

## **[REVISED DRAFT] Electricity Distribution Services Input Methodologies Amendments Determination 2016**

### ~~[Technical consultation drafting notes:~~

- ~~• This ‘revised draft’ amendments determination proposes to amend the Electricity Distribution Services Input Methodologies Determination 2012 (‘principal determination’).~~
- ~~• The included draft amendments were made as a result of our Input Methodologies Review, which is aimed to be completed in December 2016 in accordance with s 52Y of the Commerce Act 1986.~~
- ~~• Proposed amendments to the body of the input methodologies determination and Schedules A-G are marked as track changes.~~
- ~~• The track changes in blue were proposed as part of our draft decision, published on 22 June 2016.~~
- ~~• The track changes in red are now proposed as part of our technical consultation, published on 13 October 2016.]~~

Publication date: [XX] December 2016

Commerce Commission

Wellington, New Zealand

<b>Determination history</b>		
<b>Determination date</b>	<b>Decision number</b>	<b>Determination name</b>
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
[XX] December 2016	[2016] NZCC [XX]	Electricity Distribution Services Input Methodologies Amendments Determination 2016

\* 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:

## 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 of this determination apply in relation to information disclosure regulation under Part 4 Subpart 4 of the **Act**;
  - (b) Part 3 of this determination apply to default/customised price-quality regulation under Part 4 Subpart 6 of the **Act**;
  - (c) Part 4 of this determination apply in relation to default price-quality paths under sections 53O and 53P of Part 4 Subpart 6 of the **Act**; and
  - (d) Part 5 of this determination apply in relation to customised price-quality paths under sections 53Q to 53ZA of Part 4 Subpart 4 of the **Act**.
- (4) Amendments to the **input methodologies** in-
  - (a) Part 2, Subpart 1, including any amended definitions in clause 1.1.4(2), apply from the commencement of **disclosure year 2019**;
  - (b) Part 2, Subparts 2 to 4, including any amended definitions in clause 1.1.4(2), apply from ~~the first disclosure year of each DPP or CPP determined after the commencement of~~ **disclosure year 2018** ~~date described in clause 1.1.3;~~
  - (c) Part 3, including any amended definitions in clause 1.1.4(2), apply for-
    - (i) a **DPP** in force from 1 April 2020; and
    - (ii) a **CPP application** made after the commencement date described in clause 1.1.3;
  - (d) Part 4, including any amended definitions in clause 1.1.4(2), apply for a **DPP** in force from 1 April 2020;
  - (e) Part 5, including any amended definitions in clause 1.1.4(2), apply for a **CPP application**, except for a **quality standard variation CPP application**, made after the commencement date described in clause 1.1.3; and
  - (f) ~~removing quality standard variation CPP applications from~~ clauses 3.3.2(4)(b), 3.3.3(2), 3.3.3(4), 3.3.3(8)(c), 3.3.4(3), 3.3.4(5), 3.3.4(6),

3.3.11(2)(c), 3.3.11(2)(d), 3.3.13(2), 3.3.13(3), ~~4.5.5, 4.5.6(1)(c), 4.5.6(1)(d), 4.5.7(2)(b)~~, 5.1.3(1), 5.4.1(2) and 5.5.2(1), including any amended definitions in clause 1.1.4(2), that remove **quality standard variation CPP applications** apply from 1 April 2020.

- (5) For the avoidance of doubt, if the **Commission** determines that any forecast values are required to be calculated consistent with Part 3 or Part 4 for the determination of a **DPP** that is to come into effect after the commencement date of this amendments determination, the amendments to the **input methodologies** relating to the forecast values in Part 3 and Part 4 and any amended definitions in clause 1.1.4(2) will apply at the time when the **Commission** requires the forecast information.
- (6) For the avoidance of doubt, if the **Commission** determines that any forecast values are required to be calculated consistent with the **input methodologies** relating to cost allocation in Part 2, Subpart 1 for the determination of a **DPP** that is to come into effect after the commencement date of this amendments determination, the amendments to the **input methodologies** in respect of cost allocation, and any amended definitions in clause 1.1.4(2) will apply at the time when the **Commission** requires the forecast information.

#### 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:

<b>67th percentile estimate of WACC</b>	means an estimate, made for the purpose of-
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- (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**; and
- (b) Part 3, in accordance with clause 4.4.5(3), 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(3), 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**

<b>ABAA</b>	means accounting-based allocation approach, as described in, in the case of -  (a) <b>operating costs</b> , clause 2.1.3(1); and (b) <b>regulated service asset values</b> , clause 2.1.3(2);
<b>ACAM</b>	means avoidable cost allocation methodology, as described in clause 2.1.5;
<b>Act</b>	means the Commerce Act 1986;
<b>actual allowable revenue</b>	has the meaning-  (a) <del>for the first disclosure year of a</del> <b>regulatory period</b> , as specified in clause 3.1.3(13)(e); <del>and</del>  (b) <del>for each subsequent disclosure year of the</del> <b>regulatory period</b> , as specified in clause 3.1.3(13)(f);
<b>actual net allowable revenue</b>	has the meaning specified in clause 3.1.3(13)(f) or 3.1.3(13)(g), as applicable;
<b>actual revenue</b>	has the meaning specified in clause 3.1.3(13)(d);
<b>adjusted tax value</b>	has the same meaning as in the <b>tax depreciation rules</b> ;
<b>actual controllable opex</b>	means the amount of <b>operating expenditure</b> made by the <b>EDB</b> in the categories to which <b>allowed controllable opex</b> relates;
<b>actual opex</b>	has the meaning specified in clause 3.3.3(9);
<b>additional assets</b>	means assets of an <b>EDB</b> which are not <b>existing assets</b> and are forecast to be <b>commissioned</b> ;
<b>additional CPP assets</b>	means assets of an <b>EDB</b> , which, for the purpose of a <b>CPP proposal</b> , are forecast to be <b>commissioned</b> within the

<b>adjusted depreciation</b>	<b>assessment period</b> or the <b>CPP regulatory period</b> ; means <b>total depreciation</b> for all assets calculated as if no amount of <b>revaluation</b> had been included in the calculation of any <b>opening RAB value</b> following the determination of the <b>initial RAB</b> ;
<b>adjustment to the opex incentive</b>	means the amount calculated in accordance with clause 3.3.4;
<b>aggregate closing RAB value for additional assets</b>	means the amount determined in accordance with clause 4.2.1(5);
<b>aggregate closing RAB value for existing assets</b>	means the amount determined in accordance with clause 4.2.1(3);
<b>aggregate opening RAB value for additional assets</b>	means the amount determined in accordance with clause 4.2.1(4);
<b>aggregate opening RAB value for existing assets</b>	means the amount determined in accordance with clause 4.2.1(2);
<b>allocation methodology type</b>	means one of <b>ACAM</b> , <b>ABAA</b> or <b>OVABAA</b> ;
<b>allocator metric</b>	means the value in units (e.g., number of employees or kilometres of cable) for each <b>cost allocator</b> or <b>asset allocator</b> used to calculate the proportion of <b>operating costs</b> or <b>regulated service asset values</b> to be allocated to each of-  <ul style="list-style-type: none"> <li>(a) <b>electricity distribution services</b>,</li> <li>(b) where applicable, each <b>other regulated service</b>; and</li> <li>(c) where applicable, each <b>unregulated service</b>;</li> </ul>
<b>allocator type</b>	means the basis for the attribution or allocation of an <b>operating cost</b> or <b>regulated service asset value</b> to <b>electricity distribution services</b> and <b>other regulated services</b> , viz. ' <b>directly attributable</b> ', ' <b>causal</b> ' or ' <b>proxy</b> ';

