subclause (2)(a), the **CPP applicant** must explain-
  - (a) how any proposed investment-
    - (i) compares with historic rates of investment; and
    - (ii) relates to meeting **consumer** requirements on quality; and
  - (b) the optimal timing of any proposed investment, including any timeframes that would apply to the process of undertaking that proposed investment.
- (4) For the purpose of subclause (2)(b), the **CPP applicant** must-

- (a) explain the current size of its **business** and how the proposed **CPP** would affect the size of its **business**; and
- (b) describe its revenue under the **DPP** and explain how its revenue under the proposed **CPP** would differ, if at all, from that revenue.

#### 5.4.4 Duration of regulatory period

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

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

### **SECTION 2 Information regarding quality**

#### 5.4.5 Information on proposed quality standard variation

Where a **CPP applicant** seeks a **quality standard variation**, the **CPP proposal** must contain the following information:

- (a) different values of either or both of-
  - (i)  $\mu_{SAIDI}$  and  $\mu_{SAIFI}$ ; and
  - (ii)  $\sigma_{SAIDI}$  and  $\sigma_{SAIFI}$ ,
 to those which would be determined in accordance with the methodology for calculating reliability limits specified in the **DPP determination**;
- (b) an explanation of the reasons for the proposed **quality standard variation**;
- (c) an **engineer's** report on the extent to which the **quality standard variation** better reflects the realistically achievable performance of the **EDB** over the **CPP regulatory period** based on either or both of-
  - (i) statistical analysis of past SAIDI and SAIFI performance; and
  - (ii) the level of investment provided for in proposed **maximum allowable revenue before tax**; and
- (d) an estimation and evaluation of the effect of the proposed **quality standard variation**, had it applied in an earlier period of 5 years by use of historic data, by contrast with the quality standards specified in the **DPP determination**.

### **SECTION 3 Price path information**

#### 5.4.6 Interpretation

- (1) In this section, the meanings of defined terms that are values or amounts to be determined by the **Commission** when making a **CPP determination** are modified to mean the values or amounts proposed by the **CPP applicant**, subject to any other provision to the contrary.
- (2) Any values and amounts used by a **CPP applicant** to determine the quantum of allowances, amounts, sums or values required by this section must be consistent with other information provided in accordance with this part.

#### 5.4.7 Proposed building blocks allowable revenue

- (1) A **CPP proposal** must contain amounts for-

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

#### 5.4.8 Maximum Allowable Revenues

- (1) A **CPP proposal** must contain amounts for-
  - (a) **maximum allowable revenue before tax** for each **disclosure year** of the **CPP regulatory period**; and
  - (b) **maximum allowable revenue after tax** for each **disclosure year** of the **CPP regulatory period**.
- (2) For the purpose of subclauses (1)(a) and (1)(b), the **CPP applicant** must -
  - (a) apply an X factor; and
  - (b) state the value of the X factor.
- (3) For the purpose of subclause (2) the X factor is that defined in the **CPP applicant's DPP determination**, subject to subclause (4).

- (4) For the purpose of subclause (3), a different X factor may be used provided that the **CPP proposal** contains an explanation and supporting evidence as to why it would better meet the purpose of Part 4 of the **Act**.
- (5) A **CPP proposal** must contain all data, calculations and assumptions used to derive the forecast weighted average growth in quantities in accordance with clause 5.3.4(7), including-
- (a) a description of each **demand group**;
  - (b) the rationale for the selection of **demand groups**;
  - (c) the forecast growth in demand for each **demand group**
  - (d) the basis for the forecast growth in demand for each **demand group**;
  - (e) evidence that the forecast growth in demand for each **demand group** is consistent with all other relevant demand forecasts included in the **CPP proposal**;
  - (f) the basis for the assumptions used concerning the relative proportion of fixed and variable components in the **prices** charged to each **demand group** selected in paragraph (a);
  - (g) reconciliation between the assumptions referred to in paragraph (f) and the calculation of **notional revenue** made pursuant to any requirement pursuant to s 53N of the **Act** (whether that requirement is contained in a s 52P determination or otherwise) relating to compliance with the price-quality path; and
  - (h) the basis for each weighting term.
- (6) For the purpose of this clause, 'DPP annual compliance statement' means the most recent annual compliance statement made by the supplier in accordance with a **DPP determination**.
- (7) All calculations and values required by this clause must be presented in a spreadsheet format which clearly demonstrates how **maximum allowable revenue before tax** and **maximum allowable revenue after tax** for each **disclosure year** of the **CPP regulatory period** have been derived from **building blocks allowable revenue after tax** and the variables in clause 5.4.7.
- (8) For the purpose of subclause (7), the spreadsheet must be provided in a format that-
- (a) shows clearly how the values required by subclause (1) were derived in accordance with the formulae specified in clauses 5.3.2 to 5.3.4; and
  - (b) where data has been computed or derived from other values on the spreadsheet through the use of formulae, makes the underlying formulae accessible.

## **SECTION 4 Cost allocation information**

### 5.4.9 Cost allocation information

- (1) Where a **CPP applicant**-
- (a) makes allocations of **operating costs** not **directly attributable** pursuant to clause 5.3.5(1); or
  - (b) determines **opening RAB values** pursuant to clause 5.3.6(1)(b)(ii),
- the **CPP proposal** must contain the information specified in subclause (2).

- (2) For the purpose of subclause (1), the information is that specified in the applicable tables in Schedule B, subject to subclause (4), which tables comprise-
- (i) Table 1, relating to allocation of the **unallocated initial RAB value**;
  - (ii) Table 2, relating to allocation of the **unallocated closing RAB value**;
  - (iii) Table 3, relating to allocation of **operating costs not directly applicable**;
  - (iv) Table 4, relating to **arm's-length deductions** from **regulated service asset values** for assets with an **unallocated closing RAB value** in the last **disclosure year** of the **current period**; and
  - (v) Table 5, relating to **arm's-length deductions** from **operating costs**.
- (3) In respect of-
- (a) **operating costs not directly attributable** allocated to **electricity distribution services** in accordance with clause 5.3.5(2); or
  - (b) **closing RAB values** determined in accordance with clause 5.3.6(4),
- the **CPP proposal** must contain the information specified in Schedule C, subject to subclause (4), which tables comprise-
- (c) Table 1, relating to allocation of the **unallocated closing RAB value**;
  - (d) Table 2 relating to allocation of **operating costs not directly applicable**;
  - (e) Table 3, relating to **arm's-length deductions** from **regulated service asset values** for assets with an **unallocated closing RAB value** at the end of the last year of the **assessment period**; and
  - (f) Table 4, relating to **arm's-length deductions** from **operating costs**.
- (4) For the purpose of this clause-
- (a) the information specified in the tables of the schedules referred to must be provided on spreadsheets; and
  - (b) where data has been computed or derived from other values on the spreadsheet through the use of formulae, all underlying formulae must be accessible.

#### 5.4.10 Certification requirements

- (1) Where any **arm's-length deduction** was applied for the purpose of this Section, the **CPP proposal** must contain certification by no fewer than 2 of the **EDB's directors** in the following terms, where words in bold bear the meanings specified in this determination:
- "I, [insert name], **director** of [*insert name of Supplier of services regulated under Part 4 of the Commerce Act*] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information [*information required by clause 5.4.9(2)*] for the purpose of the supplier's **CPP proposal**, it was appropriate to make the **arm's-length deductions** the amount and nature of which are detailed in the tables below, **namely**:
- Table 4 of Schedule B / Table 5 of Schedule B / Table 3 of Schedule C / Table 4 of Schedule C [*delete as appropriate*]."
- (2) Where, in relation to **regulated service asset values**, **OVABAA** was applied for the purpose of this clause in accordance with Subpart 3 Section 2, the **CPP proposal** must contain certification by no fewer than 2 of the **EDB's directors** in respect of its



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

"I, [insert name], **director** of [insert name of Supplier of services regulated under Part 4 of the Commerce Act] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information (being information required by clause 5.4.9(2)) for the purpose of the supplier's **CPP proposal-**

- (a) the attached information is accurate;
- (b) the **OVABAA** was applicable in accordance with clause 2.1.2; and
- (c) the following **unregulated services** would be **unduly deterred** had adjustments to allocations of **regulated service asset values** ( in accordance with clause 2.1.5) not been made: [list relevant **unregulated services**]. "

- (3) Where, in relation to **operating costs** provided in a **CPP proposal** in accordance with subclause 5.4.8(1) and Schedule C, the **OVABAA** was applied, the **CPP proposal** must contain certification by no fewer than 2 of the **EDB's directors** in respect of application of the **OVABAA** in the following terms:

"I, [insert name], **director** of [insert name of Supplier of services regulated under Part 4 of the Commerce Act] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information (being information required by clause 5.4.9(2)) for the purpose of the supplier's **CPP proposal-**

- (a) the attached information is accurate;
- (b) the **OVABAA** was applicable in accordance with clause 2.1.2; and
- (c) the following **unregulated services** would be **unduly deterred** had adjustments to allocations of **operating costs** ( in accordance with clause 2.1.5) not been made: [list relevant **unregulated services**]. "

## **SECTION 5 Asset valuation information**

### 5.4.11 RAB roll forward information

In respect of each **disclosure year** commencing after-

- (a) where disclosure has been made pursuant to an **ID determination**, the last disclosure so made; or
- (b) where disclosure has not been made pursuant to an **ID determination**, the **disclosure year 2009**,

to the last **disclosure year** of the **next period**, provide values, in accordance with Subpart 3 Section 2, for the-

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

### 5.4.12 Depreciation information

- (1) In respect of each **disclosure year** of the **CPP regulatory period**, provide the information specified in this clause.

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

#### 5.4.13 Revaluation information

- (1) In respect of each **disclosure year** commencing after-
- (a) where disclosure has been made pursuant to an **ID determination**, the last disclosure so made; or
  - (b) where disclosure has not been made pursuant to an **ID determination**, the **disclosure year 2009**,
- to the last **disclosure year** of the **next period** provide the following things:
- (c) sum of **opening RAB values**;
  - (d) **forecast CPI** for the last quarter of the **disclosure year**;
  - (e) **forecast CPI** for the last quarter of the preceding **disclosure year**; and
  - (f) **revaluation rate**.

