

Powerco Limited Electricity Distribution Customised Price- Quality Path Determination 2018

[2018] NZCC 5

The Commission: **Part 4 Division**

Sue Begg

Dr Stephen Gale

Dr Mark Berry

Dr Jill Walker

Date of determination: 28 March 2018

Determination version history		
This determination amends the <i>Electricity Distribution Services Default Price-Quality Path Determination 2015</i> [2014] NZCC 33, 28 November 2014, as it applies to Powerco Limited.		
Publication date	Decision No.	Determination name
28 November 2014	[2014] NZCC 33	Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33
26 March 2015	[2015] NZCC 9	Electricity Distribution Services (Top Energy Limited) Default Price-Quality Path Amendment Determination 2015
9 July 2015	[2015] NZCC 18	Electricity Distribution Services (Powerco Limited) Default Price-Quality Path Amendment Determination 2015
11 May 2017	[2017] NZCC 9	Electricity Distribution Services Default Price-Quality Path (CPP Window) Amendment Determination 2017
30 November 2017	[2017] NZCC 27	Electricity Distribution Services Default Price-Quality Path (CPP Window) Amendment Determination November 2017
28 March 2018	[2018] NZCC 5	Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018

Commerce Commission
Wellington, New Zealand

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

1. Title

1.1 This determination is the Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018.

2. Commencement

2.1 This determination takes effect on 1 April 2018.

3. Application

3.1 This determination amends the *Electricity Distribution Services Default Price-Quality Path Determination 2015* [2014] NZCC 33, 28 November 2014, as it applies to **Powerco** to set the customised price-quality path for **Powerco**, and is made under sections 53Q and 53V of the **Act**.

3.2 This determination applies to **Powerco**, and replaces all terms of the *Electricity Distribution Services Default Price-Quality Path Determination 2015* [2014] NZCC 33, 28 November 2014 as they apply to **Powerco**.

4. Interpretation

4.1 Unless the context otherwise requires:

- (a) terms in bold type in this determination, including its schedules, have the meaning given to those terms in clause 4.2;
- (b) terms used in this determination that are defined in the **Act** but not in this determination have the same meanings as in the **Act**;
- (c) for the avoidance of doubt, references to terms from legislation in this determination have the meaning given in the applicable legislation at the time they are applied;
- (d) terms used in this determination that are defined in the **IM determination** but not in this determination have the same meanings as in the **IM determination**;
- (e) any reference to a period of time is interpreted in accordance with section 35 of the Interpretation Act 1999; and
- (f) a word which denotes the singular also denotes the plural and vice versa.

4.2 In this determination, unless the context otherwise requires,:

67th percentile estimate of post-tax WACC is the amount applicable for each **assessment period** as specified in Schedule 1.7;

A

Accumulated SAIDI limit	means the SAIDI value against which Powerco's compliance with the planned interruptions reliability assessment cap is assessed, and is specified in Schedule 3.1;
Accumulated SAIFI limit	means the SAIFI value against which Powerco's compliance with the planned interruptions reliability assessment cap is assessed, and is specified in Schedule 3.1;
Act	means the Commerce Act 1986;
Actual allowable revenue	means: <ul style="list-style-type: none"> (a) for the first assessment period, the amount specified in paragraph (2)(a) of Schedule 1.5; and (b) for the second to fifth assessment periods, the amount specified in paragraph (2)(b) of Schedule 1.5;
Actual net allowable revenue	means: <ul style="list-style-type: none"> (a) for the first assessment period, the amount specified as forecast net allowable revenue for the first assessment period; and (b) for the second to fifth assessment periods, the amount calculated in paragraph (3) of Schedule 1.5;
Actual pass-through costs and recoverable costs	means: <ul style="list-style-type: none"> (a) for the first assessment period, the sum of all pass-through costs and recoverable costs that were incurred in the assessment period <i>plus</i> the pass-through balance <i>multiplied by</i> $(1 + 67^{\text{th}}$ percentile estimate of post-tax WACC); and (b) for the second to fifth assessment

periods, the sum of all **pass-through costs** and **recoverable costs** that were incurred in the **assessment period**, excluding any **recoverable cost** that is a **revenue wash-up draw down amount**;

Actual revenue	means the sum of actual revenue from prices plus other regulated income ;
Actual revenue from prices	means the sum of each price <i>multiplied</i> by each corresponding actual quantity ;
Amalgamate and Amalgamation	has the meaning given in the IM determination ;
Annual compliance statement	means a written statement required to be made by Powerco in respect of the wash-up amount calculation, quality standards and transactions under clause 11.4-11.6;
Assessment period	means: <ul style="list-style-type: none"> (a) a 12 month period commencing 1 April and ending on 31 March for each year of the CPP regulatory period; (b) for the purpose of clause 9.3 and 9.8, the periods identified in paragraph (a), and in addition, : <ul style="list-style-type: none"> (i) the 12 month period commencing 1 April 2016 and ending on 31 March 2017; and (ii) the 12 month period commencing 1 April 2017 and ending on 31 March 2018; (c) for the purpose of clause 9.4 and 9.9, the periods identified in paragraph (a), and in addition, the 12 month period commencing 1 April 2017 and ending on 31 March 2018;

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C

Capex incentive amount	has the meaning given in the IM determination ;
Class B interruptions	means planned interruptions by Powerco ;
Class C interruptions	means unplanned interruptions originating within the system fixed assets of Powerco ;
Commission	means the Commerce Commission as defined in section 2 of the Act ;
Consumer	has the meaning given in the IM determination ;
CPI	has the meaning given in the IM determination ;
CPP proposal	has the meaning given in the IM determination ;
CPP regulatory period	means the regulatory period 1 April 2018 to 31 March 2023 during which Powerco is subject to a customised price-quality path;

D

Director	has the meaning given in the IM determination ;
DPP regulatory period	means the regulatory period 1 April 2015 to 31 March 2020;

E

EDB	means a supplier of electricity lines services other than Transpower ;
Electricity lines services	has the meaning given in the IM determination ;
Extended reserves allowance	has the meaning given in the IM determination ;

8

F

Forecast allowable revenue	means the amount calculated for each assessment period as specified in Schedule 1.4;
Forecast net allowable revenue	means the amount specified in Schedule 1.3;
Forecast opex	has the meaning given in the IM determination ;
Forecast pass-through and recoverable costs	means the sum of all the forecast pass-through costs and forecast recoverable costs , excluding any recoverable cost that is a revenue wash-up draw down amount ;
Forecast revenue from prices	means the amount calculated for each assessment period as specified in Schedule 1.2;
Forecast value of commissioned asset	has the meaning given in the IM determination ;