<b>allowable revenue before tax</b>	means allowable revenue before tax as determined by the <b>Commission</b> ;
<b>allowed controllable opex</b>	means the allowance (which is reasonable in light of the <b>expenditure objective</b> ) specified in a <b>CPP determination for operating expenditure</b> in categories specified as controllable;
<b>alternative depreciation method</b>	means a depreciation method which is not the <b>standard depreciation method</b> ;
<b>amalgamate</b>	means amalgamate in accordance with Part 13 of the Companies Act 1993 and <b>amalgamation</b> is to be construed accordingly;
<b>amortisation of initial differences in asset values</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.5;</li> <li>(b) Part 4, clause 4.3.3(3); and</li> <li>(c) Part 5, clause 5.3.17;</li> </ul>
<b>amortisation of revaluations</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.6;</li> <li>(b) Part 4, clause 4.3.3(5); and</li> <li>(c) Part 5, clause 5.3.18;</li> </ul>
<b>amount carried forward</b>	means, for any given <b>disclosure year</b> , the amount determined in accordance with clause 3.3.3;
<b>arm's-length deduction</b>	means in respect of- <ul style="list-style-type: none"> <li>(a) <b>operating costs</b> not <b>directly attributable</b>, an amount of <b>operating costs</b> incurred by an <b>EDB</b> in the <b>supply</b> of <b>unregulated services</b> that have been recouped in an <b>arm's-length transaction</b>; and</li> <li>(b) <b>regulated service asset values</b> not <b>directly attributable</b>, the amount of <b>regulated service</b></li> </ul>

<b>arm's-length transaction</b>	<p><b>asset values</b> in respect of assets used by an <b>EDB</b> in the <b>supply</b> of <b>unregulated services</b> for which a recoupment of <b>capital costs</b> has been made by the <b>EDB</b> in an <b>arm's-length transaction</b>,</p> <p>in respect of which the <b>EDB</b> wishes account to be taken for cost allocation purposes;</p> <p>means a dealing or transaction that does not -</p> <ul style="list-style-type: none"> <li>(a) include terms that parties in their respective positions would usually omit; and</li> <li>(b) omit terms that parties in their respective positions would usually include,</li> </ul> <p>if the parties were-</p> <ul style="list-style-type: none"> <li>(c) connected or related only by the dealing or transaction in question;</li> <li>(d) acting independently; and</li> <li>(e) each acting in its own best interests;</li> </ul>
<b>assessment period</b>	<p>means the period between the end of the most recent <b>disclosure year</b> prior to submission of the <b>CPP application</b> in question and the <b>EDB's</b> anticipated commencement date of the <b>CPP</b>, assuming that-</p> <ul style="list-style-type: none"> <li>(a) the <b>CPP application</b> is neither discontinued in accordance with s 53S of the <b>Act</b> nor deferred in accordance with s 53Z of the <b>Act</b>; and</li> <li>(b) reasonable time is allotted for the <b>Commission</b> to undertake its assessment of the <b>CPP</b></li> </ul>

	<b>application</b> in accordance with ss 53S, 53T and 53U of the <b>Act</b> ;
<b>asset adjustment process</b>	has the meaning specified in clause 2.2.1;
<b>asset allocator</b>	means a proportion of a quantifiable measure used to allocate <b>regulated service asset values</b> that are not <b>directly attributable</b> and whose quantum is- <ul style="list-style-type: none"> <li>(a) based on a <b>causal relationship</b>;</li> <li>or</li> <li>(b) equal to a <b>proxy asset allocator</b>;</li> </ul>
<b>asset category</b>	means any asset type described in <i>Table A.2: Asset lives for CPP commissioned assets</i> of Schedule A;
<b>asset life</b>	means a finite period in respect of an asset, being- <ul style="list-style-type: none"> <li>(a) its <b>physical asset life</b>; or</li> <li>(b) where an alternative asset life to the <b>physical asset life</b> is sought for the purpose of a <b>CPP</b> pursuant to clause 5.4.12(2)(b), the alternative asset life determined pursuant to clause 5.3.8;</li> </ul>
<b>asset life for CPP commissioned assets</b>	means the lives specified in <i>Table A.2: Asset lives for CPP commissioned assets</i> of Schedule A;
<b>auditor</b>	means- <ul style="list-style-type: none"> <li>(a) where the <b>EDB</b> is a public entity (as defined in s 4 of the Public Audit Act 2001), the Auditor-General; or</li> <li>(b) a <b>person</b> who- <ul style="list-style-type: none"> <li>(i) is qualified for appointment as auditor of a company under the Companies Act 1993;</li> <li>(ii) is <b>independent</b>; and</li> </ul> </li> </ul>

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

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

## B

<b>base year</b>	means the <b>disclosure year</b> selected by the <b>Commission</b> ;
<b>building blocks allowable revenue after tax</b>	means the amount determined in accordance with clause 5.3.3;
<b>building blocks allowable revenue before tax</b>	means the amount determined in accordance with clause 5.3.2;
<b>business</b>	has the same meaning as defined in s 2 of the <b>Act</b> ;
<b>business day</b>	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

<b>capex</b>	means <b>capital expenditure</b> ;
<b>capex forecast</b>	means the part of the <b>CPP proposal</b> , provided pursuant to clause 5.4.29, that forecasts <b>capex</b> for the <b>next period</b> ;
<b>capex incentive amount</b>	means the amount determined in accordance with clause 3.3.10(2);
<b>capex wash-up adjustment</b>	means the amount that is the difference between the revenues for a <b>DPP regulatory period</b> or <b>CPP regulatory period</b> using the actual values of <b>commissioned</b> assets for a prior <b>regulatory period</b> and the revenues using forecast <b>commissioned</b> assets applied by the <b>Commission</b> when setting <b>prices</b> , and is calculated in accordance with clause 3.1.3(8);
<b>capital contributions</b>	means, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, money or the monetary value of other consideration charged to or received from <b>consumers</b> or other parties for the purposes of asset construction, <del>acquisition</del> or enhancement;</li> <li>(b) Part 4, money or the monetary value of other consideration to be charged to or received from <b>consumers</b> or other parties for the purposes of asset construction, <del>acquisition</del> or enhancement; and</li> <li>(c) Part 5, money or the monetary value of other consideration forecast to be charged to or received from <b>consumers</b> or other parties for the purposes of asset construction, <del>acquisition</del> or enhancement;</li> </ul>

**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**

	<b>commissioned asset</b> , as the case may be, but only to the extent that the costs are included or are intended to be included in a <b>closing RAB value</b> ;
<b>catastrophic event</b>	has the meaning specified in, for the purposes of – <ul style="list-style-type: none"> <li>(a) Part 4, clause 4.5.1; and</li> <li>(b) Part 5, clause 5.6.1;</li> </ul>
<b>catastrophic event allowance</b>	means the amount determined by the <b>Commission</b> for– <ul style="list-style-type: none"> <li>(a) additional net costs (over and above those provided for in a <b>DPP determination</b> or <b>CPP determination</b>) prudently incurred by an <b>EDB</b> in responding to a <b>catastrophic event</b>, other than costs that are foregone revenue;</li> <li>(b) <b>recoverable costs</b> and <b>pass-through costs</b> the <b>EDB</b> was permitted to recover under the applicable <b>DPP determination</b> or <b>CPP determination</b> through <b>prices</b>, but did not recover due to a <b>catastrophic event</b>; and</li> <li>(c) the impact of a <b>catastrophic event</b> on any <b>quality incentive adjustment</b>,</li> </ul> <p>incurred in or relating to the period between a <b>catastrophic event</b> and the effective date of an amendment to the <b>DPP</b> or <b>CPP</b> following reconsideration of the <b>price-quality path</b> under clause 4.5.6(1)(b)(i) or clause 5.6.7(2)(a);</p>
<b>causal relationship</b>	means, in relation to- <ul style="list-style-type: none"> <li>(a) <b>operating costs</b>, a circumstance in which a cost driver leads to an</li> </ul>