#### 5.4.14 **Commissioned assets information**

- (1) In respect of each **disclosure year** commencing after-
- (a) where disclosure has been made pursuant to an **ID determination**, the last disclosure so made; or
  - (b) where disclosure has not been made pursuant to an **ID determination**, the **disclosure year 2009**,
- to the last **disclosure year** of the **next period**, provide the-
- (c) sum of **value of commissioned assets**; and
  - (d) sum of **forecast value of commissioned assets**,
- in respect of each of the following groups of assets:
- (e) assets-
    - (i) acquired or intended to be acquired from a **related company**; or
    - (ii) transferred from a part of the **EDB** that supplies **unregulated services**;
  - (f) assets-
    - (i) acquired or intended to be acquired from another **regulated supplier** and used by that **regulated supplier** in the **supply** of **regulated services**; or
    - (ii) transferred or intended to be transferred from a part of the **EDB** that supplies **other regulated services**;
  - (g) **network spares**; and
  - (h) all other assets having a **commissioning date** or forecast to have a **commissioning date** in that period.
- (2) In respect of each value provided in accordance with subclause (1) provide-
- (a) all data, information, calculations and assumptions used to derive it from relevant data provided in the **capex forecast**; and
  - (b) where **capital contributions** are taken into account in any value disclosed pursuant to subclause (1)-
    - (i) the amount of such **capital contributions**, with respect to asset types and quantities; and
    - (ii) policies relevant to such **capital contributions**.
- (3) In respect of each asset to which subclause (1)(e) applies, provide—
- (a) the name of the relevant **person** or other part of the **EDB**, as the case may be; and
  - (b) where the acquisition was or is intended to be from a **related company**, a description of the relationship between the **EDB** and that **person**.
- (4) In respect of the likely vendor of each asset to which subclause (1)(f) applies, provide—
- (a) the name of the vendor;
  - (b) a description of each asset likely to be acquired from that vendor; and
  - (c) the forecast **closing RAB value** of each asset in the vendor's regulatory asset base for the **disclosure year** in which the acquisition is intended.

5.4.15 Asset disposals information

- (1) In respect of each **disclosure year** commencing after-
- (a) where disclosure has been made pursuant to an **ID determination**, the last disclosure so made; or
  - (b) where disclosure has not been made pursuant to an **ID determination**, the **disclosure year 2009**,
- to the last **disclosure year** of the **next period**, in respect of each of the following groups of assets:
- (c) assets likely to be-
    - (i) sold to a **related company**; or
    - (ii) transferred to another part of the **EDB**; and
  - (d) all other **disposed assets**,
- provide the-
- (e) sum of **unallocated opening RAB values**; and
  - (f) sum of **opening RAB values**.
- (2) In respect of each asset to which the values provided pursuant to subclause (1) relate, provide—
- (a) the name of the relevant **person** or other part of the **EDB**, as the case may be; and
  - (b) where the disposal is proposed to be to a **related company**, a description of the relationship between the **EDB** and that **person**.

5.4.16 Works under construction information

- In respect of each **disclosure year** commencing after-
- (a) where disclosure has been made pursuant to an **ID determination**, the last disclosure so made; or
  - (b) where disclosure has not been made pursuant to an **ID determination**, the **disclosure year 2009**,
- to the last **disclosure year** of the **next period**, provide-
- (c) **opening works under construction**;
  - (d) sum of **capital expenditure**;
  - (e) sum of **value of commissioned assets** but only to the extent that values are included in **closing RAB values** disclosed pursuant to an **ID determination**;
  - (f) sum of **forecast value of commissioned assets** but only to the extent that values are included in the sum of **closing RAB values** provided pursuant to clause 5.4.11(d)(ii); and
  - (g) sum of **closing works under construction**.

## SECTION 6 Tax information

### 5.4.17 Interpretation

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

### 5.4.18 Period in respect of which tax information to be provided

A **CPP proposal** must contain the information specified in this section in respect of each **disclosure year** commencing after-

- (a) where disclosure has been made pursuant to an **ID determination**, the last disclosure so made; or
- (b) where disclosure has not been made pursuant to an **ID determination**, the **disclosure year 2009**,

to the last **disclosure year** of the **next period**, in accordance with Subpart 3 Section 3.

### 5.4.19 Regulatory tax allowance information

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

### 5.4.20 Tax losses information

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

### 5.4.21 Permanent differences information

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

### 5.4.22 Amortisation of initial differences in asset values information

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

### 5.4.23 Amortisation of revaluations information

- (1) unamortised balance of **revaluations** to date
- (2) **adjusted depreciation**

- (3) average weighted remaining useful life of the assets used to determine the **amortisation of revaluations**
- (4) particulars of how the average weighted remaining useful life was calculated

#### 5.4.24 Deferred tax information

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

#### 5.4.25 Temporary differences information

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

#### 5.4.26 Regulatory tax asset value information

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

### **SECTION 7 Cost of capital information**

#### 5.4.27 Information regarding WACC

- (1) A **CPP proposal** must identify the **75th percentile estimate of WACC** used for the purpose of clause 5.4.7(1).
- (2) For the purpose of subclause (1), the identified **75th percentile estimate of WACC** must be the amount most recently published by the **Commission** in accordance with clause 5.3.29 prior to submission of the **CPP proposal** corresponding to the **EDB's** proposed duration of the **CPP regulatory period**.
- (3) Where a **term credit spread differential allowance** is proposed, a **CPP proposal** must contain all data, information, calculations, Bloomberg print-outs and assumptions used to determine any proposed **term credit spread differential**.

## SECTION 8 Expenditure information

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

The information specified in Schedule D must be-

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

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

- (1) A **CPP proposal** must contain the information specified in the **regulatory templates** and that information must be-
  - (a) in spreadsheet format whereby each item of data is linked between all cells to which it is relevant, irrespective of whether such cells are on the same or different tabs; and
  - (b) provided in accordance with the instructions specified in clause 5.4.30.
- (2) Regulatory templates means the tables included in Schedule E named-
  - (a) Table 1: Top 5;
  - (b) Table 2: Capex Summary;
  - (c) Table 3: Opex Summary;
  - (d) Table 4: Capex Project Programme;
  - (e) Table 5: Opex Project Programme;
  - (f) Table 6: Overheads;
  - (g) Table 7: Unit rate escalators;
  - (h) Table 8: Cost allocation A; and
  - (i) Table 9: Cost allocation B.
- (3) Where data provided in accordance with subclause (1) has been computed or derived from other amounts or values on the spreadsheet through the use of formulae, the underlying formulae for the cells containing the data must be accessible.
- (4) For the purpose of subclause (1), terms used in the **regulatory templates** must be interpreted in the same way as those terms are defined for the purpose of Schedule D.

### 5.4.30 Instructions for completion of the regulatory templates

- (1) Provide the information specified in the Capex Project Programme and Opex Project Programme tables of the **regulatory templates** for each **project** and for each **programme**.
- (2) For the purpose of specifying the relevant **capex category** or **opex category** in accordance with subclause (1), where expenditure within each **project** or **programme** is relevant to more than one **capex category** or **opex category**-
  - (a) select the **capex category** or **opex category** that is most relevant based on the nature of the expenditure; or
  - (b) redefine the **project** or **programme** into two or more new **projects** or **programmes** and reallocate the expenditure so as to resolve the overlap.
- (3) For the purpose of specifying the relevant **service category** in accordance with subclause (1), where expenditure within each **project** or **programme** is relevant to more than one **service category**-

- (a) select the **service category** that is most relevant based on the nature of the expenditure; or
  - (b) redefine the **project** or **programme** into two or more new **projects** or **programmes** and reallocate the expenditure so as to resolve the overlap.
- (4) For the purpose of subclause (1), the total Project/Programme amounts provided in the Asset Category sub-table must reconcile to the total Project/Programme amounts provided in the Project Costs by Source sub-table.
  - (5) Provide the information specified in the Overheads table of the **regulatory templates** in respect of **general management, administration and overheads opex**.
  - (6) Provide the information specified in the Unit rate escalators table of the **regulatory templates** for each unit rate for which an escalator has been applied.
  - (7) Provide the information specified in the Top 5 table of the **regulatory templates**-
    - (a) in respect of **projects** or **programmes** meeting paragraph (a) or (b) of the definition in clause D1 of Schedule D of identified programme; and
    - (b) using the information provided in accordance with subclause (1).
  - (8) Provide the information specified in the Capex Summary and Opex Summary tables of the **regulatory templates** using the information provided in accordance with subclause (1).
  - (9) Where clause 5.3.5(2) applies, provide the information specified in the Cost allocation B table of the **regulatory templates**.

#### 5.4.31 Transitional information format provisions

- (1) For **CPP proposals** made on or before 31 March 2016, the **CPP proposal** may contain actual and forecast expenditure information-
  - (a) relating to the **current period** and **next period** using the **opex categories** and **capex categories**; or
  - (b) in accordance with the -
    - (i) **CPP applicant's own opex categories** and **capex categories** in respect of the **current period** and **next period**; and
    - (ii) **opex categories** and **capex categories** in respect of the **next period**.
- (2) For the avoidance of doubt, where information is provided in accordance with subclause (1)(b), **project** or **programme** total expenditures in each **disclosure year** of the **next period** must be consistent between the forecasts.

### **SECTION 9 Information relevant to prices**

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

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

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



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

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

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

### SUBPART 5 **Consumer consultation, verification, audit and certification**

#### 5.5.1 Consumer consultation

- (1) By no later than 40 **working days** prior to submission of the **CPP proposal**, the **CPP applicant** must have adequately notified its **consumers**-
  - (a) that it intends to make a **CPP proposal**;
  - (b) of the expected effect on the revenue and quality of its **electricity distribution services** were the **Commission** to determine a **CPP** entirely in accordance with the intended **CPP proposal**;
  - (c) of the process for making submissions to the **EDB** in respect of the intended **CPP proposal**;
  - (d) where and how further information in respect of the intended **CPP proposal** may be obtained; and
  - (e) of their opportunity to participate in the consultation process required of the **Commission** by s 53T of the **Act** after any **CPP proposal** is received and considered compliant by the **Commission**.
- (2) For the purpose of subclause (1)(d), where further information is available in hard copy only, the applicant must have ensured that any further information was readily available for inspection at the stated location.
- (3) For the purpose of subclause (1), the **CPP applicant** must-
  - (a) provide all relevant information;
  - (b) provide information in a manner that promotes **consumer** engagement;
  - (c) make best endeavours to express information clearly, including by use of plain language and the avoidance of jargon; and
  - (d) provide **consumers** with (or notified them where to obtain) the information through a medium or media appropriate to the natures of the **consumer** base.

