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**[DRAFT] Electricity Distribution Services Input Methodologies Determination  
2012**

Consolidating all amendments as of [\[XX\], \[XX\], 2016](#)

Publication date: [\[XX\], \[XX\], 2016](#)

Commerce Commission

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Wellington, New Zealand

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

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

# ELECTRICITY DISTRIBUTION SERVICES INPUT METHODOLOGIES DETERMINATION 2012

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

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## PART 1 GENERAL PROVISIONS

### 1.1.1 Title

This determination is the Electricity Distribution Services Input Methodologies Determination 2012.

### 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**.

(4) For the purposes of subclause (3), this determination must be applied in accordance with-

- (a) the **input methodologies** in this determination; or
- (b) if clause 1.1.5(1) applies, the next closest alternative approach.

### 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:

**67th percentile estimate of WACC** means an estimate, made for the purpose of-

- (a) Part 2, in accordance with clause 2.4.5(5)(b), of the 67th percentile for the post-tax **mid-point estimate of WACC**;
- (b) Part 3, in accordance with clause 4.4.5(4), of the 67<sup>th</sup> percentile for the post-tax **mid-point estimate of WACC**; and
- (c) Part 4 and Part 5, in accordance with clause 4.4.5(4), of the 67th percentile for the **mid-point estimate of WACC**;

**75th percentile estimate of WACC** means an estimate, made for the purpose of Part 2, in accordance with clause 2.4.5(3)(b)(i), of the 75th percentile for the post-tax **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;

**2013-15 NPV wash-up allowance** means the amount specified in the **DPP determination** for the **regulatory period** commencing 1 April 2015 for Alpine Energy Limited, Centralines Limited, and Top Energy Limited reflecting the impact of the capped alternative rate of change for those suppliers in the *Electricity Distribution Services Default Price-Quality Path Determination 2012* [2012] NZCC 35;

## 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;

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Deleted: <#>Part 5, clause 5.3.28, of the 67th percentile for the mid-point estimate of WACC;¶

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**Act** means the Commerce Act 1986;

**actual allowable revenue** means the sum of **actual net allowable revenue** *plus* **actual pass-through costs** *plus* **actual recoverable costs**;

**actual net allowable revenue** means the actual value of allowable revenue for a **disclosure year**, calculated in accordance with the method specified for **forecast net allowable revenue** in clause 3.1.1(4), and for this purpose substituting **CPI for forecast CPI** for the **disclosure year** as it applies in clause 3.1.1(4)(b);

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

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

**actual opex** has the meaning specified in clause 3.3.3(9);

**additional assets** means assets of an **EDB** which are not **existing assets** and are forecast to be **commissioned**;

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

**adjustment to the opex incentive** means the amount calculated in accordance with clause 3.3.4;

**aggregate closing RAB value for additional assets** means the amount determined in accordance with clause 4.2.1(5);

**aggregate closing RAB value for existing assets** means the amount determined in accordance with clause 4.2.1(3);

**aggregate opening RAB value for additional assets** means the amount determined in accordance with clause 4.2.1(4);

**aggregate opening RAB value for existing assets** means the amount determined in accordance with clause 4.2.1(2);

**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**;

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**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 revenue before tax** means allowable revenue before tax as determined by the Commission;

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

**allowed controllable opex** 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;

**alternative depreciation method** means a depreciation method which is not the standard depreciation method;

**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;
- (b) Part 4, clause 4.3.3(3); and
- (c) 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;
- (b) Part 4, clause 4.3.3(5); and
- (c) Part 5, clause 5.3.18;

**amount carried forward** means, for any given **disclosure year**, the amount determined in accordance with clause 3.3.3;

**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;

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**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** 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 expenditure category** means any asset type described in *Table A.2: Asset Lives for CPP Expenditure Forecast Information of Schedule A;*

**asset expenditure sub-category** means any asset type described in *Table A.1: Standard Physical Asset Lives for EDBs of Schedule A;*

**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**; andwhere 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;

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**base year** means the **disclosure year** selected by the **Commission**;

**Deleted:** has the meaning specified in Schedule D

**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**;

**capex incentive amount** means the amount determined in accordance with clause 3.3.10(2);

**capex wash-up adjustment** means the amount that is the difference between the revenues for a **DPP regulatory period** using the actual values of **commissioned** assets for a prior **regulatory period** and the revenues using forecast **commissioned** assets applied by the **Commission** when setting prices, and is calculated in accordance with clause 3.1.3(8);

**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, [acquisition](#) or enhancement;
- (b) Part 4, money or the monetary value of other consideration to be charged to or received from **consumers** or other parties for the purposes of asset construction, [acquisition](#) or enhancement; and
- (c) 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, [acquisition](#) 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 4-
- (i) forecast to be incurred in the acquisition or development of an **additional asset**; and
  - (ii) that are included in the **forecast aggregate value of commissioned asset**, but only to the extent that the costs are forecast to be included in an **aggregate closing RAB value for additional assets**; and
- (c) 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, for the purposes of –

- (a) Part 4, clause 4.5.1; and
- (b) Part 5, clause 5.6.1;

**catastrophic event allowance** means the amount determined by the **Commission** for–

- (a) additional net costs (over and above those provided for in a **DPP determination** or **CPP determination**) prudently incurred by an **EDB** in responding to a **catastrophic event**, other than costs that are foregone revenue;
- (b) **recoverable costs** and **pass-through costs** the **EDB** was permitted to recover under the applicable **DPP determination** or **CPP determination** through **prices**, but did not recover due to a **catastrophic event**; and
- (c) the impact of a **catastrophic event** on any **quality incentive adjustment**, incurred in or relating to the period between a **catastrophic event** and the effective date of an amendment to the **DPP** or **CPP** following reconsideration of the **price-quality path** under clause 4.5.6(1)(b)(i) or clause 5.6.7(2)(a);

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

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- (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, for the purposes of—

- (a) Part 4, clause 4.5.2; and
- (b) Part 5, 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 tax losses** means the amount determined in accordance with, for the purpose of—

- (a) Part 2, clause 2.3.2(4);
- (b) Part 4, clause 4.3.2(3); and
- (c) Part 5, clause 5.3.14(5);

**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;

[committed in respect of a project or programme, means all approvals internal and external to the EDB that are required in order for work on the project to commence have been received;](#)

**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**;

[contingent project has the meaning specified in clause 5.6.5\(1\);](#)

**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 4 [and Part 5](#), clause 4.4.1(4);

**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;

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Deleted: <#>Part 5, clause 5.3.22(3);¶  
**cost of executing an interest rate swap** has the meaning specified in, for the purpose of-¶  
<#>Part 2, clause 2.4.9(3); and¶  
<#>Part 5, clause 5.3.30(3);¶

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

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**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; [and](#)
- (b) Part 4, clause 4.4.4; [v](#)

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**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**;

Deleted: <#>Part 5, clause 5.3.25;¶

*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**, or, for the purpose of Part 4, its **aggregate opening RAB value for existing assets** and **aggregate opening RAB value for additional assets**, and the amount of such allowance is determined in accordance with, for the purpose of-

- (a) Part 2, clause 2.2.5(2);
- (b) Part 4, clause 4.2.2(2); and
- (c) Part 5, clause 5.3.7(2);

**depreciation temporary differences** has the meaning specified, for the purpose of-

- (a) Part 2, clause 2.3.8(2);
- (b) Part 4, clause 4.3.5; and
- (c) Part 5, clause 5.3.20(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

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- (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 unincorporated **body**, 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;

**distributed generation allowance** means any positive allowance for costs incurred and amounts payable, or negative allowance for amounts receivable, in relation to avoided transmission charges arising from distributed generation, including embedded or notionally embedded generation, made in accordance with-

- (a) Schedule 6.4 of Part 6 of the Electricity Industry Participation Code; or
- (b) the Electricity Industry Act 2010;

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

- (a) Part 4, clause 4.5.3(1); and
- (b) Part 5, clause 5.6.3(1);

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

**Deleted:** distribution prices means the portion of prices excluding pass-through prices;¶

**Deleted:** energy efficiency and demand side management incentive allowance means an allowance for foregone revenue attributable to energy efficiency or demand side management initiatives, projects, or activities as allowed by the Commission in a DPP determination or CPP determination;¶

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- (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**;

**existing assets** means assets of an **EDB** for which an **aggregate closing RAB value for existing assets** is calculated for the **base year**;

**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**;

**extended reserves allowance** means an amount determined by the **Commission** as a positive allowance for costs incurred and amounts payable, or a negative allowance for amounts receivable, in accordance with requirements in the Electricity Industry Participation Code 2010 relating to extended reserves made under the Electricity Industry Act 2010;

## 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 aggregate value of commissioned assets** means the amount determined in accordance with clause 4.2.5;

**forecast aggregate value of disposed assets** means the amount determined in accordance with clause 4.2.6;

**forecast allowable revenue** means the amount determined in accordance with clause [3.1.1\(2\)](#);

**forecast CPI** means, for the purpose of-

- (a) Part 4, for-
  - (i) a quarter prior to the quarter for which the vanilla **WACC** applicable to the relevant **DPP regulatory period** was determined, **CPI** excluding any adjustments made under paragraphs (b) or (c) of the definition of 'CPI'

arising as a result of an event that occurs after the issue of the Monetary Policy Statement referred to in subparagraph (ii);

- (ii) each later quarter for which a forecast of the change in headline CPI has been included in the Monetary Policy Statement last issued by the Reserve Bank of New Zealand prior to the date for which the vanilla **WACC** applicable to the relevant **DPP regulatory period** was determined, the **CPI** last applying under subparagraph (i) extended by the forecast change; and
- (iii) in respect of later quarters, the forecast last applying under subparagraph (ii) adjusted such that an equal increment or decrement made to that forecast for each of the following three years results in the forecast for the last of those years being equal to the target midpoint for the change in headline CPI set out in the Monetary Policy Statement referred to in subparagraph (ii);

(b) Part 3 and Part 5, **CPI**, apart from in the calculation of the revaluation rate or, if there is no CPI value available for any part of the period in question, in which cases it means-

- (i) the CPI most recently available when setting the current DPP; and
- (ii) in respect of later quarters, a constant annual percent change equal to the arithmetic mean of the values forecast in the most recent four quarters in respect of which a forecast has been made in the current Monetary Policy Statement issued by the Reserve Bank of New Zealand;  
and

(c) Part 5, when calculating the revaluation rate-

- (i) in the CPP regulatory period, up to the end of the DPP regulatory period, as for Part 4 in accordance with (a) above; and
- (ii) in respect of later quarters, a constant annual percent change equal to the arithmetic mean of the values forecast in the annual Monetary Policy Statement issued by the Reserve Bank of New Zealand;

forecast net allowable revenue has the meaning specified in clause 3.1.1(4);

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

**forecast opex** has the meaning specified in clause 3.3.3(8);

**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);

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**Deleted:** 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

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## 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 Gas Distribution Input Methodologies Determination 2012) or GTB (as 'GTB' is defined in the Gas Transmission Input Methodologies Determination 2012);

**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** means a **project or programme** that an **EDB** intends to undertake during the **next period** and which is selected by the **verifier** for detailed assessment in accordance with clause G4(1);

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**incentive rate** means the incremental rate of change used to calculate the **quality incentive adjustment**, as specified in a **DPP determination** or **CPP determination**;

**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 3.3.15(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 3.3.15(5);

**initial differences in asset values** has the meaning specified in, for the purpose of-

- (a) Part 2, clause 2.3.5(3); and
- (b) Part 5, clause 5.3.17(3);

**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;

**IRIS incentive adjustment** means the recoverable cost amount determined under clause 3.3.1(2);

L

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

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**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); **and**
- (b) Part 4, clause 4.4.2(1);

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

Deleted: <#>Part 5, clause 5.3.23(1);¶

- (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

**major transaction** has the meaning specified in, for the purpose of-

- (a) [Part 3 and Part 4, clause 4.5.4](#); and
- (b) [Part 5, clause 5.6.4](#);

**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-

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- (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 3, the mid-point estimate of post-tax **WACC**, as estimated in accordance with clause 4.4.1(2); and

(c) Part 4, the mid-point estimate of-

(i) vanilla **WACC**, as estimated in accordance with clause 4.4.1(1);

(ii) post-tax **WACC** as estimated in accordance with clause 4.4.1(2),

as the case may be;

**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

**Nelson-Siegel-Svensson approach** has the meaning specified in clause 2.4.4(6);

**network** means the fixed assets used by an **EDB** to provide **electricity distribution services**;

**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**;

## 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;

**Deleted:** the formula in clause 2.4.1(2) and applying the parameters specified in

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**Deleted:** <#>Part 5, the mid-point estimate of vanilla **WACC** for a-¶ <#>3 year period;¶ <#>4 year period; or¶ <#>5 year period,¶ as the case may be, as each is estimated in accordance with clause 5.3.22;¶

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- (b) Part 4, clause 4.3.4(1); and
- (c) 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, for the purpose of –

- (a) Part 2, clause 2.3.2(3);
- (b) Part 4, clause 4.3.2(3)(a); and
- (c) Part 5, 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**;
- (f) **recoverable costs**;
- (g) **distribution of profits to consumers**; and
- (h) **payments associated with a finance lease, where the finance lease has an opening RAB value**;

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**operating expenditure**, for the purpose of –

- (a) Part 4, means the value of **operating costs** attributable to **electricity distribution services** supplied by an **EDB** which are forecast to be incurred in the **disclosure year** in question as determined by the **Commission**; and
- (b) Part 5, 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**;

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**opex incentive amount** means the amount determined in accordance with clause 3.3.2(2);

**other regulated income**, for the purpose of–

- (a) Part 3, means income associated with the supply of electricity distribution services other than-
  - (i) through prices;
  - (ii) investment-related income;
  - (iii) capital contributions; or
  - (iv) vested assets; and
- (b) Part 4, means forecast income associated with the supply of **electricity distribution services** other than-
  - (i) through **prices;**
  - (ii) investment-related income;
  - (iii) **capital contributions;** or
  - (iv) **vested assets,**as determined by the **Commission;**

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Part 5, 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

**Deleted:** **pass-through prices** means the portion of **prices** attributable to **pass-through costs** and **recoverable costs;**¶

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(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(5);

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**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;

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**qualifying debt** has, [for the purpose of Part 2](#), the meaning specified in [clause 2.4.7\(1\)](#);

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<#>Part 2, clause 2.4.9(1); and¶

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

Deleted: <#>Part 5, clause 5.3.30(1); ¶

- (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-

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- (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 [Part 2, clause 2.4.7\(2\)](#);

**quality incentive adjustment** means an amount to provide incentives for a **non-exempt EDB** to maintain or improve its quality of supply in accordance with s 53M(2) of the Act, and is a function of-

- (a) a **non-exempt EDB's** performance above or below the quality targets, up to the caps or collars specified in relation to the quality targets;
- (b) **revenue at risk**; and
- (c) **incentive rate**,  
calculated in accordance with the method specified in a **DPP determination** or **CPP determination**;

**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,

where the variation is limited to changed **values** of the metric by which such quality standards **is** specified but not the metric itself;

**quantity** has the meaning, for the purpose of Part 3, specified in [clause 3.1.1\(6\)](#);

## R

**reconsideration event allowance** means the positive or negative amount determined by the **Commission**-

- (a) for additional net costs (over and above those provided for in a **DPP** or **CPP**) prudently incurred by an **EDB** as a result of a **change event** in the period between the **change event** and the effective date of an amendment to the **DPP** or **CPP** under [clause 4.5.6\(1\)\(ii\)](#) or [clause 5.6.7\(2\)\(b\)](#);

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- (b) to mitigate the effect of an **error event** or provision of false or misleading information on the relevant **DPP** or **CPP** under clauses 4.5.6(1)(iii), 4.5.6(1)(v), 5.6.7(2)(c), or 5.6.7(5); and
- (c) for the impact of a **change event, error event**, or provision of false or misleading information under clause 4.5.6(1)(v) or 5.6.7(5), on any **quality incentive adjustment**;

**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 Gas Distribution Services Input Methodologies Determination 2012; and
- (c) gas transmission services as defined in the Gas Transmission Services Input Methodologies Determination 2012);

**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**;

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**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);
- (b) Part 4, clause 4.3.1(2); and
- (c) 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);
- (b) Part 4, clause 4.3.1(4); and
- (c) 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 4, clause 4.3.1(3); and
- (c) Part 5, clause 5.3.13(3);

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

- (d) Part 2, clause 2.3.4;
- (e) Part 4, clause 4.3.3; and
- (f) Part 5, clause 5.3.16;

**regulatory tax allowance** has the meaning specified, for the purpose of –

- (a) Part 2, clause 2.3.1; and
- (b) Part 4, clause 4.3.1;

**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-

- (c) a **person** that, in accordance with **GAAP**, is related to the **EDB** in question; or

- (d) 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;

**remaining asset life for existing assets** has the meaning specified in clause 4.2.2(3)(a);

**remaining asset life for additional assets** has the meaning specified in clause 4.2.2(3)(b);

**retention factor** means the percentage amount determined by the **Commission** in a **CPP determination** or **DPP determination** for the purpose of calculating the **capex incentive amount**;

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

- (a) Part 2, clause 2.2.9(2);
- (b) Part 4, clause 4.2.3(2); and
- (c) Part 5, clause 5.3.10(2);

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

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

- (a) Part 2, clause 2.2.9(4);
- (b) Part 4, clause 4.2.3(3); and
- (c) Part 5, clause 5.3.10(4);

**revenue at risk** means the maximum financial reward or penalty arising under a **quality incentive adjustment**, as specified in a **DPP determination** or **CPP Determination**;

[revenue wash-up draw down amount](#) has the meaning specified in clause 3.1.3(13)(h);

**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 [Table A.1: Standard Physical Asset Lives for EDBs of](#) Schedule A;

**starting price year**, in relation to an **EDB**, means –

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

**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-

- (c) Part 2, clause 2.3.9(2); and
- (d) 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 [Part 2 and Part 5, clause 2.4.8](#);

**term credit spread differential** is determined in accordance with, for the purpose of [Part 2 and Part 5, clause 2.4.9\(3\)](#);

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**Deleted:** and

**Deleted:** (other than

**Deleted:** a **quality standard variation CPP**) applicable to the **EDB**

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<#>Part 2, clause 2.4.10; and¶  
<#>Part 5, clause 5.3.31;¶

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<#>Part 2, clause 2.4.11(3); and¶  
<#>Part 5, clause 5.3.32(3);¶

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**term credit spread differential allowance**, for the purpose of-

- (a) Part 2 and Part 5, means the sum of **term credit spread differentials**; and
- (b) Part 4, means the amount determined in accordance with clause 4.4.7(2);

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**total depreciation** means, for the purpose of-

- (a) Part 2 and Part 5, the sum of **depreciation** for all assets; and
- (b) Part 4, the value determined in accordance with clause 4.2.2;

**total opening RAB value** means, for the purpose of-

- (a) Part 4, the amount determined in accordance with clause 4.2.1(1); and
- (b) has the meaning specified in clause 5.3.6(7);

**total revaluation** means, for the purpose of-

- (a) Part 2 and Part 5, the sum of **revaluation** for all assets; and
- (b) Part 4, the value determined in accordance with clause 4.2.3;

**transmission asset wash-up adjustment** means a negative amount corresponding to the present value of revenues allowed in a **DPP** or **CPP** for additional **capital expenditure** and additional **operating expenditure** associated with a transmission asset forecast to be purchased in **disclosure years** preceding the **regulatory period** but were not completed, as specified in a **DPP determination** or **CPP determination**;

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

[trigger event](#) has the meaning specified in clause 5.6.5(3);

## 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);

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**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;

[unforeseen project](#) has the meaning specified in clause 5.6.6;

**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;
- (b) Part 4, clause 4.3.2(1); and
- (c) 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;

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**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;

[voluntary undercharging deduction amount](#) has the meaning specified in clause 3.1.3(13)(a);

## W

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

[WACC change](#) means an event described in clause 5.6.7(4);

[wash-up account](#) means a memorandum account maintained by an **EDB** to record each item specified in clauses 3.1.3(12)(b)-(e);

[wash-up amount](#) has the meaning specified in clause 3.1.3(13)(c);

**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**.

1.1.5 Next closest alternative approach

- (1) The **Commission** may determine that the next closest alternative approach will be applied to any **input methodology** in this determination if that **input methodology** is unworkable.
- (2) An **EDB** may propose to the **Commission**, in accordance with subclause (3), that it considers the next closest alternative approach should apply to an **input methodology** where it identifies that the **input methodology** is unworkable.
- (3) If an **EDB** proposes a next closest alternative approach, it must-
  - (a) identify the unworkable **input methodology** and explain why it considers the **input methodology** is unworkable;
  - (b) describe the next closest alternative approach that would apply instead of the unworkable **input methodology**;
  - (c) describe whether the next closest alternative approach is likely to have an equivalent or non-equivalent effect to that of the unworkable **input methodology**; and
  - (d) certify the information in paragraphs (a)-(c), as may be specified by the **Commission** in a s 52P determination.
- (4) If the **Commission** applies the next closest alternative approach in accordance with subclause (1), it must-
  - (a) identify the unworkable **input methodology**;
  - (b) describe the next closest alternative approach that would apply instead of the unworkable **input methodology**;
  - (c) describe whether the next closest alternative approach is likely to have an equivalent or non-equivalent effect to the unworkable **input methodology** and whether a change is required to a s 52P determination to give effect to the next closest alternative approach;
  - (d) undertake any consultation that the **Commission** considers appropriate; and
  - (e) publish its decision, including a description of the next closest alternative approach as specified in paragraph (b).

- (5) If the **Commission** decides that the next closest alternative approach has a non-equivalent effect on the price-quality path during the **regulatory period**, the **Commission** may reconsider the price-quality path in accordance with clauses 4.5.6(1) or 5.6.7(9), as applicable.
- (6) For the purposes of subclauses (1)-(4), an **input methodology** may be considered as unworkable if it cannot be reasonably applied as intended.

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## 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 10% 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-

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- (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 \(2\), 'revenue' excludes related party revenues eliminated on consolidation in the EDB's consolidated financial statements.](#)

(6) 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**.

- (3) Where an EDB uses a **proxy cost allocator** for the purposes of subclause (1) or a **proxy asset allocator** for the purposes of subclause (2), the EDB must, in accordance with the requirements in the relevant ID determination, explain why a **causal relationship** cannot be established.
- (4) Where an EDB uses a **proxy cost allocator** for the purposes of subclause (1), the EDB must, in accordance with the requirements in the relevant ID determination, explain the rationale for using a selected quantifiable measure for that **proxy cost allocator**.
- (5) Where an EDB uses a **proxy asset allocator** for the purposes of subclause (2), the EDB must, in accordance with the requirements in the relevant ID determination, explain the rationale for using a selected quantifiable measure for that **proxy asset allocator**.

#### 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-

**unallocated opening RAB value - unallocated depreciation +  
unallocated revaluation;** 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 [depreciation](#) 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.

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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 subclause [\(2\)](#), in the case of-

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- (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;
  - [\(i\)](#) its physical service life potential determined by an **engineer**, subject to subclause [\(3\)](#); [or](#)
  - [\(ii\)](#) [if the Commission has applied an adjustment factor in accordance with clause 4.2.2\(3\), the asset life determined in accordance with subclause \(4\)](#);
- [\(d\)](#) 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;
- [\(e\)](#) a **non-network asset**, its asset life determined under **GAAP**;

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- (f) an asset acquired or transferred from a **regulated supplier**, the asset life that the vendor would have assigned to the asset at the end of its **disclosure year** had the asset not been transferred;
- (g) an asset acquired or transferred from an entity other than a **regulated supplier**:
- (i) where a similar asset to that acquired or transferred already exists in the **EDB**, the **asset life** assigned to the similar asset; or
- (ii) where a similar asset to that acquired or transferred does not already exist in the **EDB**, the **physical service life potential** determined by an **engineer**, subject to subclause (3).
- (h) an asset not referred to in paragraphs (a) – (g)-
- (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; or
- (v) in all other cases, its **physical service life potential** determined by an **engineer**, subject to subclause (3);
- (i) an asset (other than a composite asset) not referred to in paragraphs (a)-(g), 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**;
- (j) a composite asset, the average asset life of the assets comprising it determined in accordance with paragraphs (a)-(i), 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.

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(3) For the purpose of subclauses (1)(c)(i), (1)(g)(ii) and (1)(h)(v), a determination made in accordance with this clause by an **engineer** of physical service life potential-

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- (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) For the purpose of subclause (1)(c)(ii), an **EDB** must –

- (a) in the first **disclosure year** of the **DPP regulatory period** in which an **adjustment factor is applied by the Commission, reduce the asset life of assets that have an unallocated opening RAB value, such that the remaining average asset life of existing assets in that disclosure year in accordance with subclause (6) is the same value as the remaining asset life for existing assets calculated under the DPP for that disclosure year when applying the formula: aggregate opening value for existing assets ÷ total depreciation; and**
- (b) for an asset **commissioned** in subsequent **disclosure years**, apply a **reduced asset life to the asset equal to the asset life of an existing asset of a similar asset type.**

(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.

Deleted: <#>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**.

(6) For the purposes of subclause (4)(a), the '**remaining average asset life for existing assets**' means the value determined in accordance with the formula-

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opening RAB value for all assets ÷ total depreciation.