	<p><b>operating cost</b> being incurred during the 18 month period terminating on the last day of the <b>disclosure year</b> in respect of which the cost allocation is carried out; and</p> <p>(b) <b>regulated service asset values</b>, a circumstance in which a factor influences the utilisation of an asset during the 18 month period terminating on the last day of the <b>disclosure year</b> in respect of which the asset allocation is carried out;</p>
<b>change event</b>	<p>has the meaning specified in, for the purposes of–</p> <p>(a) Part 4, clause 4.5.2; and</p> <p>(b) Part 5, clause 5.6.2;</p>
<b>closing RAB value</b>	<p>means the value determined in accordance with, for the purpose of–</p> <p>(a) Part 2, clause 2.2.4(4); and</p> <p>(b) Part 5, clause 5.3.6(3);</p>
<b>closing tax losses</b>	<p>means the amount determined in accordance with, for the purpose of–</p> <p>(a) Part 2, clause 2.3.2(4);</p> <p>(b) Part 4, clause 4.3.2(3); and</p> <p>(c) Part 5, clause 5.3.14(5);</p>
<b>closing works under construction</b>	<p>means the amount determined in accordance with clause 5.3.12(3);</p>
<b>Commission</b>	<p>has the same meaning as defined in s 2 of the <b>Act</b>;</p>
<b>commissioned</b>	<p>means used by an <b>EDB</b> to provide <b>electricity distribution services</b> and <b>commission</b> shall be construed accordingly;</p>

<b>commissioning date</b>	means the date that an asset is or is forecast to be first <b>commissioned</b> , as the case may be;
<b>committed</b>	in respect of a <b>project or programme</b> , means all approvals internal and external to the <b>EDB</b> that are required in order for work on the <b>project</b> to commence have been received;
<b>consumer</b>	has the same meaning as defined in s 2(1) of the Electricity Act 1992;
<b>consumer-owned</b>	has the same meaning as defined in s 54D of the <b>Act</b> ;
<b>contingent project</b>	has the meaning specified in clause 5.6.5(1);
<b>corporate tax rate</b>	means the rate of income taxation applying to companies as specified in the <b>tax rules</b> ;
<b>cost allocator</b>	means a proportion of a quantifiable measure used to allocate <b>operating costs</b> that are not <b>directly attributable</b> , and whose quantum is- <ul style="list-style-type: none"> <li>(a) based on a <b>causal relationship</b>;</li> <li>or</li> <li>(b) equal to a <b>proxy cost allocator</b>;</li> </ul>
<b>cost of debt</b>	means the amount specified for $r_d$ in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.1(4); and</li> <li>(b) Part 4 and Part 5, clause 4.4.1(4);</li> </ul>
<b>CPI</b>	means- <ul style="list-style-type: none"> <li>(a) subject to paragraph (b), the consumer price index stipulated for each quarter in the 'All Groups Index SE9A' as published by Statistics New Zealand; and</li> <li>(b) in respect of quarters prior to any quarter in which the rate of</li> </ul>

	<b>GST</b> 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;
<b>CPP</b>	means customised price-quality path;
<b>CPP applicant</b>	means an <b>EDB</b> who- <ul style="list-style-type: none"> <li>(a) is preparing a <b>CPP proposal</b>; or</li> <li>(b) has made a <b>CPP proposal</b> that has not been determined;</li> </ul>
<b>CPP application</b>	has the meaning specified in clause 5.1.1(2);
<b>CPP determination</b>	means a determination of a <b>CPP</b> in relation to <b>electricity distribution services</b> made by the <b>Commission</b> under s 52P of the <b>Act</b> ;
<b>CPP proposal</b>	means a proposal made by an <b>EDB</b> to the <b>Commission</b> for a <b>CPP</b> comprising the information specified in Part 5 Subpart 4;
<b>CPP regulatory period</b>	means- <ul style="list-style-type: none"> <li>(a) in relation to a <b>CPP proposal</b>, the 5 <b>disclosure years</b> following the <b>assessment period</b>; and</li> <li>(b) in relation to a particular <b>CPP</b>, the period to which the relevant <b>CPP determination</b> relates;</li> </ul>
<b>current period</b>	means the 5 <b>disclosure years</b> preceding the <b>disclosure year</b> in which the <b>CPP application</b> is submitted;
<b>debt premium</b>	<b>D</b> has the meaning specified in and is the amount determined in accordance with, for the purpose of-

	<ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.4; and</li> <li>(b) Part 4, clause 4.4.4;</li> </ul>
<b>demand group</b>	<p>means a pricing category (irrespective of the pricing methodology used) that has a discrete rate of growth in the demand for <b>electricity distribution services</b> over the <b>CPP regulatory period</b>;</p> <p style="padding-left: 40px;"><i>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;</i></p>
<b>depreciation</b>	<p>means an allowance to account for the diminution in an asset's remaining service life potential in the <b>disclosure year</b> in question with respect to its <b>opening RAB value</b>, or, for the purpose of Part 4, its <b>aggregate opening RAB value for existing assets</b> and <b>aggregate opening RAB value for additional assets</b>, and the amount of such allowance is determined in accordance with, for the purpose of-</p> <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.2.5(2);</li> <li>(b) Part 4, clause 4.2.2(2); and</li> <li>(c) Part 5, clause 5.3.7(2);</li> </ul>
<b>depreciation temporary differences</b>	<p>has the meaning specified, for the purpose of-</p> <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.8(2);</li> <li>(b) Part 4, clause 4.3.5; and</li> <li>(c) Part 5, clause 5.3.20(2);</li> </ul>
<b>designated individual</b>	<p>means an individual who is-</p> <ul style="list-style-type: none"> <li>(a) <b>independent</b>; and</li> <li>(b) engaged or instructed by a <b>person</b> falling within paragraph</li> </ul>

<b>directly attributable</b>	<p>(a) of the definition of verifier to verify (in accordance with Schedule G) part or all of the <b>CPP proposal</b> which that <b>person</b> is engaged to verify;</p> <p>means, in relation to-</p> <ul style="list-style-type: none"> <li>(a) <b>operating costs</b>, wholly and solely incurred by the <b>EDB</b> in or in relation to its <b>supply</b> of one <b>regulated service</b>; and</li> <li>(b) <b>regulated service asset values</b>, wholly and solely related to an asset used by the <b>EDB</b> in or in relation to its <b>supply</b> of one <b>regulated service</b>;</li> </ul>
<b>director</b>	<p>means, in the case of an <b>EDB</b> that is -</p> <ul style="list-style-type: none"> <li>(a) a company (as 'company' is defined in s 2 of the Companies Act 1993), an individual occupying the position of director of the <b>EDB</b>, by whatever name that position is called;</li> <li>(b) a partnership (other than a special partnership), a partner;</li> <li>(c) a special partnership, a general partner; and</li> <li>(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;</li> </ul>
<b>disclosure year</b>	<p>shall be construed as a 12 month period ending on the date specified in-</p> <ul style="list-style-type: none"> <li>(a) whilst they are in force, the Electricity Distribution (Information Disclosure) Requirements 2008; or</li> <li>(b) thereafter, an <b>ID determination</b>,</li> </ul>