*Examples:*

- (i) *by placing the information on the **EDB's** website;*
- (ii) *by providing the information to groups or organisations that represent the **consumers'** relevant interests;*
- (iii) *by including the information in **consumers'** or electricity retailers' bills; and/or*

(iv) *by placing advertisements in local newspapers.*

#### 5.5.2 Verification

- (1) A **CPP proposal**, other than one made by a **CPP applicant** seeking only a **quality standard variation**, must be verified by a **verifier**.
- (2) The **verifier** must be engaged in accordance with Schedule F.
- (3) The **CPP applicant** must provide the **verifier** with-
  - (a) the materials-
    - (i) required by the **verifier** to verify the **CPP proposal** in accordance with the terms of his, her or its engagement and Schedule G; and
    - (ii) that it intends to submit to the **Commission** as a **CPP proposal**;
  - (b) subject to paragraph (c), the materials referred to in paragraph (a) prior to the **verifier** commencing verification in accordance with Schedule G;
  - (c) the information required by Schedule D pertaining to **projects** or **programmes** meeting paragraph (c) of the definition in Schedule D of identified programme after the **verifier** has notified the **CPP applicant** of his, her or its selection of **projects** or **programmes** meeting paragraph (c) of the definition of identified programme to the **CPP applicant**;
  - (d) any information requested by the **verifier** pursuant to the **verifier's** right to ask for such information pursuant to his, her or its deed of engagement, as specified in clause F5(2)(d).

#### 5.5.3 Audit

A **CPP proposal** must be audited by an **auditor** as to whether or not-

- (a) as far as appears from an examination of them, proper records to enable the complete and accurate compilation of information required by Subpart 4 have been kept by the **CPP applicant**;
- (b) in the case of actual financial information relating to the **current period**, that information has been prepared in all material respects in accordance with this determination;
- (c) in the case of forecast financial information relating to the **next period**, that information has been compiled in all material respects in accordance with this determination and the records examined pursuant to paragraph (a); and
- (d) in the case of quantitative information provided in spreadsheets, that information is accurately presented.

#### 5.5.4 Certification

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

- (2) In the case of all information of a qualitative nature, other than forecast information, provided in accordance with this Part, no fewer than 2 **directors** of the **CPP applicant** must certify in writing his or her belief that-
- (a) the information is provided in accordance with the relevant requirements; and
  - (b) it properly represents the events that occurred during the **current period**.
- (3) In the case of all forecast information provided in accordance with this Part, no fewer than 2 **directors** of the **CPP applicant** must certify in writing his or her belief that-
- (a) the information was derived and is provided in accordance with the relevant requirements; and
  - (b) the assumptions made are reasonable.
- (4) No fewer than 2 **directors** of the **CPP applicant** must certify in writing-
- (a) that, to the best of his or her knowledge, the **verifier** was engaged by the **CPP applicant** in accordance with Schedule F;
  - (b) that, to the best of his or her knowledge, the **CPP applicant** provided the **verifier** with all the information specified in Part 5, including its schedules, relevant to Schedule F;
  - (c) that, to the best of his or her knowledge, the information referred to in paragraph (b), save that relating to **projects** or **programmes** meeting paragraph (c) of the definition in Schedule D of identified programme, was provided to the **verifier** in advance of the **verifier's** selection of **projects** or **programmes** meeting paragraph (c) of the definition in Schedule D of identified programme, in accordance with clause G3;
  - (d) a description of any information not provided to the **verifier** following the verifier's request;
  - (e) reasons, which, in his or her opinion, justified any non-provision of such information;
  - (f) that, to the best of his or her knowledge, the-
    - (i) matters the **auditor** was engaged to audit included the matters specified in clause 5.5.3; and
    - (ii) **auditor** was instructed to report on at least the matters described in clause 5.1.4; and
  - (g) that the-
    - (i) audit report provided pursuant to clause 5.1.4;
    - (ii) **verification report**; and
    - (iii) other certifications required by this clause,all relate to the same **CPP proposal**.
- (5) Where-
- (a) a **director** has certified a matter of opinion in accordance with this clause; and
  - (b) his or her opinion has changed before the **Commission's** determination of the **CPP** in question,
- that **director** must notify the **Commission** as soon as reasonably practicable.

- (6) Where-
- (a) a **director** has certified a matter of fact in accordance with this clause; and
  - (b) before the **Commission's** determination of the **CPP** in question he or she-
    - (i) becomes aware that the fact is untrue; or
    - (ii) has significant cause to doubt the accuracy of that fact,
 that **director** must notify the **Commission** as soon as reasonably practicable.
- (7) For the avoidance of doubt, the certifications required by the different subclauses of this clause may be made by the same or different **directors**.

## SUBPART 6      **Catastrophic events and reconsideration of a customised price-quality path**

### 5.6.1 Catastrophic event

Catastrophic event means an event-

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

### 5.6.2 Change event

Change event means-

- (a) change in a; or
- (b) a new,

legislative or regulatory requirement applying to an **EDB** subject to a **CPP** the effect of which-

- (c) must take place during the current **regulatory period**;
- (d) is not explicitly or implicitly provided for in the **CPP**; and
- (e) will necessitate incursion of costs in response, which costs, over the **disclosure years** of the **CPP** remaining on and after the date at which they are reasonably incurred, have an impact on the price path by an amount at least equivalent to 1% of the aggregated **allowable notional revenue** for the **disclosure years** of the **CPP** in which the cost was or will be incurred.

### 5.6.3 Error

Error means incorrect data-

- (a) discovered in a **CPP determination** and clearly unintended by the **Commission** to be included in it; or
- (b) relied upon by the **Commission** in making or amending a **CPP determination** and clearly unintended by the **Commission** to be relied upon in making or amending it,

determined by the **Commission** to have an impact on the price path by an amount at least equivalent to 1% of the aggregated **allowable notional revenue** for the **disclosure years** of the **CPP** affected by the incorrect data; or

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

- (1) The price-quality path may be reconsidered if-
  - (a) the **Commission** considers; or
  - (b) the **EDB** in question satisfies the **Commission**, upon application, that subclause (2) or subclause (4) applies.
- (2) This subclause applies if-
  - (a) subject to subclause (3), a **catastrophic event** has occurred;
  - (b) there has been **error**; or
  - (c) a **change event** has occurred.
- (3) For the purpose of subclause (2)(a), where the costs to rectify the adverse consequences of the **catastrophic event** are fully covered by-
  - (a) the **CPP** (e.g. through an **operational expenditure** allowance for self-insurance); or
  - (b) commercial insurance held by the **EDB**,
 the **Commission** will only reconsider the quality standards of the **CPP**.
- (4) This subclause applies if-
  - (a) false or misleading information relating to the making or amending of a **CPP determination** has been knowingly-
    - (i) provided by an **EDB**, any of its agents or a **verifier** to the **Commission**;
    - or

- (ii) disclosed pursuant to an **ID determination**; and
- (b) the **Commission** relied on that information in making a **CPP determination**.

5.6.5 Amending price-quality path after reconsideration

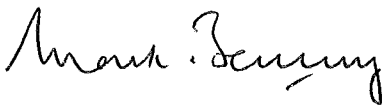
- (1) Where, after reconsidering a **CPP** in accordance with clause 5.6.4, the **Commission** determines that it should be amended, the **Commission** may amend either or both of the price path or the quality standards specified in the **CPP determination**, subject to the rest of this clause and clause 5.6.4(3).
- (2) In determining the extent of any amendment to the price path, the **Commission** must take into account the **expenditure objective**.
- (3) The **Commission** must not amend the-
  - (a) price path more than is reasonably necessary to take account of the change in costs net of any insurance or compensatory entitlements; and
  - (b) quality standards more than are reasonably necessary to take into account any necessary change in quality,

arising from-

- (c) the **catastrophic event**;
- (d) the **change event**;
- (e) **error**; or
- (f) the provision of false or misleading information,

as the case may be.

- (4) Where the **Commission's** reconsideration of the price-quality path was triggered by a **catastrophic event**, in determining the extent of the amendment to the price-quality path, the **Commission** will consider the extent to which an **EDB** has demonstrated that it has reviewed its **capital expenditure** and **operating expenditure** plans for the remainder of the **regulatory period** and made such substitutions as is possible without adversely affecting its ability to meet its quality standards.



Dr Mark Berry, *Chair*



Sue Begg, *Deputy Chair*



Pat Duignan



Peter Taylor

Dated at Wellington this 22nd day of December 2010.

**COMMERCE COMMISSION**

## SCHEDULE A STANDARD PHYSICAL ASSET LIVES

### Standard Physical Asset Lives for EDBs

ASSET DESCRIPTION	STANDARD PHYSICAL ASSET LIFE (YEARS)
<b>SUBTRANSMISSION</b>	
<i>66kV, 50kV and 33 kV Lines:</i>	
Concrete pole	60
Wood pole	45
<i>66kV, 50kV and 33 kV Cables:</i>	
XLPE installed prior to 1985	45
XLPE installed in or after 1985	55
PILC	70
Pilot / Communications Circuits	45
Sub-transmission Isolation	35
Sub-transmission Surge Arresters (3 phase set)	35
<b>ZONE SUBSTATIONS</b>	
Land	-
Site Development and Buildings	70
Transformers	45
66/50/33/22/11 kV Indoor Switchgear Cubicle	45
66/50/33 kV Bus Section/Coupler Indoor Switchgear	45
66/50/33/22/11 kV Outdoor Circuit Breakers	40
Outdoor Switchgear	40
Circuit/Transformer/Feeder/Bus Section/Coupler Protection & Controls - Analog/Electromechanical	40
Circuit/Transformer/Feeder/Bus Section/Coupler Protection & Controls - Digital	20
<i>Outdoor Structure (if not included in category above):</i>	
Concrete pole	60
Wood pole	45

<b>ASSET DESCRIPTION</b>	<b>STANDARD PHYSICAL ASSET LIFE (YEARS)</b>
Ripple Injection Plant	20
DC Supplies, Batteries and Inverters	20
Other Items	40
<b>DISTRIBUTION LINES</b>	
<i>22/11 kV O/H, single phase or SWER lines:</i>	
Concrete pole	60
Wood pole	45
<b>DISTRIBUTION CABLES</b>	
<i>22/11 kV Cables:</i>	
XLPE installed prior to 1985	45
XLPE installed in or after 1985	55
PILC	70
<b>DISTRIBUTION SWITCHGEAR</b>	
22 / 11 kV Disconnecter 3ph, 2ph (Excl Pole)	35
22 / 11 kV Load Break Switch (Excl Pole)	35
22 / 11 kV Dropout Fuse 3ph, 2ph (Excl Pole)	35
22 / 11 kV Sectionaliser (Excl Pole)	40
22 / 11 kV Recloser (Excl Pole)	40
Voltage Regulator	55
Ring Main Unit – 3 Way	40
Extra Oil Switch	40
Extra Fuse Switch	40
<b>DISTRIBUTION TRANSFORMERS</b>	
Pole Mounted Single/Two Phase, 22/0.4 and 11/0.4 kV, Bushing Terminations (up to and including 100 kVA)	45
Pole Mounted, Three Phase, Bushing Terminations 22 / 0.4 kV and 11 / 0.4 kV (up to and including 500 kVA)	45
Ground Mounted, 22/0.4 and 11/0.4 kV, Cable Entry (100 kVA to 1,500 kVA)	45
<b>DISTRIBUTION SUBSTATIONS</b>	45