#### 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**), means 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

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- (ii) an **identifiable non-monetary asset**,  
is nil;
- (b) an **easement**, is limited to its market value as on its **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 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 **closing** RAB value of the asset for the **regulated supplier**, had the asset not been transferred, on the closing day of the disclosure year when the asset was transferred (as 'unallocated **closing** 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 determined in accordance with subclause (5);
- (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**.

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- (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 using a rate not greater than the **EDB's weighted average of borrowing costs for each applicable disclosure year**,

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 <#>for each disclosure year prior to disclosure year 2016, or if the non-exempt EDB is subject to a CPP commencing prior disclosure year 2016, the 75th percentile estimate of WACC; and ¶  
 <#>for disclosure year 2016 and each disclosure year thereafter, unless the non-exempt EDB is subject to a CPP commencing prior to disclosure year 2016, the 67th percentile estimate of WACC, ¶  
 <#>applying in respect of the relevant date for its calculation under GAAP; and ¶  
 calculated for a 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 purposes of subclause (2)(b), the 'weighted average of borrowing costs' is calculated for a **disclosure year** using principles set out in **GAAP**, where:
- (a) the cost of financing rate is the weighted average of the costs applicable to borrowings in respect of **capex** that are outstanding during the **disclosure year**;
  - (b) the total costs applicable to borrowings outstanding, as used in calculating the weighted average, must include costs of borrowings made specifically for the purpose of any particular –
    - (i) **capex projects**; or
    - (ii) **capex programmes**; and
  - (c) the amount of borrowing costs capitalised during the **disclosure year** must not exceed the amount of borrowing costs incurred during the **disclosure year**;
  - (d) if a **capital contribution** is received by an **EDB**, the relevant asset becomes **works under construction** for the purposes of calculating the cost of financing;
  - (e) subject to subclause (i), a **capital contribution** will reduce the cost of **works under construction** for the purpose of the calculation of the finance cost, even if the resulting value of **works under construction** is negative;
  - (f) subject to subclause (g), if the value of **works under construction** is negative in accordance with subclause (e), the cost of financing for the period ending on the **commissioning date** will be negative;
  - (g) if the cost of financing an asset which is **works under construction** is negative under subclause (f), it will reduce the value of the relevant asset or assets by that negative amount where such a reduction is not otherwise made under **GAAP**;
  - (h) for the purpose of subclause (d), **works under construction** includes assets that are forecast to be enhanced or acquired; and
  - (i) if the cost of financing is derived as income in relation to **works under construction** and is both-

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(i) negative; and

(ii) included in regulatory income under an ID determination,

it will not reduce the value of the relevant asset or assets where such reduction is not otherwise made under GAAP.

(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.

(5) For the purpose of paragraph 2.2.11(1)(g), the cost of a **commissioned** asset, or component of a **commissioned** asset, acquired from a **related party** must be one of the following-

(a) the price paid by the **EDB** for the asset, where the cost of all assets acquired from the **related party** first **commissioned** in that **disclosure year** is less than-

(i) one percent of the sum of **opening RAB values** for the **EDB** for that **disclosure year**, or

(ii) 20% of the cost of all assets first **commissioned** by the **EDB** in that **disclosure year**;

(b) the price paid by the **EDB** for the asset, where-

(i) at least 50% of the **related party's** sales of assets are to third parties, and third parties may purchase the same or substantially similar assets from the **related party** on substantially the same terms and conditions, including price; or

(ii) that price is substantially the same as the price paid for substantially similar assets (including any adjustments for inflation using CPI or other appropriate input price index) in the preceding 3 disclosure years from a party other than a **related party**;

(c) the price paid by the **EDB** to the **related party** following a competitive tender process, provided that-

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<#>For the purpose of subclause (2)(b)(i)-¶  
<#>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¶  
<#>where an asset has not been **commissioned** within the period to which the **75th percentile estimate of WACC** or **67th percentile estimate of WACC**, as applicable, referred to in subclause (2)(b) applied, the cost of financing in each **disclosure year** after that period is calculated using a rate no greater than-¶  
<#>for each part of that later period that is in a **disclosure year** prior to **disclosure year 2016**, or if the **non-exempt EDB** is subject to a **CPP** commencing prior **disclosure year 2016**, the **75th percentile estimate of WACC** applying to that later period; and¶  
<#>for each part of that later period that is in **disclosure year 2016** or a **disclosure year** thereafter, unless the **non-exempt EDB** is subject to a **CPP** commencing prior **disclosure year 2016**, the **67th percentile estimate of WACC** applying to that later period.¶

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- (i) the price is no more than 5% higher than the price of the lowest conforming tender received;
  - (ii) all relevant information material to consideration of a proposal was provided to third parties, or made available upon request;
  - (iii) at least one other qualifying proposal was received; and
  - (iv) the **EDB** retains for a period of 7 years following the closing date of tender proposals a record of the tender and tender process, including request for information and/or proposal, the criteria used for the assessment of proposals, reasons for acceptance or rejection of proposals, and all proposals and requests for information on the tender for the purposes of making proposals;
- (d) its depreciated historic cost on the day before the acquisition by the **EDB** determined in accordance with **GAAP**;
- (e) its inventory value on the day before the acquisition by the **EDB** determined in accordance with **GAAP**;
- (f) its market value as at its **commissioning date** as determined by a **valuer**;
- (g) its directly attributable cost as would be incurred by the group to which the **EDB** and **related party** are a part, determined in accordance with **GAAP**, as if the consolidated group was the **EDB**;
- (h) the price paid by the **EDB** for the asset, provided—
- (i) the price cannot otherwise be determined under paragraphs (a) – (g), and
  - (ii) no fewer than 2 **directors** of the **EDB** provide a written certification that they are satisfied that the price of any assets determined in accordance with this paragraph reflect the price or prices for those assets that would be received in an arm’s-length transaction; or
- (i) nil.

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### 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-

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- (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-
- regulatory profit / (loss) before tax + permanent differences + 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:
- opening tax losses + current period tax losses - 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-
- positive permanent differences - discretionary discounts and customer rebates - 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-
 

$$\frac{((\text{regulatory investment value} \times \text{leverage} \times \text{cost of debt}) + \text{term credit spread differential allowance})}{\sqrt{1 + \text{cost of debt}}}$$
- (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 – deferred tax balance relating to assets disposed of 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**.

(6) For the purpose of subclause (2), 'deferred tax balance relating to assets disposed of in the disclosure year in question' means the amount of deferred tax associated with the assets disposed of by the EDB and, where that deferred tax balance is a deferred tax liability, it must have a negative 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** or, if relevant capital contributions are treated for tax purposes in accordance with section CG 8 of the Income Tax Act 2007 (or subsequent equivalent provisions), limited to the value of commissioned asset plus any capital contributions applicable to the 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-
- in respect of the 5 years commencing on the first day of the **disclosure year** in question;
  - subject to subclause (3), within 1 month of the start of the **disclosure year** in question; and
  - 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-
- in respect of the 5 years commencing on the first day of the **disclosure year** in question;
  - subject to subclause (3), within 1 month of the start of the **disclosure year** in question; and
  - 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-

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- (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 41%.

(2) '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, for each disclosure year, the maximum prescribed investor rate applicable at the start of that disclosure year to an individual who is-

- (a) resident in New Zealand; and
- (b) an investor in a **multi-rate PIE**.

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<#>for a disclosure year thereafter, the maximum prescribed investor rate applicable at the start of that disclosure year to an individual who is- ¶

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(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 0.58.

(6) The 'Debt issuance costs' are 0.2%.

(7) 'Tax-adjusted market risk premium' is, for a 5 year period commencing on the first day of each disclosure year, 7.0%.

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<#>the disclosure year 2011, 7.1%; and¶ 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 3 months preceding the start of the **disclosure year**;
- (d) calculating the annualised interpolated bid yield to maturity for each **business day**; and
- (e) calculating the unweighted arithmetic average of the daily annualised interpolated bid yields to maturity.

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#### 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, in accordance with subclause (3), determine an estimate of an amount for the debt premium-

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- (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) For the purpose of subclause (2), the amount of the debt premium will be estimated for each disclosure year by-

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- (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 3 months 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), and having regard to the debt premium estimated from applying the Nelson-Siegel-Svensson approach in accordance with subclause (6), the average spread that would reasonably be expected to apply to a **vanilla NZ\$ denominated bond** that-

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- (i) is issued by an **EDB** or a **GPB**;
- (ii) is publicly traded;
- (iii) has a **qualifying rating** of grade BBB+; and
- (iv) has a remaining term to maturity of 5 years.

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(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**;

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(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**;

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(c) those that-

- (i) have a **qualifying rating** of a grade different to BBB+; and
- (ii) are issued by an **EDB** or a **GPB**;

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(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**;

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(5) For the purpose of subclause (4)-

**Deleted:** <#>those that are- ¶  
<#>**investment grade credit rated**; and ¶  
<#>issued by an entity that is majority owned by the Crown or a **local authority**. ¶

(a) progressively lesser regard will ordinarily be given to the spreads observed on the bond types described in accordance with the order in which the bond types are described in subclause (4);

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(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) 'Nelson-Siegel-Svensson approach' means a method for modelling yield curves and term structures of interest rates which establishes a relationship between terms to maturity and the **debt premium**, where a curve is generated by changing the parameters of a yield curve's functional form to minimise the squared deviation between estimated and observed values.

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2.4.5 Methodology for estimating the WACC range and the 67th percentile of the WACC

- (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 × standard error**; and
    - (ii) 25th percentile must be determined in accordance with the formula-  
**mid-point estimate of WACC - 0.674 × standard error**,

where the **standard error** of the relevant **mid-point estimate of WACC is 0.0113**,

- (4) The **Commission** will determine a 67th percentile estimate of vanilla **WACC** and a **67<sup>th</sup> percentile estimate of** post-tax **WACC-**
- (a) for each **disclosure year**; and
  - (b) within 1 month of the start of the **disclosure year** in question.
- (5) For the purpose of subclause (4)-
- (a) the **mid-point estimate of WACC** must be treated as the 50th percentile; and
  - (b) the 67th percentile must be determined in accordance with the formula-  
**mid-point estimate of WACC + 0.440 x standard error**,

where the **standard error** of the relevant **mid-point estimate of WACC is 0.0113**,

2.4.6 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.

2.4.7 Interpretation of terms relating to term credit spread differential

- (1) 'Qualifying debt' means a line of debt-

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**Deleted:** <#>Standard error of debt premium¶  
<#>The **Commission** will estimate an amount for a **standard error** of a **debt premium-** ¶  
<#>subject to clause 2.4.1(3), within 1 month of the start of the **disclosure year** in question; and¶  
<#>as either- ¶  
<#>the result of the formula specified in subclause (2); or¶  
<#>0.0015, ¶  
whichever is the greater.¶  
<#>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).¶  
<#>Methodology for estimating the WACC **standard error** ¶

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

$$\sqrt{0.00003 + 0.0169E^2 (TAMRP)}$$

<#>The **standard error** for a mid-point estimate of post-tax **WACC** determined ...

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- (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.

2.4.8 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-

$$0.000559 \times (\text{original tenor of the qualifying debt} - 5);$$

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

(2) 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.

2.4.9 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-

**Deleted:** <#>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.¶

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 <#>less than 0.0015, T is 0.0015; and¶  
 <#>more than 0.006, T is 0.006; and ¶

**Deleted:** <#>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 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 tenor of 5 years; and¶  
 <#>V, W, X and Y are determined as at the same time on the same pricing date of the **qualifying debt**.¶

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(i) **term credit spread difference**; and

(ii) debt issuance cost re-adjustment;

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(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)(ii), 'debt issuance cost re-adjustment' is the amount determined in accordance with the formula-

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$(0.01 \div \text{original tenor of the qualifying debt} - 0.002) \times \text{book value in New Zealand dollars of the qualifying debt at its date of issue,}$

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

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

### SUBPART 1 Specification of price

#### 3.1.1. Specification and definition of prices

- (1) For the purpose of s 53M(1)(a) of the Act, the maximum revenues that may be recovered by an EDB will be specified in a s 52P determination as a revenue cap, whereby forecast revenue from prices must not exceed forecast allowable revenue for each disclosure year of the regulatory period.
- (2) For the purpose of subclause (1), 'forecast allowable revenue' is the sum of-
- (a) forecast net allowable revenue;
  - (b) forecast pass-through costs; and
  - (c) forecast recoverable costs, including any revenue wash-up draw down amount.
- (3) For the purpose of this subpart, 'forecast revenue from prices' for a disclosure year means the forecast revenue used by an EDB to set prices, where-
- (a) forecast revenue is the sum of each price multiplied by each forecast quantity; and
  - (b) the average annual percentage increase in prices for the disclosure year does not exceed any maximum annual percentage increase specified by the Commission in a s 52P determination.
- (4) For the purpose of subclause (2), 'forecast net allowable revenue' for each disclosure year of a regulatory period will be specified by the Commission at the start of the regulatory period in a s 52P determination as the forecast amount that may be recovered by the EDB for each disclosure year, applying-
- (a) the input methodologies in Part 4 of this determination;
  - (b) the forecast CPI applicable to the disclosure year; and
  - (c) any X factor applicable to the EDB.
- (5) '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 taken up by consumers.

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<#>For the purpose of s 53M(1)(a) of the Act, the maximum- ¶  
<#>price or prices that may be charged; or ¶  
<#>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- ¶  
<#>notional revenue must not exceed allowable notional revenue; ¶  
<#>the same quantities are used to determine notional revenue and allowable notional revenue; ¶  
<#>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; and ¶  
<#>the sum of relevant pass-through costs and recoverable costs passed through to prices is separately demonstrated. ¶  
<#>Allowable notional revenue means, in respect of a 12 month period, a function of- ¶  
<#>relevant CPIs; ¶  
<#>the X factor applicable to the EDB; and ¶  
<#>distribution prices in the preceding 12 month period multiplied by quantities. ¶  
<#>Notional revenue means, in respect of a 12 month period, distribution prices in that period multiplied by quantities. ¶

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

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(7) 'Posted discount' means a discount to charges payable for the **supply of electricity distribution services-**

- (a) that is offered by an **EDB** in a published tariff schedule;
- (b) the take-up of which is determined by **consumers**; and
- (c) that applied when the forecast net allowable revenue was determined.

### 3.1.2 Pass-through costs

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

- (a) a cost listed in subclause (2); or
- (b) subject to subclause (3), a cost, other than one listed in subclause (2), specified by way of a s 52P determination.

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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 cost in question must-

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- (a) be-
  - (i) associated with the **supply of electricity distribution services**;
  - (ii) outside the control of the **EDB**;
  - (iii) not a **recoverable cost**;
  - (iv) appropriate to be passed through to **consumers**; and
  - (v) one in respect of which provision for its recovery is not otherwise made explicitly or implicitly in the **DPP** or, where applicable, **CPP**; and
- (b) come into effect during a **DPP regulatory period** or, where applicable, **CPP regulatory period**.

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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

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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 amount that is–
  - (i) an **IRIS incentive adjustment** calculated in respect of a **non-exempt EDB**; or
  - (ii) a positive net balance determined in accordance with clause 3.3.15(2), provided that any requirements pursuant to an **ID determination** regarding **auditor** certification of any value determined in accordance with Section 3 of Subpart 3 have been met;
- (b) a charge payable to **Transpower** for **electricity lines services** provided to an EDB in respect of the transmission system in accordance with the transmission pricing methodology **Transpower** uses to determine the prices it charges for its services, as specified in the Electricity Industry Participation Code, including any such charges on-charged at cost by a third party to an EDB that does not have a transmission agreement with **Transpower** for the relevant point of supply;
- (c) a charge payable 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;
- (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) a **distributed generation allowance**;
- (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);

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- (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);
- (l) a fee payable to an **engineer** for the purpose of meeting a requirement of clause 5.4.12(4)(b), subject to the requirement specified in subclause (3);
- (m) a **catastrophic event allowance**, as specified in a **DPP determination** or **CPP determination**;
- (n) an **extended reserves allowance**, subject to the requirements specified in subclauses (2) and (7);
- (o) a **quality incentive adjustment**;
- (p) the amount calculated for a **non-exempt EDB** in accordance with the following formula for each **disclosure year** other than the first in a **DPP regulatory period** for which the starting prices were determined by the Commission under s 53P(3)(b)–

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

where–

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

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

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

where–

- l* is the number of **disclosure years** in the **regulatory period**;
- r* is the **cost of debt** applying to the **regulatory period**; and
- y* is the number of **disclosure years** preceding the **disclosure year** in question in the **regulatory period**;

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

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- (s) a reconsideration event allowance, as specified in a DPP determination or CPP determination;
- (t) a fee payable to an engineer for the purpose of meeting a requirement of clause 4.5.5, subject to the requirement specified in subclause (10);
- (u) an urgent project allowance, as determined by the Commission under subclause (11); or
- (v) a revenue wash-up draw down amount drawn down to forecast allowable revenue in the disclosure year from the wash-up account, as specified in subclause (13)(h).

- (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.
- (7) For the purpose of giving approval under subclause (2) in respect of an **extended reserves allowance**, the **Commission** will have regard to any policy intent stated by the Electricity Authority as to whether—
- (a) some or all compensation payments to be made by an **EDB** under the extended reserves regime would be expected to constitute negative **recoverable costs** and be passed-through to **consumers** via corresponding reductions in **prices**; and
  - (b) revenues that an **EDB** may receive under the extended reserves regime would be expected to be treated as unregulated income.
- (8) For the purpose of clause 3.1.3(1)(p), the 'capex wash-up adjustment' is an amount equal to the present value of the difference in the series of building block allowable revenues before tax for the **DPP regulatory period** in question, subject to clause (9), from adopting—
- (a) the sum of **value of commissioned assets** for each **disclosure year** that follows the **base year** in the preceding **DPP regulatory period**, instead of—

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- (b) the **forecast aggregate value of commissioned assets** determined by the **Commission** in respect of each of those **disclosure years** when determining prices in accordance with s 53P(3)(b).
- (9) For the purpose of subclause (8)–
- (a) the present value must be determined by discounting the building block allowable revenues before tax to the end of the preceding **DPP regulatory period** using a discount rate equal to the **WACC** applied by the **Commission** in setting prices for the **DPP regulatory period** in question;
  - (b) the series of building block allowable revenues before tax for the **DPP regulatory period** are those used to reset starting prices based on the current and projected profitability of each **EDB** and must-
    - (i) be calculated using the same methodology that was applied by the **Commission** in setting starting prices for the **EDB** for the **DPP**, subject to subparagraphs (ii) and (iii);
    - (ii) for the purpose of subparagraph (i), adopt the sum of **depreciation** calculated under Part 2 in respect of each **disclosure year** that follows the **base year** in the preceding **DPP regulatory period** for assets having a **commissioning date** in any of those **disclosure years**; and
    - (iii) for the purpose of subparagraph (i), adopt the same values for all other inputs to the calculation of building block allowable revenues before tax;
  - (c) where building block allowable revenues before tax from adopting the sum of **value of commissioned assets** exceed the building block allowable revenues before tax from using the **forecast aggregate value of commissioned assets** then the difference is a positive amount of capex wash-up adjustment;
  - (d) where building block allowable revenues before tax from adopting the sum of **value of commissioned assets** is less than the building block allowable revenues before tax from using the **forecast aggregate value of commissioned assets** then the difference is a negative amount of capex wash-up adjustment; and
  - (e) where a **CPP** applies in respect of a **disclosure year** during the **DPP regulatory period** then the amount of capex wash-up adjustment for that **disclosure year** and each subsequent **disclosure year** of the **DPP regulatory period** will be specified by the **Commission** in the relevant **CPP determination**, taking account the partial recovery of the capex wash-up adjustment in prior **disclosure years** of that **DPP regulatory period**.

- (10) For the purpose of subclause (1)(t), the amount that may be recovered by an **EDB** will be specified by the **Commission** in an amendment to the **DPP determination**.
- (11) 'Urgent project allowance' means the allowance determined by the **Commission** in a **CPP determination** in respect of additional net costs where these costs-
- (a) exceed those already provided for in a **DPP determination** or **CPP determination**;
  - (b) will not be included in a **value of commissioned asset**; and
  - (c) were prudently incurred by an **EDB** in responding to an urgent **project** that occurred in the time between the submission of a **CPP proposal** and determination of the resulting **CPP determination** by the **Commission**.
- (12) For the purpose of subclause (1)(v), an **EDB** must for each **disclosure year**-
- (a) perform a revenue wash-up calculation as specified in a relevant s 52P determination;
  - (b) record in the **wash-up account** any **voluntary undercharging deduction amount** in accordance with subclause (13)(a);
  - (c) record in the **wash-up account** any **wash-up amounts** calculated in accordance with subclause (13)(b);
  - (d) record in the **wash-up account** any **revenue wash-up draw down amount** in accordance with subclause (13)(g); and
  - (e) record a time value of money adjustment in the **wash-up account** based on the opening balance of the **wash-up account** and using a rate equal to the most recently published **67th percentile estimate of WACC**.
- (13) For the purpose of subclause (12)-
- (a) 'voluntary undercharging deduction amount' means an amount deducted from the **wash-up account**, calculated using a formula based on the difference between **forecast allowable revenue** and the forecast revenue from prices applied in accordance with clause 3.1.1(1), if specified in a s 52P determination;
  - (b) 'wash-up amount' means, subject to subclauses (c)-(f), an entry in the **wash-up account** to record the difference between **actual allowable revenue** and actual revenue for a **disclosure year**;
  - (c) the calculation of the **actual allowable revenue** for a revenue wash-up calculation must-
    - (i) apply the X factor that was used when the **forecast net allowable revenue** was originally determined for the **disclosure year** and the **actual net allowable revenue** for the preceding **disclosure year**;

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- (ii) apply the **CPI** in place of the **forecast CPI**, to the extent that **forecast CPI** was applied under the s 52P determination in setting **prices** in accordance with clause 3.1.1(4)(c); and
  - (iii) apply actual **pass-through costs** and actual **recoverable costs**;
- (d) 'actual revenue' for a revenue wash-up calculation means, subject to subclause (e), an amount that includes the sum of each **price** multiplied by actual **quantities** supplied in the **disclosure year** plus **other regulated income**;
- (e) the calculation of actual revenue from prices for a revenue wash-up calculation must be based on the **prices** that applied at the time that the revenue for the **disclosure year** was forecast;
- (f) the **wash-up amount** for a **disclosure year** may be capped if specified by the **Commission** in a s 52P determination;
- (g) 'revenue wash-up draw down amount' means, subject to subclause (h), an amount drawn down from the **wash-up account** and applied to **forecast allowable revenue** in a **disclosure year** when setting **prices** in accordance with a s 52P determination;
- (h) the **revenue wash-up draw down amount** for a **disclosure year** may be subject to a cap or collar based on **forecast net allowable revenue** if specified by the **Commission** in a s 52P determination; and
- (i) the timing of entries recorded in the **wash-up account** shall be:
  - (i) **voluntary undercharging deduction amounts** occur with effect on the start of the **disclosure year** following the **disclosure year** to which the setting of **prices** relates;
  - (ii) **wash-up amounts** occur with effect at the start of the **disclosure year** following the **disclosure year** to which the wash-up calculation relates;
  - (iii) **revenue wash-up draw down amounts** occur with effect at the end of the **disclosure year** to which the draw down is applied in **prices**; and
  - (iv) time value of money amounts occur with effect at the end of the **disclosure year** to which the calculation is applied to the opening balance of the **wash-up account**;
- (j) the transitional opening balance of the **wash-up account** for the first **disclosure year** in which the **wash-up account** is used shall be determined by the **Commission** based on an estimate of **pass-through cost** or **recoverable cost** amounts from the preceding **regulatory period** that have not yet been accounted for in **prices**;



- (k) subject to subclause (j), the opening balance of the **wash-up account** for a **disclosure year** shall be the closing balance of the **wash-up account** for the **previous disclosure year**; and
- (l) the closing balance of the **wash-up account** for a **disclosure year** is–
- (i) the opening balance of the **wash-up account** at the start of the **disclosure year**;
  - (ii) less any **voluntary undercharging deduction amount** that is calculated in accordance with subclause (a) and recognised in accordance with subclause (i)(i);
  - (iii) plus any **wash-up amount** that is calculated in accordance with subclause (f) and recognised in accordance with subclause (i)(ii);
  - (iv) less any **revenue wash-up draw down amount** specified in subclause (g) and recognised in accordance with subclause (i)(iii); and
  - (v) plus the time value of money adjustment made based on the opening balance of the **wash-up account**, recognised in accordance with subclause (i)(iv).

## 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**

**SECTION 1 Annual IRIS incentive adjustments**

3.3.1 Calculation of annual IRIS incentive adjustment as recoverable cost

- (1) A **non-exempt EDB** must calculate an **IRIS incentive adjustment** for each **disclosure year** of each **regulatory period**.
- (2) The 'IRIS incentive adjustment' is the amount determined in accordance with the formula-

**opex incentive amount + capex incentive amount.**

**SECTION 2 Operating expenditure incentives**

3.3.2 How to calculate opex incentive amounts

- (1) An **opex incentive amount** must be calculated for each **disclosure year** of a **regulatory period**, subject to subclause (4).
- (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 under clause 3.3.4(1)-
    - (i) the amount calculated in accordance with the following formula for a disclosure year in the DPP regulatory period-

$$\left( \frac{\text{Adjustment to the opex incentive}}{l - 1} \right) \times (1 + r)^{y+0.5}$$

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where—

$l$  is the number of **disclosure years** in the **DPP regulatory period**;

$r$  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 **DPP regulatory period**; or

(ii) where subclause (3) applies, nil.