I

IM determination	means the <i>Electricity Distribution Services Input Methodologies Determination 2012</i> [2012] NZCC 26, including, for the avoidance of doubt, any amendment in effect at the time of determination of a default price-quality path or customised price-quality path;
Independent auditor	means a person who: <ul style="list-style-type: none">(a) is qualified for appointment as auditor of a company under the Companies Act 1993; and(b) has no relationship with, or interest in, Powerco that is likely to involve the person in a conflict of interest; and(c) has not assisted with the preparation of the annual compliance statement or provided advice or opinions (other than in relation to audit reports) on the methodologies or processes used in preparing the annual compliance

statement; and

- (d) has the necessary expertise to properly prepare an assurance report required by clause 11.5(e); but
- (e) need not be the same person as the person who audits **Powerco's** accounts for any other purpose;

Input methodology

has the same meaning as in section 52C of the **Act**;

Interruption

means, in relation to the conveyance of electricity to a **consumer** by means of a **prescribed voltage electric line**, the cessation of conveyance of electricity to that **consumer** for a period of 1 minute or longer, or disconnection of that **consumer**, other than—

- (a) in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves; or
- (b) as a result of an automatic under voltage, under frequency, or rolling outage scheme or similar arrangement required as part of the system operator services or other instruction from an authorised regulator; or
- (c) for breach of the contract under which the electricity is conveyed; or
- (d) as a result of a request from the **consumer**; or
- (e) as a result of a request by the **consumer's** electricity retailer; or
- (f) for the purpose of isolating an unsafe installation;

M

Major event day means any day where the daily **SAIDI value** for **Class C interruptions** or daily **SAIFI value** for **Class C interruptions** exceeds the applicable **SAIDI unplanned boundary value** or **SAIFI unplanned boundary value**;

Major transaction has the meaning given in the **IM determination**;

Merger means a transaction whereby **Powerco** takes over, or otherwise merges with, any other **non-exempt EDB** other than by an amalgamation under Part 13 of the Companies Act 1993, which without limitation includes:

- (a) the purchase of all the assets of another **non-exempt EDB**;
- (b) the acquisition of sufficient shares in another **non-exempt EDB** to have an interest in the other **non-exempt EDB** sufficient to enable it, whether directly or indirectly, to exert a substantial degree of influence over the activities of the other **non-exempt EDB**; or
- (c) a scheme of arrangement under Part 15 of the Companies Act 1993 having like effect;

N

Non-exempt EDB has the meaning given in the **IM determination**;

Non-reopener transaction means a transaction, whether contingent or not, where **consumers** are acquired or no longer **supplied** by **Powerco** and that transaction:

- (a) has resulted in, or will result in, the acquisition of, or an agreement to acquire, assets with a value which is

- equivalent to less than 10% of **Powerco's opening RAB value** in the **assessment period** of acquisition;
- (b) has resulted in, or will result in, the disposal of, or an agreement to dispose of, assets of **Powerco** with a value of less than 10% of the **opening RAB value** in the **assessment period** of disposal;
- (c) has, or is likely to have, the effect of **Powerco** acquiring rights or interests with a value which is equivalent to less than 10% of the **opening RAB value** in the **assessment period** of acquisition; or
- (d) has, or is likely to have, the effect of **Powerco** incurring obligations or liabilities or contingent liabilities, excluding loans or borrowing costs in respect of assets, with a value, which is equivalent to less than 10% of the **opening RAB value** in the **assessment period** of incurring the obligation;

O

Opening RAB value	has the meaning given in the IM determination ;
Opening wash-up account balance	means the amount calculated as specified in paragraph (1) of Schedule 1.6;
Opex incentive amount	has the meaning given in the IM determination ;
Other regulated income	has the meaning given in the IM determination ;

P

Pass-through balance	is the cumulative difference as at 31 March 2018 between the revenue from pass-through prices and the sum of pass-through costs and recoverable costs in the DPP regulatory period
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up to that date;

Pass-through costs

has the meaning given in the **IM determination**;

Pass-through prices

means, as at 31 March 2018, the portion of **prices** attributable to **pass-through costs** and **recoverable costs** in the **DPP regulatory period** up to that date;

Planned interruption

means any **interruption** other than an **unplanned interruption**;

Powerco

means Powerco Limited's **EDB**;

Prescribed voltage electric line

means an electric line that is capable of conveying electricity at a voltage equal to or greater than 3.3 kilovolts;

Prices

has the meaning given in the **IM determination**;

Q

Quality incentive adjustment

has the meaning given in the **IM determination**, and is calculated in accordance with Schedule 4;

Quantity

has the meaning given in the **IM determination**;

R

Recoverable costs

has the meaning given in the **IM determination**;

Regulatory period

has the meaning given in the **IM determination**;

Retention factor

has the meaning given in the **IM determination**;

Revenue foregone

means:

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- (a) where the **revenue reduction percentage** is greater than 20%, the 'revenue foregone' must be calculated in accordance with the formula:
- actual net allowable revenue X
(revenue reduction percentage – 20%);**
- (b) where the **revenue reduction percentage** is not greater than 20%, the 'revenue foregone' is nil;

Revenue reduction percentage is 1 *minus* (actual revenue from prices ÷ forecast revenue from prices);

Revenue wash-up draw down amount means the amount calculated as specified in paragraph (4) of Schedule 1.5;

S

SAIDI assessed value means:

(a) for **planned interruptions**, the sum of **SAIDI values** for an **assessment period** calculated in accordance with Schedule 3.1; and

(b) for **unplanned interruptions**, the sum of **SAIDI values** for an **assessment period** calculated in accordance with Schedule 3.2;

SAIDI cap means the maximum **SAIDI value** used for purposes of calculating the **quality incentive adjustment**, and is specified in Schedule 4;

SAIDI collar means the minimum **SAIDI value** used for purposes of calculating the **quality incentive adjustment**, and is specified in Schedule 4;

SAIDI limit means:

(a) for **planned interruptions**, the **SAIDI value** against which **Powerco's** compliance with the quality standards is assessed, and is specified in Schedule

3.1; and

- (b) for **unplanned interruptions**, the **SAIDI value** against which **Powerco's** compliance with the quality standards is assessed, and is specified in Schedule 3.2;

SAIDI target means the **SAIDI value** used for purposes of calculating the **quality incentive adjustment**, and is specified in Schedule 4;

SAIDI unplanned boundary value means the value specified in Schedule 3.2;

SAIDI value means the system average interruption duration index values, where any **interruption** that spans multiple calendar days accrues to the day on which the **interruption** began;