<b>ASSET DESCRIPTION</b>	<b>STANDARD PHYSICAL ASSET LIFE (YEARS)</b>
<b>LV LINES</b>	
Concrete pole	60
Wood pole	45
<b>LV CABLES</b>	
XLPE or PVC installed prior to 1985	45
XLPE or PVC installed in or after 1985	55
PILC	70
Link Pillars	45
LV Overhead / Underground Customer Service Connections	45
Load Control Relays	30
<b>OTHER SYSTEM FIXED ASSETS</b>	
SCADA and Comms (Central Facilities / Communications Equipment)	15

## SCHEDULE B TRANSITIONAL TABLES FOR COST ALLOCATION INFORMATION

**Table 1: Allocation of the Unallocated Initial RAB Value**

**Table 1(a):**

Regulated EDB For Year Ended												
REPORT ON ALLOCATION OF THE UNALLOCATED INITIAL RAB VALUE (NON-PUBLIC)												
Note: white out box indicates no number needs to be provided												
Asset Category:	Asset Allocator	Allocator Metrics or Proportion Allocated				Value Allocated					OVABAA Allocation Increase	Line Items
		Electricity Distribution Services	Gas Distribution	Gas Transmission	Unregulated Services	Electricity Distribution Services	Gas Distribution	Gas Transmission	Unregulated Services	TOTAL		
<i>[Asset Category 1]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
	[Allocator 1]											
	[Allocator 2]											
	<i>[Insert Other Allocator]</i>											
Total regulated service asset value not directly attributable												
Total regulated service asset value												
<i>[Asset Category 2]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
	[Allocator 1]											
	[Allocator 2]											
	<i>[Insert Other Allocator]</i>											
Total regulated service asset value not directly attributable												
Total regulated service asset value												
<i>[Insert Other Asset Category]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
	[Allocator 1]											
	[Allocator 2]											
	<i>[Insert Other Allocator]</i>											
Total regulated service asset value not directly attributable												
Total regulated service asset value												
Total regulated service asset value directly attributable												
Total regulated service asset value not directly attributable												
Total regulated service asset value												

**Table 1(b):**

REPORT ON ALLOCATION OF THE UNALLOCATED INITIAL RAB VALUE (PUBLIC)											Regulated EDB For Year Ended	
Note: whited out box indicates no number needs to be provided												
Asset Category:	Asset Allocator	Allocator Metrics or Proportion Allocated				Value Allocated					OVABAA Allocation Increase	Line Items
		Electricity Distribution Services	Gas Distribution	Gas Transmission	Unregulated Services	Electricity Distribution Services	Gas Distribution	Gas Transmission	Unregulated Services	TOTAL		
<i>[Asset Category 1]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
<i>[Asset Category 2]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
<i>[Insert Other Asset Category]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
Total regulated service asset value directly attributable												
Total regulated service asset value not directly attributable												



**Table 2: Allocation of the Unallocated Closing RAB Value**

**Table 2(a):**

Regulated EDB For Year Ended												
REPORT ON ALLOCATION OF THE UNALLOCATED CLOSING RAB VALUE IN LAST YEAR OF CURRENT PERIOD (NON-PUBLIC)												
											Note: white out box indicates no number needs to be provided	
Asset Category:	Asset Allocator	Allocator Metrics or Proportion Allocated				Value Allocated					OVABAA Allocation Increase	Line Items
		Electricity Distribution Services	Gas Distribution	Gas Transmission	Unregulated Services	Electricity Distribution Services	Gas Distribution	Gas Transmission	Unregulated Services	TOTAL		
<i>[Asset Category 1]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
	[Allocator 1]											
	[Allocator 2]											
	<i>[Insert Other Allocator]</i>											
Total regulated service asset value not directly attributable												
Total regulated service asset value												
<i>[Asset Category 2]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
	[Allocator 1]											
	[Allocator 2]											
	<i>[Insert Other Allocator]</i>											
Total regulated service asset value not directly attributable												
Total regulated service asset value												
<i>[Insert Other Asset Category]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
	[Allocator 1]											
	[Allocator 2]											
	<i>[Insert Other Allocator]</i>											
Total regulated service asset value not directly attributable												
Total regulated service asset value												
Total regulated service asset value directly attributable												
Total regulated service asset value not directly attributable												
Total regulated service asset value												

**Table 2(b):**

REPORT ON ALLOCATION OF THE UNALLOCATED CLOSING RAB VALUE IN LAST YEAR OF CURRENT PERIOD (PUBLIC)											Regulated GDB For Year Ended	
											Note: whited out box indicates no number needs to be provided	
Asset Category:	Asset Allocator	Allocator Metrics or Proportion Allocated				Value Allocated					OVABAA Allocation Increase	Line Items
		Gas Distribution Services	Gas Transmission	Electricity Distribution	Unregulated Services	Gas Distribution Services	Gas Transmission	Electricity Distribution	Unregulated Services	TOTAL		
<i>[Asset Category 1]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
<i>[Asset Category 2]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
<i>[Insert Other Asset Category]</i>												
Regulated service asset value directly attributable												
Regulated service asset value not directly attributable												
Total regulated service asset value directly attributable												
Regulated service asset value not directly attributable												



**Table 3: Allocation of Operating Costs Not Directly Attributable**

**Table 3(a):**

REPORT ON ALLOCATION OF OPERATING COSTS AT THE END OF THE LAST YEAR OF CURRENT PERIOD (NON-PUBLIC)											Regulated EDB For Year Ended		Line Items
											Note: white out box indicates no number needs to be provided		
Opex Category	Cost Allocator	Allocator Metrics or Proportion Allocated				Value Allocated					OVABAA Allocation Increase	Line Items	
		Electricity Distribution Services	Gas Distribution	Gas Transmission	Unregulated Services	Electricity Distribution Services	Gas Distribution	Gas Transmission	Unregulated Services	TOTAL			
<b>General Management, Administration and Overheads</b>													
Directly attributable operating costs													
Operating costs not directly attributable													
	[Allocator 1]												
	[Allocator 2]												
	[Insert Other Allocator]												
Total operating costs not directly attributable													
Total operating costs													
<b>System Management and Operations</b>													
Directly attributable operating costs													
Operating costs not directly attributable													
	[Allocator 1]												
	[Allocator 2]												
	[Insert Other Allocator]												
Total operating costs not directly attributable													
Total operating costs													
<b>Routine and Preventive Maintenance</b>													
Directly attributable operating costs													
Operating costs not directly attributable													
	[Allocator 1]												
	[Allocator 2]												
	[Insert Other Allocator]												
Total operating costs not directly attributable													
Total operating costs													
<b>Refurbishment and Renewal Maintenance</b>													
Directly attributable operating costs													
Operating costs not directly attributable													
	[Allocator 1]												
	[Allocator 2]												
	[Insert Other Allocator]												
Total operating costs not directly attributable													
Total operating costs													
<b>Fault and Emergency Maintenance</b>													
Directly attributable operating costs													
Operating costs not directly attributable													
	[Allocator 1]												
	[Allocator 2]												
	[Insert Other Allocator]												
Total operating costs not directly attributable													
Total operating costs													
<b>Other</b>													
Directly attributable operating costs													
Operating costs not directly attributable													
	[Allocator 1]												
	[Allocator 2]												
	[Insert Other Allocator]												
Total operating costs not directly attributable													
Total operating costs													
Total directly attributable operating costs													
Total operating costs not directly attributable													
Total operating costs													



**Table 3(b):**

Regulated EDB For Year Ended												
REPORT ON ALLOCATION OF OPERATING COSTS AT THE END OF THE LAST YEAR OF CURRENT PERIOD (PUBLIC)											Note: whited out box indicates no number needs to be provided	
Opex Category	Cost Allocator	Allocator Metrics or Proportion Allocated				Value Allocated					OVABAA Allocation Increase	Line Items
		Electricity Distribution Services	Gas Distribution	Gas Transmission	Unregulated Services	Electricity Distribution Services	Gas Distribution	Gas Transmission	Unregulated Services	TOTAL		
<b>General Management, Administration and Overheads</b>												
Directly attributable operating costs												
Operating costs not directly attributable												
<b>System Management and Operations</b>												
Directly attributable operating costs												
Operating costs not directly attributable												
<b>Routine and Preventive Maintenance</b>												
Directly attributable operating costs												
Operating costs not directly attributable												
<b>Refurbishment and Renewal Maintenance</b>												
Directly attributable operating costs												
Operating costs not directly attributable												
<b>Fault and Emergency Maintenance</b>												
Directly attributable operating costs												
Operating costs not directly attributable												
<b>Other</b>												
Directly attributable operating costs												
Operating costs not directly attributable												
Total directly attributable operating costs												
Total operating costs not directly attributable												



**Table 4: Arm's-length Deductions from Regulated Service Asset Values**

Regulated EDB <input type="text"/>						
For Year Ended <input type="text"/>						
ARM'S LENGTH DEDUCTIONS FROM REGULATED SERVICE ASSET VALUES FOR ASSETS WITH UNALLOCATED CLOSING RAB VALUE (NON-PUBLIC)						
Asset Category	Line Items	Asset Allocator	Amount of Deduction (\$)	Amount of Deduction as a Percentage of Sum of Total Unallocated Closing RAB Values by Asset Category in that Disclosure Year	Selection Rationale	Nature of Arm's Length Transaction
<i>[Asset Category 1]</i>						
	[Allocator 1]					
	[Allocator 2]					
	<i>[Insert Other Allocator]</i>					
	<b>Total regulated service asset value not directly attributable</b>					
<i>[Asset Category 2]</i>						
	[Allocator 1]					
	[Allocator 2]					
	<i>[Insert Other Allocator]</i>					
	<b>Total regulated service asset value not directly attributable</b>					
<i>[Insert Other Asset Category]</i>						
	[Allocator 1]					
	[Allocator 2]					
	<i>[Insert Other Allocator]</i>					
	<b>Total regulated service asset value not directly attributable</b>					
	<b>Total regulated service asset value not directly attributable</b>					

**Table 5: Arm's-length Deductions from Operating Costs**

						Regulated EDB
						For Year Ended
ARM'S LENGTH DEDUCTIONS FROM OPERATING COSTS (NON-PUBLIC)						
Opex Category	Cost Allocator	Amount of Deduction (\$)	Amount of Deduction as a Percentage of Sum of Operating Cost by Opex Category in that Disclosure Year	Selection Rationale	Nature of Arm's Length Transaction	Line Items
<b>General Management, Administration and Overheads</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>System Management and Operations</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>Routine and Preventive Maintenance</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>Refurbishment and Renewal Maintenance</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>Fault and Emergency Maintenance</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>Other</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>Total operating costs not directly attributable</b>						