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;
<b>document</b>	has the same meaning as defined in s 2 of the <b>Act</b> ;
<b>DPP</b>	means default price-quality path;
<b>DPP determination</b>	means a <b>DPP</b> determination in relation to <b>electricity distribution services</b> made by the <b>Commission</b> under s 52P of the <b>Act</b> ;
<b>DPP regulatory period</b>	means the period to which the relevant <b>DPP determination</b> relates;
<b>E</b>	
<b>easement</b>	means a right to use but not possess <b>land</b> belonging to another <b>person</b> or a right to prevent certain uses of another <b>person's land</b> ;
<b>easement land</b>	means <b>land</b> acquired with the intention of- <ul style="list-style-type: none"> <li>(a) creating an <b>easement</b> in respect of it; and</li> <li>(b) disposing of the <b>land</b> thereafter;</li> </ul>
<b>EDB</b>	means a supplier of <b>electricity distribution services</b> ;
<b>electricity distribution services</b>	means all <b>electricity lines services</b> , other than those <b>supplied</b> by <b>Transpower</b> or any subsidiary of, or successor to <b>Transpower</b> ;
<b>Electricity Information Disclosure Requirements 2004</b>	means the Electricity Information Disclosure Requirements 2004 as were originally published by the <b>Commission</b> on 31 March 2004 and consolidating all amendments to 7 May 2004;
<b>electricity lines services</b>	has the same meaning as defined in s 54C of the <b>Act</b> ;

<b>engineer</b>	means an individual who is- <ul style="list-style-type: none"> <li>(a) a chartered professional engineer as defined in s 6 of the Chartered Professional Engineers of New Zealand Act 2002;</li> <li>(b) acting in that professional capacity; and</li> <li>(c) <b>independent</b>;</li> </ul>
<b>error event</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 4, clause 4.5.3(1); and</li> <li>(b) Part 5, clause 5.6.3(1);</li> </ul>
<b>excluded asset</b>	means an asset that is- <ul style="list-style-type: none"> <li>(a) not used to <b>supply electricity distribution services</b> as on the last day of the <b>disclosure year</b> 2009;</li> <li>(b) designated as 'excluded' type as a result of the <b>asset adjustment process</b>; or</li> <li>(c) <b>easement land</b>;</li> </ul>
<b>existing assets</b>	means assets of an <b>EDB</b> for which an <b>aggregate closing RAB value for existing assets</b> is calculated for the <b>base year</b> ;
<b>existing CPP assets</b>	means assets of an <b>EDB</b> included in the <b>closing RAB value</b> of the last year of the <b>current period</b> ;
<b>expenditure objective</b>	means objective that <b>capital expenditure</b> and <b>operating expenditure</b> reflect the efficient costs that a prudent <b>non-exempt EDB</b> would require to- <ul style="list-style-type: none"> <li>(a) meet or manage the expected demand for <b>electricity distribution services</b>, at appropriate service standards, during the <b>CPP regulatory</b></li> </ul>

	<p><b>period</b> and over the longer term; and</p> <p>(b) comply with applicable regulatory obligations associated with those <b>services</b>;</p>
<b>extended reserves allowance</b>	means an amount determined by the <b>Commission</b> 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

<b>finance lease</b>	has the same meaning as under <b>GAAP</b> ;
<b>fixed life easement</b>	means an <b>easement</b> that- <ul style="list-style-type: none"> <li>(a) is of fixed duration; or</li> <li>(b) whilst of indefinite duration, is to be held for a fixed period;</li> </ul>
<b>forecast aggregate value of commissioned asset</b>	means the amount determined in accordance with clause 4.2.5;
<b>forecast aggregate value of disposed assets</b>	means the amount determined in accordance with clause 4.2.6;
<b>forecast allowable revenue</b>	means the amount determined in accordance with clause 3.1.1(4);
<b>forecast allowable revenue as a function of demand</b>	means a value specified in clause 3.1.1(5);
<b>forecast CPI</b>	means the amount determined in accordance with clause 3.1.1(8);
<b>forecast CPI for CPP revaluation</b>	means the amount specified in accordance with clause 5.3.10(5);
<b>forecast CPI for DPP revaluation</b>	means the amount specified in accordance with clause 4.2.3(4);
<b>forecast CPI for IRIS transitional provision</b>	means the amount specified in accordance with clause 3.3.15(6);

<b>forecast net allowable revenue</b>	means a value specified in clause 3.1.1(6) or 3.1.1(7), as applicable;
<b>forecast operating expenditure</b>	has the meaning specified in clause 5.3.2(6);
<b>forecast opex</b>	has the meaning specified in clause 3.3.3(8);
<b>forecast regulatory tax allowance</b>	has the meaning specified in clause 5.3.13;
<b>forecast revenue from prices</b>	means an amount specified in clause 3.1.1(3);
<b>forecast value of commissioned asset</b>	means the value determined in accordance with clause 5.3.11;
<b>found asset</b>	has the meaning specified in clause 2.2.12(1);

## G

<b>GAAP</b>	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;
<b>GPB</b>	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);
<b>GST</b>	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);

<b>incentive rate</b>	means the incremental rate of change used to calculate the <b>quality incentive adjustment</b> , as specified in a <b>DPP determination</b> or <b>CPP determination</b> ;
<b>included asset</b>	means an asset which, as a result of the <b>asset adjustment process</b> , is designated as 'included';
<b>included value</b>	means value assigned to an <b>included asset</b> ;
<b>incremental adjustment term</b>	means the amount determined in accordance with clause 3.3.15(4);
<b>independent</b>	means neither in a relationship with, nor having an interest in, the <b>EDB</b> in question that is likely to involve him her or it in a conflict of interest between his, her or its duties to the <b>EDB</b> and his, her or its duties to the <b>Commission</b> ;
<b>inflation rate</b>	has the meaning specified in clause 3.3.15(5);
<b>initial differences in asset values</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.5(3); and</li> <li>(b) Part 5, clause 5.3.17(3);</li> </ul>
<b>initial RAB</b>	has the meaning specified in clause 2.2.2;
<b>initial RAB value</b>	means value of an asset in the <b>initial RAB</b> determined in accordance with clause 2.2.3(4);
<b>input methodology</b>	has the same meaning as defined in s 52C of the <b>Act</b> ;
<b>investment grade credit rated</b>	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;

<b>IRIS incentive adjustment</b>	means the recoverable cost amount determined under clause 3.3.1(2);
<b>L</b>	
<b>land</b>	excludes <b>easements</b> ;
<b>leverage</b>	means the ratio of debt capital to total capital and is the amount specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.2(1); and</li> <li>(b) Part 4, clause 4.4.2(1);</li> </ul>
<b>levy</b>	means a tax, charge or fee directly imposed by or under legislation- <ul style="list-style-type: none"> <li>(a) on- <ul style="list-style-type: none"> <li>(i) <b>EDBs</b> alone; or</li> <li>(ii) a class of persons (other than the general public or businesses in general) that includes <b>EDBs</b>; or</li> </ul> </li> <li>(b) in relation to <b>electricity distribution services</b>;</li> </ul>
<b>line item</b>	means, in respect of- <ul style="list-style-type: none"> <li>(a) assets, a group of assets within an <b>asset category</b> for which the same <b>asset allocator</b> is used to allocate their <b>regulated service asset values</b>; and</li> <li>(b) costs, a group of <b>operating costs</b> within an <b>opex category</b> for which the same <b>cost allocator</b> is used to allocate them,</li> </ul> <p>to <b>electricity distribution services</b> and <b>other regulated services</b>;</p>
<b>lines</b>	has the same meaning as defined in s 2 of the Electricity Act 1992;
<b>local authority</b>	has the same meaning as defined in s 5(1) of the Local Government Act 2002;
<b>lost asset</b>	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-
  - (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-

	<ul style="list-style-type: none"> <li>(i) vanilla <b>WACC</b> as estimated in accordance with clause 4.4.1(1);</li> <li>(ii) post-tax <b>WACC</b> as estimated in accordance with clause 4.4.1(2),</li> </ul> <p>as the case may be;</p>
<b>modified value</b>	means the value of a <b>value modified asset</b> assigned in accordance with clause 2.2.1;
<b>multi-rate PIE</b>	has the same meaning as defined in s YA 1 of the Income Tax Act 2007;