SAIFI assessed value means:

- (a) for **planned interruptions**, the sum of **SAIFI values** for an **assessment period** calculated in accordance with Schedule 3.1; and
- (b) for **unplanned interruptions**, the sum of **SAIFI values** for an **assessment period** calculated in accordance with Schedule 3.2;

SAIFI cap means the maximum **SAIFI value** used for purposes of calculating the **quality incentive adjustment**, and is specified in Schedule 4;

SAIFI collar means the minimum **SAIFI value** used for purposes of calculating the **quality incentive adjustment**, and is specified in Schedule 4;

SAIFI limit means:

- (a) for **planned interruptions**, the **SAIFI value** against which **Powerco's** compliance with the quality standards is assessed, and is specified in Schedule 3.1; and
- (b) for **unplanned interruptions**, the **SAIFI**

value against which **Powerco's** compliance with the quality standards is assessed, and is specified in Schedule 3.2;

SAIFI target means the **SAIFI value** used for purposes of calculating the **quality incentive adjustment**, and is specified in Schedule 4;

SAIFI unplanned boundary value means the value specified in Schedule 3.2;

SAIFI value means the system average interruption frequency index values;

Supply has the meaning given in the **IM determination**;

System fixed assets means all fixed assets owned, provided, maintained, or operated by **Powerco** that are used or intended to be used for the supply of **electricity lines services**;

T

Transpower has the meaning set out in section 54B of the **Act**;

U

Unplanned interruption means any **interruption** in respect of which less than 24 hours' notice, or no notice, was given either to the public or to all **consumers** affected by the **interruption**;

Unregulated services has the meaning given in the **IM determination**;

V

Voluntary undercharging amount foregone means the amount as specified in paragraph (5) of Schedule 1.5;

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W

WACC

has the meaning given in the **IM determination**;

Wash-up amount

means the amount calculated for each **assessment period** as specified in Schedule 1.5;

Working day

has the meaning given in section 2(1) of the **Act**.

5. Customised price-quality path

During the **CPP regulatory period**, **Powerco** must comply with the customised price-quality path, which consists of:

- (a) the price path specified in clause 8; and
- (b) the quality standards specified in clause 9.

6. Applicable input methodologies

6.1 The **input methodologies** that apply are the following parts of the **IM determination**:

- (a) Subpart 1 of Part 3 – Specification of price;
- (b) Subpart 2 of Part 3 – Amalgamations;
- (c) Subpart 3 of Part 3 – Incremental rolling incentive scheme;
- (d) Section 1 of Subpart 3 of Part 5 – Determination of annual allowable revenues;
- (e) Section 2 of Subpart 3 of Part 5 – Cost allocation and asset valuation;
- (f) Section 3 of Subpart 3 of Part 5 – Treatment of taxation;
- (g) Section 4 of Subpart 3 of Part 5 – Cost of capital;
- (h) Section 5 of Subpart 3 of Part 5 – Alternative methodologies with equivalent effect; and
- (i) Subpart 6 of Part 5 – Catastrophic events and reconsideration of a customised price-quality path.

6.2 The **input methodologies** that are applied are subject to the variation agreed with **Powerco**, which is attached as Schedule 9.

7. When the customised price-quality path may be reconsidered

7.1 The customised price-quality path in this determination may be reconsidered in accordance with clause 5.6.7 of the **IM determination**.

8. Price path

Starting price

- 8.1 The starting price that applies to **Powerco** for the **CPP regulatory period** is set out in Schedule 1.1.

Rate of change

- 8.2 The annual rate of change in revenue, relative to the **CPI**, that is allowed during the **CPP regulatory period** is 0%.

Weighted average cost of capital

- 8.3 The **WACC** that applies to **Powerco** for each **assessment period** is the **67th percentile estimate of post-tax WACC**.

Compliance with the price path

- 8.4 Subject to clause 8.5, the **forecast revenue from prices** for each **assessment period** must not exceed the **forecast allowable revenue** for the **assessment period**.
- 8.5 **Powerco** will be deemed to comply with clause 8.4 in respect of the first **assessment period** if:
- (a) **forecast revenue from prices** does not exceed the greater of:
 - (i) **forecast allowable revenue**; and
 - (ii) **\$278,558,744 + forecast pass-through and recoverable costs + opening wash-up account balance**; and
 - (b) any forecast 'CPP assessment fee' included in **forecast pass-through and recoverable costs** in subclause (a) does not exceed \$1,300,000.

Wash-up amount calculation

- 8.6 **Powerco** must calculate the **wash-up amount** for each **assessment period** using the methodology specified in Schedule 1.5.

9. Quality standards

Compliance with planned interruptions quality standards

- 9.1 **Powerco** must, in respect of each **assessment period**, either:
- (a) comply with the annual planned interruptions reliability assessment specified in clause 9.5 for that **assessment period**; or

- (b) have complied with the annual planned interruptions reliability assessment in each of the two preceding **assessment periods**.
- 9.2 **Powerco** must comply with the planned interruptions reliability assessment cap specified in clause 9.6 for the fifth **assessment period**.
- 9.3 **Powerco** will be deemed to meet the requirements of clause 9.1(b) for the **assessment period** ending 31 March 2019 if it complied with the quality standards applicable to it under clause 9.1(a) of the *Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33* for each of the **assessment periods** ending 31 March 2017 and 31 March 2018.
- 9.4 **Powerco** will be deemed to meet the requirements of clause 9.1(b) for the **assessment period** ending 31 March 2020 if it complied with the quality standards applicable to it under the *Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33* for the **assessment period** ending 31 March 2018 and its annual planned interruptions reliability assessment for the **assessment period** ending 31 March 2019.

Annual planned interruptions reliability assessment

- 9.5 For the purpose of clause 9.1(a), to comply with the annual planned interruptions reliability assessment:
- (a) **Powerco's SAIDI assessed value** for **planned interruptions** for the **assessment period** must not exceed the **SAIDI limit** specified in Schedule 3.1; and
- (b) **Powerco's SAIFI assessed value** for **planned interruptions** for the **assessment period** must not exceed the **SAIFI limit** specified in Schedule 3.1.

Planned interruptions reliability assessment cap

- 9.6 For the purpose of clause 9.2, to comply with the planned interruptions reliability assessment cap:
- (a) the sum of **Powerco's SAIDI assessed values** accumulated through the first to fifth **assessment periods** must not exceed the **accumulated SAIDI limit** specified in Schedule 3.1; and
- (b) the sum of **Powerco's SAIFI assessed values** accumulated through the first to fifth **assessment periods** must not exceed the **accumulated SAIFI limit** specified in Schedule 3.1.