## SCHEDULE C COST ALLOCATION INFORMATION RELATING TO FORECAST ASSET DIVESTMENTS

**Table 1: Allocation of the Unallocated Closing RAB Value**

Regulated EDB For Year Ended																
REPORT ON ALLOCATION OF UNALLOCATED CLOSING RAB VALUE IN LAST YEAR OF ASSESSMENT PERIOD (NON-PUBLIC)															Note: white out box indicates no number needs to be provided	
Asset Category	Asset Allocator	Previous Allocator Metric or Proportion Allocated				Adjusted Allocator Metric				Change in Value Allocated				Selection Rationale	Line Items	
		Electricity Distribution Services	Gas Distribution	Gas Transmission	Each Type of Unregulated Service	Electricity Distribution Services	Gas Distribution	Gas Transmission	Each Type of Unregulated Service	Electricity Distribution Services	Gas Distribution	Gas Transmission	Each Type of Unregulated Service			TOTAL
<b>[Asset Category 1]</b>																
Regulated service asset value directly attributable																
Regulated service asset value not directly attributable																
	[Allocator 1]															
	[Allocator 2]															
	[Insert Other Allocator]															
Total regulated service asset value not directly attributable																
Total regulated service asset value																
<b>[Asset Category 2]</b>																
Regulated service asset value directly attributable																
Regulated service asset value not directly attributable																
	[Allocator 1]															
	[Allocator 2]															
	[Insert Other Allocator]															
Total regulated service asset value not directly attributable																
Total regulated service asset value																
<b>[Insert Other Asset Category]</b>																
Regulated service asset value directly attributable																
Regulated service asset value not directly attributable																
	[Allocator 1]															
	[Allocator 2]															
	[Insert Other Allocator]															
Total regulated service asset value not directly attributable																
Total regulated service asset value																
Total regulated service asset value directly attributable																
Total regulated service asset value not directly attributable																
Total regulated service asset value																

**Table 2: Allocation of Operating Costs Not Directly Attributable**

REPORT ON ALLOCATION OF OPERATING COSTS AT THE END OF LAST YEAR OF ASSESSMENT PERIOD (NON-PUBLIC)														Regulated EDB For Year Ended		
														Note: white out box indicates no number needs to be provided		
Asset Category:	Cost Allocator	Previous Allocator Metric or Proportion Allocated				Adjusted Allocator Metric				Change in Value Allocated				Selection Rationale	Line Items	
		Electricity Distribution Services	Gas Distribution	Gas Transmission	Each Type of Unregulated Service	Electricity Distribution Services	Gas Distribution	Gas Transmission	Each Type of Unregulated Service	Electricity Distribution Services	Gas Distribution	Gas Transmission	Each Type of Unregulated Service			TOTAL
<b>General Management, Administration and Overheads</b>																
Directly attributable operating costs																
Operating costs not directly attributable																
	(Allocator 1)															
	(Allocator 2)															
	(Insert Other Allocator)															
Total operating costs not directly attributable																
Total operating costs																
<b>System Management and Operations</b>																
Directly attributable operating costs																
Operating costs not directly attributable																
	(Allocator 1)															
	(Allocator 2)															
	(Insert Other Allocator)															
Total operating costs not directly attributable																
Total operating costs																
<b>Routine and Preventive Maintenance</b>																
Directly attributable operating costs																
Operating costs not directly attributable																
	(Allocator 1)															
	(Allocator 2)															
	(Insert Other Allocator)															
Total operating costs not directly attributable																
Total operating costs																
<b>Refurbishment and Renewal Maintenance</b>																
Directly attributable operating costs																
Operating costs not directly attributable																
	(Allocator 1)															
	(Allocator 2)															
	(Insert Other Allocator)															
Total operating costs not directly attributable																
Total operating costs																
<b>Fault and Emergency Maintenance</b>																
Directly attributable operating costs																
Operating costs not directly attributable																
	(Allocator 1)															
	(Allocator 2)															
	(Insert Other Allocator)															
Total operating costs not directly attributable																
Total operating costs																
<b>Other</b>																
Directly attributable operating costs																
Operating costs not directly attributable																
	(Allocator 1)															
	(Allocator 2)															
	(Insert Other Allocator)															
Total operating costs not directly attributable																
Total operating costs																
Total regulated service asset value directly attributable																
Total regulated service asset value not directly attributable																
Total regulated service asset value																

**Table 3: Arm's-length Deductions from Regulated Service Asset Values**

						Regulated EDB
						For Year Ended
ARM'S LENGTH DEDUCTIONS FROM REGULATED SERVICE ASSET VALUES FOR ASSETS WITH UNALLOCATED CLOSING RAB VALUE (NON-PUBLIC)						
Asset Category	Line Items	Asset Allocator	Amount of Deduction (\$)	Amount of Deduction as a Percentage of Sum of Total Unallocated Closing RAB Values by Asset Category in that Disclosure Year	Selection Rationale	Nature of Arm's Length Transaction
<i>[Asset Category 1]</i>						
	[Allocator 1]					
	[Allocator 2]					
	<i>[Insert Other Allocator]</i>					
	<b>Total regulated service asset value not directly attributable</b>					
<i>[Asset Category 2]</i>						
	[Allocator 1]					
	[Allocator 2]					
	<i>[Insert Other Allocator]</i>					
	<b>Total regulated service asset value not directly attributable</b>					
<i>[Insert Other Asset Category]</i>						
	[Allocator 1]					
	[Allocator 2]					
	<i>[Insert Other Allocator]</i>					
	<b>Total regulated service asset value not directly attributable</b>					
	<b>Total regulated service asset value not directly attributable</b>					

**Table 4: Arm's-length Deductions from Operating Costs**

Regulated EDB						
For Year Ended						
ARM'S LENGTH DEDUCTIONS FROM OPERATING COSTS (NON-PUBLIC)						
Opex Category	Cost Allocator	Amount of Deduction (\$)	Amount of Deduction as a Percentage of Sum of Operating Cost by Opex Category in that Disclosure Year	Selection Rationale	Nature of Arm's Length Transaction	Line Items
<b>General Management, Administration and Overheads</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>System Management and Operations</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>Routine and Preventive Maintenance</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>Refurbishment and Renewal Maintenance</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>Fault and Emergency Maintenance</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>Other</b>						
	[Allocator 1]					
	[Allocator 2]					
	<i>Insert Other Allocator</i>					
<b>Total operating costs not directly attributable</b>						
<b>Total operating costs not directly attributable</b>						



## SCHEDULE D CAPITAL AND OPERATING EXPENDITURE INFORMATION

### D1 Interpretation

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

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

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

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

- (a) assets owned by the **EDB** but installed at bulk **supply** points owned by others;
- (b) sub-transmission network including power transformers;
- (c) distribution network including distribution transformers;
- (d) switchgear;
- (e) low voltage distribution network; and
- (f) supporting or secondary systems including-
  - (i) ripple injection plant;
  - (ii) SCADA;
  - (iii) communications equipment;
  - (iv) metering systems;
  - (v) power factor correction plant;
  - (vi) **EDB**-owned mobile substations and generators whose function is to increase **supply** reliability or reduce peak demand; and
  - (vii) other generation plant owned by the **EDB**; and
- (g) other;

**asset management plan** means-

- (a) the Asset Management Plan disclosed in the last **disclosure year** of the **current period** pursuant to the Electricity Disclosure (Information Requirements) 2008; or
- (b) any asset management plan disclosed in the last **disclosure year** of the **current period** pursuant to an **ID determination**;

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

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

- (a) the progressive physical deterioration of the condition of **network** assets or their immediate surrounds; or

- (b) expenditure arising as a result of the obsolescence of **network** assets;

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

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

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

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

**committed** means, in respect of a **project** or **programme**, received all approvals internal and external to the **EDB** that are required in order for work on the **project** to commence;

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

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

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

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

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

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

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

**identified programme** means a **project** or a **programme** which is planned to be undertaken during the **next period** and which is one of the-

- (a) 5 largest **projects** or **programmes** by expenditure that fall within the **capex forecast**;
- (b) 5 largest **projects** or **programmes** by expenditure that fall within the **opex forecast**; or
- (c) 10 additional **projects** or **programmes** selected by the **verifier** for detailed assessment in accordance with clause G3;

**key assumptions** means-

- (a) any significant assumption made by an **EDB** in the preparation of its proposal, clearly identified in a manner that makes its significance to the proposal understandable to the **Commission**, including-
  - (i) forecasts of peak demand;
  - (ii) forecasts of utilisation levels;
  - (iii) forecasts of weighted average remaining life of assets;
  - (iv) forecasts of energy consumption;
  - (v) forecasts of material movements in energy consumption within the **network**;
  - (vi) forecasts of **consumer** numbers;
  - (vii) forecasts of line length;
  - (viii) labour unit rates applied to key items of plant and equipment;
  - (ix) materials unit rates applied to key items of plant and equipment;
  - (x) labour escalators as required by clause D18(2); and
  - (xi) materials escalators as required by clause D18(2); and

- (b) a description of the-
  - (i) basis on which those assumptions were prepared; and
  - (ii) the principal sources of information from which those assumptions were derived;

**network** means **lines** operated by an **EDB**;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

relating to the environment;

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

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

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

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

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

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

**step change** means a new, changed or ceased **obligation**;

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

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

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

- (a) system operations;
- (b) system studies and planning;

- (c) design;
- (d) **network** record keeping; and
- (e) standards and manuals.

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

- (1) A **CPP proposal** must-
  - (a) assemble all information that this Schedule requires in a section of the **CPP proposal** entitled “Capex/Opex/Demand Qualitative Information”; and
  - (b) contain a table that, in respect of each clause of this schedule-
    - (i) provides a reference to the place where, in the Capex/Opex/Demand Qualitative Information section of the **CPP proposal**, a response is provided; and
    - (ii) gives the title and page reference to any separate **document** identified in response, including in the case where the **document** in question is provided in the **CPP proposal**.
- (2) Where information provided in accordance with these requirements differs from the most recent information provided by the **EDB** to the **Commission** in accordance with any obligation under Part 4 of the **Act**, a **CPP proposal** must-
  - (i) identify the differences; and
  - (ii) give reasons for such differences.
- (3) Where information required by this Schedule is omitted from a **CPP proposal**, the **CPP proposal** must contain an explanation for each such omission.
- (4) A **CPP applicant** may, without provision of additional information, reproduce information from its **asset management plan** in response to a requirement of this Schedule, subject to subclause (5).
- (5) For the purpose of subclause (4), reproduction of such material is only permitted where the relevant section of the **asset management plan** clearly and succinctly provides the required information, without the need for analysis or interpretation on the part of the **verifier** or the **Commission**.
- (6) For the avoidance of doubt-
  - (a) the content of the **CPP proposal** as initially provided to the **verifier** will not include information required by this schedule in relation to **projects** or **programmes** falling under paragraph (c) of the definition in this schedule of identified programme; and
  - (b) such information-
    - (i) need only be provided to the **verifier** upon the **verifier's** request; and
    - (ii) is required to be included in the **CPP proposal** as provided to the **Commission**.