## N

<b>Nelson-Siegel-Svensson approach</b>	has the meaning specified in clause 2.4.4(6);
<b>network</b>	means the fixed assets used by an <b>EDB</b> to provide <b>electricity distribution services</b> ;
<b>network spare</b>	means an asset that is held by an <b>EDB</b> to replace any other asset it holds should that other asset be withdrawn from use owing to failure or damage;
<b>next period</b>	means the period commencing on the first day of the <b>disclosure year</b> during which the <b>CPP application</b> is submitted and terminating on the last day of the 5 <b>disclosure years</b> following the <b>assessment period</b> ;
<b>non-exempt EDB</b>	means an <b>EDB</b> other than a <b>consumer-owned EDB</b> exempt under s 54G(2) of the <b>Act</b> ;

## O

<b>ODV handbook</b>	means Handbook for Optimised Deprival Valuation of System Fixed Assets of Electricity Lines Businesses published by the Commerce <b>Commission</b> on 30
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	August 2004 and effective 31 August 2004;
<b>ODV valuation</b>	means valuation of an asset as of 31 March 2004 in accordance with the <b>Electricity Information Disclosure Requirements 2004</b> and the <b>ODV handbook</b> ;
<b>opening deferred tax</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.7;</li> <li>(b) Part 4, clause 4.3.4(1); and</li> <li>(c) Part 5, clause 5.3.19;</li> </ul>
<b>opening RAB value</b>	means the value determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.2.4(3); and</li> <li>(b) Part 5, clause 5.3.6(1);</li> </ul>
<b>opening tax losses</b>	means the amount determined in accordance with, for the purpose of – <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.2(3);</li> <li>(b) Part 4, clause 4.3.2(3)(a); and</li> <li>(c) Part 5, clause 5.3.14(3);</li> </ul>
<b>opening works under construction</b>	has the meaning specified in clause 5.3.12(1);
<b>operating cost</b>	means a cost incurred by the <b>EDB</b> in question relating to the <b>supply</b> of- <ul style="list-style-type: none"> <li>(a) <b>regulated services</b> alone; or</li> <li>(b) <b>regulated services</b> and one or more <b>unregulated service</b>,</li> </ul> and excludes- <ul style="list-style-type: none"> <li>(c) a cost that is treated as a cost of an asset by <b>GAAP</b>;</li> <li>(d) amounts that are depreciation, tax, subvention payments, revaluations or an interest expense, in accordance with their meanings under <b>GAAP</b>;</li> </ul>

	(e) <b>pass-through costs;</b> (f) <b>recoverable costs;</b> and (g) distribution of profits to <b>consumers;</b>
<b>operating expenditure</b>	for the purpose of –  (a) Part 4, means the value of <b>operating costs</b> attributable to <b>electricity distribution services</b> supplied by an <b>EDB</b> which are forecast to be incurred in the <b>disclosure year</b> in question as determined by the <b>Commission;</b> and  (b) Part 5, means <b>operating costs</b> after application of clause 5.3.5;
<b>opex</b>	means <b>operating expenditure;</b>
<b>opex category</b>	has the meaning specified in Schedule D;
<b>opex forecast</b>	means the part of a <b>CPP proposal</b> , provided pursuant to clause 5.4.29, that forecasts <b>operating expenditure</b> for the <b>next period;</b>
<b>opex incentive amount</b>	means the amount determined in accordance with clause 3.3.2(2);
<b>other regulated income</b>	for the purpose of–  (a) Part 3, means income associated with the supply of <b>electricity distribution services</b> other than-  (i) through <b>prices;</b> (ii) investment-related income; (iii) <b>capital contributions;</b> or (iv) <b>vested assets;</b> and  (b) Part 4, means forecast income associated with the supply of <b>electricity distribution services</b> other than-  (i) through <b>prices;</b>

	<ul style="list-style-type: none"> <li>(ii) investment-related income;</li> <li>(iii) <b>capital contributions</b>; or</li> <li>(iv) <b>vested assets</b>,</li> </ul> <p>as determined by the <b>Commission</b>;</p>
<b>other regulated service</b>	means a <b>regulated service</b> , other than <b>electricity distribution services</b> , <b>supplied</b> by the <b>EDB</b> in question;
<b>OVABAA</b>	means the optional variation to accounting-based allocation approach, as described in clause 2.1.4;
<b>OVABAA allocation increase</b>	<p>means, in respect of either or both-</p> <ul style="list-style-type: none"> <li>(a) <b>operating costs</b>; and</li> <li>(b) <b>regulated service asset values</b>,</li> </ul> <p>not <b>directly attributable</b>, as the case may be, allocated to <b>electricity distribution services</b>, the dollar difference between the amount determined pursuant to the last application of clause 2.1.4(7)(c) and the application of clause 2.1.4(2)(a) or 2.1.4(3)(a), as the case may be;</p>
<b>P</b>	
<b>pass-through cost</b>	has the meaning specified in clause 3.1.2(1);
<b>permanent differences</b>	<p>means the amount determined in accordance with, for the purpose of-</p> <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.3; and</li> <li>(b) Part 5, clause 5.3.15;</li> </ul>
<b>person</b>	has the same meaning as defined in s 2 of the <b>Act</b> ;
<b>physical asset life</b>	has the meaning specified in clause 2.2.8;
<b>positive permanent differences</b>	has the meaning specified in clause 5.3.15(2);

<b>prescribed investor rate</b>	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;
<b>prices</b>	has the meaning specified in clause 3.1.1(9);
<b>programme</b>	means a group of related <b>projects</b> with a common purpose;
<b>project</b>	means a temporary endeavour requiring concerted effort, undertaken to create a defined outcome;
<b>proxy asset allocator</b>	means a proportion of a quantifiable measure- <ul style="list-style-type: none"> <li>(a) used to allocate <b>regulated service asset values</b> for which a <b>causal relationship</b> cannot be established; and</li> <li>(b) whose quantum is based on factors in existence during the 18 month period terminating on the last day of the most recent <b>disclosure year</b> in respect of which the proxy allocation is carried out;</li> </ul>
<b>proxy cost allocator</b>	means a proportion of a quantifiable measure- <ul style="list-style-type: none"> <li>(a) used to allocate <b>operating costs</b> for which a <b>causal relationship</b> cannot be established; and</li> <li>(b) whose quantum is based on factors in existence during the 18 month period terminating on the last day of the most recent <b>disclosure year</b> in respect of which the cost allocation is carried out;</li> </ul>

## Q

### qualifying debt

has, for the purpose of-

- (a) Part 2, the meaning specified in clause 2.4.7(1); and
- (b) Part 5, the meaning specified in clause 5.3.25(1);

### qualifying issuer

means a New Zealand resident limited liability company -

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

### qualifying rating

means-

- (a) a Standard and Poor's long term credit rating of the specified grade; or

	(b) an equivalent long term credit rating of another internationally recognised rating agency;
<b>qualifying supplier</b>	has the meaning specified in, for the purpose of- (a) Part 2, clause 2.4.7(2); and (b) Part 5, clause 5.3.25(2);
<b>quality incentive adjustment</b>	means an amount to provide incentives for a <b>non-exempt EDB</b> to maintain or improve its quality of supply in accordance with s 53M(2) of the <b>Act</b> , and is a function of– (a) a <b>non-exempt EDB’s</b> performance above or below the quality targets, up to the caps or collars specified in relation to the quality targets; (b) <b>revenue at risk</b> ; and (c) <b>incentive rate</b> , calculated in accordance with the method specified in a <b>DPP determination</b> or <b>CPP determination</b> ;
<b>quality standard variation</b>	means variation to any standard- (a) specified in a <b>DPP determination</b> ; and (b) which prescribes the use by an <b>EDB</b> 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;
<b>quantity</b>	has the meaning, for the purpose of Part 3, specified in clause 3.1.1(10);