Compliance with unplanned interruptions quality standards

- 9.7 **Powerco** must, in respect of each **assessment period**, either:
- (a) comply with the annual unplanned interruptions reliability assessment specified in clause 9.10 for that **assessment period**; or

- (b) have complied with the annual unplanned interruptions reliability assessment in each of the two preceding **assessment periods**.

9.8 **Powerco** will be deemed to meet the requirements of clause 9.7(b) for the **assessment period** ending 31 March 2019 if it complied with the quality standards applicable to it under the *Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33* for each of the **assessment periods** ending 31 March 2017 and 31 March 2018.

9.9 **Powerco** will be deemed to meet the requirements of clause 9.7(b) for the **assessment period** ending 31 March 2020 if it complied with the quality standards applicable to it under the *Electricity Distribution Services Default Price-Quality Path Determination 2015 [2014] NZCC 33* for the **assessment period** ending 31 March 2018 and its annual unplanned interruptions reliability assessment for the **assessment period** ending 31 March 2019.

Annual unplanned interruptions reliability assessment

9.10 For the purpose of clause 9.7(a), to comply with the annual unplanned interruptions reliability assessment:

- (a) **Powerco's SAIDI assessed value for unplanned interruptions** for the **assessment period** must not exceed the **SAIDI limit** specified in Schedule 3.2; and
- (b) **Powerco's SAIFI assessed value for unplanned interruptions** for the **assessment period** must not exceed the **SAIFI limit** specified in Schedule 3.2.

10. Transactions

Requirement to notify the Commission of an amalgamation, merger or transaction

10.1 **Powerco** must notify the **Commission** in writing within 30 **working days** after entering into an agreement with another **EDB** or **Transpower** for an **amalgamation, merger, major transaction** or **non-reopener transaction**.

Impact on the customised price-quality path following an amalgamation, merger or transaction

10.2 If **Powerco** enters into an agreement with another **EDB** or **Transpower** for an **amalgamation, merger, major transaction** or **non-reopener transaction**, the **Commission** may amend the customised price-quality path for **Powerco**.

11. Annual compliance statements

Annual price-setting compliance statement

11.1 **Powerco** must:

- (a) provide to the **Commission** a written 'annual price-setting compliance statement' in respect of **price setting**:

- (i) for the first **assessment period**, within five **working days** after the start of the first **assessment period**; and
- (ii) for the second to fifth **assessment period**, before the start of each **assessment period**;
- (b) make the 'annual price-setting compliance statement' and the **director's** certificate provided under clause 11.2(c) publicly available on its website within five **working days** after providing it to the **Commission**; and
- (c) provide to the **Commission** schedules reflecting the **prices** and forecast **quantities** used in the calculation of **forecast revenue from prices**, disclosed in an electronic format that is compatible with Microsoft Excel, with the 'annual price-setting compliance statement'.

11.2 The 'annual price-setting compliance statement' must:

- (a) state whether or not **Powerco** has complied with the price path in clause 8 for the **assessment period**;
- (b) state the date on which the statement was prepared; and
- (c) include a certificate in the form set out in Schedule 6, signed by at least one **director of Powerco**.

11.3 The 'annual price-setting compliance statement' must include the following information:

- (a) **Powerco's** calculation of its **forecast revenue from prices** together with supporting information for all components of the calculation;
- (b) **Powerco's** calculation of its **forecast allowable revenue** together with supporting information for all components of the calculation;
- (c) if **Powerco** has not complied with the price path, the reasons for the non-compliance; and
- (d) if **Powerco** has not complied with the price path, any actions taken to mitigate any non-compliance and to prevent similar non-compliance in future **assessment periods**.

Annual compliance statement in respect of the wash-up amount calculation, quality standards and transactions

11.4 **Powerco** must:

- (a) provide to the **Commission** a written 'annual compliance statement' in respect of the **wash-up amount** calculation, quality standards and transactions within 50 **working days** following the end of each **assessment period**;

- (b) make the 'annual compliance statement' publicly available on its website within 5 **working days** after providing it to the **Commission**; and
- (c) provide to the **Commission** schedules reflecting the **prices** and actual **quantities** used to calculate the **wash-up amount**, disclosed in an electronic format that is consistent with Microsoft Excel, with the 'annual compliance statement'.

11.5 The 'annual compliance statement' must:

- (a) state whether or not **Powerco** has:
 - (i) complied with the requirements to calculate the **wash-up amount** in clause 8.6 for the **assessment period**; and
 - (ii) complied with the quality standards in clause 9 for the **assessment period**;
- (b) state the day on which the statement was prepared;
- (c) state whether or not **Powerco** has entered into any agreement with another **EDB** or **Transpower** for an **amalgamation, merger, major transaction or non-reopener transaction** in the **assessment period**;
- (d) include a certificate in the form set out in Schedule 7, signed by at least one **director** of **Powerco**; and
- (e) be accompanied by an assurance report meeting the requirements in Schedule 8, in respect of all information contained in the 'annual compliance statement'.

11.6 The 'annual compliance statement' must include any information reasonably necessary to demonstrate whether **Powerco** has complied with clause 8.6, clause 9, and clause 10.1, including, but not limited to:

Wash-up amount calculation

- (a) details of the **wash-up amount** calculation as specified in clause 8.6, together with supporting information for all components of the calculation;

Quality standards compliance

- (b) if **Powerco** has not complied with the annual planned interruptions reliability assessment in clause 9.5 for the **assessment period**, the reasons for not complying;
- (c) if **Powerco** has not complied with the planned interruptions reliability assessment cap in clause 9.6 for the fifth **assessment period**, the reasons for not complying;

- (d) if **Powerco** has not complied with the annual unplanned interruptions reliability assessment in clause 9.10 for the **assessment period**, the reasons for not complying;
- (d) actions taken to mitigate any non-compliance and to prevent similar non-compliance in future **assessment periods**;
- (e) for the annual planned interruptions reliability assessment, the **SAIDI assessed value, SAIFI assessed value, SAIDI limit and SAIFI limit** for the **assessment period**, and any supporting calculations (including those in Schedule 3.1) and where applicable, the annual planned interruptions reliability assessments for the two previous **assessment periods**;
- (f) for the annual unplanned interruptions reliability assessment, the **SAIDI assessed value, SAIFI assessed value, SAIDI limit, SAIFI limit, SAIDI unplanned boundary value, SAIFI unplanned boundary value, SAIDI cap, SAIFI cap, SAIDI collar, SAIFI collar, SAIDI target and SAIFI target** for the **assessment period**, and any supporting calculations (including those in Schedule 3.2) and where applicable, the annual unplanned interruptions reliability assessments for the two previous **assessment periods**;
- (g) a description of the policies and procedures which **Powerco** has used for capturing and recording **Class B interruptions and Class C interruptions**, and for calculating **SAIDI assessed values and SAIFI assessed values** for the **assessment period**; and
- (h) the cause of each **major event day** within the **assessment period**.