### D3 Qualitative Information

- (1) Provide-
  - (a) all **policies** relied upon in whole or in part in preparing the response to-
    - (i) this schedule; and
    - (ii) any other requirement of Subpart 4 Section 8 of Part 5; and
  - (b) where the rationale is not already included in the **policies** themselves, the rationale for the **policies** provided in accordance with paragraph (a), including any consultants' reports relied upon in preparing the **policies**.
- (2) Identify all consultants' reports **Commissioned** for the purpose of preparing the **capex forecast** or **opex forecast**.
- (3) Where information from the **CPP applicant's asset management plan** has been included in the **CPP proposal** in response to a requirement of this clause, provide an index of explicit references to the sections and paragraphs of the **asset management plan** relied upon.

### D4 Categorisation of services

For each **service category** relevant to the **electricity distribution services** provided by the **EDB**, provide-

- (a) a description of the **EDB's services** that fall within it, including-
  - (i) its key service features and specifications;
  - (ii) the identity of the intended **consumers** of the services;
  - (iii) the processes used to determine the features and specifications of each service; and
  - (iv) any material changes to the **services** proposed for the **next period**;
- (b) the **service measures**, including a description as to how these have been defined, relating to-
  - (i) categories of **consumers**;
  - (ii) asset performance, asset efficiency and effectiveness;
  - (iii) efficiency of the **EDB's business** activities; and
  - (iv) the **EDB's obligations**;
- (c) a corresponding target **service level** for each **service measure**;
- (d) a description as to how each target **service level**-
  - (i) was determined, including a description of any **consumer** consultation used to specify it; and
  - (ii) relates to the **EDB's relevant policies**;



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

#### **D5 Network asset information**

- (1) Provide details of the **EDB's** existing **network** assets including-
  - (a) a high-level description of the distribution area that includes-
    - (i) identification of the distribution area(s) covered;
    - (ii) identification of large **consumers** that have a significant impact on **network** operations or asset management priorities;
    - (iii) a description of the load characteristics for different parts of the **network**; and
    - (iv) the peak demand and total electricity delivered in each **disclosure year** of the **current period**, broken down by geographically non-contiguous network, if any;
  - (b) a description of the existing **network** configuration, including-
    - (i) identification of bulk electricity **supply** points and any embedded generation with a capacity greater than 1 MW;
    - (ii) existing firm **supply** capacity and current peak load of each bulk **supply** point;
    - (iii) a description of the sub-transmission system fed from the bulk **supply** points, including identification and capacity of zone substations and the voltage of the sub-transmission network;
    - (iv) identification of the sub-transmission security levels of individual zone substations, eg, n, n-1, n-2, and the rationale for the use of each level used; and
    - (v) a description of the distribution system, including the extent to which it is underground;
  - (c) a brief description of the **network's** distribution substation arrangements;
  - (d) a description of the low voltage network, including the extent to which it is underground;

- (e) an overview of secondary assets such as ripple injection systems, SCADA and telecommunications systems;
  - (f) a description of the existing network assets by **asset category**, including-
    - (i) voltage levels;
    - (ii) a description and quantity of assets;
    - (iii) age profiles;
    - (iv) a discussion of the condition of the assets, further broken down as appropriate, including historic failure rates; and
    - (v) identification of any relevant systemic issues that may lead to the need to prematurely replace assets or parts of assets;
  - (g) the sum of **regulated service asset values** by **asset category** consistent with those most recently disclosed by the **EDB** prior to making the **CPP application** pursuant to the Electricity Disclosure (Information Requirements) 2008 or an **ID determination**; and
  - (h) at the **EDB's** option, a sum of **regulated service asset values** by any **asset category** sub-category (as 'sub-category' is defined by the **EDB**);
- (2) For the purpose of subclause (1)-
- (a) where information is based on estimates, this must be explicitly stated;
  - (b) quantities of assets must be presented in a way that clearly describes the size of the regulatory asset base, but need not include detailed lists or schedules as would be included in a complete asset register or inventory; and
  - (c) 'geographically non-contiguous network' means a **network** that is physically separate from another network except where-
    - (i) its total circuit length capable of conveying electricity at a voltage equal to or greater than 3.3 kilovolts is shorter than 25 kilometres;
    - (ii) it conveyed fewer than 20 gigawatt hours of electricity in the most recent **disclosure year** prior to submission of the **CPP application**;
    - (iii) its **lines** are not connected, whether directly or indirectly, to the national grid (as 'national grid' is defined in s 5 of the Electricity Industry Act 2010); or
    - (iv) it conveys electricity to fewer than 2000 ICPs (as 'ICP' is defined in s 54D(2) of the **Act**).

#### **D6 Demand, consumer numbers and generation forecasts**

- (1) For each **key assumption** relating to maximum demand, electricity **supplied**, **consumer** numbers, embedded generation and distributed generation-
  - (a) explain how it was relied upon in the **CPP proposal**;

- (b) provide, describe and explain the methodology used to prepare the relevant forecasts (to at least zone substation level) relating to demand forecasts for each **disclosure year** in the **next period**, including details of-
    - (i) any sensitivity analysis undertaken;
    - (ii) any weather normalisation methodology used and how weather data has been used; and
    - (iii) the models used (including each model's key inputs and assumptions); and
  - (c) provide-
    - (i) an outline of the treatment of very large loads, uncertain loads and significant loads transferred, or expected to be transferred, between different parts of the **network** (e.g. between zone substations and/or between feeders);
    - (ii) assumptions of **consumer** numbers in total and by the **consumer** categories used by the **EDB**;
    - (iii) assumptions of energy volumes **supplied** to **consumers** by each category referred to in sub-paragraph (ii);
    - (iv) assumptions relating to average **consumer** energy usage by each category referred to in sub-paragraph (ii);
    - (v) details of the location, type and size of any embedded generators and assumptions relating to the impact they may have on **network** forecasts;
    - (vi) details of the location, types and aggregate levels of any distributed generation and assumptions relating to the impact they may have on **network** forecasts; and
    - (vii) details of the effect that any demand management systems or initiatives may have on **network** forecasts.
- (2) Explain-
- (a) the extent to which the forecasting methodology used is consistent with and has taken into account historical observations;
  - (b) whether forecast data is internally consistent at and between each level of aggregation down to at least the zone substation level; and
  - (c) the extent to which the forecasting methodology used is consistent with the methodology used to derive the forecast quantities as required by clause 5.3.4(7).

## **D7 Capital expenditure**

- (1) For each **capex category** included in the **capex forecast**-
  - (a) provide an overall description including the aims and objectives of the **capex category**;

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

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

#### **D8 System growth capital expenditure information**

For **system growth capex**, provide-

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

- (iii) a detailed description of each **project** in the **capex forecast** that has commenced or is **committed**; and
- (iv) a description of each **project** or **programme** that is not **committed** but is planned to commence in the **next period**, the information being provided to be commensurate with the **project's** or **programme's** current status in the planning process.

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

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

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

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

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

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

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

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

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

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

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

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

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



- (5) For each **key assumption** identified in accordance with subclause (2)(b)(i), explain-
  - (a) the method and information used to develop the assumption; and
  - (b) how the assumption has been applied and its effect on the **opex forecast**.

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

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

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

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

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

### **D15 Self-insurance**

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

### **D16 Controllable opex**

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

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

**D17 Related parties**

- (1) Identify and describe all **related parties** in respect of whom costs are disclosed in accordance with the **regulatory templates**.
- (2) For each **person** to whom subclause (1) applies identify each **project** or **programme** with which he, she or it is associated.
- (3) For each **person** to whom subclause (1) applies, describe, in respect of each relevant **project** and **programme** the-
  - (a) nature of the **services** undertaken by that **person**; and
  - (b) the date and term of the contract in respect of that **service**.
- (4) For each **service** identified in accordance with subclause (3)(a)-
  - (a) provide a description of the tendering process used to procure the **service**;
  - (b) identify all relevant documents used to tender for its provision, including but not limited to requests for tender and tender submissions; and
  - (c) explain-
    - (i) why that **service** is outsourced instead of being undertaken by the **EDB** itself;
    - (ii) whether the **services** procured are provided under a discrete contract or provided as part of a broader operational contract (or similar);
    - (iii) whether the **service** was procured on a genuinely competitive basis and if not, why not; and
    - (iv) whether the **service** (or any component thereof) was sub-contracted to another provider.
- (5) For each contract identified in accordance with subclause (3)(b), identify methodologies, consultants' reports, or assumptions used to determine components of the costs included in the contract price.

**D18 Unit costs and expenditure escalators**

- (1) For each **key assumption** that is a unit rate-
  - (a) identify-
    - (i) source material from which it was derived;
    - (ii) the date it was developed; and
    - (iii) the historical unit rates adopted for key items of plant and equipment for the **capex forecast** and the **opex forecast**; and
  - (b) explain-
    - (i) how it was developed with reference to the responses to paragraph (a); and
    - (ii) whether, and if so an explanation as to why, its quantum is reasonable.