(3) For the purpose of subclause 3.3.2(2)(b)(ii), 'nil' applies for—

(a) the first **disclosure year** of the **DPP regulatory period**; or

(b) a **disclosure year** in a **DPP regulatory period** commencing prior to 1 April 2020.

(4) An **opex incentive amount** shall not be calculated:

(a) by Orion New Zealand Limited, for any **disclosure year** in a **regulatory period** commencing on, or prior to, 1 April 2020; and

(b) by any other **EDB**, for any **disclosure year** commencing prior to 1 April 2020, unless the **EDB** becomes subject to a **CPP**.

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3.3.3 How to calculate the amount carried forward to subsequent disclosure years

(1) An 'amount carried forward' must be calculated for each **disclosure year** of a **regulatory period**, subject to subclause (6).

(2) The 'amount carried forward' for the first **disclosure year** of a **regulatory period**, including the first **disclosure year** following expiration of a **CPP** applicable to the **EDB**, subject to subclause (5), is calculated in accordance with the formula—

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**forecast opex<sub>t</sub> – actual opex<sub>t</sub>**

where—

$t$  means the **disclosure year** in question.

(3) The 'amount carried forward' for a **disclosure year** that is not the first or last **disclosure year** of a **regulatory period** is calculated in accordance with the formula—

**(forecast opex<sub>t</sub> – actual opex<sub>t</sub>) – (forecast opex<sub>t-1</sub> – actual opex<sub>t-1</sub>)**

where—

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

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

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- (4) The 'amount carried forward' for the last **disclosure year** of a **regulatory period** is nil.
- (5) Where an **EDB** is subject to a **DPP determination** for no more than one consecutive **disclosure year** of the **DPP regulatory period**, the 'amount carried forward' for that **disclosure year** is nil.
- (6) An **amount carried forward** shall not be calculated:
- (a) by Orion New Zealand Limited, for any **disclosure year** commencing prior to 1 April 2019; and
  - (b) by any other **EDB**, for any **disclosure year** commencing prior to 27 November 2014.
- (7) Each **amount carried forward** is notionally carried forward from the **disclosure year** in respect of which it is calculated into each of the subsequent 5 **disclosure years**.
- (8) 'Forecast opex', subject to clauses 3.3.13 and 3.3.14, is, for a **disclosure year** –
- (a) in a **DPP regulatory period** applying to an **EDB** for which starting prices applicable to the **EDB** were determined by the **Commission** under s 53P(3)(b) or s 53X(2), the amount of forecast **operating expenditure** specified by the **Commission** for the relevant **disclosure year** in the **DPP determination** for the purpose of calculating an **opex incentive amount**;
  - (b) in a **DPP regulatory period** applying to an **EDB** for which the prices applicable to the **EDB** were the prices that applied at the end of the preceding **DPP regulatory period** or **CPP regulatory period**, the amount of forecast **operating expenditure** specified by the **Commission** in the **DPP determination** or otherwise notified to the **EDB** by the **Commission**; or
  - (c) in a **CPP regulatory period** applying to an **EDB**, the amount of forecast **operating expenditure** specified by the **Commission** for the relevant **disclosure year** in accordance with clause 5.3.2(6)(b).
- (9) 'Actual opex' is the amount of **operating costs** allocated to **electricity distribution services** for the relevant **disclosure year** calculated in accordance with Part 2.

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#### 3.3.4 How to calculate the adjustment to the opex incentive for the second year of a regulatory period

- (1) An **adjustment to the opex incentive** must be calculated in the **disclosure year** immediately following a **starting price year**, unless the **disclosure year** in question is also a **starting price year**.

##### *Standard case DPP*

- (2) For an **EDB** subject to the **DPP**, unless subclause (4) applies, the 'adjustment to the opex incentive', where the starting prices for the current **DPP regulatory period** are–

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- (a) determined by the **Commission** in accordance with s 53P(3)(b) of the **Act**, is an amount equal to the 'base year adjustment term' calculated in accordance with clause 3.3.5; and
- (b) the prices that applied at the end of the preceding **DPP regulatory period** or **CPP regulatory period**, is an amount calculated in accordance with the formula—

*base year adjustment term + roll-over adjustment term*

where—

*base year adjustment term* means the amount calculated in accordance with clause 3.3.5; and

*roll-over adjustment term* means the amount calculated in accordance with clause 3.3.6.

#### *Standard case CPP*

- (3) The 'adjustment to the opex incentive' for an **EDB** subject to a **CPP**, unless subclauses (5) or (6) applies, is calculated in accordance with the formula—

*base year adjustment term + baseline adjustment term*

where—

*base year adjustment term* means the amount calculated in accordance with clause 3.3.5;

*baseline adjustment term* means the amount calculated in accordance with clause 3.3.7(1).

#### *Special case of a DPP following a single starting price year*

- (4) The 'adjustment to the opex incentive' for an **EDB** subject to the **DPP**, when the **disclosure year** immediately preceding the current **regulatory period** was a **starting price year**, is calculated in accordance with the formula—

*base year adjustment term + roll-over adjustment term + one-year adjustment term 1 + one-year adjustment term 2 + one-year adjustment term 3*

where—

*base year adjustment term* means the amount calculated in accordance with clause 3.3.5;

*roll-over adjustment term* means the amount calculated in accordance with clause 3.3.6;

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*one-year adjustment term 1* means the amount calculated in accordance with clause 3.3.8(1);

*one-year adjustment term 2* means the amount calculated in accordance with clause 3.3.8(2); and

*one-year adjustment term 3* means the amount calculated in accordance with clause 3.3.8(3).

*Special case of a CPP following a single starting price year*

- (5) Unless subclause (6) applies, the 'adjustment to the opex incentive' for an **EDB** subject to a **CPP**, when the **disclosure year** immediately preceding the current **regulatory period** was a **starting price year**, is calculated in accordance with the formula–

*base year adjustment term + baseline adjustment term + one-year adjustment term 1 + one-year adjustment term 2 + one-year adjustment term 3*

where–

*base year adjustment term* means the amount calculated in accordance with clause 3.3.5;

*baseline adjustment term* means the amount calculated in accordance with clause 3.3.7(1);

*one-year adjustment term 1* means the amount calculated in accordance with clause 3.3.8(1);

*one-year adjustment term 2* means the amount calculated in accordance with clause 3.3.8(2); and

*one-year adjustment term 3* means the amount calculated in accordance with clause 3.3.8(3).

*Special case of a CPP following two consecutive starting price years*

- (6) The 'adjustment to the opex incentive' for an **EDB** subject to a **CPP**, when the two **disclosure years** immediately preceding the current **regulatory period** were each a **starting price year**, is calculated in accordance with the formula–

*baseline adjustment term + one-year adjustment term 4 + one-year adjustment term 5 + one-year adjustment term 6 + one-year adjustment term 7 + one-year adjustment term 8 + one-year adjustment term 9*

where–

*baseline adjustment term* means the amount calculated in accordance with clause 3.3.7(2);

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*one-year adjustment term 4* means the amount calculated in accordance with clause 3.3.9(1);

*one-year adjustment term 5* means the amount calculated in accordance with clause 3.3.9(2);

*one-year adjustment term 6* means the amount calculated in accordance with clause 3.3.9(3);

*one-year adjustment term 7* means the amount calculated in accordance with clause 3.3.9(4);

*one-year adjustment term 8* means the amount calculated in accordance with clause 3.3.9(5); and

*one-year adjustment term 9* means the amount calculated in accordance with clause 3.3.9(6).

### 3.3.5 How to calculate the base year adjustment term

A 'base year adjustment term' is calculated in accordance with the formula—

$$-\left(\frac{(\text{forecast opex}_{t-1} - \text{actual opex}_{t-1}) - (\text{forecast opex}_{t-2} - \text{actual opex}_{t-2})}{(1 + WACC)^4}\right)$$

where—

WACC means—

- (i) in the case of a DPP, the WACC as determined by the Commission and applicable to the DPP; or
- (ii) in the case of a CPP, the DPP WACC or WACCs as determined by the Commission and as applicable to the CPP in in the EDB's current CPP regulatory period in accordance with clause 5.3.22;

*t-1* means the **disclosure year** immediately prior to the current **regulatory period**; and

*t-2* means the **disclosure year** commencing two years prior to the current **regulatory period**.

### 3.3.6 How to calculate the roll-over adjustment term

A 'roll-over adjustment term' is calculated in accordance with the formula—

$$(\text{actual opex}_{t-2} - \text{forecast opex}_t)$$

×

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$$((1-(1+WACC)^{-6})/WACC)$$

×

$$(1+WACC)^2$$

where—

**WACC** means the **WACC** as determined by the **Commission** and applicable to the **EDB's current DPP**;

**t** means the first **disclosure year** of the current **regulatory period**; and

**t-2** means the **disclosure year** commencing two years prior to the current **regulatory period**.

### 3.3.7 How to calculate the baseline adjustment term applicable to CPP regulatory periods

- (1) For the purposes of subclause 3.3.4(3) and 3.3.4(5), 'baseline adjustment term' is calculated in accordance with the formula—

$$- (\text{forecast opex}_{t-2} - \text{actual opex}_{t-2})$$

×

$$((1-(1+WACC)^{-6})/WACC)$$

×

$$(1+WACC)^2$$

where—

**t-2** means the **disclosure year** commencing two years prior to the current **regulatory period**;

**WACC** means the **DPP WACC or WACCs** as determined by the **Commission** and **as applicable to the CPP in the EDB's current CPP regulatory period in accordance with clause 5.3.22**.

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- (2) For the purposes of subclause 3.3.4(6), a 'baseline adjustment term' is calculated in accordance with the formula—

$$- (\text{forecast opex}_{t-4} - \text{actual opex}_{t-2})$$

×

$$((1-(1+WACC)^{-6})/WACC)$$

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$$\times (1+WACC)^2$$

where–

*t*-2 means the **disclosure year** commencing two years prior to the current **regulatory period**;

*t*-4 means the **disclosure year** commencing four years prior to the current **regulatory period**; and

WACC means the DPP WACC or WACCs as determined by the Commission and as applicable to the CPP in the EDB's current CPP regulatory period in accordance with clause 5.3.22.

**Deleted:** means the WACC as determined by the Commission and applicable to the EDB's current CPP regulatory period.

### 3.3.8 How to calculate adjustment terms applicable to regulatory periods preceded by a single starting price year

(1) A 'one-year adjustment term 1' is calculated in accordance with the formula–

$$(\text{actual opex}_{t-4} - \text{forecast opex}_{t-2})$$

$$\times (1+WACC)^2$$

where–

WACC means-

(i) in the case of a DPP, the WACC as determined by the Commission and applicable to the DPP; or

(ii) in the case of a CPP, the DPP WACC or WACCs as determined by the Commission and as applicable to the CPP in in the EDB's current CPP regulatory period in accordance with clause 5.3.22;

**Deleted:** means the WACC as determined by the Commission and applicable to the EDB's current DPP or CPP;

*t*-2 means the **disclosure year** commencing two years prior to the current **disclosure year**; and

*t*-4 means the **disclosure year** commencing four years prior to the current **disclosure year**.

(2) A 'one-year adjustment term 2' is calculated in accordance with the formula–

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$(\text{forecast opex}_{t-3} - \text{actual opex}_{t-3}) - (\text{forecast opex}_{t-4} - \text{actual opex}_{t-4})$

×

$((1-(1+WACC)^{-4})/WACC)$

×

$(1+WACC)^2$

where–

WACC means-

(i) in the case of a DPP, the WACC as determined by the Commission and applicable to the DPP; or

(ii) in the case of a CPP, the DPP WACC or WACCs as determined by the Commission and as applicable to the CPP in in the EDB's current CPP regulatory period in accordance with clause 5.3.22;

$t-3$  means the **disclosure year** commencing three years prior to the current **disclosure year**; and

$t-4$  means the **disclosure year** commencing four years prior to the current **disclosure year**.

**Deleted:** means the WACC as determined by the Commission and applicable to the EDB's current DPP or CPP;¶

(3) A 'one-year adjustment term 3' is calculated in accordance with the formula–

$(\text{forecast opex}_{t-2} - \text{forecast opex}_{t-4}) / (1+WACC)^4$

where–

WACC means-

(i) in the case of a DPP, the WACC as determined by the Commission and applicable to the DPP; or

(ii) in the case of a CPP, the DPP WACC or WACCs as determined by the Commission and as applicable to the CPP in in the EDB's current CPP regulatory period in accordance with clause 5.3.22;

$t-2$  means the **disclosure year** commencing two years prior to the current **disclosure year**; and

$t-4$  means the **disclosure year** commencing four years prior to the current **disclosure year**.

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3.3.9 How to calculate adjustment terms applicable to CPP regulatory periods preceded by two successive starting price years

(1) A 'one-year adjustment term 4' is calculated in accordance with the formula–

$$(\text{actual opex}_{t-5} - \text{forecast opex}_{t-3})$$

×

$$(1+WACC)^3$$

where–

WACC means the DPP WACC or WACCs as determined by the Commission and as applicable to the CPP in the EDB's current CPP regulatory period in accordance with clause 5.3.22;

$t-3$  means the **disclosure year** commencing three years prior to the current **disclosure year**; and

$t-5$  means the **disclosure year** commencing five years prior to the current **disclosure year**.

**Deleted:** means the WACC as determined by the Commission and applicable to the EDB's current CPP;

(2) A 'one-year adjustment term 5' is calculated in accordance with the formula–

$$(\text{actual opex}_{t-4} - \text{forecast opex}_{t-2})$$

×

$$(1+WACC)^2$$

where–

WACC means the DPP WACC or WACCs as determined by the Commission and as applicable to the CPP in the EDB's current CPP regulatory period in accordance with clause 5.3.22;

$t-2$  means the **disclosure year** commencing two years prior to the current **disclosure year**; and

$t-4$  means the **disclosure year** commencing four years prior to the current **disclosure year**.

**Deleted:** means the WACC as determined by the Commission and applicable to the EDB's current CPP;

(3) A 'one-year adjustment term 6' is calculated in accordance with the formula–

$$(\text{actual opex}_{t-5} - \text{actual opex}_{t-4})$$

×

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$$((1-(1+WACC)^{-4})/WACC)$$

×

$$(1+WACC)^3$$

where—

**WACC** means the **DPP WACC** or **WACCs** as determined by the **Commission** and as applicable to the **CPP** in the **EDB's current CPP regulatory period** in accordance with clause 5.3.22;

**t-4** means the **disclosure year** commencing four years prior to the current **disclosure year**; and

**t-5** means the **disclosure year** commencing five years prior to the current **disclosure year**.

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- (4) A 'one-year adjustment term 7' is calculated in accordance with the formula—

$$(\text{actual opex}_{t-4} - \text{actual opex}_{t-3})$$

×

$$((1-(1+WACC)^{-4})/WACC)$$

×

$$(1+WACC)^2$$

where—

**WACC** means the **DPP WACC** or **WACCs** as determined by the **Commission** and as applicable to the **CPP** in the **EDB's current CPP regulatory period** in accordance with clause 5.3.22;

**t-3** means the **disclosure year** commencing three years prior to the current **disclosure year**; and

**t-4** means the **disclosure year** commencing four years prior to the current **disclosure year**.

**Deleted:** means the **WACC** as determined by the **Commission** and applicable to the **EDB's current CPP**;

- (5) A 'one-year adjustment term 8' is calculated in accordance with the formula—

$$(\text{actual opex}_{t-2} - \text{actual opex}_{t-3}) / (1+WACC)^4$$

where—

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WACC means the **DPP WACC or WACCs** as determined by the **Commission** and as applicable to the **CPP** in the **EDB's current CPP regulatory period** in accordance with clause 5.3.22;

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*t*-2 means the **disclosure year** commencing two years prior to the current **disclosure year**; and

*t*-3 means the **disclosure year** commencing three years prior to the current **disclosure year**.

(6) A 'one-year adjustment term 9' is calculated in accordance with the formula—

$$\begin{aligned} & (\text{forecast opex}_{t-5} - \text{forecast opex}_{t-4}) \\ & \times \\ & ((1/(1+WACC))^4 + 1/(1+WACC)^2 - (1+WACC)^2) \end{aligned}$$

where—

WACC means the **DPP WACC or WACCs** as determined by the **Commission** and as applicable to the **CPP** in the **EDB's current CPP regulatory period** in accordance with clause 5.3.22;

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*t*-4 means the **disclosure year** commencing four years prior to the current **disclosure year**; and

*t*-5 means the **disclosure year** commencing five years prior to the current **disclosure year**.

### SECTION 3 Capital expenditure incentives

#### 3.3.10 How to calculate capex incentive amounts

(1) A **capex incentive amount** must be calculated for each **disclosure year** of a **DPP regulatory period** irrespective of whether the **EDB** in question is subject to a **CPP** or a **DPP** during that **DPP regulatory period**, subject to subclause (3).

(2) The 'capex incentive amount' for a **disclosure year** is—

(a) the amount calculated in accordance with the following formula for a **disclosure year** in the **DPP regulatory period** other than the first **disclosure year**—

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

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where–

- $l$  is the number of **disclosure years** in the **DPP regulatory period**;
- $r$  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 **DPP regulatory period**; and

(b) nil–

- (i) for the first **disclosure year** of the **DPP regulatory period**; and
- (ii) for a **disclosure year** in a **DPP regulatory period** which commences prior to 1 April 2020.

(3) A **capex incentive amount** shall not be calculated:

- (a) by Orion New Zealand Limited, for any **disclosure year** in a **regulatory period** commencing on, or prior to, 1 April 2020; and
- (b) by any other **EDB**, for any **disclosure year** in a **DPP regulatory period** commencing prior to 1 April 2020.

### 3.3.11 How to calculate the capex wash-up

- (1) The ‘capex wash-up’ is an amount equal to the present value of the differences in the series of building block allowable revenues before tax for the preceding **DPP regulatory period**, subject to subclause (2) and clauses 3.3.13 and 3.3.14 from adopting–
- (a) the sum of the **value of commissioned assets** for each **disclosure year** of that preceding **DPP regulatory period**,
- instead of–
- (b) for each **disclosure year** of the preceding **DPP regulatory period** in which the **EDB** was subject to a **DPP**, the **forecast aggregate value of commissioned assets** determined by the **Commission** in respect of those **disclosure years**; and
  - (c) for each **disclosure year** of the preceding **DPP regulatory period** in which the **EDB** was subject to a **CPP**, the sum of the **forecast value of commissioned assets** determined by the **Commission** in respect of those **disclosure years**.
- (2) For the purpose of subclause (1)–
- (a) the present value must be determined by discounting the building block allowable revenues before tax to the end of the preceding **DPP regulatory period** using a discount rate equal to the **WACC** applied by the **Commission** in

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setting prices for each **disclosure year** for the relevant **DPP** or **CPP** in the preceding **DPP regulatory period**;

- (b) the series of building block allowable revenues before tax for each **disclosure year** of the preceding **DPP regulatory period** must–
- (i) be calculated using the same methodology that was applied by the **Commission** in setting starting prices for the **EDB** for the relevant **DPP** or **CPP**, subject to subparagraphs (ii) and (iii);
  - (ii) for the purpose of subparagraph (i), adopt the sum of **depreciation** calculated under Part 2 in respect of each **disclosure year** for assets having a **commissioning date** in the preceding **DPP regulatory period**; and
  - (iii) for the purpose of subparagraph (i), adopt the same values for all other inputs to the calculation of building block allowable revenues before tax; and
- (c) where building block allowable revenues before tax from adopting the sum of **value of commissioned assets** exceed the building block allowable revenues before tax from using the forecast values of commissioned assets (as determined using the **forecast aggregate value of commissioned assets** for each **disclosure year** in which the **EDB** was subject to a **DPP** and sum of the **forecast value of commissioned assets** for each **disclosure year** in which the **EDB** was subject to a **CPP**) then the difference is a positive amount of capex wash-up; and
- (d) where building block allowable revenues before tax from adopting the sum of **value of commissioned assets** is less than the building block allowable revenues before tax from using the forecast value of commissioned assets (as determined using the **forecast aggregate value of commissioned assets** for each **disclosure year** in which the **EDB** was subject to a **DPP** and sum of the **forecast value of commissioned assets** for each **disclosure year** in which the **EDB** was subject to a **CPP**) then the difference is a negative amount of capex wash-up.

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### 3.3.12 How to calculate the retention adjustment

- (1) The 'retention adjustment' is calculated in accordance with the formula–  
*(PV of forecast commissioned asset values – PV of actual commissioned asset values) x retention factor.*
- (2) 'PV of forecast commissioned asset values' is an amount equal to the sum of–

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- (a) the present value, as at the end of the preceding **DPP regulatory period**, of the **forecast aggregate value of commissioned assets** for each **disclosure year** of the preceding **DPP regulatory period** for which the **EDB** was subject to a **DPP**; and
  - (b) the present value, as at the end of the preceding **DPP regulatory period**, of the sum of the **forecast value of commissioned assets** for each **disclosure year** of the preceding **DPP regulatory period** for which the **EDB** was subject to a **CPP**.
- (3) 'PV of actual commissioned asset values' is the present value, as at the end of the preceding **DPP regulatory period**, of the **value of commissioned asset** calculated in accordance with Part 2 for every asset that was **commissioned** during the preceding **DPP regulatory period**.

**SECTION 4 Price-quality path amendments and other events**

3.3.13 Calculating alternative incentive adjustments following price-quality path transitions

- (1) Where a price-quality path is amended following–
- (a) a **catastrophic event**;
  - (b) a **change event**;
  - (c) an **error event**; or
  - (d) provision of false or misleading information under clause 4.5.6(1)(v) or 5.6.7(5),
- the **forecast opex** and **forecast aggregate value of commissioned assets** required to be used by the **EDB** to calculate the **amount carried forward** for the **disclosure year** in which the event occurred and each subsequent **disclosure year** prior to the effective date of the amendment to the price-quality path, is the amount specified by the **Commission** in the amended **DPP determination** or amended **CPP determination**.
- (2) An **EDB** subject to a **CPP** must calculate the **amount carried forward** for each **disclosure year** of the preceding **DPP regulatory period** applicable to the **EDB** using any alternative **forecast opex** and **forecast aggregate value of commissioned assets** specified by the **Commission** in the **CPP determination**.
- (3) Following expiration of a **CPP** applicable to the **EDB**, the **EDB** must calculate the **amount carried forward** for each remaining **disclosure year** of the current **DPP regulatory period** using any **forecast opex** and **forecast aggregate value of commissioned assets** notified by the **Commission**, unless the **EDB** becomes subject to a new **CPP**.

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3.3.14 Calculating incentive adjustments for other events

Where an event that is–

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- (a) an **amalgamation**;
- (b) a merger (as defined in a **DPP determination**);
- (c) a **major transaction**; or
- (d) an alteration to Part 2 or **ID determination** requirements affecting the quantification of **operating costs** allocated to electricity distribution services or a **value of commissioned asset**,

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occurs in a **disclosure year** and—

- (e) the **Commission** considers; or
- (f) the **EDB** in question satisfies the **Commission** upon application,

that the event has, or is likely to have, a material effect on the calculation of the **opex incentive amount** or **capex incentive amount** that would otherwise have been required to be calculated by the **EDB** then—

- (g) the **forecast opex**; and
- (h) either—
  - (i) **forecast aggregate value of commissioned assets**; or
  - (ii) sum of the **forecast value of commissioned assets**,

required to be used by the **EDB** to calculate the **amount carried forward** for that **disclosure year** and each subsequent **disclosure year** in the **regulatory period** may be determined by the **Commission**, and notified to the **EDB**, in order to preserve, to the extent appropriate—

- (i) the correct outcomes for expenditure efficiencies achieved before the event; and
- (j) the relevant incentive properties after the event.

## SECTION 5 Transitional provisions

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

- (1) The incremental change for the first **disclosure year** of a **CPP regulatory period** commencing prior to 27 November 2014 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** commencing prior to 27 November 2014 other than the **first** or final **disclosure year** must be determined in accordance with the formula-

**(allowed controllable opex<sub>t</sub> - actual controllable opex<sub>t</sub>) - (allowed controllable opex<sub>t-1</sub> - actual controllable opex<sub>t-1</sub>),**

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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** commencing prior to 27 November 2014 is treated as nil.
- (4) The incremental adjustment term is determined-
  - (a) in the next **disclosure year** following a **CPP regulatory period** commencing prior to 27 November 2014; and
  - (b) by applying the **inflation rate** to the result of the formula-

**(allowed controllable opex<sub>t-1</sub> - actual controllable opex<sub>t-1</sub>) - (allowed controllable opex<sub>t-2</sub> - actual controllable opex<sub>t-2</sub>)**

where-

$t-1$  means the final **disclosure year** of the preceding **CPP regulatory period** commencing prior to 27 November 2014; and

$t-2$  means the penultimate **disclosure year** of the preceding **CPP regulatory period** commencing prior to 27 November 2014.

- (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 nth quarter of the **disclosure year** in question; and

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

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

- (1) Each incremental change determined in accordance with clause 3.3.15 and **incremental adjustment term** is notionally carried forward, subject to clause 3.3.17, 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**.