Sue Begg, *Deputy Chair*

Dated at Wellington this 28th day of March 2018.

COMMERCE COMMISSION

Schedule 1.1: Starting price

Clause 8.1

The starting price for the **CPP regulatory period**, specified as **actual net allowable revenue** for the first **assessment period**, is \$278,874 (\$000).

Schedule 1.2: Calculation of forecast revenue from prices

Clause 8.4

- (1) When setting **prices** for an **assessment period**, **Powerco** must calculate the 'forecast revenue from prices' for the **assessment period**.
- (2) When calculating the 'forecast revenue from prices', **Powerco** must prepare a forecast of **quantities** for the **assessment period** to which the **prices** for the **assessment period** will apply.
- (3) The 'forecast revenue from prices' must be calculated as the sum of each **price** multiplied by each corresponding forecast **quantity**.
- (4) All forecast **quantities** used to calculate the 'forecast revenue from prices' must be demonstrably reasonable.

Schedule 1.3: Forecast net allowable revenue

Clause 8.4

Assessment period ending	Forecast net allowable revenue (\$000)
31 March 2019	278,874
31 March 2020	284,878
31 March 2021	290,852
31 March 2022	296,750
31 March 2023	302,685

Schedule 1.4: Calculation of forecast allowable revenue

Clause 8.4

- (1) When setting **prices** for an **assessment period**, **Powerco** must calculate the 'forecast allowable revenue'.
- (2) When calculating the 'forecast allowable revenue', **Powerco** must prepare a forecast of **pass-through costs** and a forecast of **recoverable costs**, excluding any **recoverable cost** that is a **revenue wash-up draw down amount**.
- (3) All forecasts of **pass-through costs** and **recoverable costs** used to calculate the 'forecast allowable revenue' must be demonstrably reasonable.
- (4) For the purposes of paragraph (3), 'recoverable costs' include the amounts specified in Schedule 2.1.
- (5) The 'forecast allowable revenue' for an **assessment period** must be determined in accordance with the formula:

forecast net allowable revenue + forecast pass-through and recoverable costs + opening wash-up account balance

Schedule 1.5: Calculation of wash-up amount for an assessment period

Clause 8.6

Formula for wash-up amount

- (1) The 'wash-up amount' must be calculated in accordance with the formula:

actual allowable revenue – actual revenue – revenue foregone*Actual allowable revenue*

- (2) For the purposes of paragraph (1), 'actual allowable revenue' means:

- (a) for the first
- assessment period**
- :

actual net allowable revenue plus actual pass-through costs and recoverable costs

- (b) for the second to fifth
- assessment periods**
- :

actual net allowable revenue plus actual pass-through costs and recoverable costs plus revenue wash-up draw down amount

- (3) For the purposes of paragraph (2)(b), 'actual net allowable revenue' for the second to fifth
- assessment periods**
- means the amount calculated using the following formula:

'actual net allowable revenue' of the previous **assessment period** × (1 + ΔCPI_t) × (1 – X)

where:

ΔCPI is the derived change in the **CPI** to be applied for the **assessment period**, calculated in accordance with the formula:

$$\Delta CPI = \frac{CPI_{Jun,t-1} + CPI_{Sep,t-1} + CPI_{Dec,t-1} + CPI_{Mar,t}}{CPI_{Jun,t-2} + CPI_{Sep,t-2} + CPI_{Dec,t-2} + CPI_{Mar,t-1}} - 1$$

where:

CPI_{q,t-n} is the **CPI** for the quarter year ending q in the 12 month period n years prior to year t;t is the year in which the **assessment period** ends;

X is the annual rate of change, as specified in clause 8.2.

- (4) For the purpose of paragraph (2)(b), 'revenue wash-up draw down amount' is:

- (a) for the second
- assessment period**
- , nil, including
- voluntary undercharging amount foregone**
- ; and

- (b) For the third to fifth **assessment periods**, the 'opening wash-up account balance' calculated in accordance with Schedule 1.6, including **voluntary undercharging amount foregone**.
- (5) The 'voluntary undercharging amount foregone' for the second to fifth **assessment periods** is nil.

Schedule 1.6: Calculation of opening wash-up account balance

Clause 8.6

- (1) The 'opening wash-up account balance' means:
- (a) for the first **assessment period**, the estimated amount of the **pass-through balance** at 31 March 2018 of \$264,000; and
 - (b) for second to fifth **assessment periods**, the *closing wash-up account balance* of the previous **assessment period**.
- (2) For the purpose of paragraph (1)(b), the 'closing wash-up account balance' means:
- (a) for the first **assessment period**, the amount calculated in accordance with the formula:

(pass-through balance – the estimated amount of the pass-through balance at 31 March 2018 of \$264,000) × (1 + 67th percentile estimate of post-tax WACC); and
 - (b) for the second to fifth **assessment periods**, the amount calculated in accordance with the formula:

wash-up amount for the previous assessment period × (1 + 67th percentile estimate of post-tax WACC)²

Schedule 1.7: WACC applicable to Powerco for each assessment period

Clause 8.3

Assessment period ending	67th percentile estimate of post-tax WACC
31 March 2019	7.19%
31 March 2020	7.19%
31 March 2021	6.78%
31 March 2022	6.78%
31 March 2023	6.78%

Schedule 2.1: Recoverable costs

- (1) The **forecast opex** used for calculating the **opex incentive amount** is specified in paragraph (1) of Schedule 2.2.
- (2) The **forecast value of commissioned assets** and **retention factor** used for calculating the **capex incentive amount** are specified in paragraphs (2)-(3) of Schedule 2.2.
- (3) The CPP proposal application fee, specified in clause 3.1.3(1)(h) of the **IM determination**, for **Powerco** is \$23,000.
- (4) The fee, specified in clause 3.1.3(1)(i) of the **IM determination**, for **Powerco** is the amount which the **Commission** notifies to **Powerco** in the **CPP regulatory period** as being payable in respect of the **Commission's** assessment of the **CPP proposal** and the determination of the customised price-quality path.
- (5) The CPP verifier fee, specified in clause 3.1.3(1)(j) of the **IM determination**, for **Powerco** is \$369,286.
- (6) The CPP auditor fee, specified in clause 3.1.3(1)(k) of the **IM determination**, for **Powerco** is \$375,314.
- (7) The **extended reserves allowance** for **Powerco** must be approved in accordance with Schedule 5.
- (8) The **quality incentive adjustment** for **Powerco** must be calculated in accordance with Schedule 4.
- (9) The **capex wash-up adjustment**, in accordance with clause 3.1.3(9)(c) of the **IM determination**, is -\$246,000 as of 1 April 2018.