## 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);
- (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

**regulated service asset value**

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

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 <b>input methodologies</b> applicable to the <b>other regulated service</b> .
<b>regulated supplier</b>	means a supplier of <b>regulated goods or services</b> ;
<b>regulatory investment value</b>	has the meaning specified in clause 5.3.2(2);
<b>regulatory net taxable income</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.1(2);</li> <li>(b) Part 4, clause 4.3.1(2); and</li> <li>(c) Part 5, clause 5.3.13(2);</li> </ul>
<b>regulatory period</b>	means the regulatory period for default/customised price-quality regulation applicable to an <b>EDB</b> as specified in a determination made under s 52P of the <b>Act</b> ;
<b>regulatory profit / (loss) before tax</b>	has the meaning specified in, for the purpose of – <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.1(4);</li> <li>(b) Part 4, clause 4.3.1(4); and</li> <li>(c) Part 5, clause 5.3.13(4);</li> </ul>
<b>regulatory taxable income</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.1(3); and</li> <li>(b) Part 4, clause 4.3.1(3); and</li> <li>(c) Part 5, clause 5.3.13(3);</li> </ul>
<b>regulatory tax adjustments</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.4;</li> <li>(b) Part 4, clause 4.3.3; and</li> <li>(c) Part 5, clause 5.3.16;</li> </ul>
<b>regulatory tax allowance</b>	has the meaning specified, for the purpose of – <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.1; and</li> </ul>

<b>regulatory tax asset value</b>	<p>(b) Part 4, clause 4.3.1;</p> <p>has the meaning specified in, for the purpose of-</p> <p>(a) Part 2, clause 2.3.9; and</p> <p>(b) Part 5, clause 5.3.21;</p>
<b>regulatory templates</b>	has the meaning specified in clause 5.4.29(2);
<b>related party</b>	<p>means-</p> <p>(a) a <b>person</b> that, in accordance with <b>GAAP</b>, is related to the <b>EDB</b> in question; or</p> <p>(b) any part of the <b>EDB</b> in question that does not <b>supply electricity distribution services</b>;</p>
<b>remaining asset life</b>	means term remaining of an asset's <b>asset life</b> at the commencement of the <b>disclosure year</b> in question, taking into account the reduction in <b>asset life</b> as specified in clause 2.2.8(4)(a);
<b>remaining asset life for existing assets</b>	has the meaning specified in clause 4.2.2(3)(a);
<b>remaining asset life for additional assets</b>	has the meaning specified in clause 4.2.2(3)(b);
<b>retention factor</b>	means the percentage amount determined by the <b>Commission</b> in a <b>CPP determination</b> or <b>DPP determination</b> for the purpose of calculating the <b>capex incentive amount</b> ;
<b>revaluation</b>	<p>means the amount determined in accordance with, for the purpose of-</p> <p>(a) Part 2, clause 2.2.9(2);</p> <p>(b) Part 4, clause 4.2.3(2); and</p> <p>(c) Part 5, clause 5.3.10(2);</p> <p>which, for the avoidance of doubt, may be a negative number;</p>

<b>revaluation rate</b>	has the meaning specified in, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.2.9(4);</li> <li>(b) Part 4, clause 4.2.3(3); and</li> <li>(c) Part 5, clause 5.3.10(4);</li> </ul>
<b>revenue at risk</b>	means the maximum financial reward or penalty arising under a <b>quality incentive adjustment</b> , as specified in a <b>DPP determination</b> or <b>CPP Determination</b> ;
<b>revenue wash-up draw down amount</b>	has the meaning specified in clause 3.1.3(13)(h);
<b>reversal and reverse</b>	have the same meanings as under <b>GAAP</b> ;

## S

<b>selection rationale</b>	means a description of either or both of the- <ul style="list-style-type: none"> <li>(a) criteria applied; and</li> <li>(b) fundamental reasons used,</li> </ul> for, either or both- <ul style="list-style-type: none"> <li>(c) determining; and</li> <li>(d) selecting,</li> </ul> each- <ul style="list-style-type: none"> <li>(e) <b>asset allocator</b> and associated <b>allocator metric</b>; and</li> <li>(f) <b>cost allocator</b> and associated <b>allocator metric</b>;</li> </ul>
<b>services</b>	has the same meaning as defined in s 2 of the <b>Act</b> ;
<b>standard depreciation method</b>	means, in respect of an asset whose <b>remaining asset life</b> is the term remaining of its <b>physical asset life</b> at the commencement of the <b>disclosure year</b> 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;

<b>standard error</b>	means estimated standard deviation;
<b>standard physical asset life</b>	means life for an asset as specified in <i>Table A.1: Standard Physical Asset Lives for EDBs</i> of Schedule A;
<b>starting price year</b>	means, in relation to an <b>EDB</b> ,— <ul style="list-style-type: none"> <li>(a) the first <b>disclosure year</b> of a <b>regulatory period</b>; or</li> <li>(b) the <b>disclosure year</b> immediately following the expiration of a <b>CPP</b> ;</li> </ul>
<b>supply</b>	has the same meaning as defined in s 2 of the <b>Act</b> , and <b>supplied</b> must be construed accordingly;

## T

<b>tax asset value</b>	means the value determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.9(2); and</li> <li>(b) Part 5, clause 5.3.21(2);</li> </ul>
<b>tax depreciation rules</b>	means, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, for <b>existing CPP assets</b>, the <b>tax rules</b> that relate to the determination of depreciation allowances for tax purposes;</li> <li><del>(b) Part 2, for <b>existing CPP assets</b>, the <b>tax rules</b> that relate to the determination of depreciation allowances for tax purposes;</del></li> <li>(c) Part 5, for <b>additional CPP assets</b>, the <b>tax rules</b> that relate to the determination of depreciation allowances for tax purposes, to be applied by adopting the tax depreciation rate for the assets representing the largest proportion within each <b>asset category</b>, as forecast over the <b>CPP regulatory period</b>;</li> </ul>

<b>tax effect</b>	means the product of multiplication by the <b>corporate tax rate</b> ;
<b>tax rules</b>	means the rules applicable to an <b>EDB</b> 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);
<b>temporary differences</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.8; and</li> <li>(b) Part 5, clause 5.3.20;</li> </ul>
<b>term credit spread difference</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.8(1); and</li> <li>(b) Part 5, clause 5.3.24(1);</li> </ul>
<b>term credit spread differential</b>	is determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.4.9(3); and</li> <li>(b) Part 5, clause 5.3.23(1);</li> </ul>
<b>term credit spread differential allowance</b>	for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2 and Part 5, means the sum of <b>term credit spread differentials</b>; and</li> <li>(b) Part 4, means the amount determined in accordance with clause 4.4.7(2);</li> </ul>
<b>total depreciation</b>	means, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2 and Part 5, the sum of <b>depreciation</b> for all assets; and</li> <li>(b) Part 4, the value determined in accordance with clause 4.2.2;</li> </ul>
<b>total opening RAB value</b>	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);
<b>total revaluation</b>	means, for the purpose of- (a) Part 2 and Part 5, the sum of <b>revaluation</b> for all assets; and (b) Part 4, the value determined in accordance with clause 4.2.3;
<b>transmission asset wash-up adjustment</b>	means a negative amount corresponding to the present value of revenues allowed in a <b>DPP</b> or <b>CPP</b> for additional <b>capital expenditure</b> and additional <b>operating expenditure</b> associated with a transmission asset forecast to be purchased in <b>disclosure years</b> preceding the <b>regulatory period</b> but were not completed, as specified in a <b>DPP determination</b> or <b>CPP determination</b> ;
<b>Transpower</b>	has the same meaning as defined in s 54B of the <b>Act</b> ;
<b>trigger event</b>	has the meaning specified in clause 5.6.5(3);
<b>U</b>	
<b>unallocated closing RAB value</b>	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);
<b>unallocated depreciation</b>	means an allowance to account for the diminution in an asset's remaining service life potential in the <b>disclosure year</b> in question with respect to its <b>unallocated opening RAB value</b> 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);
<b>unallocated initial RAB value</b>	means value of an asset in the <b>initial RAB</b> determined in accordance with clause 2.2.3(1);
<b>unallocated opening RAB value</b>	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);
<b>unallocated revaluation</b>	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);
<b>unduly deterred</b>	means, solely as a result of an allocation to the <b>unregulated service</b> in question of either or both of-  (a) <b>operating costs</b> not <b>directly attributable</b> ; and (b) <b>regulated service asset values</b> not <b>directly attributable</b> ;  the <b>operating costs</b> not <b>directly attributable</b> or <b>capital costs</b> associated with the <b>regulated service asset values</b> not <b>directly attributable</b> (as the case may be) to be borne by that <b>unregulated service</b> would cause that <b>unregulated service</b> to be-  (a) discontinued; or (b) not provided,  and ' <b>unduly deter</b> ' must be construed accordingly;
<b>unforeseen project</b>	has the meaning specified in clause 5.6.6;
<b>unregulated service</b>	means any good or service <b>supplied</b> by the <b>EDB</b> that is not a <b>regulated service</b> ;