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

Where-

- (a) a price-quality path is amended pursuant to clause 5.6.8 by reason of a **catastrophic event**; and
- (b) incremental changes calculated in the remaining **disclosure years** of the **regulatory period** in accordance with clauses 3.3.15(1) and 3.3.15(2) are negative,

clause 3.3.16(1) does not apply to those incremental changes.

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

### SUBPART 1 Cost allocation

#### 4.1.1 Allocation of operating costs and asset costs

- (1) **Operating expenditure** forecast for an **EDB** must be determined by the **Commission** consistent with the allocation by the **EDB** of **operating costs** to **electricity distribution services** for the **base year** in accordance with clause 2.1.1.
- (2) **Capital expenditure** forecast to be the **forecast aggregate value of commissioned assets** will be included in the **aggregate closing RAB for additional assets**, but only to the extent that the **forecast value of commissioned assets** is consistent with the value found after the application of clause 2.1.1.

### SUBPART 2 Asset Valuation

#### 4.2.1 RAB values and roll forward

- (1) Total opening RAB value for a **disclosure year** means the sum of-
  - (a) **aggregate opening RAB value for existing assets** calculated under subclause (2); and
  - (b) **aggregate opening RAB value for additional assets** calculated under subclause (4) for those **additional assets** which have a **forecast aggregate value of commissioned assets** determined for a prior **disclosure year** occurring after the **base year**.
- (2) Aggregate opening RAB value for existing assets means, for-
  - (a) the **base year**, the sum of each 'opening RAB value' for all assets calculated in accordance with Part 2 for that **disclosure year**; and
  - (b) each **disclosure year** thereafter, the **aggregate closing RAB value for existing assets** for the preceding **disclosure year**.
- (3) Aggregate closing RAB value for existing assets means, for-
  - (a) the **base year**, the sum of each 'closing RAB value' for all assets calculated in accordance with Part 2 for that **disclosure year**; and
  - (b) each **disclosure year** thereafter, the value determined in accordance with the formula-

**aggregate opening RAB value for existing assets – depreciation for existing assets + revaluation for existing assets – forecast aggregate value of disposed assets.**

- (4) Aggregate opening RAB value for additional assets means the **aggregate closing RAB value for additional assets** for the preceding **disclosure year**.
- (5) Aggregate closing RAB value for additional assets means, for-
- (a) **additional assets** in respect of the **disclosure year** for which their **forecast aggregate value of commissioned assets** is determined, the **forecast aggregate value of commissioned assets**; and
  - (b) **additional assets** for a **disclosure year** following that for which their **forecast aggregate value of commissioned assets** is determined, the value determined for those **additional assets** in accordance with the formula-

**aggregate opening RAB value for additional assets – depreciation for additional assets + revaluation for additional assets.**

#### 4.2.2 Total depreciation

- (1) Total depreciation means the sum of depreciation for **existing assets** and **additional assets** calculated under subclause (2).
- (2) For the purpose of subclause (1), 'depreciation' means, subject to subclause (3), in the case of-

- (a) **existing assets** of the **EDB**, for-
  - (i) the **base year**, the sum of all amounts of 'depreciation' determined in accordance with Part 2 for that **disclosure year**; and
  - (ii) each **disclosure year** thereafter, the value determined in accordance with the formula-

$[1 \div \textit{remaining asset life for existing assets}] \times \text{aggregate opening RAB value for existing assets}$ ; and

- (b) **additional assets** of the **EDB**, the value determined in accordance with the formula-

$[1 \div \textit{remaining asset life for additional assets}] \times \text{aggregate opening RAB value for additional assets}$ .

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

(a) 'remaining asset life for existing assets' for a **disclosure year** means-

- (i) the value determined in accordance with the formula-

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**aggregate opening RAB value for existing assets for the base year ÷ total depreciation for the base year,**

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less the number of **disclosure years** from the **base year** to the **disclosure year** in question; or

(ii) subject to subclauses (c) to (e), the value determined in accordance with the formula–

*adjustment factor* \* (**aggregate opening RAB value for existing assets for the base year ÷ total depreciation for the base year**)

less the number of **disclosure years** from the **base year** to the **disclosure year** in question;

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(b) for the purposes of subclause (2)(a), **remaining asset life for additional assets** for a **disclosure year** of 45 years less the number of **disclosure years** from the **disclosure year** for which the **forecast aggregate value of commissioned assets** for the relevant **additional assets** is determined to the **disclosure year** in question;

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(c) the **Commission** may, subject to subclause (d), apply an adjustment factor of not lower than 0.85, nor higher than 1;

(d) the **EDB** has, by notice in writing to the **Commission** prior to the commencement of the **base year**–

(i) proposed an adjustment factor to be applied by the **Commission** of not lower than 0.85, nor higher than 1;

(ii) explained why applying an adjustment factor of the level proposed in subclause (i) would be consistent with s 52A of the **Act**;

(iii) described any consultation it has undertaken with interested persons on the proposed adjustment factor and, if relevant, explained how it has taken into account any issues raised; and

(e) the **Commission** has not previously applied an adjustment factor under this subclause.

#### 4.2.3 Total revaluation

(1) Total revaluation means the sum of revaluation for **existing assets** and **additional assets** calculated under subclause (2).

(2) For the purpose of subclause (1), 'revaluation' means, subject to subclause (3), in the case of–

(a) **existing assets**, the value determined in accordance with the formula–

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(**aggregate opening RAB value for existing assets** × 0.999 – **forecast aggregate value of disposed assets**) × *revaluation rate*; and

(b) **additional assets**, the value determined in accordance with the formula-

**aggregate opening RAB value for additional assets** × *revaluation rate*.

(3) For the purpose of subclause (2), '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**.

#### 4.2.4 Revaluation treated as income

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

#### 4.2.5 Forecast aggregate value of commissioned assets

Forecast aggregate value of commissioned assets means the forecast cost of **additional assets** if **GAAP** were to be applied to determine the cost of the assets to the **EDB** in the **disclosure year** in question, and is equal to forecast **capital expenditure** for the relevant **disclosure year** as determined by the **Commission**.

#### 4.2.6 Forecast aggregate value of disposed assets

Forecast aggregate value of disposed assets means the value of assets forecast to be **disposed** of by an **EDB** in the **disclosure year** in question, and is equal to the portion of the forecast **aggregate opening RAB value for existing assets** relating to assets forecast to be **disposed** of for the **disclosure year** in question as determined by the **Commission**.

### SUBPART 3 **Treatment of taxation**

#### 4.3.1 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) For the purpose of subclause (1), 'regulatory net taxable income' means, subject to subclause (3), regulatory taxable income less utilised tax losses.

(3) For the purpose of subclause (2), 'regulatory taxable income' means, subject to subclause (4), the amount determined in accordance with the formula-

regulatory profit / (loss) before tax + **regulatory tax adjustments**.

(4) For the purpose of subclause (3), 'regulatory profit / (loss) before tax' is the amount determined in accordance with the following formula-

**allowable revenue before tax + other regulated income – operating expenditure – total depreciation.**

#### 4.3.2 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-

(a) 'opening tax losses' for a **disclosure year** means closing tax losses for the preceding **disclosure year**; and

(b) 'closing tax losses' means, for-

(i) the **base year**, the 'closing tax losses' determined in accordance with Part 2 for that **disclosure year**; and

(ii) each **disclosure year** thereafter, the amount determined in accordance with the formula, in which each term is an absolute value:

**opening tax losses + current period tax losses – utilised tax losses.**

(4) For the purpose of subclause (3)(b)(ii), '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**.

#### 4.3.3 Regulatory tax adjustments

(1) Regulatory tax adjustments are determined, subject to subclauses (2) and (3), 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-



$((\text{opening investment value} \times \text{leverage} \times \text{cost of debt}) + \text{term credit spread differential allowance})$

÷

$\sqrt{1 + \text{cost of debt}}$ .

(3) For the purpose of subclause (1), 'amortisation of initial differences in asset values' is determined in accordance with Part 2 as of the **base year**.

(4) For the purpose of subclause (2), 'opening investment value' means the amount obtained in accordance with the formula-

**total opening RAB value + opening deferred tax.**

(5) For the purpose of subclause (1), 'amortisation of revaluations' in relation to an **EDB** for a **disclosure year** is calculated in accordance with the formula-

**total depreciation – adjusted depreciation.**

#### 4.3.4 Deferred tax

(1) Opening deferred tax means, for-

- (a) the **base year**, the 'opening deferred tax' determined in accordance with Part 2 for that **disclosure year**; and
- (b) 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 depreciation temporary differences – tax effect of amortisation of initial differences in asset values.**

#### 4.3.5 Depreciation temporary differences

(1) Depreciation temporary differences means, subject to subclause (2), the amount determined in accordance with the formula-

**adjusted depreciation – tax depreciation.**

(2) For the purpose of subclause (1), 'tax depreciation' for a **disclosure year** means, for-

- (a) the **base year**, the 'tax depreciation' determined in accordance with Part 2 for that **disclosure year**; and
- (b) each **disclosure year** thereafter, subject to subclause (3), determined in accordance with the formula-

*total opening regulatory tax asset value × average DV rate.*

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

- (a) 'total opening regulatory tax asset value' for a **disclosure year** means, for-
  - (i) the **base year**, the sum of each 'regulatory tax asset value' determined in accordance with Part 2 for that **disclosure year**; and
  - (ii) each **disclosure year** thereafter, the total closing regulatory tax asset value for the preceding **disclosure year**;
- (b) 'average DV rate' is the amount determined in accordance with the formula-

*tax depreciation for the base year ÷ total opening regulatory tax asset value for the base year; and*

- (c) 'total closing regulatory tax asset value' means the amount determined in accordance with the formula-

*total opening regulatory tax asset value – tax depreciation + forecast aggregate value of commissioned assets.*

#### SUBPART 4 **Cost of capital**

##### 4.4.1 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 (3), 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 determine a mid-point estimate of post-tax **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 (3), no later than 6 months prior to the start of each **DPP regulatory period**; and
- (d) in accordance with the formula-

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

- (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 **DPP regulatory period** applying at the date this determination comes into force,
- 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:

$$r_f(1 - T_i) + \theta_e TAMRP;$$

$T_c$  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;

$\theta_e$  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 average corporate 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 4.4.2; and
- (b) the risk-free rate must be estimated in accordance with clause 4.4.3.

#### 4.4.2 Fixed WACC parameters

- (1) Leverage is 41%.

- (2) '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.

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(3) For the purpose of subclause (2), 'investor tax rate' is, for each disclosure year, the maximum prescribed investor rate applicable at the start of the regulatory period to an individual who is-

- (a) resident in New Zealand; and
- (b) an investor in a **multi-rate PIE**.

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<#>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- ¶

(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 DPP regulatory period in question.

(5) 'Equity beta' is 0.58,

(6) 'Debt issuance costs' are 0.2%.

(7) 'Tax-adjusted market risk premium' is, for a 5 year period commencing on the first day of the DPP regulatory period, 7.0%.

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<#>a disclosure year thereafter, 7.0%.¶

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#### 4.4.3 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 4.4.1(3), 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 3 month period of 8 to 10 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 unweighted arithmetic average of the daily annualised interpolated bid yields to maturity.

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#### 4.4.4 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;

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- (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, in accordance with subclause (3), determine estimate of an amount for the debt premium-

- (a) for each DPP regulatory period; and
- (b) subject to clause 4.4.1(3), no later than 6 months prior to the start of each **DPP regulatory period.**

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(3) For the purpose of subclause (2), the amount of 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-

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- (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 3 month period of 8 to 10 months prior to the start of the **DPP regulatory period;**

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- (c) calculating, for each bond identified in accordance with paragraph (a), the unweighted arithmetic average of the daily spreads identified in accordance with paragraph (b)(iii); and

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(d) subject to subclause (4), estimating, by taking account of the average spreads identified in accordance with paragraph (c) [and having regard to the debt premium estimated from applying the Nelson-Siegel-Svensson approach](#), 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**;
- (ii) is publicly traded;
- (iii) has a **qualifying rating** of grade BBB+; and
- (iv) has a remaining term to maturity of 5 years.

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(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**;

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(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**;

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(c) those that-

- (i) have a **qualifying rating** of a grade different to BBB+; and
- (ii) are issued by an **EDB** or a **GPB**;

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(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**;

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<#>those that are- ¶  
<#>**investment grade credit rated**; and¶  
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 accordance with the order in which the bond types are described [in subclause \(4\)](#);

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(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

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- (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).

4.4.5 Methodology for estimating the 67th percentile of the WACC

- (1) The **Commission** will estimate a 67<sup>th</sup> percentile estimate of vanilla WACC-
  - (a) for each **DPP regulatory period**; and
  - (b) no later than 6 months prior to the start of each DPP regulatory period.
- (2) The Commission will estimate a 67<sup>th</sup> percentile estimate of post-tax WACC-
  - (a) for each DPP regulatory period; and
  - (b) no later than 6 months prior to the start of each DPP regulatory period.
- (3) For the purposes of subclause (1) or (2)-
  - (a) the 67th percentile must be determined in accordance with the formula-  

**mid-point estimate of WACC + 0.440 × standard error,**

where the standard error of the mid-point estimate of WACC is 0.0113; and
  - (b) the relevant mid-point estimate of WACC in accordance with clause 4.4.1(1) and (2) must be treated as the 50th percentile.

4.4.6 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.

4.4.7 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 **67th percentile estimate of WACC estimated in accordance with clause 4.4.5(1) and** most recently published in accordance with clause 4.4.6.
- (2) **Term credit spread differential allowance** for a **disclosure year** and an **EDB** is the maximum of nil and the amount determined in accordance with the formula-

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 <#>The **Commission** will estimate an amount for a **standard error** of a **debt premium-¶**  
 <#>subject to clause 4.4.1(2) and clause 4.4.10, no later than 6 months prior to the start of each **DPP regulatory period**; and¶  
 <#>as either-¶  
 <#>the result of the formula specified in subclause (2); or¶  
 <#>0.0015, ¶  
 whichever is the greater.¶  
 <#>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 4.4.4(3)(d);¶  
 p<sub>i</sub> is each **qualifying issuer's** arithmetic average spread for its bonds of the type described in the subparagraphs of clause subclause 4.4.4(3)(d); and¶

$\bar{p}$  is the **debt premium**,¶  
 provided that for the purposes of determining N and p<sub>i</sub>, no regard may be had to any bonds of the types described in clauses 4.4.4(4)(b) to 4.4.4(4)(e).¶

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The **Commission** will determine **standard errors for mid-point estimates of WACC-¶**  
 <#>subject to clause 4.4.1(2) and clause 4.4.10, no later than 6 months prior to the start of each **DPP regulatory period**; and ¶  
 <#>in accordance with the formula-¶

$$\sqrt{0.00003 + 0.0169E^2 (TAMRP$$

,¶  
 where-¶

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$$a \times b \div c,$$

where-

*a* means the 'term credit spread differential allowance' calculated in accordance with Part 2 for the **base year**;

*b* means the **total opening RAB value** for the **disclosure year** in question; and

*c* means the **aggregate opening RAB value for existing assets** for the **base year**.

- (3) 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 5 **Reconsideration of the default price-quality path**

### 4.5.1 Catastrophic Event

Catastrophic event means an event-

- (a) beyond the reasonable control of the **EDB**;
- (b) in relation to which expenditure is not explicitly or implicitly provided for in the **DPP**;
- (c) that could not have been reasonably foreseen at the time the **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**; and
  - (iv) in respect of an **EDB** subject to a **DPP**, 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 **DPP** remaining on and after the first date at which a remediation cost is proposed to be or has been incurred, by an amount equivalent to **at least** 1% of the aggregated

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forecast allowable revenue for the **disclosure years** of the **DPP** in which the cost was or will be incurred.

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#### 4.5.2 Change event

Change event means–

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

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#### 4.5.3 Error event

(1) 'Error event' means, subject to subclause (2), a clearly unintended circumstance identified by the Commission where the DPP was determined or amended based on an error, including where:

- (a) incorrect data was used in setting the price path or the quality standard; or
- (b) data was incorrectly applied in setting the price path or quality standards.

(2) For the purposes of subclause (1), an error relating to-

- (a) the price path will not constitute an **error event** unless the error has an impact on the price path of an amount equivalent to at least 1% of the aggregate **forecast allowable revenue** for the affected **disclosure years** of the **DPP**; and
- (b) the quality standards, or quality incentive measures, is to the value of a metric by which such quality standards or quality incentive measures are specified in the **DPP**, but not to the metric itself.

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<#>discovered in a **DPP determination** and clearly unintended by the **Commission** to be included in it; or¶  
<#>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. ¶

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#### 4.5.4 Major transaction

'Major transaction' means a transaction, whether contingent or not, where consumers are transferred between suppliers of the same type of **regulated service** and-

- (a) the acquisition of, or an agreement to acquire, assets with a value which is equivalent to more than 10% of the **EDB's opening RAB value** in the **disclosure year** of acquisition;
- (b) the disposal of, or an agreement to dispose of, assets of the **EDB** with a value of more than 10% of the **opening RAB value** in the **disclosure year** of disposal;
- (c) has, or is likely to have, the effect of the **EDB** acquiring rights or interests with a value which is equivalent to more than 10% of the **opening RAB value** in the **disclosure year** of acquisition; or
- (d) has, or is likely to have, the effect of the **EDB** incurring obligations or liabilities or contingent liabilities, excluding loans or borrowing costs in respect of assets, with a value which is equivalent to more than 10% of the **opening RAB value** in the **disclosure year** of incurring the obligation.

#### 4.5.5 Proposal of a quality standard variation

- (1) An **EDB** may propose a **quality standard variation** by submitting a **quality standard variation** proposal to the **Commission** in writing.
- (2) The **quality standard variation** proposal must contain the following information-
  - (a) different values of either or both of-
    - (i) the mean of SAIDI and SAIFI:  $\mu_{SAIDI}$  and  $\mu_{SAIFI}$ ; and
    - (ii) the standard deviation of SAIDI and SAIFI:  $\sigma_{SAIDI}$  and  $\sigma_{SAIFI}$ ,  
to those which would be determined in accordance with the methodology for calculating reliability limits as 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 **DPP 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 the **forecast allowable revenue** in the **DPP determination**;
  - (d) demonstration of the estimated effect of the proposed **quality standard variation**, had it applied in the previous 5 years, by use of historic data and by contrast with the quality standards specified in the applicable **DPP determination**; and
  - (e) demonstration of any consumer consultation undertaken by the **EDB** in respect of the proposed **quality standard variation**, and the results of that consultation.

(3) Where the **Commission** considers that, for the purpose of making a decision on the **quality standard variation** proposal described in subclause (1), it requires further information from the **EDB** in addition to the proposal, the **Commission** may request this from the **EDB** by a date specified by the **Commission** such that it is reasonable for the **EDB** to comply.

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

(1) A **DPP** may be reconsidered by the **Commission** if-

- (a) the **Commission** considers; or
- (b) the **EDB** in question satisfies it, upon application,

that-

- (i) subject to subclause (2), a **catastrophic event** has occurred; ~~;~~
- (ii) a **change event** has occurred;
- (iii) there has been an **error event**; ~~;~~
- (iv) a **major transaction** has occurred; or
- (v) false or misleading information has been provided, in accordance with subclause (3). ~~;~~

or

- (c) the **Commission** receives a **quality standard variation** proposal from an **EDB** and is satisfied that it complies with clause 4.5.5(2);
- (d) the **Commission** applies a next closest alternative approach in accordance with clause 1.1.5(1) which has a non-equivalent effect; or
- (e) a requirement in a s 52P determination is considered by the **Commission** to be unworkable and the application of s 52Q results in a non-equivalent effect on the price-quality path.

(2) For the purpose of subclause (1)(c), where the costs to rectify the adverse consequences of the **catastrophic event** are fully covered by –

- (a) the **DPP** (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 **DPP**.

(3) 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

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- (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**.

#### 4.5.7 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 subclause (2).
- (2) The **Commission** will not amend the-
  - (a) price path more than is reasonably necessary to mitigate the effect of-
    - (i) the **catastrophic event**;
    - (ii) the **change event**;
    - (iii) the error event;
    - (iv) the major transaction; or
    - (v) the provision of false or misleading information,on price;
  - (b) quality standards more than are reasonably necessary to reflect the Commission's decision on a quality standard variation, or mitigate the effect of-
    - (i) the **catastrophic event**;
    - (ii) the **change event**;
    - (iii) the error event;
    - (iv) the major transaction; or
    - (v) the provision of false or misleading information,on quality;
  - (c) price path for the application of a next closest alternative approach more than is necessary to adopt the effect of that next closest alternative approach in the price-quality path; or
  - (d) price-quality path for the application of s 52Q in respect of an unworkable requirement in a s 52P determination more than is necessary to adopt the effect of that s 52Q amendment in the price-quality path.

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## SUBPART 6 Treatment of periods that are not 12 month periods

### 4.6.1 Treatment of periods that are not 12 month periods

Where the start or end date of any **disclosure year** is not aligned with the start or end date of a **DPP regulatory period**, the **Commission** may apply the **input methodologies** modified to the extent necessary to allow any allowance, amount, cost, sum or value for that **disclosure year** to be calculated or determined in a way commensurate with the change in the length of the **disclosure year** to a period other than 12 months.

## SUBPART 7 **Availability of Information**

### 4.7.1 Availability of information

- (1) Where an **EDB** has not disclosed the information necessary to calculate any allowance, amount, cost, sum or value referred to in this Part in accordance with Part 2 for a **base year** or a later **disclosure year**, then the information may instead be determined by the **Commission** using information disclosed by the **EDB** in accordance with an **ID determination**, prior information disclosure requirements or a request for information by the **Commission** under s 53ZD of the **Act**.
- (2) Any information determined in accordance with subclause (1) must be determined in accordance with Part 2 using such assumptions or modifications to the information that are reasonably necessary in light of the nature of the calculation or determination to be made and the information available.

## 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 an application containing, in all material respects, the information specified in-
  - (a) this subpart; and
  - (b) Subpart 4.

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#### 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) a verification report;
  - (b) 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);

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in the case of a **CPP proposal** seeking only a **quality standard variation**, nil; and

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*Examples: instructions as to how to interpret information provided to the verifier; details as to the source of the information; and*

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

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#### 5.1.4 Audit and assurance reports

- (1) For the purpose of clause 5.1.1(2)(a), in respect of audit or assurance, 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 or assurance engagement 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 or assurance engagement;
- (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 or assurance engagement, 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 or assurance engagement was undertaken.

- (2) A report in respect of an audit or assurance engagement undertaken other than expressly to meet the requirements of clause 5.5.3 may be considered to comply with subclause (1) to the extent that the report in respect of that other audit or assurance engagement fully or partially meets the requirements of clause 5.5.3.

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- (3) The **CPP applicant** must ensure that reports required by this clause relate to the **CPP proposal** as submitted to the **Commission**.

- (4) For the avoidance of doubt, the reports 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), a report prepared in accordance with this clause is provided to the **verifier**, subclause (3) continues to apply.

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#### 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.

#### 5.1.6 Modification or exemption of CPP application requirements

- (1) The **Commission** may approve a modification to, or exemption from, any requirement set out in—
- (a) this subpart;
  - (b) Subpart 4;
  - (c) Subpart 5; or
  - (d) schedules relating to subparts identified in paragraphs (a) to (c) above.
- (2) A modification or exemption may be approved where, in the **Commission's** opinion, the modification or exemption will not detract, to an extent that is more than minor, from—
- (a) the **Commission's** evaluation of the **CPP proposal**;
  - (b) the **Commission's** determination of a **CPP**; and
  - (c) the ability of interested persons to consider and provide their views on the **CPP proposal**.

(3) When considering whether a modification or exemption is likely to detract, to an extent that is more than minor, from the processes listed in subclauses (2)(a)-(c), the Commission may have regard to the size of the supplier's business.

- (4) A modification or exemption will only apply for the purposes of assessing compliance of a **CPP application** under s 53S(1) of the **Act**—
- (a) if the **Commission** has previously approved a request by a **CPP applicant** for the modification or exemption in accordance with clause 5.1.7;
  - (b) in respect of the **CPP applicant** and the **CPP application** identified in the **Commission's** approval; and
  - (c) if the **CPP applicant** elects to apply the modification or exemption by:
    - (i) meeting all conditions and requirements specified in the approval that relates to the modification or exemption; and
    - (ii) providing the relevant information specified in clause 5.1.8 as part of its **CPP application**.

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#### 5.1.7 Process for obtaining a modification or exemption

- (1) At any time prior to providing the **Commission** with a **CPP application**, a **CPP applicant** may request modifications or exemptions to the requirements listed in clause 5.1.6(1) as alternatives to those requirements.
- (2) A request by a **CPP applicant** must—
  - (a) be in writing;
  - (b) include the following information:
    - "(i) the **CPP applicant's** name and contact details;
    - "(ii) a brief description of the key features of its intended **CPP proposal**;
    - "(iii) the date that the **CPP applicant** intends to submit the **CPP application** for which a modification or exemption is sought;
    - "(iv) a list of the specific modifications or exemptions sought;
    - "(v) an explanation of why the **CPP applicant** considers the requirements in clause 5.1.6(2) are met;
    - "(vi) evidence in support of the explanation provided under subparagraph (v); and
    - "(vii) identification of any information that is commercially sensitive.
- (3) Subparagraph (2)(b)(vi) may be satisfied by submitting a certificate, signed by a senior manager of the **CPP applicant**, setting out the factual basis on which he or she believes the requirements in subclause 5.1.6(2) are met.
- (4) In considering whether to approve a request for modification or exemptions, the **Commission** may seek, and have regard to—
  - (a) views of interested persons within any time frames and processes set by the **Commission**; and
  - (b) views of any person the **Commission** considers has expertise on a relevant matter.
- (5) As soon as reasonably practicable after receipt of a request for modifications or exemptions the **Commission** will, by notice in writing, advise the **CPP applicant** as to whether:
  - (a) any of the modifications or exemptions are approved; and
  - (b) the approval of any modification or exemption is subject to conditions or requirements that must be met by the **CPP applicant**.