Schedule 2.2: Specified amounts for the incremental rolling incentive scheme

- (1) For the purposes of calculating the **opex incentive amount** for **Powerco** for the **CPP regulatory period**, the **forecast opex**, and the **assessment period** to which it applies, is set out in Table 2.2.1.

Table 2.2.1: Forecast opex for assessment periods of the CPP regulatory period 1 April 2018 – 31 March 2023

Assessment period ending	Forecast opex (\$000)
31 March 2019	92,385
31 March 2020	97,631
31 March 2021	99,660
31 March 2022	98,445
31 March 2023	98,132

- (2) For the purposes of calculating the **capex incentive amount** for **Powerco** for the **CPP regulatory period**, the sum of the **forecast value of commissioned assets**, and the **assessment period** to which each sum applies, is set out in Table 2.2.2.

Table 2.2.2: The sum of the forecast value of commissioned assets for assessment periods of the CPP regulatory period 1 April 2018 – 31 March 2023

Assessment period ending	Forecast value of commissioned assets (\$000)
31 March 2019	220,284
31 March 2020	166,854
31 March 2021	175,577
31 March 2022	211,735
31 March 2023	216,265

- (3) For the purposes of calculating the **capex incentive amount** for **Powerco** for the **CPP regulatory period**, the **retention factor** is 15%.

Schedule 3.1: Quality standards – planned interruptions

Clause 9.1, 9.5

- (1) The **SAIDI limit, SAIFI limit, accumulated SAIDI limit and accumulated SAIFI limit** for **planned interruptions** for **Powerco** for the **CPP regulatory period** are as set out in Table 3.1.

**Table 3.1: SAIDI and SAIFI limit
for planned interruptions for the CPP regulatory period 1 April
2018 – 31 March 2023**

Powerco	18/19	19/20	20/21	21/22	22/23
SAIDI limit	79.976	84.944	92.342	98.192	99.292
SAIFI limit	0.344	0.370	0.393	0.414	0.414
Accumulated SAIDI limit	N/A	N/A	N/A	N/A	454.746
Accumulated SAIFI limit	N/A	N/A	N/A	N/A	1.935

Calculation of the planned interruptions SAIDI assessed values

- (2) **Powerco's SAIDI assessed value** ($SAIDI_{assess}$) for **planned interruptions** for an **assessment period** is calculated in accordance with the formula:

$$SAIDI_{assess} = SAIDI_B$$

where:

$SAIDI_B$ is the sum of the daily **SAIDI values** for **Class B interruptions** commencing within the **assessment period**.

Calculation of the planned interruptions SAIFI assessed values

- (3) **Powerco's SAIFI assessed value** ($SAIFI_{assess}$) for **planned interruptions** for an **assessment period** is calculated in accordance with the formula:

$$SAIFI_{assess} = SAIFI_B$$

where:

$SAIFI_B$ is the sum of the daily **SAIFI values** for **Class B interruptions** commencing within the **assessment period**.

Schedule 3.2: Quality standards – unplanned interruptions

Clause 9.7, 9.10

- (1) With respect to **unplanned interruptions**, the **SAIDI limit**, **SAIFI limit**, **SAIDI unplanned boundary value** and **SAIFI unplanned boundary value** for Powerco for the **CPP regulatory period** are as set out in Table 3.2.

Table 3.2: SAIDI limit, SAIFI limit, SAIDI unplanned boundary value, and SAIFI unplanned boundary value for the CPP regulatory period 1 April 2018 – 31 March 2023

Powerco	18/19	19/20	20/21	21/22	22/23
SAIDI limit	191.414	187.422	183.514	179.688	175.941
SAIDI unplanned boundary value	11.710	11.710	11.710	11.710	11.710
SAIFI limit	2.285	2.262	2.239	2.216	2.193
SAIFI unplanned boundary value	0.064	0.064	0.064	0.064	0.064

Calculation of the unplanned interruptions SAIDI assessed value

- (2) **Powerco's SAIDI assessed value** ($SAIDI_{assess}$) for **unplanned interruptions** for an **assessment period** is calculated in accordance with the formula:

$$SAIDI_{assess} = SAIDI_C$$

where:

$SAIDI_C$ is the sum of the daily **SAIDI values** for **Class C interruptions** commencing within the **assessment period**, where any daily **SAIDI value** for **Class C interruptions** greater than the **SAIDI unplanned boundary value** equals the **SAIDI unplanned boundary value**.

Calculation of the unplanned interruptions SAIFI assessed value

- (3) **Powerco's SAIFI assessed value** ($SAIFI_{assess}$) for **unplanned interruptions** for an **assessment period** is calculated in accordance with the formula:

$$SAIFI_{assess} = SAIFI_C$$

where:

$SAIFI_C$ is the sum of the daily **SAIFI values** for **Class C interruptions** commencing within the **assessment period**, where any daily **SAIFI value** for **Class C**

interruptions greater than the SAIFI unplanned boundary value equals the SAIFI unplanned boundary value.

Schedule 4: How to calculate the quality incentive adjustment for unplanned interruptions

- (1) The **quality incentive adjustment** must be calculated by **Powerco** within **50 working days** following the expiration of the **assessment period** in accordance with paragraph (4), adjusted for the time-value of money using the **67th percentile estimate of post-tax WACC**, and is a **recoverable cost** in the **assessment period** following that in which it was calculated.
- (2) The **SAIDI target**, **SAIDI collar** and **SAIDI cap** for **Powerco** during the **CPP regulatory period** 1 April 2018 to 31 March 2023 are as set out in Table 4.1.

Table 4.1: SAIDI quality incentive measures for the CPP regulatory period 1 April 2018 – 31 March 2023

Powerco	18/19	19/20	20/21	21/22	22/23
SAIDI target	169.529	165.994	162.533	159.144	155.826
SAIDI collar	147.645	144.566	141.522	138.600	135.710
SAIDI cap	191.414	187.422	183.514	179.688	175.941

- (3) The **SAIFI target**, **SAIFI collar**, and **SAIFI cap** for **Powerco** during the **CPP regulatory period** 1 April 2018 to 31 March 2023 are as set out in Table 4.2.