<b>utilised tax losses</b>	means the amount determined in accordance with, for the purpose of- <ul style="list-style-type: none"> <li>(a) Part 2, clause 2.3.2;</li> <li>(b) Part 4, clause 4.3.2(1); and</li> <li>(c) Part 5, clause 5.3.14;</li> </ul>
<b>V</b>	
<b>value modified asset</b>	means an asset which, as a result of the <b>asset adjustment process</b> , is designated as 'value modified' type;
<b>value of commissioned asset</b>	means the value determined in accordance with clause 2.2.11;
<b>value of found asset</b>	means the value of a <b>found asset</b> determined in accordance with clause 2.2.12(2);
<b>valuer</b>	means an individual who- <ul style="list-style-type: none"> <li>(a) is registered as a valuer under the Valuers Act 1948;</li> <li>(b) holds a current practising certificate issued by- <ul style="list-style-type: none"> <li>(i) the Property Institute of New Zealand; or</li> <li>(ii) the New Zealand Institute of Valuers;</li> </ul> </li> <li>(c) has been engaged to act in his or her professional capacity as a valuer; and</li> <li>(d) is <b>independent</b>;</li> </ul>
<b>vanilla NZ\$ denominated bonds</b>	means senior unsecured nominal debt obligations denominated in New Zealand dollars without callable, puttable, conversion, profit participation, credit enhancement or collateral features;
<b>verification report</b>	means a report prepared by a <b>verifier</b> in accordance with Schedule G;
<b>verifier</b>	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)(b);

**working day**

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

**works under construction**

means an asset, or a collection of assets that-

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

(c) the **EDB** intends to **commission**.

## PART 2 INPUT METHODOLOGIES FOR INFORMATION DISCLOSURE

### SUBPART 1 Cost allocation

#### 2.1.1 Cost allocation process

(1) Any-

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

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

(2) Any-

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

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

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

- (a) **ABAA**; or
- (b) **OVABAA**.

~~(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** in accordance with clause 2.1.5.~~

#### 2.1.2 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 2.1.4(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, using **OVABAA**, 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, using **OVABAA**, 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** in accordance with clause 2.1.5.

### 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**; and
  - (c) each **unregulated service**.
- (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**; and
  - (c) each **unregulated service**.
- ~~(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 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**.
- (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).

#### 2.1.5 Avoidable cost allocation methodology (ACAM)

- (1) For the purpose of clause 2.1.2(4), 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**.

## SUBPART 2 **Asset valuation**

### 2.2.1 Asset adjustment process for setting initial RAB

- (1) Asset adjustment process means the process of assets-

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

- (e) in respect of a **2009 disclosed asset** whose value in an **ODV valuation** was affected by the application of an optimisation or economic value test, do one of the following things:
  - (i) designate it as of 'included' type and give it an included value;
  - (ii) designate it as of 'excluded' type; or
  - (iii) modify its value,
 consistent with re-applying the optimisation or economic value test previously applied in the **ODV valuation**.
  
- (3) The included value of an asset to which subclause (2)(a) is applied is-
  - (a) its depreciated historic cost determined by applying **GAAP** as of the last day of the **disclosure year 2009**; or
  - (b) where sufficient records do not exist to establish this cost, its depreciated carrying value in the general purpose financial statements of the **EDB**.
  
- (4) The included value or modified value, as the case may be, of an asset to which subclause (2)(b), (2)(c) or (2)(d) is applied, is determined by-
  - (a) taking its-
    - (i) **ODV valuation**; or
    - (ii) where an **ODV valuation** is not applicable in respect of that asset under the **Electricity Information Disclosure Requirements 2004**, its value that resulted, or, for an omitted asset, would have resulted, from application of those requirements as of the day on which the asset was first **commissioned** after the **disclosure year 2004**;
  - (b) implementing the corrections or modifications required to account for the matters specified in subclauses (2)(b) – (2)(d) as the case may be; and
  - (c) adjusting that value to the value as of 31 March 2009 by taking account of-
    - (i) **unallocated depreciation** in accordance with the **standard depreciation method**, where the total asset life used for the purpose of that method is the total asset life used for the purpose of the **2009 disclosure reports**; and
    - (ii) revaluation to account for consumer price index changes using a method consistent with that used to account for such revaluation in the **2009 disclosure reports**.
  
- (5) The included value or modified value, as the case may be, of an asset to which subclause (2)(e) is applied is determined by-
  - (a) taking its **ODV valuation** had the assets not been-

- (i) optimised in accordance with paragraphs 2.18 - 2.47 and Appendix B of the **ODV handbook**; or
  - (ii) subject to the economic value test in accordance with paragraph 2.59 - 2.65 of the **ODV handbook**;
- (b) re-applying the sub-paragraphs of paragraph (a) in light of more up-to-date information relating to optimisation or economic value that has subsequently become available; and
- (c) adjusting that value to the value as of 31 March 2009 by taking account of-
- (i) **unallocated depreciation** in accordance with the **standard depreciation method**, where the asset life used for the purpose of that method is the asset life used for the purpose of the **2009 disclosure reports**; and
  - (ii) revaluation to account for consumer price index changes using a method consistent with that used to account for such revaluation in the **2009 disclosure reports**.

#### 2.2.2 Composition of initial RAB

Initial RAB means-

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

less-

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

#### 2.2.3 Initial RAB values for assets

(1) Subject to subclause (3), the unallocated initial RAB value of-

- (a) an **included asset** or **value modified asset**, is its **included value** or **modified value**, as the case may be; and
- (b) any other asset is-
  - (i) where the asset is included in the value of 'Regulatory Value of System Fixed Assets', its value as on the last day of the **disclosure year 2009** included in 'Total Regulatory Asset Base Value (Excluding FDC)' in the **2009 disclosure reports** multiplied by 1.0245; and

- (ii) where the asset is included in the value of 'Regulatory Value of Non-System Fixed Assets', its value as on the last day of the **disclosure year 2009** included in 'Total Regulatory Asset Base Value (Excluding FDC)' in the **2009 disclosure reports**.
- (2) For the purpose of subclause (1)(a), in the case of a system fixed asset valued in accordance with one of paragraphs (b) to (e) of clause 2.2.1(2), unallocated initial RAB value is its **included value** or **modified value** (as the case may be) multiplied by 1.0245.
  - (3) For the purpose of subclause (1), where an asset is used by an **EDB** in the **supply** of-
    - (a) one or more **regulated service**; or
    - (b) one or more **regulated service** and one or more **unregulated service**,
 where at least one of those **regulated services** is an **electricity distribution service**, the unallocated initial RAB value is the value of the asset had no allocation of asset value relevant to regulatory disclosures been undertaken.
  - (4) The initial RAB value of an asset is determined as the value allocated to **electricity distribution services** as a result of-
    - (a) adopting its **unallocated initial RAB value**; and
    - (b) applying clause 2.1.1 to it.
  - (5) In this clause, 'system fixed asset' has the same meaning as defined in the **Electricity (Information Disclosure) Requirements 2004**.