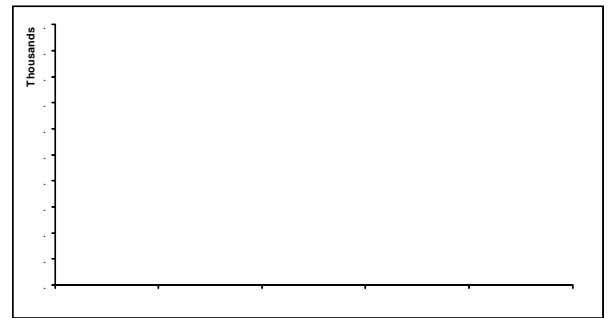
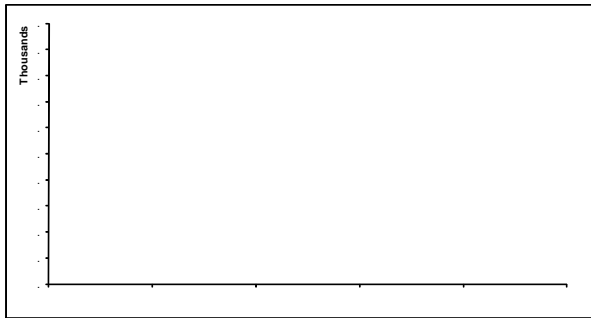
- (2) For each **key assumption** that is a labour or materials escalator-
- (a) provide the class of labour and materials to which each escalator relates;
  - (b) provide-
    - (i) the **base year** and the labour and materials unit rates for that year;
    - (ii) the escalator used in percentage terms for each year from the **base year** to the end of the **next period**;
    - (iii) the quantum of the labour costs in the **capex forecast** and the **opex forecast** which is the result of application of the labour escalator;
    - (iv) the quantum of the materials costs in the **capex forecast** and the **opex forecast** which is the result of application of the materials escalator; and
    - (v) confirmation of whether the escalator used is expressed in real or nominal terms and, if real, the indexation assumptions used; and
  - (c) explain-
    - (i) the methodology underlying the calculation of each escalator, including sources, data conversions and the use of any assumptions, including lags;
    - (ii) the weightings given to each escalator and how these weightings were developed, including any assumptions;
    - (iii) whether the same expenditure escalators have been used in the **capex forecast** and **opex forecast**;
    - (iv) where the response to sub-paragraph (iii) is no, why different expenditure escalators were applied, using supporting evidence; and
    - (v) whether, in applying the relevant labour or material escalator, additional contingency factors have been applied and, if so, what uncertainties they account for and how they were calculated.

## SCHEDULE E CAPITAL AND OPERATING EXPENDITURE - REGULATORY TEMPLATES

**Table 1: Top 5**

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

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



**Table 2: Capex Summary**

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

**Table 3: Opex Summary**

**Table 3(a):**

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

**Table 3(b):**

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



**Table 3(c):**

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

**Table 4: Capex Project Programme**

INPUT METHODOLOGIES  
QUANTITATIVE INFORMATION TEMPLATE - ELECTRICITY  
DISTRIBUTION

Project/Programme Name <sup>1</sup>		Denotes a user input cell
Project/Programme Description		
Policy reference		
Service Category	Select one	
Capex Category	Select one	

Asset Category	Asset Type <sup>2</sup>	Current Period					Assessment Period		Regulatory Period					Total
		Year - 4	Year - 3	Year - 2	Year - 1	Year 0	Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5	
Assets owned by the EDB but installed at bulk supply points owned by others														\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-transmission network including power transformers														\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Distribution network including distribution transformers														\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Switchgear														\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Low voltage distribution network														\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Supporting or secondary systems	Ripple Injection Plant													\$ -
	SCADA													\$ -
	Communications Equipment													\$ -
	Metering systems													\$ -
	Power factor correction plant													\$ -
	EDB-owned mobile substations and generators													\$ -
	Other generation plant owned by the EDB													\$ -
Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Total Project/Programme</b>		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

Denotes a user  
input cell

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

**Table 5: Opex Project Programme**

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

Denotes a user input cell

Asset Category	Asset Type <sup>2</sup>	Current Period					Assessment Period		Regulatory Period					Total
		Year - 4	Year - 3	Year - 2	Year - 1	Year 0	Year 1	Year 2	Year 1	Year 2	Year 3	Year 4	Year 5	
Assets owned by the EDB but installed at bulk supply points owned by others														\$ -
	Subtotal: Controllable opex													\$ -
	Subtotal: All other opex													\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-transmission network including power transformers														\$ -
	Subtotal: Controllable opex													\$ -
	Subtotal: All other opex													\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Distribution network including distribution transformers														\$ -
	Subtotal: Controllable opex													\$ -
	Subtotal: All other opex													\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Switchgear														\$ -
	Subtotal: Controllable opex													\$ -
	Subtotal: All other opex													\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Low voltage distribution network														\$ -
	Subtotal: Controllable opex													\$ -
	Subtotal: All other opex													\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Supporting or secondary systems	Ripple Injection Plant													\$ -
	SCADA													\$ -
	Communications Equipment													\$ -
	Metering systems													\$ -
	Power factor correction plant													\$ -
	EDB-owned mobile substations and generators													\$ -
	Other generation plant owned by the EDB													\$ -
	Subtotal: Controllable opex													\$ -
Subtotal: All other opex													\$ -	
Subtotal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Subtotal: Controllable opex	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal: All other opex	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Project/Programme</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

Denotes a user input cell

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

**Table 6: Overheads**

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

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

**Table 7: Unit Rate Escalators**

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

Denotes a user input cell

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

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

**Table 8: Cost Allocation**

Denotes a user input cell

Opex Allocation	Assessment Period Year 1		
	Directly attributable	Not directly attributable	Total <sup>1</sup>
System Management and Operations			\$ -
Routine and Preventative Maintenance			\$ -
Refurbishment and Renewal Maintenance			\$ -
Fault and Emergency Maintenance			\$ -
Other			\$ -
General Management, Administration and Overheads			\$ -
<b>Total Opex</b>	\$ -	\$ -	\$ -

## SCHEDULE F ENGAGEMENT OF A VERIFIER

### F1 Proposing a verifier

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

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

### F2 Independence

- (1) Reasons why the **CPP applicant** considers that each proposed verifier is **independent**.
- (2) A written statement signed by the proposed verifier-
  - (a) confirming that-
    - (i) his, her or its involvement in the formulation of the **CPP proposal** has not extended nor will not extend beyond acting in accordance with Schedule G;
    - (ii) he, she or it has not acted nor will not act as an **auditor** pursuant to clause 5.5.1 in respect of the **CPP proposal**; and
    - (iii) he, she or it has no direct or indirect pecuniary or other interest in the success or failure of the **CPP proposal**, including any entitlement to a success fee, contingency fee, or remuneration other than a fee for providing a **verification report**; and
  - (b) explaining the extent of any-
    - (i) ongoing role he, she or it has as **auditor** of, or advisor to, the **CPP applicant**, (on matters unrelated to the **CPP proposal**) including any advisory activities which the **verifier** may expect to undertake for the **CPP applicant** during the **next period** in relation to the **CPP applicant's capex and opex** and the existing or expected basis of remuneration for such activities; and
    - (ii) prior or existing relationship (whether professional or otherwise) that he, she or it has had with the **CPP applicant** during the **current period** in relation to the **CPP applicant's capex and opex** and the basis of remuneration for such activities.

### F3 Qualifications and experience

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

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

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

- (1) The **Commission** must notify the **CPP applicant** no later than 10 **working days** after receiving a notification in accordance with clause F1 as to whether it approves the proposed verifier.
- (2) If the **Commission** does not approve a proposed verifier-
  - (a) it must provide reasons for this decision; and
  - (b) the **CPP applicant** may propose an alternative verifier in accordance with clause F1.
- (3) If the **Commission** approves a proposed verifier, the **CPP applicant** may engage that person, as soon as practicable, in accordance with clause F5.
- (4) The **Commission's** approval of a proposed verifier remains valid until the **Commission** has completed its assessment of the **CPP proposal**.

#### **F5 Engaging the verifier**

- (1) If the **Commission** approves a proposed verifier, the approved **person** may not undertake any service in relation to the **CPP applicant's CPP proposal** unless it has entered into a deed with the **Commission**.
- (2) For the purpose of subclause (1), terms of the deed must-
  - (a) require the **CPP applicant** to-
    - (i) provide the **verifier** with the information specified in and in accordance with clause 5.5.2(3); and
    - (ii) pay any fee charged by the **verifier** for verifying the relevant parts of the **CPP proposal** in accordance with his, her or its engagement and Schedule G;
  - (b) impose a duty of care on the **verifier** to the **Commission**;
  - (c) require the **verifier** to-
    - (i) verify the relevant parts of the **CPP proposal** in accordance with the terms of his, her or its engagement and Schedule G;
    - (ii) notify the **CPP applicant** of the outcome of the **verifier's** selection, in accordance with clause G3, of **projects** or **programmes** meeting paragraph (c) of the definition in clause D1 of Schedule D of identified programme;
    - (iii) prepare a draft verification report in accordance with Schedule G and provide it to the **CPP applicant**;



- (iv) prepare a **verification report** in accordance with Schedule G that takes account of any modifications to the information originally provided to the **verifier** in light of the **CPP applicant's** consideration of the draft verification report;
  - (v) provide, upon request by the **CPP applicant**, a certificate as described in clause 5.1.3(1)(b)(iii); and
  - (vi) be available to answer any questions posed by the **Commission** on the **verification report**, in person, by telephone or in writing, as reasonably required by the **Commission**; and
- (d) enable the **verifier** to request, for the purpose of carrying out his, her or its duties specified in paragraph (c), provision by the **CPP applicant** of-
- (i) information required by Schedule D to be identified (but not provided) in a **CPP proposal**; and
  - (ii) the information specified in subclause (3).
- (3) The information specified for the purpose of subclause (2)(d)(ii) is any other information relevant-
- (i) for the purpose subclause (2)(c)(i);
  - (ii) to **electricity distribution services**;
  - (iii) to any other **regulated service** relevant to the **CPP proposal**; and
  - (iv) to any **unregulated service** relevant to the **CPP proposal**,
- that the **verifier** considers is relevant to verification.
- (4) For the avoidance of doubt-
- (a) the deed may contain such other terms that-
    - (i) the parties agree are necessary for **business** efficacy; and
    - (ii) are not inconsistent with Schedule F or this Schedule; and
  - (b) a **CPP applicant** is not required to submit its **CPP proposal** to the **Commission** following completion or its receipt of the **verification report**.

## SCHEDULE G TERMS OF REFERENCE FOR VERIFIERS

### G1 Interpretation

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

### G2 Service categories, measures and levels

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

- (a) the **CPP applicant's service category** definitions appropriately describe all activities undertaken for the purpose of **supplying the regulated services** as demanded by and provided to **consumers**;
- (b) the reason for any new **service category** is explained;
- (c) the **CPP applicant** has proposed **service measures** relevant to a complete range of key service attributes that are meaningful and important to **consumers**;
- (d) the **CPP applicant** has undertaken an appropriate process to determine the **service measures** and **service levels**, such as consultation with relevant **consumers**; and
- (e) any **step change** in any **service level** is explained and justified.

### G3 Selection of identified programmes

- (1) For the purpose of the assessments required by clauses G5(1)(d) and G6(1)(g), the **verifier** must select 10 **projects** or **programmes** and, in doing so, have regard to the criteria specified in this clause.
- (2) The **projects** or **programmes** must not have been already included by the **CPP applicant** amongst its 5 largest **capex** or 5 largest **opex projects** or **programmes**.
- (3) The selected **projects** or **programmes** must address-
  - (a) a key risk that the **CPP applicant** is exposed to;
  - (b) a key driver of the need to submit a **CPP proposal**;
  - (c) an **obligation** that has a significant impact in the context of the **CPP applicant's overall business**; or

- (d) a new **service category** or a step change in a **service level** within an existing **service category**;
- (4) The **verifier** must-
  - (a) notify the **CPP applicant** of its selected **projects** or **programmes**; and
  - (b) not change its selection after such notification.