Table 4.2: SAIFI quality incentive measures for the CPP regulatory period 1 April 2018 – 31 March 2023

Powerco	18/19	19/20	20/21	21/22	22/23
SAIFI target	2.115	2.094	2.072	2.051	2.030
SAIFI collar	1.946	1.926	1.906	1.887	1.867
SAIFI cap	2.285	2.262	2.239	2.216	2.193

- (4) The ‘quality incentive adjustment’ is calculated in accordance with the following formula:

$$S_{TOTAL} = S_{SAIDI} + S_{SAIFI}$$

where:

S_{TOTAL} is the ‘quality incentive adjustment’ applicable as a **recoverable cost**;

S_{SAIDI} is the amount calculated in accordance with paragraph (5); and

S_{SAIFI} is the amount calculated in accordance with paragraph (7).

(5) For the purposes of paragraph (4):

(a) S_{SAIDI} is the amount, subject to subparagraph (b), calculated in accordance with the following formula:

$$S_{SAIDI} = SAIDI_{IR} \times (SAIDI_{target} - SAIDI_{assess})$$

where:

$SAIDI_{IR}$ is the amount calculated in accordance with paragraph (6);

$SAIDI_{target}$ is the **SAIDI target** specified for **Powerco** for the **assessment period**; and

$SAIDI_{assess}$ is the **SAIDI assessed value** for the **assessment period**, calculated in accordance with Schedule 3.2, subject to subparagraph (b).

(b) Where $SAIDI_{assess}$ is:

(i) greater than the $SAIDI_{cap}$, $SAIDI_{assess}$ equals the $SAIDI_{cap}$;

(ii) less than the $SAIDI_{collar}$, $SAIDI_{assess}$ equals the $SAIDI_{collar}$.

(6) For the purposes of paragraph (5), ‘ $SAIDI_{IR}$ ’ is the amount calculated in accordance with the following formula:

$$SAIDI_{IR} = \frac{0.5 \times REV_{RISK}}{SAIDI_{cap} - SAIDI_{target}}$$

where:

$SAIDI_{cap}$ is the **SAIDI cap** specified for **Powerco** for the **assessment period**;

$SAIDI_{target}$ is the **SAIDI target** specified for **Powerco** for the **assessment period**; and

REV_{RISK} is 1% of the **actual net allowable revenue** for the first **assessment period** of \$278,874 (\$000).

(7) For the purposes of paragraph (4):

- (a) S_{SAIFI} is the amount, subject to subparagraph (b), calculated in accordance with the following formula:

$$S_{SAIFI} = SAIFI_{IR} \times (SAIFI_{target} - SAIFI_{assess})$$

where:

- $SAIFI_{IR}$ is the amount calculated in accordance with paragraph (8);
- $SAIFI_{target}$ is the **SAIFI target** specified for **Powerco** for the **assessment period**; and
- $SAIFI_{assess}$ is the **SAIFI assessed value** for the **assessment period**, calculated in accordance with Schedule 3.2, subject to subparagraph (b).

- (b) Where $SAIFI_{assess}$ is:

- (i) greater than the $SAIFI_{cap}$, $SAIFI_{assess}$ equals the $SAIFI_{cap}$;
- (ii) less than the $SAIFI_{collar}$, $SAIFI_{assess}$ equals the $SAIFI_{collar}$.

- (8) For the purposes of paragraph (7), ' $SAIFI_{IR}$ ' is the amount calculated in accordance with the following formula:

$$SAIFI_{IR} = \frac{0.5 \times REV_{RISK}}{SAIFI_{cap} - SAIFI_{target}}$$

where:

- $SAIFI_{cap}$ is the **SAIFI cap** specified for **Powerco** for the **assessment period**;
- $SAIFI_{target}$ is the **SAIFI target** specified for **Powerco** for the **assessment period**; and
- REV_{RISK} is 1% of the **actual net allowable revenue** for the first **assessment period** of \$278,874 (\$000).

Schedule 5: Approval of extended reserves allowances

- (1) **Powerco** must, no later than 70 **working days** following the end of an **assessment period**, submit an application for approval of an **extended reserves allowance** if any amounts were incurred or received in that **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves.
- (2) The application for approval must include:
 - (a) all compensation payments made by **Powerco** in the **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves;
 - (b) all compensation payments and revenue received by **Powerco** in the **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves;
 - (c) an estimate of the compensation payments and revenue received by **Powerco** in the **assessment period** in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves that should be associated with **unregulated services**, along with reasons for such treatment; and
 - (d) any other explanatory material or supporting information reasonably necessary to demonstrate costs incurred and amounts payable or receivable in accordance with any requirements in the Electricity Industry Participation Code 2010 relating to extended reserves.
- (3) The **Commission** may request additional information, independent evidence, **director** certificates, or audit statements relating to the information provided in the application.
- (4) The **Commission** may approve by notice in writing to **Powerco**, subject to clause 3.1.3(7) of the **IM determination**, an allowance for costs incurred and amounts payable, or for amounts receivable, under any extended reserves regulations made under the Electricity Industry Act 2010, as determined by the **Commission**.
- (5) The amount approved by the **Commission** is an 'extended reserves allowance' **recoverable cost** under clause 3.1.3(1)(n) of the **IM determination** in the **assessment period** to which the application relates.

Schedule 6: Form of director's certificate for annual price-setting compliance statement

Clause 11.2(c)

I/We, *[insert full name/s]*, being director/s of Powerco certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached annual price-setting compliance statement of Powerco, and related information, prepared for the purposes of the *Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018* has been prepared in accordance with all the relevant requirements, and all forecasts used in the calculations for forecast revenue from prices and forecast allowable revenue are reasonable**[except in the following respects]*.

**[insert description of non-compliance]*

[Signatures of directors]

[Date]

*Delete if inapplicable.

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding \$100,000 in the case of an individual or \$300,000 in the case of a body corporate.

Schedule 7: Form of director's certificate for annual compliance statement

Clause 11.5(d)

I/We, [*insert full name/s*], being director/s of Powerco certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached annual compliance statement of Powerco, and related information, prepared for the purposes of the *Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018* has been prepared in accordance with all the relevant requirements* [*except in the following respects*].

*[insert description of non-compliance]

[*Signatures of directors*]

[*Date*]

*Delete if inapplicable.

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding \$100,000 in the case of an individual or \$300,000 in the case of a body corporate.