### 5.1.8 Information on modification or exemption of information requirements

Where a **CPP applicant** elects to apply a modification or exemption approved by the **Commission** in accordance with clause 5.1.7, it must include as part of its **CPP application**—

- (a) a copy of the **Commission's** approval;
- (b) a list of the approved modifications or exemptions which the **CPP applicant** has elected to apply in its **CPP application**;
- (c) evidence that any conditions or requirements of the approval have been met; and
- (d) an indication, at the relevant locations within the document or documents comprising the **CPP application**, as to where the modifications or exemptions have been applied.

## 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** [provided in a CPP proposal](#) 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) **building blocks allowable revenue before tax** for the **next period**;
- (b) **building blocks allowable revenue after tax** for the **next period**;
- (c) **maximum allowable revenue before tax** for the **CPP regulatory period**; and
- (d) **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 + total value of commissioned assets × (TF<sub>VCA</sub> - 1) + term credit spread differential allowance × TF - total revaluation) ÷ (TF<sub>rev</sub> - corporate tax rate × TF)**

**+ (total depreciation × (1 - corporate tax rate × TF)**

**+ forecast operating expenditure × TF × (1 - corporate tax rate)**

**+ (closing deferred tax - opening deferred tax) × (TF - 1)**

**+ (permanent differences + regulatory tax adjustments - utilised tax losses) × corporate tax rate × TF) ÷ (TF<sub>rev</sub> - corporate tax rate × TF)**

**Deleted:** - other regulated income × TF × (1 - corporate tax rate)¶

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- (2) 'Regulatory investment value' means the amount obtained in accordance with the formula-

**total opening RAB value + opening deferred tax.**

- (3) For the purpose of subclause (1) 'total value of commissioned assets' means, in relation to a **disclosure year**, the sum of **closing RAB values** for all **commissioned** assets calculated in accordance with clause 5.3.6(3)(b).
- (4) For the purpose of subclause (1) -
  - (a) 'TF' is determined in accordance with the formula-

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$(1 + \text{cost of capital})^{182/365}$ ;

- (b) 'TF<sub>rev</sub>' is determined in accordance with the formula-

$(1 + \text{cost of capital})^{148/365}$ ;

- (c) 'TF<sub>VCA</sub>' is determined in accordance with the formula-

$PV_{VCA} \times (1 + \text{cost of capital}) \div \text{total value of commissioned assets}$ ; and

- (d) 'PV<sub>VCA</sub>' means the sum of the present value of **closing RAB values** for **commissioned** assets calculated in accordance with clause 5.3.6(3)(b), where each present value is determined by discounting each **closing RAB value** by the *cost of capital* from the relevant **commissioning date** to the commencement of the relevant **disclosure year**.

- (5) For the purpose of this clause, 'cost of capital' means the **67th 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) For the purpose of this clause, all values and amounts are expressed in nominal terms unless otherwise specified.

### 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**, adjusted for the present value of any claw-back for the **CPP regulatory period**, where present values are determined in accordance with subclause (3).
- (2) In subclause (1)-

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<#>through **prices**;¶  
<#>investment-related income; ¶  
<#>**capital contributions**; or¶  
<#>**vested assets**.¶

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- (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;
  - (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; or
  - (iii) as a result of a reconsideration of the price-quality path in accordance with clause 5.6.7(1) and an amendment made to the price-quality path after reconsideration under clause 5.6.8(1); 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 67th 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-
- $$MAR_{v-1} \times (1 + \Delta CPI) \times (1 - X),$$
- where-
- MAR<sub>v-1</sub> is the maximum allowable revenue before tax in the preceding disclosure year;
- ΔCPI is the inflation rate; and

X is any X factor applying to the EDB.

(7) Maximum allowable revenue after tax is **maximum allowable revenue before tax less forecast regulatory tax allowance.**

(8) For the purpose of subclause (7), '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**.

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<#>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).¶  
<#>In subclause (1)-¶  
<#>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-¶  
<#>after deferral of the relevant **CPP proposal** in accordance with s 53Z(2) of the **Act**; or¶  
<#>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¶  
<#>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**.¶  
<#>For the purpose of subclause (1), the present value of each series must be determined using a discount rate equal to the **67th 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**.¶  
<#>For the avoidance of doubt, where claw-back is determined where-¶  
<#>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¶  
<#>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.¶  
<#>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. ¶  
<#>The maximum allowable revenue before tax for each **disclosure year** of the **CPP regulatory period** except the first must equal-¶  
$$MAR_{y-1} \times (1 + \Delta CPI) \times (1 - X) \times (1 + \Delta Q), \text{¶}$$
where-¶

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### 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-  
**unallocated opening RAB value - unallocated depreciation + unallocated revaluation**; 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 [depreciation](#) 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 [depreciation](#) method**, provided the **Commission** is satisfied that the result of applying the **alternative [depreciation](#) 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**.

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#### 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

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- (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-

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

- (2) Revaluation, subject to subclause (3), is determined 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 **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**) **means**, 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-

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- (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 or assets, or components of assets, forecast to be acquired from a **related party**, and forecast to be **commissioned** during any **disclosure year** of the **CPP regulatory period** other than assets to which paragraphs (e) or (f) apply, are the forecast values as determined by the **EDB**, supported by a written certification by no fewer than 2 **directors** of the **EDB** that they are reasonably satisfied that the asset values are consistent with values determined in accordance with subclause (7);
  - (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

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- (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 a rate not greater than the **EDB's forecast weighted average of borrowing costs for each applicable disclosure year**.
- (4) For the purposes of subclause (3)(b), the 'forecast weighted average of borrowing costs' is calculated for a **disclosure year** using principles set out in **GAAP**, taking into account:
- (a) the cost of financing rate is the forecast weighted average of the costs applicable to borrowings in respect of **capex** that are forecast to be outstanding during the **disclosure year**;
  - (b) the total costs applicable to borrowings outstanding as used in calculating the weighted average must include costs of borrowings made or forecaste to be made specifically for the purpose of any particular –
    - (i) **capex projects**; or
    - (ii) **capex programmes**; and
  - (c) the amount of borrowing costs forecast to be capitalised during the **disclosure year** must not exceed the amount of borrowing costs forecast to be incurred during the **disclosure year**;
  - (d) where a **capital contribution** is received by an **EDB**, the relevant asset will become **works under construction** for the purposes of calculating the cost of financing;

- (e) subject to subclause (i), a **capital contribution** will reduce the cost of **works under construction** for the purpose of the calculation of the finance cost, even if the resulting value of **works under construction** is negative;
- (f) subject to subclause (g), where the value of **works under construction** will be negative in accordance with subclause (e), the cost of financing for the period ending on the forecast **commissioning date** will be negative;
- (g) where the cost of financing an asset which is **works under construction** is negative under subclause (f), it will reduce the forecast value of the relevant asset or assets by that negative amount where such a reduction is not otherwise made under **GAAP**;
- (h) for the purpose of subclause (d), **works under construction** includes assets that are forecast to be enhanced or acquired; and
- (i) where the cost of financing is forecast to be derived as income in relation to **works under construction** and is-
  - (i) negative; and
  - (ii) included in regulatory income under an **ID determination**,it will not reduce the forecast value of the relevant asset or assets where such reduction would not otherwise be made under **GAAP**.

(5) 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**, 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.

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(6) 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**.

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- (7) For the purpose of paragraph 5.3.11(1)(g), the forecast value of any assets, or components of assets, must be consistent with values determined in accordance with one of the following –
- (a) the forecast price to be paid by the **EDB** for the asset, where the forecast cost of all assets to be acquired from the **related party** and first **commissioned** in any **disclosure year** of the **CPP regulatory period** will be less than –
    - (i) one percent of the sum of **opening RAB values** for the **EDB** for that **disclosure year**, or
    - (ii) 20% of the cost of all assets to be first **commissioned** by the **EDB** in that **disclosure year**;
  - (b) the forecast price to be paid by the **EDB** for the asset, where–
    - (i) it is reasonably expected that at least 50% of the **related party's** sales of assets will be to third parties in the **disclosure year** in which the asset is first **commissioned**, and third parties may purchase the same or substantially similar assets from the **related party** on substantially the same terms and conditions, including price; or
    - (ii) that forecast price is substantially the same as the price paid for substantially similar assets (including any adjustments for inflation using CPI or an appropriate input price index) in the preceding 3 **disclosure years** from a party other than a **related party**;
  - (c) the price to be paid by the **EDB** to the **related party** for an asset to be **commissioned** in a **disclosure year** in the **CPP regulatory period** has been determined following a completed competitive tender process, provided that–
    - (i) the price is no more than 5% higher than the price of the lowest conforming tender received;
    - (ii) all relevant information material to consideration of the proposal was provided to third parties, or made available upon request;
    - (iii) at least one other qualifying proposal was received; and
    - (iv) the **EDB** retains for a period of 7 years following the closing date of tender proposals a record of the tender and tender process, including request for information and/or proposal, the criteria used for the assessment of proposals, reasons for acceptance or rejection of proposals, and all proposals and requests for information on the tender for the purposes of making proposals;

- (d) its forecast depreciated historic cost on the day before the forecast acquisition by the **EDB** determined in accordance with **GAAP**;
- (e) its forecast inventory value on the day before the forecast acquisition by the **EDB** determined in accordance with **GAAP**;
- (f) its forecast market value as at its **commissioning date** as determined by a **valuer**;
- (g) its forecast directly attributable cost as would be incurred by the group to which the **EDB** and **related party** are a part, determined in accordance with **GAAP**, as if the consolidated group was the **EDB**;
- (h) the forecast price to be paid by the **EDB** for the asset reflects the price or prices that would be paid in an arm's-length transaction, provided the price cannot otherwise be determined under paragraphs (a) – (g).

#### 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-
 
$$\text{opening works under construction} + \text{sum of capital expenditure} - (\text{sum of value of commissioned assets} + \text{sum of forecast value of commissioned assets}),$$
 where-

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- (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-
 

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

**building blocks allowable revenue before tax - operating expenditure - total depreciation.**

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#### 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.

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- (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:

**opening tax losses + current period tax losses - 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-
- positive permanent differences - discretionary discounts and customer rebates - 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-
- $$\frac{(((\text{regulatory investment value} + \text{RAB proportionate investment}) \times \text{leverage} \times \text{cost of debt}) + \text{term credit spread differential allowance})}{\sqrt{1 + \text{cost of debt}}}$$**
- (3) For the purpose of subclause (2), 'RAB proportionate investment' means the sum of the *proportionate value* of each asset forecast to be **commissioned** less the sum of the *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 that **disclosure year** from the date of sale or transfer to the end of that **disclosure year** out of the whole **disclosure year**.

### 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 – deferred tax balance relating to assets disposed of 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**.

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- (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.
- (6) For the purpose of subclause (2), 'deferred tax balance relating to assets disposed of in the disclosure year in question' means the amount of deferred tax associated with the assets disposed of by the EDB and, where that deferred tax balance is a deferred tax liability, it must have a negative value.

#### 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-

**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 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** or, if relevant **capital contributions** are treated for tax purposes in accordance with section CG 8 of the Income Tax Act 2007 (or subsequent equivalent provisions), limited to the **value of commissioned asset plus any capital contributions** applicable to the 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-

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

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**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 cost of capital for a CPP is the cost of capital determined in accordance with the methodology identified in clause 4.4.1 for the DPP applying at the start of the CPP regulatory period.

(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.

#### SECTION 5 Alternative methodologies with equivalent effect

##### 5.3.23 Alternative methodologies with equivalent effect

(1) A **CPP applicant**, in making a **CPP application**, may apply an alternative methodology to that specified for—

- (a) cost allocation and asset valuation in Section 2;
- (b) treatment of taxation in Section 3; or
- (c) the estimation of **term credit spread differentials** in Section 4.

(2) The **Commission**, in evaluating a **CPP proposal** and in determining a **CPP** for an **EDB**, may apply the alternative methodology elected by the **CPP applicant**.

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**Deleted:** <#>Cost of capital¶  
<#>Methodology for estimating the weighted average cost of capital¶  
<#>The Commission will determine mid-point estimates of vanilla WACC for the disclosure year 2011 and each disclosure year thereafter -¶  
<#>in respect of a -¶  
<#>3 year period; ¶  
<#>4 year period; and¶  
<#>5 year period,¶  
commencing on the first day of the September prior to the disclosure year in question;¶  
<#>subject to subclause (2), each September; and¶  
<#>in accordance with the formula- ¶  
 $r_d L + r_e(1 - L)$ . ¶  
<#>The Commission will estimate or determine, as the case may be, the amounts or values- ¶  
<#>to which this subclause applies; and ¶  
<#>in respect of the disclosure year 2011,¶  
as soon as practicable after this determination comes into force.¶  
<#>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  $r_f(1 - T_i) + \theta_e TAMRP$ ; ¶  
 $r_f$  is the risk-free rate; ¶  
 $p$  is the debt premium;¶  
 $d$  is the debt issuance costs;¶  
 $T_i$  is the average investor tax rate;¶  
 $\theta_e$  is the equity beta; and¶  
 $TAMRP$  is the tax-adjusted market risk premium.¶  
<#>For the purpose of this clause-¶  
<#>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¶  
<#>the risk-free rate must be estimated in accordance with clause 5.3.24.¶  
<#>Fixed WACC parameters¶  
<#>Leverage is 44%.¶  
<#>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.¶  
<#>For the purpose of subclause (2), 'investor tax rate' is-¶  
<#>for the disclosure year 2011, 29%; and¶  
<#>for a disclosure year thereafter, the maximum prescribed investor rate applicable at the start of that disclosure year to an individual who is- ¶  
<#>resident in New Zealand; and ¶  
<#>an investor in a multi-rate PIE;¶

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- (3) An alternative methodology applied by either an **EDB** or the **Commission** in accordance with this clause must:
- (a) produce an equivalent effect within the **CPP regulatory period** to the methodology that would otherwise apply; and
  - (b) not detract from the promotion of the purpose of Part 4 of the **Act**.

## 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, in all material respects, the information specified in this subpart.
- (2) For the purpose of subclause (1), 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.

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<#>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 ¶

#### 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

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- (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** as part of a **CPP proposal**, the **CPP proposal** must contain the following information:

- (a) different values of either or both of-
  - (i) the mean of SAIDI and SAIFI:  $\mu_{SAIDI}$  and  $\mu_{SAIFI}$ ; and
  - (ii) the standard deviation of SAIDI and SAIFI:  $\sigma_{SAIDI}$  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) demonstration of 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) demonstration of the estimated effect of the proposed **quality standard variation**, had it applied in the previous 5 years by use of historic data, by contrast with the quality standards specified in the **DPP determination**.

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### 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 value of commissioned assets* determined in accordance with clause 5.3.2(3);
    - (iii) **total depreciation**; and
    - (iv) **total revaluation**;
  - (b) all data, information, calculations and assumptions used to derive amounts or forecasts of  $TF_{VCA}$ ,  $PV_{VCA}$ ,  $TF$ , and  $TF_{rev}$  determined in accordance with clause 5.3.2(4);
  - (c) **forecast operating expenditure**; and
  - (d) any proposed **term credit spread differential allowance**.
- (3) 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

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other regulated income;

**Deleted:** <#>all data, information, calculations and assumptions used to derive the forecasts of **other regulated income** provided pursuant to paragraph (a); ¶

**Deleted:** <#>A **CPP proposal** must contain the following information:¶  
<#>actual **other regulated income** for each **disclosure year** of the **current period**; and¶  
<#>data, calculations and assumptions demonstrating how the forecast of **other regulated income** provided pursuant to subclause (2)(a)(v) is consistent with information provided in accordance with paragraph (a).¶

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- (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 or factors may be used, provided that the **CPP proposal** contains an explanation and supporting evidence as to why that would better meet the purpose of Part 4 of the **Act**.
- (5) 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**.
- (6) 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.
- (7) For the purpose of subclause (6), 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**-

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Deleted: <#>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 description of each **demand group**;¶ <#>the rationale for the selection of **demand groups**;¶ <#>the forecast growth in demand for each **demand group**¶ <#>the basis for the forecast growth in demand for each **demand group**; ¶ <#>evidence that the forecast growth in demand for each **demand group** is consistent with all other relevant demand forecasts included in the **CPP proposal**;¶ <#>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); ¶ <#>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¶ <#>the basis for each weighting term.¶

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- (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) Where the **CPP applicant** has used a **proxy cost allocator** to provide the information specified in subclauses (2) or (3), the **CPP applicant** must explain in the **CPP proposal**, for each **proxy cost allocator** used-

- (a) why a **causal relationship** cannot be established; and
- (b) the rationale for using the selected quantifiable measure for that **proxy cost allocator**.

(6) Where the **CPP applicant** has used a **proxy asset allocator** to provide the information specified in subclauses (2) or (3), the **CPP applicant** must explain in the **CPP proposal**, for each **proxy asset allocator** used-

- (a) why a **causal relationship** cannot be established; and
- (b) the rationale for using the selected quantifiable measure for that **proxy asset allocator**.

#### 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**

- (a) **by asset expenditure category or asset expenditure sub-category** for which the proposed method of determining depreciation is the **standard depreciation method**; and

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- (b) for each type of asset where the proposed method of determining depreciation is an alternative depreciation method.

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(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)(h)(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.

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#### 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:

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- (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

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(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 party**; or
- (ii) transferred from a part of the **EDB** that supplies **unregulated services**;

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(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

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(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 party**, 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 party**; 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 party**, a description of the relationship between the **EDB** and that **person**.

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#### 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 and TCSD allowance

- (1) A **CPP proposal** must, subject to subclause (2), identify the **67th percentile estimate of WACC** used for the purpose of clause 5.4.7(1).
- (2) For the purpose of subclause (1), the identified **67th percentile estimate of WACC** is the applicable cost of capital specified in clause 5.3.22.
- (3) Where a **term credit spread differential allowance** is proposed, a **CPP proposal** must contain all data, information, calculations, and assumptions used to determine any proposed **term credit spread differential**.

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### 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-

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- (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: Projects and programmes;
- (b) Table 2: Capex summary;
- (c) Table 3: Opex summary;
- (d) Table 4: Capex projects and programmes;
- (e) Table 5: Capex by asset expenditure categories;
- (f) Table 6; Opex projects and programmes;
- (g) Table 7; Non-network opex;
- (h) Table 8: Cost allocation;
- (i) Table 9: Unit cost escalators;
- (j) Table 10: Capex disaggregated by asset expenditure categories;
- (k) Table 11: Network demand forecasts; and
- (l) Table 12: Capex projects/programmes for alternative depreciation methods.

- (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 Table 4; Capex projects and programmes and Table 6: Opex projects and programmes 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) Provide the information specified in Table 5: Capex by asset expenditure categories of the regulatory templates.

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- (4) [The total forecast value of capex resulting in commissioned assets in Table 2c of Schedule E must reconcile with the total value of commissioned assets in Table 2d of Schedule E.](#)
- (5) Provide the information specified in [Table 7: Non-network opex](#) of the **regulatory templates** in respect of **system operation and network support opex and business support opex**.
- (6) Provide the information specified in [Table 9: Unit cost escalators](#) of the **regulatory templates** for each unit **cost** for which an escalator has been applied.
- (7) Provide the information specified in [Table 1: Projects and programmes](#) of the **regulatory templates** for all **projects or programmes** that form part of the **CPP proposal**.
- (8) Provide the information specified in [Table 2: Capex summary](#) and [Table 3: Opex summary](#) 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 [Table 8: Cost allocation](#) of the **regulatory templates**.
- (10) Provide the information specified in [Table 10: Capex disaggregated by asset expenditure categories](#) of the **regulatory templates**.
- (11) Provide the information specified in [Table 11: Network demand forecasts](#) of the **regulatory templates**.
- (12) If a **CPP applicant** proposes an **alternative depreciation method** in accordance with clause 5.4.12(2)(b), provide the information specified in [Table 12: Capex projects/programmes for alternative depreciation methods](#) of the **regulatory templates**.
- (13) For the purposes of subclauses (1) and (10), where applicable, the values in [Table 2: Capex summary](#) must reconcile with the total values in [Table 4: Capex projects and programmes](#).

## SECTION 9 Information relevant to prices

### 5.4.31 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-

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

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 <#>select the **service category** that is most relevant based on the nature of the expenditure; or¶  
 <#>redefine the **project** or **programme** into two or more new **projects** or **programmes** and reallocate the expenditure so as to resolve the overlap.¶  
 <#>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.¶

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 <#>in respect of **projects** or **programmes** meeting paragraph (a) or (b) of the definition in clause D1 of Schedule D of **identified programme**; and¶  
 using the information provided in accordance with subclause (1).

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#### 5.4.32 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 provided 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**.

### SECTION 10 Information relevant to alternative methodologies

#### 5.4.33 Demonstration that alternative methodologies have equivalent effect

(1) Where a **CPP applicant** applies alternative methodologies in accordance with clause 5.3.23, it must provide:

- (a) a list and description of each alternative methodology applied;
- (b) an indication, at the relevant locations within the **CPP application**, as to where the alternative methodologies have been applied;
- (c) reasons why each of the alternative methodologies have been applied; and
- (d) evidence demonstrating that each alternative methodology complies with clause 5.3.23(3).

(2) Paragraph (1)(d) may be satisfied by submitting a certificate signed by an senior manager of the **CPP applicant** setting out the factual basis on which he or she believes each alternative methodology complies with clause 5.3.23(3).

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### 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 price versus quality trade-offs made in the expenditure alternatives considered in the intended CPP proposal;

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(d) if it intends to propose to include a **quality standard variation** under clause 5.4.5, why the proposed **quality standard variation** has been chosen over alternative quality standards;

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(e) where and how further information in respect of the intended **CPP proposal** may be obtained;

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(f) of the process for making submissions to the **EDB** in respect of the intended **CPP proposal**; and

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(g) 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**.

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(2) For the purpose of subclause (1)(e), 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.

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(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** must be verified by a **verifier**.

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(2) The **verifier** must be engaged in accordance with Schedule F.

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(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

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- (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 **identified programmes**, after the **verifier** has notified the **CPP applicant** of its selection of **identified programmes**;
- (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 F6(2)(d).

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5.5.3 Audit and assurance

A **CPP proposal** must include a report by an **auditor** that states whether or not:

- (a) as far as appears from an examination of them, proper records to enable the 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 the input methodologies set out in this determination, and that it has been audited in accordance with applicable auditing standards issued under the Financial Reporting Act 2013 or any equivalent standards that replace these standards;
- (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 the input methodologies set out in this determination, and that it has been examined in accordance with applicable assurance engagement standards issued under the Financial Reporting Act 2013 or any equivalent standards that replace these standards or other appropriate standards;
- (d) in the case of quantitative historical information provided in spreadsheets, the information is properly compiled on the basis of the relevant underlying source information; and
- (e) in the case of quantitative forecast information provided in spreadsheets, the information is properly compiled on the basis of relevant and reasonable disclosed assumptions.

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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-

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- (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 described in clause F5(f) was provided to the **verifier** in advance of the **verifier's** selection of **identified programmes**;
  - (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;

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- (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 equivalent to at least 1% of the aggregated **forecast allowable revenue** for the **disclosure years** of the **CPP** in which the cost was or will be incurred.

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#### 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 equivalent to at least 1% of the aggregated **forecast allowable revenue** for the **disclosure years** of the **CPP** in which the cost was or will be incurred.

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#### 5.6.3 Error event

(1) 'Error event' means, subject to subclause (2), a clearly unintended circumstance identified by the Commission where the CPP was determined or amended based on an error, including where:

- (a) incorrect data was used in setting the price path or the quality standard; or
- (b) data was incorrectly applied in setting the price path or quality standards.

(2) For the purposes of subclause (1), an error relating to-

- (a) the price path will not constitute an error event unless the error has an impact on the price path of an amount equivalent to at least 1% of the

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aggregate forecast allowable revenue for the affected disclosure years of the CPP; and

- (b) the quality standards, or quality incentive measures, is to the value of a metric by which such quality standards or quality incentive measures are specified in the CPP, but not to the metric itself.

#### 5.6.4 Major transaction

'Major transaction' means a transaction, whether contingent or not, where consumers are transferred between suppliers of the same type of regulated service and-

- (a) the acquisition of, or an agreement to acquire, assets with a value which is equivalent to more than 10% of the EDB's opening RAB value in the disclosure year of acquisition;
- (b) the disposal of, or an agreement to dispose of, assets of the EDB with a value of more than 10% of the opening RAB value in the disclosure year of disposal;
- (c) has, or is likely to have, the effect of the EDB acquiring rights or interests with a value which is equivalent to more than 10% of the opening RAB value in the disclosure year of acquisition; or
- (d) has, or is likely to have, the effect of the EDB incurring obligations or liabilities or contingent liabilities, excluding loans or borrowing costs in respect of assets, with a value which is equivalent to more than 10% of the opening RAB value in the disclosure year of incurring the obligation.