#### **G4 Cost allocation**

- (1) In respect of **regulated service assets values** not **directly attributable** and **operating costs** not **directly attributable** the **verifier** must provide an opinion as to whether-
  - (a) the **opex forecast** has been provided in accordance with clause 5.3.5; and
  - (b) **forecast values of commissioned assets** provided in accordance with clause 5.4.14 have been determined in accordance with clause 5.3.11(2)(b).

#### **G5 Capex forecast**

- (1) The **verifier** must-
  - (a) provide an opinion as to whether the-
    - (i) **policies**;
    - (ii) **planning standards**; and
    - (iii) **key assumptions**,relied upon by the **CPP applicant** in determining the **capex forecast** are of the nature and quality required for that **capex forecast** to meet the **expenditure objective**;
  - (b) provide an opinion as to whether the **capex forecast** has been prepared in accordance with the **policies** and **planning standards** at both the aggregate system level and for each of the **capex categories**;
  - (c) provide an opinion on the reasonableness of the **key assumptions** relevant to **capex** relied upon the **CPP applicant** including-
    - (i) the method and information used to develop them;
    - (ii) how they were applied; and
    - (iii) their effect or impact on the **capex forecast** by comparison to their effect or impact on **actual capex**;
  - (d) report conclusions of a detailed review of **identified programmes** that includes, but is not limited to assessment of-
    - (i) whether relevant **policies** and **planning standards** were applied appropriately;
    - (ii) whether **policies** regarding the need for, and prioritisation of, the **project** or **programme** are reasonable and have been applied appropriately;

- (iii) the process undertaken by the **CPP applicant** to determine the reasonableness and cost-effectiveness of the chosen solution, including the use of cost-benefit analyses to target efficient solutions;
- (iv) the approach used to prioritise **capex projects** over time including the application of that approach for the **next period**;
- (v) the **project** capital costing methodology and formulation, including unit rate sources, the method used to test the efficiency of unit rates and the level of contingencies included for **projects**;
- (vi) the impact on other cost categories including the relationship with **opex**;
- (vii) links with other **projects**;
- (viii) cost control and delivery performance for **actual capex**; and
- (ix) the efficiency of the proposed approach to procurement;
- (e) provide an opinion as to overall **deliverability** of work covered by the **capex categories** in the **next period**; and
- (f) provide an opinion as to the reasonableness and adequacy of any asset replacement models used to prepare the **capex forecast** including an assessment of-
  - (i) the inputs used within the model; and
  - (ii) the methods the **CPP applicant** used to check the reasonableness of the forecasts and related expenditure.
- (2) Based on its analysis under this clause the **verifier** must provide its opinion on whether the applicant's forecast of total **capex** meets the **expenditure objective** and, if not identify-
  - (a) whether the provision of further information is required to enable assessment against the **expenditure objective** to be undertaken and, if so, the type of information required;
  - (b) which of the **CPP applicant's forecast capex programmes** for each **capex category** might warrant further assessment by the **Commission**; and
  - (c) what type of assessment would be the most effective.

## **G6 Opex forecast**

- (1) The **verifier** must-
  - (a) provide an opinion as to whether the-
    - (i) **policies**,
    - (ii) **planning standards**; and
    - (iii) **key assumptions**,

- relied upon by the **CPP applicant** in determining the **opex forecast** are of the nature and quality required for that **opex forecast** to meet the **expenditure objective**;
- (b) provide an opinion as to whether the **opex forecast** has been prepared in accordance with the **policies** and **planning standards**, at both the aggregate system level and for each of the **opex categories**;
  - (c) provide an opinion on the reasonableness of the **key assumptions** relevant to **opex** relied upon by the **CPP applicant** including-
    - (i) the method and information used to develop them;
    - (ii) how they have been applied; and
    - (iii) their effect or impact on the **opex forecast** by comparison to their effect or impact on **actual opex**;
  - (d) review, assess and report on any other **opex** drivers not covered by the **key assumptions** that have led to an increase in the **opex forecast** including whether the quantum of such an increase is required to meet the **expenditure objective**;
  - (e) provide an opinion as to the reasonableness of the methodology used in forecasting **opex** (such as cost benchmarking or internal historic cost trending), including the relationship between the **opex forecast** and **capex forecast**;
  - (f) provide an opinion as to the reasonableness of any **opex** reduction initiatives undertaken or planned during the **current period** or the **next period**;
  - (g) report conclusions of a detailed review of **identified programmes** that includes, but is not limited to, an assessment of-
    - (i) whether relevant **policies** and **planning standards** were applied appropriately;
    - (ii) whether **policies** regarding the need for, and prioritisation of, the **project** or **programme** are reasonable and have been applied appropriately;
    - (iii) the process undertaken by the **CPP applicant** to determine the reasonableness and cost-effectiveness of the chosen solution, including the use of cost-benefit analyses to target efficient solutions;
    - (iv) the approach used to prioritise **opex projects** over time including the application of that approach for the **next period**;
    - (v) the **project operating cost** methodology and formulation, including unit rate sources, the method used to test the efficiency of unit rates and the level of contingencies included for **projects**;
    - (vi) the impact on other cost categories including the relationship with **capex**;
    - (vii) links with other **projects**;
    - (viii) cost control and delivery performance for **actual opex**; and
    - (ix) the efficiency of the proposed approach to procurement;

- (h) provide an opinion as to overall **deliverability** of work covered by the **opex categories** in the **next period**; and
  - (i) provide an opinion as to the reasonableness and adequacy of any **opex** models used to prepare the **opex forecast** including an assessment of-
    - (i) the inputs used within the model; and
    - (ii) any methods the **CPP applicant** used to check the reasonableness of the forecasts and related expenditure.
- (2) Based on analysis in accordance with this clause, the **verifier** must provide an opinion on whether the **CPP applicant's** forecast of total **opex** meets the **expenditure objective** and, if not, identify-
- (a) whether the provision of further information is required to enable assessment against the **expenditure objective** to be undertaken and, if so, the type of information required;
  - (b) which of the **CPP applicant's forecast opex programmes** for each **opex category** might warrant further assessment by the **Commission**; and
  - (c) what type of assessment would be the most effective.

#### **G7 Capital contributions**

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

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

#### **G8 Demand forecasts**

- (1) The **verifier** must provide an opinion as to whether-
- (a) the **key assumptions**, key input data and forecasting methods used in determining demand forecasts were reasonable; and
  - (b) it was appropriate to use the demand forecasts resulting from these methods and assumptions to determine the-
    - (i) **capex forecast**; and
    - (ii) **opex forecast**.
- (2) In respect of data, calculations and assumptions used to derive the forecast weighted average growth in quantities (as required by clause 5.3.4), the **verifier** must provide an opinion as to whether, in relation to each **demand group**-
- (a) the-
    - (i) rationale for its selection;
    - (ii) basis for the forecast growth in demand;

- (iii) basis for the assumptions used concerning the relative proportion of fixed and variable components in the **prices** charged; and
- (iv) basis for each weighting term,  
is reasonable;
- (b) the forecast growth in demand is consistent with all other demand forecasts included in the **CPP proposal**; and
- (c) the assumptions referred to in paragraph (a)(iii) are consistent with the calculation of **notional revenue** in the most recent annual compliance statement made by the supplier in accordance with a **DPP determination**.

### **G9 Non-standard depreciation**

Where the **CPP proposal** includes information pursuant to clause 5.4.12(3), the **verifier** must provide an opinion as to whether-

- (a) where an asset's proposed **asset life** is different to its **physical asset life**, the proposed **remaining asset life** better meets the purpose of Part 4 of the **Act** than would be the case were **depreciation** determined in accordance with the **standard depreciation method**; and
- (b) the proposed depreciation method better meets the purpose of Part 4 of the **Act** than the **standard depreciation method**.

### **G10 Assessment techniques**

- (1) When-
  - (a) undertaking analysis and reviews of information; and
  - (b) considering the matters,  
required by this Schedule, the **verifier** must use some or all of the following assessment techniques:
    - (c) process benchmarking;
    - (d) process or functional modelling;
    - (e) unit rate benchmarking;
    - (f) trending or time-series analysis;
    - (g) high level governance and process reviews;
    - (h) internal benchmarking of forecast costs against costs in the **current period**;
    - (i) **capex category** and **opex category** benchmarking;
    - (j) **project** and **programme** sampling; and
    - (k) critiques or **independent** development of-
      - (i) demand forecasts;
      - (ii) labour unit cost forecasts;

- (iii) materials forecasts;
  - (iv) plant forecasts; and
  - (v) equipment unit cost forecasts.
- (2) The **verifier** must explain why particular techniques listed in subclause (1) were applied and others were not applied.
- (3) Where, for the purpose of applying any of the techniques listed in subclause (1), the **verifier** uses information that is not provided to it by the **CPP applicant**, the **verifier** must, in respect of that information-
- (a) describe in the draft verification report its nature and source and the reason for wishing to rely on it;
  - (b) subject to subclause (4), provide it to the **CPP applicant**;
  - (c) when finalising the **verification report**, take into account any comments made about it by the **CPP applicant** in response to the draft verification report; and
  - (d) where, notwithstanding paragraph (c), the **verifier** continues to rely on it, describe in the **verification report**-
    - (i) the nature and source of the information relied upon and the reason for relying on it; and
    - (ii) the **CPP applicant's** concerns in respect thereof.
- (4) Subclause (3)(b) does not apply if the **verifier's** terms of use of the information prevent such disclosure.

### **G11 Completeness of CPP proposal**

A **verification report** must-

- (a) list the information in and relating to the **CPP proposal** provided by the **CPP applicant** to the **verifier**;
- (b) state each type of information in respect of which this schedule requires the **verifier's** consideration or opinion that the **verifier** considers has been omitted from the **CPP proposal**, including information that is incomplete or insufficient, and the relevant requirement in Part 5, Subpart 4 to provide the information in question;
- (c) where information is identified as insufficient in accordance with paragraph (b), state the nature of additional information the **verifier** considers that the **CPP proposal** requires to fulfil the information requirement in question; and
- (d) state the extent to which the omission, incompleteness or insufficiency of information has impaired the **verifier's** judgement as to whether the **capex forecast** and **opex forecast** for the **next period** meets the **expenditure objective**.



## **G12 Overview of key issues and additional information requirements**

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

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