Schedule 8: Independent auditor's report on annual compliance statement

Clause 11.5(e)

For the purpose of clause 11.5(e), **Powerco** must procure an assurance report by an **independent auditor** in respect of the **annual compliance statement** that is prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000), signed by the **independent auditor** (either in his or her own name or that of his or her firm), and that:

- (a) is addressed to the **directors** of **Powerco** and to the **Commission** as the intended users of the assurance report;
- (b) states:
 - (i) that it has been prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000);
 - (ii) the work done by the **independent auditor**;
 - (iii) the scope and limitations of the assurance engagement;
 - (iv) the existence of any relationship (other than that of auditor) which the **independent auditor** has with, or any interests which the **independent auditor** has in, **Powerco** or any of its subsidiaries;
 - (v) whether the **independent auditor** has obtained sufficient recorded evidence and explanations that he or she required and, if not, the information and explanations not obtained; and
 - (vi) whether, in the **independent auditor's** opinion, as far as appears from an examination, the information used in the preparation of the **annual compliance statement** has been properly extracted from **Powerco's** accounting and other records, sourced from its financial and non-financial systems; and
- (c) states whether (and, if not, the respects in which it has not), in the **independent auditor's** opinion, **Powerco** has complied, in all material respects, with the *Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018* in preparing the **annual compliance statement**.

Schedule 9: IM variation

Clause 6.2

Deed to vary the Input Methodologies that will apply to Powerco Limited's CPP determination

This is a deed between **Powerco Limited** (Powerco) and the **Commerce Commission** (Commission) with regard to an agreed variation in accordance with s 53V(2)(c) of the Commerce Act 1986 (the Act).

Background

On 12 June 2017, Powerco submitted an application for a customised price-quality path to the Commission. The Commission is currently in the process of evaluating Powerco's customised price-quality path proposal for the purpose of making a determination, as required by s 53T and 53V of the Act.

In accordance with s 52S of the Act, the Commission must apply all relevant input methodologies.

The Commission and Powerco have agreed to the following variations to the input methodologies in accordance with s 53V(2)(c) of the Act that will apply to the Commission's determination under s 52P of the Act.

Deed

1. This deed varies the *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (the IM Determination) as it applies to the Commission's customised price-quality path determination for Powerco's customised price-quality path proposal of 12 June 2017.
2. Clause 3.3.2 of the IM Determination is varied as follows:
 - 2.1 Clauses 3.3.2(1) and 3.3.2(2) are varied by replacing the existing text with the following text:
 - (1) An **opex incentive amount** must be calculated for each **disclosure year** of a **regulatory period**, subject to subclause (3).
 - (2) The 'opex incentive amount' for a **disclosure year** is an amount equal to the sum of-
 - (a) all **amounts carried forward** into that **disclosure year** from a **disclosure year** in a preceding **regulatory period**; and
 - (b) where an **adjustment to the opex incentive** is applicable during the **regulatory period** under clause 3.3.4(1)-
 - (i) the amount calculated in accordance with the following formula for a **disclosure year** in the **regulatory period**-

$$\left(\frac{\text{Adjustment to the opex incentive}}{l - 1} \right) \times (1 + r)^{y+0.5}$$
 where-
 - l is the number of **disclosure years** in the **regulatory period**;

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r is the **cost of debt** applying to the DPP or CPP in question; and
y is the number of **disclosure years** preceding the **disclosure year** in question in the **regulatory period**.

2.2 Clause 3.3.2(3) is deleted.

2.3 Clause 3.3.2(4) is renumbered as clause 3.3.2(3).

3. Clause 5.3.22 of the IM Determination is varied by replacing the existing text with the following text:

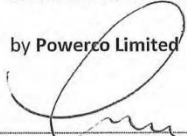
5.3.22 Methodology for estimating the weighted average cost of capital

- (1) Where the **Commission** takes into account the cost of capital in making a **CPP determination**:
 - (a) for **disclosure years** 2019 and 2020, the **Commission** will use the **67th percentile estimate of WACC** that was used for the DPP applying at the start of the **CPP regulatory period** in accordance with clause 4.4.7(1); and
 - (b) subject to subclause (2), for **disclosure years** 2021, 2022 and 2023, the **Commission** will use a **WACC** rate of 6.78% and an associated 'cost of debt' of 5.70%.
- (2) Where there has been a **WACC change**, the cost of capital for the **CPP** is the **DPP WACC** referenced in clause 5.6.7(4)(a), which has effect in the remaining years of the **CPP regulatory period**.

Executed as a Deed on 23 day of March, 2018.

by Powerco Limited

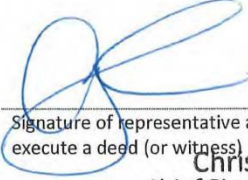
Signature of representative authorised to execute a deed


Nigel Barbour
Chief Executive Officer
Powerco Limited

Name of authorised representative

23/03/2018
Date

Signature of representative authorised to execute a deed (or witness)


Chris Taylor
Chief Financial Officer
Powerco Limited

Name of authorised representative or witness (and address, if witnessed)

23/03/2018
Date

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by the Commerce Commission

SJ Becc
Signature of authorised representative

SUSAN JANICE BECC
Name of authorised representative

26 MARCH 2018
Date

DECC
Signature of authorised representative witness

Dane Gunnell
Name of authorised representative

26 March 2018
Date

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Explanatory note

- (1) The purpose of the Powerco Limited Electricity Distribution Customised Price-Quality Path Determination 2018 (“the Determination”) is to set a customised price-quality paths for Powerco Limited (“Powerco”) for the five years beginning 1 April 2018 and ending 31 March 2023, pursuant to Part 4 of the Commerce Act 1986 (“the Act”).
- (2) Pursuant to section 53N of the Act, Powerco is required to provide to the Commerce Commission (“the Commission”), separate compliance statements relating to price setting, the wash-up account calculation, performance against quality standards and transactions. Powerco must state whether or not it has complied with the customised price-quality path set out in the Determination, provide its wash-up amount calculation, and supporting evidence. The two compliance statements must both be accompanied by a director’s certificate. The compliance statement for the wash-up amount calculation, quality standards and transactions must also be accompanied by an auditor’s report. Powerco must publish its compliance statements on its website within five working days after submitting them to the Commission.
- (3) A reasons paper providing detailed background to, and analysis of, the Determination can be found at:

<http://comcom.govt.nz/regulated-industries/electricity/cpp/cpp-proposals-and-decisions/>
- (4) Copies of this Determination are available for inspection free of charge at the Commission (during ordinary office hours), on the Commission’s website at the above link, or for purchase at a reasonable price at the Commission.