#### 5.6.5 Contingent projects

(1) A contingent project is a project that has been listed as a 'contingent project' with an associated trigger event in a CPP determination.

(2) For the purpose of subclause (1), a project may only be so listed if it is a project-

- (a) that the Commission considers-
  - (i) is reasonably required of an EDB; and
  - (ii) is one whose associated assets are likely to be commissioned, during the CPP regulatory period;
- (b) for which a commencement date cannot be forecast with an appropriate degree of specificity by comparison with other proposed projects; and
- (c) in respect of which the Commission considers that its required capex and opex-
  - (i) as disclosed in a CPP proposal exceeds 10% of the value of the EDB's annual revenue in the most recently completed disclosure year in respect of an ID determination; and

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<#>discovered in a CPP determination and clearly unintended by the Commission to be included in it; or¶  
<#>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¶

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(ii) would be likely, when forecast with reasonable certainty, to meet the expenditure objective.

(3) 'Trigger event' means, subject to subclause (4), a condition or event that would reasonably cause an EDB to incur forecast opex or forecast capex of the nature and extent required by an associated contingent project.

(4) For the purpose of subclause (3), the condition or event must-

(a) not be within the control of the EDB;

(b) be capable of being-

(i) specifically defined; and

(ii) objectively verified as having occurred; and

(c) be something the occurrence of which the Commission considers is probable during the CPP regulatory period.

(5) For the avoidance of doubt, the Commission has discretion as to-

(a) whether to list a project that satisfies subclause (2) as a contingent project in a CPP determination; and

(b) the selection and description of trigger events.

#### 5.6.6 Unforeseen projects

(1) 'Unforeseen project' means a project or programme, subject to subclause (2), that, in respect of the services supplied by the EDB in question at the time that EDB submitted its CPP proposal, would have been unforeseeable to a prudent EDB.

(2) For the purpose of subclause (1), the total capex forecast and opex forecast of the projects or programmes proposed to the Commission pursuant to clause 5.6.7(8) must exceed 10% of the value of the EDB's annual revenue in the most recently completed disclosure year in respect of an ID determination.

#### 5.6.7 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), (5), (9) or (10) applies.

(2) This subclause applies if-

(a) subject to subclause (3), a catastrophic event has occurred;

(b) a change event has occurred;

(c) there has been an error event;

(d) a major transaction has occurred; or

(e) there has been a WACC change.

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(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) For the purpose of subclause (2)(e), a 'WACC change' occurs when-

- (a) a 67<sup>th</sup> percentile estimate of WACC has been determined and published in accordance with clause 4.4.6 for a new **DPP regulatory period**; and
- (b) the new **DPP regulatory period** commences within the current **CPP regulatory period**.

(5) 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**.

(6) The price-quality path may be reconsidered by the **Commission** if an **EDB** satisfies it, upon application, that-

- (a) a **trigger event** has occurred and the information set out in clause 5.6.7(7) has been provided to the **Commission**; or
- (b) an **unforeseen project**-
  - (i) has commenced and the information set out in clause 5.6.7(8) has been provided to the **Commission**; or
  - (ii) is **committed** during the current **CPP regulatory period** and the information set out in clause 5.6.7(8) has been provided to the **Commission**.

(7) The **Commission** need not consider an application under subclause (6)(a) unless the **EDB** has provided it with-

- (a) a written statement from no fewer than 2 of the **EDB's directors** certifying-
  - (i) that the **trigger event** has occurred;
  - (ii) full particulars of the occurrence; and
  - (iii) the date on which it occurred;
- (b) detailed cost information relating to proposed expenditure on the **contingent project** for its duration; and



(c) any other information required by the **Commission**.

(8) The **Commission** need not consider an application under subclause (6)(b) unless the **EDB** has provided it with-

(a) information demonstrating that the **project** or **programme** is an **unforeseen project**;

(b) detailed cost information relating to proposed expenditure on the **unforeseen project** for its duration; and

(c) any other information required by the **Commission**.

(9) The price path may be reconsidered by the **Commission** if it applies a next closest alternative approach in accordance with clause 1.1.5(1) which has a non-equivalent effect.

(10) The price-quality path may be reconsidered by the **Commission** if a requirement in a s 52P determination is considered by the **Commission** to be unworkable and the application of s 52Q results in a non-equivalent effect on the price-quality path.

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

(1) Where, after reconsidering a **CPP** in accordance with clause 5.6.7, 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 5.6.7(3).

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(2) In determining the extent of any amendment to the price path, the **Commission** must take into account the **expenditure objective**.

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(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) the error event;

(f) the major transaction;

(g) the provision of false or misleading information;

(h) the contingent project;

(i) the unforeseen project; or

(j) the WACC change,

as the case may be.

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- (4) The **Commission** will not amend the price path for the application of a next closest alternative approach more than is necessary to adopt the effect of that next closest alternative approach in the price-quality path.
- (5) The **Commission** will not amend the price-quality path for the application of s 52Q in respect of an unworkable requirement in a s 52P determination more than is necessary to adopt the effect of that s 52Q amendment in the price-quality path.
- (6) Where the **Commission's** reconsideration of the price-quality path was-

(a) 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;

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(b) pursuant to the occurrence of an **unforeseen project**-

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(i) the **Commission** need not amend the **CPP** unless the amount of required **capex** and **opex** determined by the **Commission** exceeds 10% of the value of the **EDB's** annual revenue in the relevant **disclosure year** for the purpose of clause 5.6.6(2);

(ii) any such amendment may not take effect until the **disclosure year** in which assets constructed as part of the relevant **unforeseen project** are forecast to be **commissioned**; and

(c) pursuant to the occurrence of a **trigger event**, any amendment to the **CPP** may not take effect until the **disclosure year** in which assets constructed as part of the relevant **contingent project** are forecast to be **commissioned**.

- (7) Where the **Commission's** reconsideration of the price-quality path was triggered by a **WACC change**, the **Commission** will for the remaining years of the **CPP regulatory period** after the **WACC change**:

(a) determine the series of **maximum allowable revenue after tax** in accordance with clause 5.3.4(1); and

(b) for the purpose of (a), use-

(i) the **building blocks allowable revenue before tax** calculated in accordance with clause 5.3.2(1);

(ii) the revised **WACC** in clause 5.3.22(2), including where the **WACC** is used for present value calculations, and for timing factors in clause 5.3.2(4);

(iii) the **forecast CPI** for the **DPP regulatory period** referred to in clause 5.6.7(4)(a), to calculate a revised **revaluation rate** in accordance with the method in clause 5.3.10(4);

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- (iv) the same input values as applied by the **Commission** in initially determining the **CPP** for all other input values in the calculation of **building blocks allowable revenue before tax**; and
- (v) a revised forecast regulatory taxable income to apply the changes in building blocks allowable revenue before tax resulting from (i) to (iii) in a revised forecast regulatory tax allowance.

## SCHEDULE A    STANDARD PHYSICAL ASSET LIVES

**Table A.1: Standard Physical Asset Lives for EDBs**

ASSET EXPENDITURE SUB-CATEGORY	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	20

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<b>ASSET EXPENDITURE SUB-CATEGORY</b>	<b>STANDARD PHYSICAL ASSET LIFE (YEARS)</b>
Protection & Controls - Digital	
<i>Outdoor Structure (if not included in category above):</i>	
Concrete pole	60
Wood pole	45
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

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<b>ASSET EXPENDITURE SUB-CATEGORY</b>	<b>STANDARD PHYSICAL ASSET LIFE (YEARS)</b>
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>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

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**Table A.2: Asset Lives for CPP Expenditure Forecast Information**

<u>Asset expenditure category</u>	<u>Asset life</u>
a. <u>Subtransmission</u>	<u>55</u>
b. <u>Zone substations</u>	<u>45</u>
c. <u>Distribution and LV lines</u>	<u>60</u>
d. <u>Distribution and LV cables</u>	<u>55</u>
e. <u>Distribution substations and transformers</u>	<u>45</u>
f. <u>Distribution switchgear</u>	<u>40</u>
g. <u>Other network assets</u>	
h. <u>Non-network assets</u>	

## 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												
<b>REPORT ON ALLOCATION OF THE UNALLOCATED INITIAL RAB VALUE (NON-PUBLIC)</b>												
Note: white out box indicates no number needs to be provided												
Asset Category:	Asset Allocator	Allocator Metrics or Proportion Allocated				Value Allocated					OYABAA 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):**

Regulated EDB For Year Ended												
<b>REPORT ON ALLOCATION OF THE UNALLOCATED INITIAL RAB VALUE (PUBLIC)</b>												
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												
<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												
<b>REPORT ON ALLOCATION OF THE UNALLOCATED CLOSING RAB VALUE IN LAST YEAR OF CURRENT PERIOD (NON-PUBLIC)</b>											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 3: Allocation of Operating Costs Not Directly Attributable**

**Table 3(a):**

Regulated EDB For Year Ended												
REPORT ON ALLOCATION OF OPERATING COSTS AT THE END OF THE LAST YEAR OF CURRENT PERIOD (NON-PUBLIC)												
											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												
<b>REPORT ON ALLOCATION OF OPERATING COSTS AT THE END OF THE LAST YEAR OF CURRENT PERIOD (PUBLIC)</b>											<small>Note: white out box indicates no number needs to be provided</small>	
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												
<b>Total directly attributable operating costs</b>												
<b>Total operating costs not directly attributable</b>												





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

Regulated EDB <input type="text"/>						
For Year Ended <input type="text"/>						
<b>ARM'S LENGTH DEDUCTIONS FROM REGULATED SERVICE ASSET VALUES FOR ASSETS WITH UNALLOCATED CLOSING RAB VALUE (NON-PUBLIC)</b>						
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
<b>ARM'S LENGTH DEDUCTIONS FROM OPERATING COSTS (NON-PUBLIC)</b>						
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**

REPORT ON ALLOCATION OF UNALLOCATED CLOSING RAB VALUE IN 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	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
<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	
														Here, 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		
<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>Replenishment 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						
<b>ARM'S LENGTH DEDUCTIONS FROM REGULATED SERVICE ASSET VALUES FOR ASSETS WITH UNALLOCATED CLOSING RAB VALUE (NON-PUBLIC)</b>						
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
<b>ARM'S LENGTH DEDUCTIONS FROM OPERATING COSTS (NON-PUBLIC)</b>						
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 [schedule and in Schedules E-G](#), 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 expenditure class** means a type of asset within an **asset expenditure category**. The extent that an **asset expenditure category** is disaggregated into different asset expenditure classes is at the discretion of the **EDB**.

**asset management plan** means [an asset management plan included in the CPP proposal and prepared in accordance with the requirements of the most recent ID determination, where the first year of the planning period to which the asset management plan relates is the final year of the assessment period](#);

**asset relocations capex** means [expenditure on assets where the primary driver is the need to relocate assets due to third party requests such as for the purpose of allowing road widening or similar needs. This includes expenditure on assets relating to the undergrounding of previously above ground assets at the request of a third party](#);

**asset replacement and renewal capex or asset replacement and renewal opex** means [capex or opex where the where the primary driver is the need to maintain network asset integrity so as to maintain current security and/or quality of supply standards and includes expenditure to replace or renew assets incurred as a result of-](#)

- [\(a\) the progressive physical deterioration of the condition of network assets or their immediate surrounds;](#)
- [\(b\) the network assets becoming obsolete;](#)
- [\(c\) preventative replacement programmes, consistent with asset lifecycle management policies; or](#)
- [\(d\) the need to ensure the ongoing physical security of the network assets;](#)

**budget** means an expenditure forecast that has been prepared for a purpose other than [for inclusion in a CPP proposal](#);

**business support opex** means **opex** associated with the following corporate activities-

- [\(a\) human resources and training \(other than operational training\);](#)

**Deleted:** s

**Deleted:** ubpart

**Deleted:** asset category means one of the following asset types:  
 <#>assets owned by the EDB but installed at bulk supply points owned by others;  
 <#>sub-transmission network including power transformers;  
 <#>distribution network including distribution transformers;  
 <#>switchgear;  
 <#>low voltage distribution network; and  
 <#>supporting or secondary systems including-  
 <#>ripple injection plant;  
 <#>SCADA;  
 <#>communications equipment;  
 <#>metering systems;  
 <#>power factor correction plant;  
 <#>EDB-owned mobile substations and generators whose function is to increase supply reliability or reduce peak demand; and  
 <#>other generation plant owned by the EDB; and  
 <#>other;

**Deleted:** -  
 the Asset Management Plan disclosed in the last disclosure year of the current period pursuant to the Electricity Disclosure (Information Requirements) 2008; or  
 any asset management plan disclosed in the last disclosure year of the current period pursuant to an ID determination;

**Deleted:** 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;

**Deleted:** means capex predominantly associated with-  
 the progressive physical deterioration of the condition of network assets or their immediate surrounds; or  
 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;



- (b) finance and regulation including compliance activities, valuations and auditing;
- (a) chief executive and director costs;
- (b) legal services;
- (c) consulting services (excluding engineering/technical consulting);
- (d) property management;
- (e) corporate communications;
- (f) corporate information technology;
- (g) industry liaison and participation;
- (h) commercial activities including pricing, billing, revenue collection and marketing;  
and
- (i) liaison with Transpower, consumers and electricity retailers;

**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) ~~consumer~~ 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;~~

**Deleted:** ~~ustomer~~

**consumer connection capex** means capex where the primary driver is the establishment of a new consumer connection point, or alterations to an existing consumer connection point. This includes expenditure relating to-

- (a) parts of the network for which the expenditure is recoverable in total, or in part, by a capital contribution from the consumer requesting the new or altered connection point; and
- (b) both electricity injection and offtake points of connection;

**Deleted:** ¶ ~~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;

**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** ~~with~~ reference to the **EDB's** ability to-

**Deleted:** ~~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;¶

**Deleted:** by

- (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;

**key assumptions** means assumptions made by an EDB in the preparation of its proposal that have a material impact on the **opex forecast** or the **capex forecast**;

**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 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) **business support opex**;
- (b) **system operations and network support opex**;
- (c) **routine and corrective maintenance and inspection opex**;
- (d) **vegetation management opex**;
- (e) **asset replacement and renewal opex**; and
- (f) **service interruptions and emergencies opex**;

**Deleted:** ¶

**Deleted:** 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- ¶ <#>accounting; ¶ <#>corporate management; ¶ <#>finance; ¶ <#>human resources; ¶ <#>information technology; ¶ <#>insurance paid to an insurer; ¶ <#>legal; ¶ <#>occupational health and safety; ¶ <#>procurement; ¶ <#>property; and ¶ <#>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- ¶ <#>5 largest projects or programmes by expenditure that fall within the capex forecast; ¶ <#>5 largest projects or programmes by expenditure that fall within the opex forecast; or ¶ <#>10 additional projects or programmes selected by the verifier for detailed assessment in accordance with clause G3; ¶

**Deleted:** key assumptions means- ¶ 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 ...

**Deleted:** network means lines operated by an EDB; ¶

**Deleted:** opex means operating expenditure; ¶

**Deleted:** general management, administration and overheads

**Deleted:** system management and operations

**Deleted:** preventative

**Deleted:** refurbishment and renewal maintenance

**Deleted:** fault and emergency maintenance

**Deleted:** other

**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 short-term and long-term policies, procedures, strategies, guidelines and plans used to prepare the **CPP proposal**;

**primary driver** means the primary reason for a decision to incur a cost in the year the cost was incurred or forecast to be incurred;

**prospective related party** means a party that is known to become a **related party** in the next period;

**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;
- (c) meeting legislative requirements; or
- (d) reducing the impact of the network on the environment;

**routine and corrective maintenance and inspection opex** means **opex** where the **primary driver** is the activities specified in planned or programmed inspection, testing and maintenance work schedules and includes-

- (a) fault rectification work that is undertaken at a time or date subsequent to any initial fault response and restoration activities;
- (b) routine inspection;
- (c) functional and intrusive testing of assets, plant and equipment including critical spares and equipment;
- (d) helicopter, vehicle and foot patrols, including negotiation of landowner access;
- (e) asset surveys;
- (f) environmental response;

**Deleted:** and director or management-approved

**Deleted:** ,

**Deleted:** and approaches including those relating to-¶  
 <#>asset management;¶  
 <#>asset security;¶  
 <#>augmentation and planning;¶  
 <#>business cases, including cost-benefit analyses;¶  
 <#>capex (e.g. capex approval and replacement);¶  
 <#>condition monitoring and replacement;¶  
 <#>corporate governance; ¶  
 <#>demand management;¶  
 <#>disaster recovery;¶  
 <#>energy supply and consumer growth forecasting; ¶  
 <#>information technology;¶  
 <#>internal reviews;¶  
 <#>investment decision making and evaluation; ¶  
 <#>land and easement acquisition;¶  
 <#>network spares;¶  
 <#>prioritisation and options analysis; ¶  
 <#>procurement;¶  
 <#>project management; ¶  
 <#>regulatory compliance;¶  
 <#>risk management and assessment; or¶  
 <#>self insurance;¶

**Deleted: refurbishment and renewal maintenance opex** means **opex** that is predominantly associated with the replacement, refurbishment or renewal of items that are asset components;¶

**Deleted:** or

**Deleted:** <#>activities to-¶  
 <#>meet new or enhanced legislative requirements; or¶  
 <#>achieve enhancements, ¶  
 relating to the environment;¶

**Deleted: preventative**

- (g) painting of **network** assets;
- (h) outdoor and indoor maintenance of substations, including weed and vegetation clearance, lawn mowing and fencing;
- (i) maintenance of access tracks, including associated security structures and weed and vegetation clearance;
- (j) customer-driven maintenance; and
- (k) notices issued;

**service interruptions and emergencies opex** means **opex** where the **primary driver** is an unplanned instantaneous event or incident that impairs the normal operation of **network** assets. This relates to reactive work (either temporary or permanent) undertaken in the immediate or short-term in response to an unplanned event, including-

- (a) back-up assistance required to restore supply;
- (b) repair leaks or make safe;
- (c) operational support such as mobile generation used during the outage or emergency response; and
- (d) includes any necessary response to events arising in the transmission system;

**service level** means the magnitude of a **service measure**;

**service measure** means an objectively measurable characteristic or feature of a level of performance being delivered;

**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** other than consumer connection capex, where the **primary driver** is either a requirement for additional capacity at a particular location or a change in the requirement for **electricity distribution services** as a result of the introduction of new or emerging technologies. It includes expenditure associated with network protection, control, automation, and telecommunications assets and also includes expenditure on the acquisition of **networks** from other providers of **electricity lines services**;

**system operations and network support opex** means **opex** where the **primary driver** is the management of the **network** and includes expenditure relating to control centre and office-base system operations, including-

**Deleted:** that is predominantly associated with planned work and-

**Deleted:** <#>includes- ¶  
 <#>fault rectification work that is undertaken at a time or date subsequent to any initial fault response and restoration activities; ¶  
 <#>routine inspection; ¶  
 <#>testing; and¶  
 <#>vegetation management activities; and¶  
 <#>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: ¶  
 <#>provide and operate **network** infrastructure between input and offtake connection points and deliver electricity through the **network**;¶  
 <#>provide load management services;¶  
 <#>provide connection services, including changes of connection point capacity and/or reliability;¶  
 <#>provide for rearrangement of network assets at third party request (includes undergrounding); and¶  
 <#>provide an additional service (or services if necessary) to those listed in paragraphs (a) to (d), specified by the **CPP applicant**;¶

**Deleted:** service category

**Deleted:** step change means a new, changed or ceased **obligation**;¶

**Deleted:** 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

- (a) asset management planning including the preparation of the **asset management plan**, load forecasting and **network** modelling;
- (b) **network** and engineering design (excluding design costs capitalised for **capex** projects);
- (c) **network** policy development (including the development of environmental, technical and engineering policies;
- (d) standards and manuals for **network** management;
- (e) **network** record keeping and asset management databases including geographic information systems;
- (f) outage recording;
- (g) connection and **consumer** records/**consumer** management databases (including distributed generators);
- (h) stakeholder queries and call centres (not associated with billing);
- (i) operational training for **network** management and field staff;
- (j) operational vehicles and transport;
- (k) information technology and telecommunications for **network** management (including information technology support for asset management systems);
- (l) day to day **consumer** management including responding to queries on new connections, disconnections, reconnections and distributed generators;
- (m) engineering and technical consulting;
- (n) **network** planning and system studies;
- (o) logistics (procurement) and stores; and
- (p) network asset site expenses and leases;

**vegetation management opex** means **opex** where the **primary driver** is the need to physically fell, remove or trim vegetation (including root management) that is in the proximity of overhead lines or cables. It includes **opex** arising from the following activities-

- (a) inspection of affected lines or cables where the inspection is substantially or wholly directed to vegetation management (e.g., as part of a vegetation management contract). It includes pre-trim inspections as well as inspections of vegetation cut for the primary purpose of ensuring the work has been undertaken in an appropriate manner;

- (b) liaison with landowners including the issue of trim/cut notices, and follow-up calls on notices; and
- (c) tree felling or trimming of vegetation to meet externally imposed requirements or internal policy, including operational support such as any mobile generation used during the activity;

The following activities and related costs are excluded from this category-

- (d) general inspection of assets subject to vegetation, where this is not substantially directed to vegetation management (included in **routine and corrective maintenance and inspection opex**);
- (e) costs of assessing and reviewing the vegetation management policy;
- (f) data collection; and
- (g) the cost of managing a vegetation management contract;

## **D2 Instructions relating to provision of information**

### (1) A CPP proposal must-

- (a) include all information required in-
  - (i) Attachment A of the **ID determination** or any successor to that Attachment A; and
  - (ii) this schedule;

unless the **Commission** has approved a modification or exemption from the **CPP application** requirements under clause 5.1.6 and has included the relevant information related to the exemption or modification as set out in clause 5.1.8;
- (b) contain a table that, in respect of each clause of this schedule-
  - (i) provides a reference to the place where, in 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-

- (a) identify the differences; and

**Deleted:** system management and operations opex means opex that is predominantly associated with the management and operation of the network including- ¶  
<#>system operations; ¶  
<#>system studies and planning; ¶  
<#>design; ¶  
<#>network record keeping; and ¶  
<#>standards and manuals.¶

- (b) 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 comply with subclause (1) by-
- (a) reproducing its **asset management plan** with the additional material required by this schedule included; or
- (b) including an **asset management plan** as a separate document.
- (5) For the purpose of subclause 3.4 of Attachment A of the **ID determination**, additional information required to be included in the **CPP proposal** need only apply to the-
- (a) current period;
- (b) assessment period; and
- (c) next period.
- (6) For the avoidance of doubt-
- (a) the 'Summary of intended CPP proposal' provided to the **Commission** in accordance with clause F5, will not include detailed information described in clause D10 in relation to **identified programmes**; 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** in the **CPP application**.

### D3 **Governance, organisation structure and business processes**

- (1) In addition to the information required by clause 3.7 of Attachment A of the **ID determination**, provide-
- (a) the current organisational structure of the **EDB** and a description of any separate organisation used to manage **capex** and **opex**;
- (b) the number of full time equivalent employees, employed by the applicant, broken down by business units;
- (c) an explanation of the arrangements for undertaking system operations and network support activities, and the extent that these functions are centralised and outsourced;

**Deleted:** <#>A **CPP proposal** must- ¶  
 <#>assemble all information that this Schedule requires in a section of the **CPP proposal** entitled "Capex/Opex/Demand Qualitative Information"; and ¶  
 <#>contain a table that, in respect of each clause of this schedule- ¶  
 <#>provides a reference to the place where, in the Capex/Opex/Demand Qualitative Information section of the **CPP proposal**, a response is provided; and ¶  
 <#>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**. ¶  
 <#>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- ¶  
 <#>identify the differences; and ¶  
 <#>give reasons for such differences. ¶  
 <#>Where information required by this Schedule is omitted from a **CPP proposal**, the **CPP proposal** must contain an explanation for each such omission. ¶  
 <#>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). ¶  
 <#>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**. ¶  
 <#>For the avoidance of doubt- ¶  
 <#>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 ¶  
 <#>such information- ¶  
 <#>need only be provided to the **verifier** upon the **verifier's** request; and ¶  
 <#>is required to be included in the **CPP proposal** as provided to the **Commission**. ¶

**Deleted:** Qualitative Information

- (d) where any cost is shared with organisational activities that do not involve providing regulated **electricity distribution services**, the basis on which these costs have been allocated and included in the forecast; and
      - (e) a description of any anticipated changes during the **next period** to the organisational structure.
- (2) In addition to the information required by clause 3.12 of Attachment A of the **ID determination**-
  - (a) provide a commentary on the sources of asset management information;
  - (b) and other relevant data that has been relied upon in preparing the forecasts, including-
    - (i) a description of the quality of this information and data; and
    - (ii) details of any assumptions that have been made to fill any information or data gaps.
- (3) In addition to the information required by clause 3.13 of Attachment A of the **ID determination**, describe the procedures and processes used by the **EDB** to-
  - (a) plan and develop;
  - (b) estimate the cost of;
  - (c) approve;
  - (d) implement; and
  - (e) monitor;

the **capex** and **opex projects** and **programmes** described in the **CPP proposal**, and develop unit costs, and assess whether the costs are comparable with industry costs.
- (4) In addition to the information required by clause 3.7 of Attachment A of the **ID determination** provide-
  - (a) an overview of any internal challenge, review and approval process applied before the forecasts were finalised for inclusion in the **CPP proposal**;
  - (b) a statement as to whether or not the forecast includes provision for efficiency improvements over time and, if so, a description of how this provision is reflected in the forecasts; and
  - (c) a statement of how the approval process treats the risks on cost estimates and timing of projects due to deviations of forecast assumptions.



**D4 Network asset information**

In relation to the information required by clause 4 of Attachment A of the ID determination-

- (a) where information is based on estimates, this must be explicitly stated; and
- (b) quantities of assets must be presented in a way that clearly describes the size and scope of regulated assets, but need not include detailed lists or schedules as would be included in a complete asset register or inventory.

**D5 Service levels**

Where not included in information provided in respect of clause 5 of Attachment A of the ID determination, provide-

- (a) a description as to how each performance indicator and performance target described in accordance with clause 5 of Attachment A of the ID determination-
  - (i) relates to the EDB’s relevant policies; and
  - (ii) reflects the expenditure objective;
- (b) for each performance indicator identified and defined in accordance with subclause (a):
  - (i) the measured performance for each year of the current period; and
  - (ii) the target performance for each year of the next period;
- (c) a comparison and evaluation of each actual service level achieved for each disclosure year in the current period against each relevant performance target, including explanations for all significant variances.

**D6 Network development planning**

(1) The description of network development plans required in clause 11 of Attachment A of the ID determination must include the additional information specified in this clause.

(2) For system growth capex, consumer connection capex, asset relocation capex and reliability, safety and environment capex-

- (a) identify all relevant documents, policies and consultants’ reports that were taken into account in preparing these capex forecasts; and
- (b) where appropriate, identify their relevance to each category of capex.

**Deleted:** <#>Provide-¶  
 <#>all policies relied upon in whole or in part in preparing the response to- ¶  
 <#>this schedule; and ¶  
 <#>any other requirement of Subpart 4 Section 8 of Part 5; and¶  
 <#>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. ¶  
 <#>Identify all consultants’ reports Commissioned for the purpose of preparing the capex forecast or opex forecast.¶  
 <#>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.¶

**Deleted:** Categorisation of services

**Deleted:** For each service category relevant to the electricity distribution services provided by the EDB, provide-¶  
 <#>a description of the EDB’s services that fall within it, including-¶  
 <#>its key service features and specifications; ¶  
 <#>the identity of the intended consumers of the services;¶  
 <#>the processes used to determine the features and specifications of each service; and¶  
 <#>any material changes to the services proposed for the next period;¶  
 <#>the service measures, including a description as to how these have been defined, relating to-¶  
 <#>categories of consumers;¶  
 <#>asset performance, asset efficiency and effectiveness;¶  
 <#> efficiency of the EDB’s business activities; and¶  
 <#>the EDB’s obligations; ¶  
 <#>a corresponding target service level for each service measure; ¶  
 <#>a description as to how each target service level- ¶

**Deleted:** Network asset information

**Deleted:** <#>Provide details of the EDB’s existing network assets including-¶  
 <#>a high-level description of the distribution area that includes-¶  
 <#>identification of the distribution area(s) covered;¶  
 <#>identification of large consumers that have a significant impact on network operations or asset management priorit...

**Deleted:** Demand, consumer numbers and generation forecasts

- (3) In addition to the information required by clauses 11.1-11.6 of Attachment A of the **ID determination**, provide the rationale for the planning criteria and other key drivers and assumptions for network development for **system growth capex**, **consumer connection capex**, **asset relocation capex** and **reliability, safety and environment capex**.
- (4) In addition to the information required by clause 11.7 of Attachment A of the **ID determination**, provide the rationale for the prioritisation process and criteria.
- (5) In addition to the information on demand forecasts required by clause 11.8 of Attachment A of the **ID determination**-
- (a) describe and explain the methodology used to prepare the relevant forecasts, including-
- (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
- (b) 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) 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
- (iii) details of the effect that any demand management systems or initiatives and any other new or emerging technologies may have on the **network** forecasts and the extent that they have been included in the forecasts in the **CPP proposal**.
- (6) For the forecasts of **consumer** connections, embedded generation and electricity volumes provided in the relevant templates in Schedule E-
- (a) describe and explain the methodology used to prepare the relevant forecasts including-
- (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);
- (7) In addition to the information required by clause 11.9 of Attachment A of the ID determination, provide-
- (a) for **system growth capex**, a description of, and the rationale for, the **planning standards**, and **key assumptions** relied on by the **EDB** in determining the need to augment its network;
  - (b) for **reliability, safety and environment capex**, a description of any models developed by or for the **EDB** to determine the **reliability, safety and environment capex** including the rationale for all key input assumptions; and
  - (c) for **consumer connection capex** and **asset relocation capex**-
    - (i) **key assumptions** and a list of **policies** relevant to apportioning costs, where costs are not fully recovered from a **capital contribution**;
    - (ii) the rationale and basis for determining the forecast amount, including a description of any modelling used; and
    - (iii) provide this information separately for **consumer connection capex** and for **asset relocation capex**.
- (8) In addition to the information required in clause 11.10 of Attachment A of the ID determination, for each **system growth capex project** and **programme** included in the **capex forecast** provide-
- (a) a description of the **project** or **programme**, including the assumed number and ratings of significant new assets and, where appropriate, a single-line diagram showing how it is assumed that the assets will be integrated into the existing network;
  - (b) the estimated cost of the **project** or **programme**, disaggregated by **disclosure year**, including costs already incurred in the **current period**; and
  - (c) details of the effect any new or emerging technologies may have and the extent that they have been considered.
- (9) In addition to the information required in clause 11.10 of Attachment A of the ID determination, for each **reliability, safety and environment capex project** and **programme** included in the **capex forecast** provide-

- (a) a description of the **project** or **programme** including the assumed number and ratings of significant new assets;
- (b) a discussion of **key assumptions** and the rationale for making those assumptions;
- (c) a description of models used and key input assumptions and data sources, including a discussion of relevant data systems and any limitations in the data;
- (d) an indication of the **project's** or **programme's** current status in the planning process; and
- (e) the estimated cost of the **project** or **programme**, disaggregated by **disclosure year**, including costs already incurred in the **current period**.

(10) In addition to the information required in clause 11.10 of Attachment A of the **ID determination**, for any **consumer connection capex** and **asset relocation capex project** and **programme**, provide a description and the estimated costs of any specific **project** or **programme** included in the forecast.

(11) In addition to the information required by clause 11.12 of Attachment A of the **ID determination**, and, where not provided in response to subclause (2), identify the **EDB's policies** regarding the application of new or emerging technologies.

#### **D7 Lifecycle asset management planning (maintenance and renewal)**

- (1) The description of Lifecycle Asset Management Planning required in clause 12 of Attachment A of the **ID determination** must include the additional information specified in this clause.
- (2) In addition to information required by clauses 3.13 and 3.14 of Attachment A of the **ID determination**, describe the organisation that the **EDB** uses to manage network maintenance and associated expenditure, including the physical arrangements for undertaking these activities and the extent that these functions are centralised and outsourced.
- (3) In addition to the information required by clauses 12.1 and 12.2 of Attachment A of the **ID determination**, for each of **service interruptions and emergencies opex**, **vegetation management opex** and **routine and corrective maintenance and inspection opex** describe the approach used to prepare the expenditure forecast and provide-
  - (a) details and a rationale for each relevant **key assumption**;
  - (b) a description of any models used;

**Deleted:** <#>For each **key assumption** relating to maximum demand, electricity supplied, consumer numbers, embedded generation and distributed generation-¶  
<#>explain how it was relied upon in the **CPP proposal**; ¶  
<#>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-¶  
<#>any sensitivity analysis undertaken; ¶  
<#>any weather normalisation methodology used and how weather data has been used; and¶  
<#>the models used (including each model's key inputs and assumptions); and¶  
<#>provide- ¶  
<#>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);¶  
<#>assumptions of **consumer** numbers in total and by the **consumer** categories used by the **EDB**; ¶  
<#>assumptions of energy volumes **supplied to consumers** by each category referred to in sub-paragraph (ii);¶  
<#>assumptions relating to average **consumer** energy usage by each category referred to in sub-paragraph (ii);¶  
<#>details of the location, type and size of any embedded generators and assumptions relating to the impact they may have on **network** forecasts;¶  
<#>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¶  
<#>details of the effect that any demand management systems or initiatives may have on **network** forecasts.¶  
<#>Explain- ¶  
<#>the extent to which the forecasting methodology used is consistent with and has taken into account historical observations; ¶  
<#>whether forecast data is internally consistent at and between each level of aggregation down to at least the zone substation level; and¶  
<#>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).¶

**Deleted:** Capital expenditure

- (c) a description of any new expenditure or forecast changes to the level of expenditure on existing network **opex programmes** over the course of the **next period** that will have a material effect on the **network opex forecast**, including-

  - (i) the rationale for and timing of these changes;
  - (ii) an assessment of the impact of these changes on the **service levels** provided by the **EDB**; and
  - (iii) the impact of these changes on the **opex forecast**.
- (4) Identify all relevant documents, **policies** and consultants' reports that were taken into account in preparing the forecasts of **service interruptions and emergencies opex, vegetation management opex and routine and corrective maintenance and inspection opex**;
- (5) In addition to the information required by clause 12.3 of Attachment A of the **ID determination**, for **asset replacement and renewal capex and asset replacement and renewal opex** provide-

  - (a) a description of the criteria used to determine whether the expenditure is **capex** or **opex**; and
  - (b) a description of the prioritisation methodology adopted for asset replacement **projects and programmes**.
- (6) Identify all relevant documents, **policies** and consultants' reports that were taken into account in preparing the forecasts of **asset replacement and renewal capex** or **asset replacement and renewal opex**;
- (7) In addition to the information required by subclauses 12.3.3 – 12.3.5 of Attachment A of the **ID determination**, for each **asset replacement and renewal capex** or **asset replacement and renewal opex project and programme** provide-

  - (a) a description of and the rationale for the **projects and programmes**;
  - (b) where relevant, an overview of any network and non-network alternatives considered and the basis for selecting the preferred solution;
  - (c) an indication of the **project's** or **programme's** current status in the planning process;
  - (d) the actual and forecast expenditure on each **project** or **programme** described in subclause (a) disaggregated by **regulatory year** in both the **current period** and the **next period**; and

(e) a description of the methodology used by the EDB to determine the forecast expenditure over the next period on the projects or programmes described in subclause (a) including where applicable-

(i) the key assumptions and the rationale for the key assumptions and policies;

(ii) any relevant modelling and the rationale for material model input assumptions; and

(iii) a commentary on the source of the unit costs or components of cost, the accuracy of the cost estimates and the treatment of cost uncertainty where there are not explicitly stated elsewhere.

(8) For an asset replacement and renewal capex project provide-

(a) assumed number and ratings of significant new assets; and

(b) a single-line diagram showing how the project will be integrated into the existing network for projects involving a redesign of asset layout.

(9) Explain how any anticipated 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 forecast for the next period.

#### D8 Non-system fixed assets, capital expenditure information

(1) In addition to the information required by clause 13 of Attachment A of the ID determination, for non-network fixed assets capex in the capex forecast provide the rationale and the basis for determining the forecast amount, including a description of any modelling used 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.

(2) The information required by subclause (1) need not be provided if the total non-network assets capex forecast is less than 5% of the total capex forecast.

**Deleted:** <#>For each capex category included in the capex forecast- ¶  
 <#>provide an overall description including the aims and objectives of the capex category;¶  
 <#>provide an explanation as to its deliverability, with reference to factors likely to affect the capex category as a whole; and¶  
 <#>identify all relevant documents, policies and consultant's reports that were taken into account in preparing the capex forecast.¶  
 <#>For each identified programme included in the capex forecast- ¶  
 <#>provide an overall description including the aims and objectives of the identified programme;¶  
 <#>provide an explanation as to its deliverability, with reference to factors likely to specifically affect that identified programme; ¶  
 <#>provide details of all contingency factors provided for, including how they were calculated and what uncertainties they account for;¶  
 <#>state-¶  
 <#>each relevant key assumption;¶  
 <#>each relevant obligation; and¶  
 <#>any step change and its effect on the capex forecast for the identified programme; ¶  
 <#>explain all departures from any conclusions and recommendations contained in each consultant's report identified in accordance with subclause (1)(c); and¶  
 <#>explain the methodology used to generate the capex forecast for the identified programme, including but not limited to details regarding-¶  
 <#>any cost benchmarking undertaken by or for the EDB;¶  
 <#>internal historical cost trends (for specific asset categories) relied upon;¶  
 <#>material changes to work backlogs;¶  
 <#>all network alternative projects and/or programmes considered;¶  
 <#>all non-network alternatives that were considered, whether adopted or not, and the reason(s) for rejecting them;¶  
 <#>all cost-benefit analyses undertaken;¶  
 <#>all contingency factors provided for, including how they were calculated and what uncertainties they account for; and¶  
 <#>any step change from historical costs in any cost component included in the identified programme and its effect on the capex forecast. ¶  
 <#>For each policy identified in response to subclause subclause (1)(c), explain-¶  
 <#>how it was taken into account and complied with; and¶

**Deleted:** System growth

**D9 Business support, system operations and network support operating expenditure**

- (1) Describe details of the extent that business support and system operations and network support costs have been included in the **capex forecast**. Sufficient information must be provided to enable the actual and forecast allocation of business support and system operations and network support costs for **capex** to be separately identified for each **disclosure year** of both the **current period** and the **next period**.
- (2) Identify all relevant documents, **policies** and consultants' reports that were taken into account in preparing these **opex forecasts**.
- (3) Describe any anticipated material changes to the information provided in subclause (1) over the course of the **next period**, including changes to the cost allocations and discuss-
  - (a) the rationale for and timing of the changes; and
  - (b) the impact of the changes on the **opex forecast**.
- (4) Describe the approach used to prepare the relevant **opex forecast** including-
  - (a) each relevant **key assumption** including the rationale for the assumption;
  - (b) any models used; and
  - (c) the rationale for any new expenditure or step change from current levels of expenditure over the **next period**.
- (5) Where appropriate, the information required by this clause should be provided separately for **business support opex** and for **system operations and network support opex**.

**D10 Identified programmes**

- (1) Where not already required to be disclosed by Attachment A of the **ID determination**, for each **identified programme** provide-
  - (a) a description of the **project** or **programme** including-
    - (i) what the **project** or **programme** will accomplish;
    - (ii) the location of the **project** or, if relevant, the location of the **programme**;
    - (iii) assumed quantities and ratings of major assets, including the rationale for these assumptions;

**Deleted:** For system growth capex, provide-¶  
 <#>a description of the relevant **planning standards** and relevant **key assumptions**;¶  
 <#>a description of the prioritisation methodology adopted for system growth **projects** and **programmes**;¶  
 <#>details of the specific **network** locations where constraints are expected due to forecast load increases;¶  
 <#>relevant **policies** for purchasing **land** and **easements** for future use;¶  
 <#>relevant **policies** on embedded and distributed generation;¶  
 <#>relevant **policies** on non-network solutions; ¶  
 <#>where rationale is not already included in the **policy** documents, rationale for the **policies** provided in accordance with paragraphs (d) to (f); ¶  
 <#>an analysis of the **network** and non-network development options available; ¶  
 <#>details of the planning decisions made to meet each relevant target **service level**; and¶  
 <#>a description and identification of the system growth **programme** including- ¶  
 <#>provisions made in respect of embedded and distributed generation and non-network solutions; ¶  
 <#>actions to be taken, including clear linkages to the forecast expenditures in each of the associated **projects** and **programmes**;¶  
 <#>a detailed description of each **project** in the **capex forecast** that has commenced or is **committed**; and¶  
 <#>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.¶

**Deleted:** Asset replacement and renewal capital expenditure information

**Deleted:** <#>For asset replacement and renewal capex provide- ¶  
 <#>a description of the relevant **policies** and **key assumptions** relating to the circumstances in which **capex** should be incurred based on-¶  
 <#>the age or reliability profile of an asset by comparison with the condition of an asset and vice versa; and¶  
 <#>replacement of an asset rather than renewing it and vice versa;¶  
 <#>where rationale is not already included in the **policy** documents, the rationale for the **policies** and **key assumptions** provided in accordance with paragraph (a);¶

**Deleted:** Reliability, safety and environment capital expenditure information

- (iv) where relevant, a high-level single-line diagram showing the assumed layout of the project and interfaces with the existing network; and
  - (v) any other information consistent with the nature of the **project** or **programme** that is necessary to fully describe the scope of the **project** and what is involved in its implementation;
- (b) a description of the rationale for the **project** or **programme** including-
  - (i) the extent that the **project** or **programme** meets the **expenditure objective**; and
  - (ii) the impact of not progressing within the **CPP regulatory period**;
- (c) a statement as to the **project's** or **programme's** current status in the planning process;
- (d) an overview of potential alternatives, including non-network alternatives, and the basis for selecting the preferred option with the information provided to be commensurate with the **project's** or **programme's** current status in the planning process;
- (e) the rationale for the proposed timing of the **project** or, where relevant, the rationale for the proposed timing of the **programme**;
- (f) where applicable, an assessment of the impact of the **project** or **programme** on the **service levels** provided by the **EDB**;
- (g) if a **programme** is a continuation or extension of an existing **programme**, the rationale for any material changes in the forecast expenditure from the level of expenditure on the **programme** during the **current period**;
- (h) a detailed breakdown of the estimate of the **project** or **programme** costs, disaggregated by **disclosure year**, including a similar breakdown of any **project** or **programme** costs incurred during the **current period**;
  - (i) in addition to the breakdown provided in response to subclause (f)-
    - (i) a description of the methodology used to prepare the estimate;
    - (ii) where applicable, the quantities provided for in the **project** or **programme** cost;
    - (iii) if not provided elsewhere in the **CPP proposal**, evidence that all unit or component costs used to compile the estimate are consistent with efficient current costs for the electricity distribution industry, taking due account of the **project** or **programme** location; and



- (iv) identification of scope or cost uncertainties and an explanation of how such uncertainties have been taken into account in the estimate;
- (j) details of how the EDB proposes to measure and manage the efficiency of the implementation of the project or programme; and
- (k) a description of any cost benefit analyses relevant to the project or programme undertaken by or for the EDB.

#### D11 Risk management

- (1) In addition to the information required by clause 14.3 of Attachment A of the ID determination, 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.

**Deleted:** For reliability, safety and environment capex-¶  
 <#>describe the implications (including timing) of complying with any-¶  
 <#>new obligation; or¶  
 <#>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;¶  
 <#>explain how these new obligations or substantive amendments to obligations have been taken into account in the CPP proposal;¶  
 <#>describe-¶  
 <#>the relevant risk management policies;¶  
 <#>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¶  
 <#>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¶  
 <#>where rationale is not already included in the policy documents provide the rationale for the policies provided in accordance with paragraph (c).¶

**Deleted:** Non-system fixed assets capital expenditure information

**D12 Related parties**

- (1) Identify and describe all **related parties** and **prospective related parties** in respect of whom costs are disclosed in accordance with the **regulatory templates**.
- (2) Describe, at an aggregate level the-
  - (a) nature of the **services** undertaken by the **related party** or **prospective related party**; and
  - (b) date and term of the contract in respect of any ongoing **services**.
- (3) For **services** identified in accordance with subclause (2)-
  - (a) provide a description of the tendering processes used to procure the **service**;
  - (b) identify all relevant documents used to tender for the provision of the **services**, including, but not limited to, requests for tender and tender submissions; and
  - (c) explain-
    - (i) whether the **services** procured are provided under a discrete contract or provided as part of a broader operational contract (or similar); and
    - (ii) whether the **service** was procured on a genuinely competitive basis and if not, why not.
- (4) For each contract identified in accordance with subclause (3)(c), identify **methodologies**, **consultants' reports**, or **key assumptions** used to determine components of the costs included in the contract price.

**D13 Deliverability**

- (1) In addition to clauses 14 and 16 of Attachment A of the **ID determination** provide an overview of, and description of outputs from, any deliverability risk assessment that the **EDB** has completed for part or all of the **capex forecast** and the **opex forecast**.
- (2) Where it has not been provided in risk assessment information under subclause (1), provide an overview of the **EDB** plans to ensure the **deliverability** of the activities provided for in the **capex forecast** and the **opex forecast**, with particular reference to-
  - (a) a description of the prioritisation or other methodologies used to optimise delivery;
  - (b) how consenting processes are managed to optimise delivery;

**Deleted:** 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:¶  
 <#>asset management systems;¶  
 <#>information and technology systems;¶  
 <#>motor vehicles;¶  
 <#>office buildings, depots and workshops;¶  
 <#>office furniture and equipment; and¶  
 <#>tools, plant and machinery.¶

**Deleted:** Operating and maintenance expenditure

**Deleted:** <#>For each opex category included in the opex forecast-¶  
 <#>provide an overall description including the aims and objectives of the opex category;¶  
 <#>provide an explanation as to its deliverability, with reference to factors likely to affect the opex category as a whole; and¶  
 <#>identify all relevant documents, policies and consultants' reports that were taken into account in preparing the opex forecast.¶  
 <#>For each identified programme included in the opex forecast-¶  
 <#>provide-¶  
 <#>an overall description including the aims and objectives of the identified programme;¶  
 <#>an explanation as to its deliverability, with reference to factors likely to affect that identified programme specifically; and¶  
 <#>details of all contingency factors provided for, including how they were calculated and what uncertainties they account for;¶  
 <#>identify-¶  
 <#>each relevant key assumption;¶  
 <#>each relevant obligation; and¶  
 <#>any step change and its effect on the opex forecast for the identified programme; and¶  
 <#>explain-¶  
 <#>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;¶  
 <#>all departures from any conclusions and recommendations contained in each consultant's report identified in accordance with subclause (1)(c); and¶  
 <#>the methodology used to generate the opex forecast for the identified programme.¶

**Deleted:** General management, administration and overheads operating expenditure category

- (c) the extent to which additional activities will be undertaken internally or outsourced;
- (d) the EDB's ability to implement any planned step change from historical levels of expenditure and workload, including-
  - (i) the ability of contractors available to the EDB to deliver any proposed increase in workload;
  - (ii) the current level of skilled personnel, including engineering and project management personnel, available to the EDB compared to the anticipated requirement over the next period; and
  - (iii) the measures the EDB plans to take to source and secure required additional personnel; and
- (e) how the EDB aligns resource schedules where shared resources are used for different opex-related and capex-related tasks.

#### D14 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;

**Deleted:** <#>For the general management, administration and overheads opex category-¶  
<#>identify-¶  
<#>each relevant key assumption;¶  
<#>each relevant obligation; and¶  
<#>any step change and its effect on the opex forecast for this category; and¶  
<#>explain-¶  
<#>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;¶  
<#>all departures from any conclusions and recommendations contained in each consultant's report identified in accordance with clause D12(1)(c); and¶  
<#>the methodology used to generate the opex forecast for this category.¶  
<#>For the purpose of subclause (1)(b)(iii), such methodology must include, as a minimum, details regarding-¶  
<#>any cost benchmarking undertaken by or for the EDB;¶  
<#>internal historical cost trends relied upon;¶  
<#>all contingency factors provided for, including how they were calculated and the uncertainties they account for; and¶  
<#>the effect of any step change on the costs in the general management, administration and overheads opex category.¶  
<#>For each relevant policy identified in the response to clause D12(1)(c) explain how it was taken into account and complied with. ¶  
<#>For each key assumption identified in accordance with subclause (1)(a)(i), explain- ¶  
<#>the method and information used to develop the assumption; and¶  
<#>how the assumption has been applied and its effect on the opex forecast for this opex category.¶

**Deleted:** Operating expenditure projects and programmes

- (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.

#### D15 Contingent project information

##### (1) For each proposed **contingent project**-

- (a) provide-
  - (i) an overall description including the aims and objectives of the **project**;
  - (ii) completed **regulatory templates** for **capex** and **opex forecasts** using the best available information to hand; and
  - (iii) information as to how the **project** satisfies the criteria specified in clause 5.6.5(2);
- (b) propose a **trigger event** and explain how the event meets the requirements of clause 5.6.5(3);
- (c) provide-
  - (i) all relevant documents (including **policies** and consultants' reports) that were taken into account in preparing the **capex forecast** and **opex**

**Deleted:** For each **project** and **programme** (other than **identified programmes**) included in the **opex forecast** -¶  
 <#>explain how each of the relevant **policies** identified in the response to clause D12(1)(c) was taken into account and complied with; ¶  
 <#>explain how the relevant **planning standards** have been incorporated; and¶  
 <#>provide details of all contingency factors provided for, including how they were calculated and what uncertainties they account for.¶  
**Self-insurance**

forecast for the contingent project, including those that relate to its deliverability;

- (ii) each relevant key assumption; and
- (iii) each relevant obligation;

(d) explain-

- (i) all departures from any conclusions and recommendations contained in each consultant's report identified in accordance with subclause (c)(i); and
- (ii) the methodology used to generate the capex and opex forecast for the proposed contingent project;

(e) explain for each policy identified in response to subclause (c)(i)-

- (i) how it was taken into account and complied with; and
- (ii) how the relevant planning standards were incorporated; and

(f) describe for each key assumption identified in accordance with subclause (c)(ii)-

- (i) the method and information used to develop the assumption; and
- (ii) how it has been applied and its effect on the capex and opex.

- (2) Where any proposed contingent project is likely to terminate after the end of the next period, in addition to the information required by subclause (1), provide any additional information relevant to forecast capex and forecast opex to the end of the contingent project.

**Deleted:** <#>For any proposed self-insurance allowance-¶  
 <#>provide-¶  
 <#>a description of the uncertainties covered by the allowance;¶  
 <#>the methodology used to calculate the self-insurance risk premium (e.g. probability multiplied by consequence);¶  
 <#>a report on the calculation of each self-insurance risk premium from an actuary who is qualified to provide such advice; and¶  
 <#>any quotes obtained from external insurers; and¶  
 <#>explain why compensation should be provided for the uncertainty.¶  
 <#>In respect of each quote provided in accordance with subclause (1)(a)(iv)-¶  
 <#>state- ¶  
 <#>the amount insured for which the quote related (if not included in the quote itself);¶  
 <#>the annual premium payable or paid by the EDB;¶  
 <#>the size of any deductible; ¶  
 <#>the terms and conditions of the insurance; and¶  
 <#>why it is not considered suitable.¶  
 <#>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.¶  
 <#>Controllable opex¶  
 For each disclosure year of the next period provide- ¶  
 <#>a description of the types of opex comprised in the forecast for controllable opex; and¶  
 <#>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.¶  
 <#>Related parties¶  
 <#>Identify and describe all related parties in respect of whom costs are disclosed in accordance with the regulatory templates.¶  
 <#>For each person to whom subclause (1) applies identify each project or programme with which he, she or it is associated. ¶  
 <#>For each person to whom subclause (1) applies, describe, in respect of each relevant project and programme the- ¶  
 <#>nature of the services undertaken by that person; and¶  
 <#>the date and term of the contract in respect of that service.¶  
 <#>For each service identified in accordance with subclause (3)(a)-¶  
 <#>provide a description of the tendering process used to procure the service;¶  
 <#>identify all relevant documents used to tender for its provision, including but no ...

## SCHEDULE E CAPITAL AND OPERATING EXPENDITURE - REGULATORY TEMPLATES

**Table 1: [Projects and programmes](#)**

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Rank	Top Five Capex Project name
1	
2	
3	
4	
5	

  

**Table 1: Projects and programmes**

Capex Projects (total for CPP period)					Opex Projects (total for CPP period)				
Rank	Project name	Brief description	Reference number	Estimated costs (\$'000)	Rank	Project name	Brief description	Reference number	Estimated costs (\$'000)
1	Project name				1	Project name			
2	Project name				2	Project name			
3	Project name				3	Project name			
4	Project name				4	Project name			
5	Project name				5	Project name			

\*include additional rows if needed



**Table 3: Opex summary**

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**Table 3: Opex summary**

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Forecast in constant prices	Current period					Assessment Period		CPP Regulatory Period					Total CPP period
	CY-4	CY-3	CY-2	CY-1	CY0	CA	CA+1	Year 1	Year 2	Year 3	Year 4	Year 5	
<b>Opex Categories</b>	\$000 (in constant prices)												
Service interruptions and emergencies													
Vegetation management													
Routine and corrective maintenance and inspection													
Asset replacement and renewal													
<b>Total network opex</b>													
System operations and network support													
Business support													
<b>Total non-network opex</b>													
<b>Total operational expenditure</b>													

  

Forecast in nominal prices	Current period					Assessment Period		CPP Regulatory Period					Total CPP period
	CY-4	CY-3	CY-2	CY-1	CY0	CA	CA+1	Year 1	Year 2	Year 3	Year 4	Year 5	
<b>Opex Categories</b>	\$000 (in nominal prices)												
Service interruptions and emergencies													
Vegetation management													
Routine and corrective maintenance and inspection													
Asset replacement and renewal													
<b>Total network Opex</b>													
System operations and network support													
Business support													
<b>Total non-network opex</b>													
<b>Total operational expenditure</b>													

  

Forecast opex by provider (optional)														
EDB														
Related party														
Other sources (to be tendered)														

Service Categories
(a) Provide and operate network infrastructure between and offtake connection points and deliver electricity to the network
(b) Provide load management services
(c) Provide connection services, including changes to connection point capacity and/or reliability
(d) Provide for rearrangement of network assets at request (includes undergrounding)
(e) Optionally, provide an additional service (or services) necessary to those listed in (a) – (d), specified by the applicant

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**Table 4: Capex projects and programmes**

Table 4: Capex projects and programmes

A copy of this form must be completed for each additional project or programme.

2 Breakdown may be replaced with asset types in use by the applicant.

	2011-12	2012-13	2013-14	2014-15	2015-16
<p style="font-size: x-small;">1.1 Distribution network</p> <p style="font-size: x-small;">Sub-transmission network including power transformers</p> <p style="font-size: x-small;">Distribution network including distribution transformers</p> <p style="font-size: x-small;">Switchgear</p> <p style="font-size: x-small;">Low voltage distribution network</p>					
<p style="font-size: x-small;">1.2 Supporting or secondary systems</p> <p style="font-size: x-small;">Ripple Injection Plant</p> <p style="font-size: x-small;">SCADA</p> <p style="font-size: x-small;">Communications Equipment</p> <p style="font-size: x-small;">Monitoring systems</p> <p style="font-size: x-small;">Power factor correction</p> <p style="font-size: x-small;">EDB-owned mobile assets</p> <p style="font-size: x-small;">Other generation plant</p>					
<p style="font-size: x-small;">2. Asset replacement and maintenance programmes</p> <p style="font-size: x-small;">Sub-transmission network including power transformers</p> <p style="font-size: x-small;">Distribution network including distribution transformers</p> <p style="font-size: x-small;">Switchgear</p> <p style="font-size: x-small;">Low voltage distribution network</p>					
<p style="font-size: x-small;">3. Other</p> <p style="font-size: x-small;">Other</p>					
<b>Total</b>					

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**INPUT METHODOLOGIE**

**QUANTITATIVE INFORMATION TEMPLATE**

**DISTRIBUTION**

Project/Programme Name <sup>1</sup>	
Project/Programme Description	
Policy reference	
Service Category	Select one
Capex Category	Select one
Asset Category	Asset
Assets owned by the EDB but installed at bulk supply points owned by others	
Sub-transmission network including power transformers	
Distribution network including distribution transformers	
Switchgear	
Low voltage distribution network	
Supporting or secondary systems	Ripple Injection Plant SCADA Communications Equipment Monitoring systems Power factor correction EDB-owned mobile assets Other generation plant

Deleted: <sup>1</sup> A copy of this form must be completed for each additional project or programme.

**Project costs by source**

EDB	
Related party	
Other sources	
<b>Total Project/Programme</b>	

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|

Table with multiple sections and columns. The table is oriented vertically on the page. It contains several sections with headers and data rows. The sections are:

- Section 1:** Includes a header "Section 1" and a table with 4 columns and 10 rows.
- Section 2:** Includes a header "Section 2" and a table with 4 columns and 10 rows.
- Section 3:** Includes a header "Section 3" and a table with 4 columns and 10 rows.
- Section 4:** Includes a header "Section 4" and a table with 4 columns and 10 rows.
- Section 5:** Includes a header "Section 5" and a table with 4 columns and 10 rows.
- Section 6:** Includes a header "Section 6" and a table with 4 columns and 10 rows.

The table is currently empty of data.

**Table 5: Capex by asset expenditure categories**

14. Additional asset expenditure categories by asset type

Asset Category	2011/12		2012/13		2013/14	
	Capex	Opex	Capex	Opex	Capex	Opex
Assets owned by the EDB but installed at bulk supply points owned by others						
Sub-transmission network including power transformers						
Distribution network including distribution transformers						
Switchgear						
Low voltage distribution network						
Supporting or secondary systems						
<b>Total</b>						

**Deleted:** Opex Project Programme

**INPUT METHODOLOGIES**

**QUANTITATIVE INFORMATION TEMPLATE**

**DISTRIBUTION**

Project/Programme Name <sup>1</sup>	
Project/Programme Description	
Policy reference	
Service Category	Select one
Opex Category	Select one
Asset Category	Asset
Assets owned by the EDB but installed at bulk supply points owned by others	
Sub-transmission network including power transformers	
Distribution network including distribution transformers	
Switchgear	
Low voltage distribution network	
Supporting or secondary systems	Ripple Injection Plant SCADA Communications Equipment Metering systems Power factor correctors EDB-owned mobile substations Other generation plant

**Deleted:** <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.

**Project costs by source**

EDB	
Related party	
Other sources	
<b>Total Project/Programme</b>	

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**Table 6: Opex projects and programmes**

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**Table 6: Opex projects and programmes**

Project	Budget	Budget/programme area	2010 financial year										2011 financial year									
			Capital project	Operating	Assetment fund	CA	CAH	NAV1	NAV2	NAV3	NAV4	NAV5	NAV6	NAV7	NAV8	NAV9	NAV10	NAV11	NAV12	NAV13	NAV14	NAV15
<b>6a. Service and emergency field programmes</b>																						
Total Service and emergency field programmes																						
<b>6b. Vegetation management</b>																						
Total Service and emergency field programmes																						
<b>6c. Routine and correct maintenance and inspection</b>																						
Total Routine and correct maintenance and inspection																						
<b>6d. Asset replacement and renewal</b>																						
Total Asset replacement and renewal																						

**INPUT METHODOLOGIE**  
**QUANTITATIVE INFORMATION T**

Opex Category	Genero
<b>Expenditure Type<sup>1</sup></b>	
Corporate management	Controllable All other op Total
Human resources	Controllable All other op Total
Accounting	Controllable All other op Total
Finance	Controllable All other op Total
Information technology	Controllable All other op Total
Procurement	Controllable All other op Total
Property	Controllable All other op Total
Legal	Controllable All other op Total
Regulation	Controllable All other op Total
Occupational health and safety	Controllable All other op Total
Insurance paid to an insurer	Controllable All other op Total
Total: Controllable	
Total: All othe	
Total Opex Ca	

Deleted: <sup>1</sup> Breakdown may be replaced with expenditure type

**Table 7: Non-network opex**

**Deleted:** Unit Rate Escalators

**Table 7: Non-network opex**

Functional description	Budget reference	2010-2011 financial year											
		Central grid	CH1	CH2	CH3	CH4	CH5	CH6	CH7	CH8	CH9	CH10	CH11
<b>76 System operations and network support</b>		<b>Total system operations and network support</b>											
Budgetary support		Total Business Support											

**INPUT METHODOLOGY**  
**UNIT COST ESCALATION**

Escalator Name

Escalator Description<sup>1</sup>

Key Assumption Reference

Assessment Period Year 1

Base Year

Unit Rate in Base Year

No. Years Applicable (after base year)

**Unit Cost Item**

[Name]

Yearly escalators (% over previous year)

Unit Rate

Volume

Quantum of costs

**Deleted:** <sup>1</sup> A copy of this form must be completed for each

**Table 8: Cost allocation**

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Opex Allocation
System Management and Op
Routine and Preventative Ma
Refurbishment and Renewal
Fault and Emergency Mainte
Other
General Management, Admin

**Table 8: Cost allocation**

**Opex Allocation**

Service interruptions and emergencies  
 Vegetation management  
 Routine and corrective maintenance and inspection  
 Asset replacement and renewal  
 System operations and network support  
 Business support  
 Other  
 Total capex

Assessment period Year 1		
Directly attributable	Not directly attributable	Total

**Table 9: Unit cost escalators**

**Table 9: Unit cost escalators**

*Supplier may modify this table to suit*

INPUT METHODOLOGIES UNIT COST ESCALATOR TEMPLATE	
Escalator Name	
Escalator Description	
Key Assumption Reference	
Assessment Period Year 1	
Base Year	
Unit cost in Base Year	
No. Years Applicable (after base year)	

Unit Cost Item	Current Period					Assessment Period		Regulatory Period					
	CY-4	CY-3	CY-2	CY-1	CY0	CA	CA+1	Year 1	Year 2	Year 3	Year 4	Year 5	
Yearly escalators (% over previous year)													
Unit Cost Item													
Volume													
Quantum of costs (\$ Nominal)													

*One table to be completed for each escalator applied.*

**Table 10: Capex disaggregated by asset expenditure categories**

**Table 10: Capex disaggregated by asset expenditure categories**

*Applicant may expand Table 4 and use this as input for Table 10 or prepare a separate input table*

*Applicant may disaggregate other assets by assets listed in Schedule A of the IM*

*Forecast amounts should be net after adjustments for any capital contributions and related party transactions.*

Asset expenditure category	Capex planned commissioned prices in nominal prices \$(000)							
	Assessment Period		CPP Regulatory Period					Total CCP Period
	CA	CA+1	Year 1	Year 2	Year 3	Year 4	Year 5	
Subtransmission								
Zone substations								
Distribution and LV lines								
Distribution and LV cables								
Distribution substations and transformers								
Distribution switchgear								
Other network assets								
<i>Total net commissioned assets</i>								
Plus Total capital contributions								
Plus Total related party adjustments								
<b>Total forecast commissioned assets</b>								



**Table 11: Network demand forecasts**

**Table 11 - Network demand forecasts**  
**Consumer Connections**  
 Number of CPs connected in year by consumer type

Consumer type	Current period					Assessment period									
	CP-4	CP-3	CP-2	CP-1	CP-0	CA	CA+1	Year 1	Year 2	Year 3	Year 4	Year 5			
EDB consumer type															
Non-EDB consumer type															
<b>Total number of connections</b>															
<i>*Include additional rows if needed</i>															

**Distributed generation**  
 Number of connections of generations > 10 MW  
 Total capacity of all distributed generation (MW)

	CP-4	CP-3	CP-2	CP-1	CP-0	CA	CA+1	Year 1	Year 2	Year 3	Year 4	Year 5

**System Demand**  
 Maximum coincident system demand (MW)

plus  
 Distributed generation output at HV and above

Maximum coincident system demand

less  
 Net transfers to/from other EDBs at HV and above

**Demand on system for supply to consumers' connection points**

	CP-4	CP-3	CP-2	CP-1	CP-0	CA	CA+1	Year 1	Year 2	Year 3	Year 4	Year 5

**Electricity volumes carried (GWh)**

Electricity supplied from GPs

plus  
 Electricity exports to GPs

less  
 Electricity supplied from distributed generation

less  
 Net electricity supplied to/from other EDBs

**Electricity entering system for supply to CPs**

less  
 Total energy delivered to CPs

*\*only fill in the forecast relevant to the nature of the CP application*

**Table 12: Capex projects/programmes for alternative depreciation methods**

**Table 12: Capex projects/programmes for alternative depreciation methods**  
 This table needs to be completed if alternative depreciation rates are proposed.  
 A copy of this table is required for each project/programme

Project/Programme Name:   
 Project/Programme Description:   
 Policy/business case Reference:   
 Capex Category:

Asset Category	Asset Type	Assessment Period (For CPP Period (Forecast))							Total (CPP Period)
		CA	CA+1	Year 1	Year 2	Year 3	Year 4	Year 5	
Assets owned by the EDB but installed at bulk supply points owned by others	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	Subtotal	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Sub-transmission network including power transformers	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	Subtotal	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Distribution network including distribution transformers	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	Subtotal	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Switchgear (All voltages)	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	Subtotal	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Low voltage distribution network	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	Subtotal	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Supporting or secondary systems	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	Subtotal	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Project/programme total		<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

## 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 F6.
- (4) The **Commission's** approval of a proposed verifier remains valid until the **Commission** has completed its assessment of the **CPP proposal**.

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### F5 Summary of intended CPP proposal

Before the **verifier** enters into a deed with the **Commission** as described in clause F6, the **CPP applicant** must provide the **Commission** with a summary setting out-

- (a) its rationale for seeking a **CPP**;
- (b) when it proposes the intended **CPP proposal** take effect as a **CPP**;
- (c) its estimated **capex** forecast and estimated **opex** forecast for the intended **CPP proposal**;
- (d) the indicative impact on **prices** and quality standards of the intended **CPP proposal**;

- (e) whether it intends to propose a **quality standard variation** in the intended **CPP proposal**;
- (f) by **capex category** and **opex category**, summary information on the forecast **projects** and **programmes** that comprise the estimated **capex** and estimated **opex** in paragraph (c), in the format specified in *Table 1: Projects and programmes of the regulatory templates*;
- (g) how it intends to consult **consumers** on the intended **CPP proposal**; and
- (h) any other information it considers would assist the **Commission's** planning for the **Commission's** assessment of the intended **CPP proposal**.

#### F6 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 an overriding duty on the **verifier** to assist the **Commission as an independent expert on relevant matters within the verifier's area of technical expertise, with particular reference to aspects of capex, opex and service quality of the CPP applicant's business**;
  - (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 **verifier's** selection of identified programmes;
    - (iii) prepare a draft verification report in accordance with Schedule G and provide it to the **CPP applicant**;

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**Deleted:** the outcome of

**Deleted:** , in accordance with clause G3, of **projects** or **programmes** meeting paragraph (c) of the definition in clause D1 of Schedule D of identified programme

- (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)(c); 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**;
- (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 (4); and
- (e) include a communication protocol in accordance with subclause (5).
- (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**.
- (5) For the purpose of subclause (2)(e), the communication protocol must, as a minimum, require that-

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- (a) the **Commission** will not view any material that forms part of or supports an intended **CPP proposal** unless the **CPP applicant**-

  - (i) makes the material available to **consumers**; or
  - (ii) provides the material to the **Commission** including an updated 'Summary of intended CPP Proposal' as required under subclause (5)(c);
- (b) the **verifier** must keep records of all communication between it and the **CPP applicant** where the records include substantive information relied on by the **verifier** in its **verification report**; and
- (c) after entering into the deed, but not later than when the **verifier** provides a draft verification report to the **CPP applicant**, the **CPP applicant** must provide the **Commission** with an updated 'Summary of intended CPP Proposal' as described in clause F5 if it has-

  - (i) changed its rationale for seeking a **CPP** as described in clause F5(a);
  - (ii) changed its proposed time for taking effect as described in clause F5(b);
  - (iii) changed its intention on whether to propose a **quality standard variation** as described in clause F5(e); or
  - (iv) materially changed the nature, number or value of any **projects** or **programmes** specified in accordance with clause F5(f), other than those **identified programmes** for which information has been provided to the **verifier** in accordance with clause D10.
- (6) When providing an updated 'Summary of intended CPP Proposal' as described in subclause (5)(c), the **CPP applicant** must clearly identify any changes from its previously provided 'Summary of intended CPP Proposal'.

## 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 Verifier's role, purpose and obligations

- (1) The **verifier's** role, purpose and obligations include-
  - (a) engaging with the **CPP applicant** in an **independent** manner in accordance with this Terms of Reference;
  - (b) assessing the extent to which the **CPP applicant's policies** allow the **EDB** to provide services on an efficient basis and that meet the general needs and expectations of **consumers**;
  - (c) assessing the extent to which the **CPP applicant's policies** have been implemented;
  - (d) prior to the **Commission's** assessment of the **CPP proposal**, assessing whether the **CPP applicant** has provided complete and sufficient information in its intended **CPP proposal**;
  - (e) prior to the **Commission's** assessment of the **CPP proposal**, providing an opinion to the **CPP applicant** on whether the **CPP applicant's capex** forecasts and **opex** forecasts meet the **expenditure objective**;
  - (f) providing an opinion to the **CPP applicant** on the reasonableness of the **CPP applicant's key assumptions** and **policies** for its forecast information as described in subclause (3) supporting the **CPP proposal**;
  - (g) prior to the **Commission's** assessment of the **CPP proposal**, providing an opinion on the extent and effectiveness of the **CPP applicant's** consultation with its **consumers**; and



(h) providing a list of the key issues which it considers the Commission should focus on when assessing the CPP proposal.

(2) For the purpose of subclause (1)(d), ‘information’ means the material as described in clause 5.5.2(3) and the relevant requirements in Part 5, Subpart 4.

(3) For the purpose of subclause (1)(f), ‘forecast information’ means-

(a) capex as described in clause G6; and

(b) opex as described in clause G7.

**G3 Service categories, measures and levels**

(1) The verifier must review, assess and report on-

(a) whether the CPP applicant has proposed service measures relevant to a complete range of key service attributes that are meaningful and important to consumers;

(b) whether the CPP applicant has undertaken an appropriate process to determine the service measures and service levels, such as consultation with relevant consumers;

(c) whether any step change in any service level is explained and justified;

(d) the extent and effectiveness of a CPP applicant’s consultation with its consumers, as specified in clause 5.5.1;

(e) the CPP applicant’s explanation, as specified in clause 5.4.5(c).

(2) Subclause (1)(e) only applies where a CPP applicant intends to propose a quality standard variation under clause 5.4.5 in the CPP proposal.

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**Deleted:** <#>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;¶ <#>the reason for any new service category is explained;¶

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**G4 Selection of identified programmes**

(1) For the purposes of the reviews under clauses G6(1)(d) and G7(1)(g), the verifier must select no more than 20 projects or programmes to be ‘identified programmes’.

(2) In determining which, and how many, projects or programmes to select as identified programmes, the verifier must consider-

(a) the best interests of consumers over the long term;

(b) the Commission’s ability to effectively review the CPP applicant’s expenditure objective;

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**Deleted:** 10 projects or programmes and, in doing so, have regard to the criteria specified in this clause

**Deleted:** <#>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.¶

- (c) whether the **CPP applicant's** rationale for seeking a **CPP** is sufficiently represented in the intended **CPP proposal**;
  - (d) the extent to which the number of **projects** or **programmes** in the intended **CPP proposal** is consistent with the number of **projects** or **programmes** described in the **CPP applicant's** previous **asset management plans**, where the previous **asset management plans** are relevant to the intended **CPP proposal**;
  - (e) its ability to provide an opinion on whether the **capex forecast** information in the intended **CPP proposal** has been prepared in accordance with the **policies** and **planning standards** at the-
    - (i) aggregate system level; and
    - (ii) for each of the **capex categories**;
  - (f) its ability to provide an opinion on whether the **opex forecast** information in the intended **CPP proposal** has been prepared in accordance with the **policies** and **planning standards** at the-
    - (i) aggregate system level; and
    - (ii) for each of the **opex categories**;
  - (g) whether it needs information on further **projects** or **programmes** in order to provide an opinion on any **quality standard variation** proposed; and
  - (h) the materiality of the **programmes** or **projects** to the **CPP proposal**, the estimated **capex** forecast and the estimated **opex** forecast.
- (3) The **identified programmes** selected in accordance with subclause (1), 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**; or
  - (c) an **obligation** that has a significant impact in the context of the **CPP applicant's** overall **business**.
- (4) The **verifier** must-
- (a) notify the **CPP applicant** of its selected **projects** or **programmes**; and
  - (b) not change its selection after such notification.

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**Deleted:** <#>a new **service category** or a step change in a **service level** within an existing **service category**.\*

**G5 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).

**G6 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 **are capex projects or capex programmes** including, but not limited to assessment of-
    - (i) whether relevant **policies** and **planning standards** were applied appropriately;

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- (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**;
  - (ix) the efficiency of the proposed approach to procurement; **and**
  - (x) whether it should be included as a contingent project or part of a contingent project;
- (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;

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- (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.

## **G7 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 are **opex projects or opex programmes**, 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**;
  - (ix) the efficiency of the proposed approach to procurement; **and**
  - (x) whether it should be included as a **contingent project** or part of a **contingent project**;
- (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-

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- (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.

## G8 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.

## G9 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**.

## 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;

**Deleted:** <#>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**-¶  
<#>the-¶  
<#>rationale for its selection;¶  
<#>basis for the forecast growth in demand; ¶  
<#>basis for the assumptions used concerning the relative proportion of fixed and variable components in the **prices** charged; and¶  
<#>basis for each weighting term,¶  
is reasonable; ¶  
<#>the forecast growth in demand is consistent with all other demand forecasts included in the **CPP proposal**; and¶  
<#>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**.¶  
<#>**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-¶  
<#>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¶  
<#>the proposed depreciation method better meets the purpose of Part 4 of the **Act** than the **standard depreciation method**.¶

- (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 Contingent projects**

- (1) For each proposed **contingent project**, the **verifier** must provide an opinion as to whether that **project** satisfies the following criteria:
- (a) it is-
- (i) reasonably required of an **EDB**; and
  - (ii) one that associated assets are likely to be **commissioned**, during the **CPP regulatory period**;
- (b) a commencement date cannot be forecast with an appropriate degree of specificity by comparison with other proposed **projects**;
- (c) the total of **capex forecast** and **opex forecast** in relation to the **project**-
- (i) as disclosed in the **CPP proposal** exceeds 10% of the value of the **CPP applicant's** annual revenue in the most recently completed **disclosure year** in respect of an **ID determination**;
  - (ii) is reasonable in dollar terms; and
  - (iii) would be likely, when forecast with reasonable certainty, to meet the **expenditure objective**.
- (2) For each proposed **trigger event**, the **verifier** must provide an opinion as to whether it meets the requirements of clause 5.6.5(3).

**G12 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;

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- (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**; and
- (e) explain why the **verifier** has selected the **identified programmes** in accordance with clause G4(1).

### **G13 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**.