#### 2.2.4 RAB roll forward

- (1) Unallocated opening RAB value in respect of an asset in relation to-
  - (a) the **disclosure year 2010**, is its **unallocated initial RAB value**; and
  - (b) a **disclosure year** thereafter, is its **unallocated closing RAB value** in the preceding **disclosure year**.
- (2) Unallocated closing RAB value means, in the case of-
  - (a) a **found asset**, its **value of found asset**;
  - (b) a **disposed asset**, nil;
  - (c) a **lost asset**, nil;
  - (d) any other asset with an **unallocated opening RAB value**, the value determined in accordance with the formula-
 
$$\text{unallocated opening RAB value} - \text{unallocated depreciation} + \text{unallocated revaluation};$$
 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.

#### 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-
  - (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) an asset determined by the **EDB** to have a service life potential shorter than its **standard physical asset life**, its physical service life potential determined by an **engineer** subject to subclause (3);
  - (d) an asset where the **Commission** has applied an adjustment factor in accordance with clause 4.2.2(3), the asset life determined in accordance with subclause (4);
  - (e) **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;
  - (f) a non-**network** asset, its asset life determined under **GAAP**;
  - (g) 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;
  - (h) 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).
  - (i) an asset not referred to in paragraphs (a) – (h)-
    - (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);
- (j) 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**;
  - (k) 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.
- (3) For the purpose of subclauses (1)(c), (1)(h)(ii) and (1)(i)(v), a determination made in accordance with this clause by an **engineer** of physical service life potential-
- (a) in relation to an asset with an **unallocated opening RAB value** is deemed applicable to all assets of similar asset type for which there is a requirement in this clause for an **engineer's** determination of physical service life potential; and
  - (b) must be evidenced by a report written by the **engineer** in question that includes an acknowledgement by the **engineer** that the report may be publicly disclosed by an **EDB** pursuant to an **ID determination**.
- (4) For the purpose of subclause (1)(d), 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 RAB 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) 'composite asset' means a configuration of two or more assets that is not capable of operation in the absence of any of those assets.

(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-

**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
  - (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 that would have applied for the other **regulated supplier**, had the asset not been acquired by the **EDB** in the period when the asset was transferred (as 'unallocated closing RAB value' is defined in the **input methodologies** applying to the **supply of regulated goods or services** 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**;
  - (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**; and
  - (j) a **finance lease** excludes the value of any asset for which annual charges are a **recoverable cost** under clause 3.1.3(1)(c).
- (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**.
- (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-
  - (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–
  - (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.

2.2.12 Value of found asset

- (1) Found asset means, in relation to a **disclosure year**, an asset-
- (a) other than  **easement land**;
  - (b) other than an intangible asset, unless it is-
    - (i) a **finance lease**; or
    - (ii) an **identifiable non-monetary asset**;
  - (c) not having a **commissioning date** in the **disclosure year** in question;
  - (d) the value of which-
    - (i) is not included as an **unallocated opening RAB value** in the **disclosure year** in question nor was so included in any prior **disclosure year** pursuant to clause 2.2.4(1); and
    - (ii) was not included in an **unallocated closing RAB value** in any prior **disclosure year** in accordance with clause 2.2.4(2); and
  - (e) first determined by the **EDB** in the **disclosure year** in question to have a **commissioning date** after the **disclosure year** 2009.
- (2) The value of found asset is-
- (a) the **found asset's** cost calculated consistently with **GAAP**; or
  - (b) where sufficient records do not exist to establish the **found asset's** cost for the purposes of **GAAP**-
    - (i) where an asset with an **unallocated opening RAB value** for that **disclosure year** is similar (in terms of asset type and age) to the **found asset**, the **unallocated opening RAB value** of the similar asset; and
    - (ii) in all other cases, its market value as determined by a **valuer** as at the date that the asset was first determined to have been **commissioned** in a prior **disclosure year** after the **disclosure year** 2009.

## SUBPART 3 Treatment of taxation

### 2.3.1 Regulatory tax allowance

- (1) Regulatory tax allowance is, where **regulatory net taxable income** is-
  - (a) nil or a positive number, the **tax effect of regulatory net taxable income**;  
and
  - (b) a negative number, nil.
- (2) Regulatory net taxable income is **regulatory taxable income** less **utilised tax losses**.
- (3) Regulatory taxable income is the amount determined in accordance with the formula-  
**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—

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

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

- (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 ÷ opening 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 subclause (1), 'opening weighted average remaining useful life of relevant assets' means-

$$q = a - b$$

where:

*a* = the 2010 weighted average **remaining asset life** of assets included in the initial RAB calculated by using **initial RAB values** as weights

*b* = **disclosure year** less 2010.

- (5) 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.

- (6) 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-

**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 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 each **disclosure year**-

- (a) in respect of the 5 years commencing on the first day of the **disclosure year** in question;

- (b) subject to subclause (3), within 1 month of the start of the **disclosure year** in question; and
- (c) in accordance with the formula-

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

- (2) The **Commission** will determine a mid-point estimate of post-tax **WACC** for each **disclosure year**-

- (a) in respect of the 5 years commencing on the first day of the **disclosure year** in question;
- (b) subject to subclause (3), within 1 month of the start of the **disclosure year** in question; and
- (c) in accordance with the formula-

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

- (3) The **Commission** will estimate or determine, as the case may be, the amounts or values to which this subclause applies 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:

$$r_f + p;$$

$r_e$  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**;

$T_i$  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 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 [XX].%.]

- (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**.
- (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 [XX].]
- (6) The debt issuance costs are 0.35%.
- (7) ['Tax-adjusted market risk premium' is, for a 5 year period commencing on the first day of each disclosure year, [XX]%.]

#### 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.

#### 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-
  - (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-
  - (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 subparagraph (ii) from the yield obtained in accordance with subparagraph (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-

- (i) is issued by an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
  - (ii) is publicly traded;
  - (iii) has a **qualifying rating** of grade BBB+; and
  - (iv) has a remaining term to maturity of 5 years.
- (4) For the purpose of subclause (3)(d), the **Commission** will have regard, subject to subclause (5), to the spreads observed on the following types of **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer**:
  - (a) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
  - (b) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by an entity other than an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
  - (c) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
  - (d) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by an entity, other than an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**; and
  - (e) those that are-
    - (i) **investment grade credit rated**; and
    - (ii) issued by an entity that is 100% 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);
  - (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.

#### 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 [XX].]

- (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 [XX].]

#### 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-

- (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-  
 $[XX] \times (\text{original tenor of the } \mathbf{qualifying\ debt} - 5);$
- (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 **term credit spread difference**;
- (b) 'B' is the book value of the **qualifying supplier's** total interest-bearing debt as at the balance date of 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**.

## 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 setting the maximum revenues under subclause (1), the annual increase in the **forecast allowable revenue from prices as a function of demand** for the **disclosure year** may not exceed the percentage amount of the forecast allowable revenue as a function of demand calculated as specified in a s 52P determination in any year other than the first year of a regulatory period.
- (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 forecast revenue is the total of each **price** multiplied by each forecast **quantity**.
- (4) For the purpose of this subpart, 'forecast allowable revenue' is specified in a s 52P determination and is the sum of includes-
  - (a) **forecast net allowable revenue**;
  - (b) forecast **pass-through costs**;
  - (c) forecast **recoverable costs**, excluding any **revenue wash-up draw down amount** under clause 3.1.3(1)(v); and
  - (d) the balance of the **wash-up account** before deducting calculating an amount for draw down from the wash-up account as a **revenue wash-up draw down amount** for the **disclosure year**.
- ~~(5) For the purpose of this subpart, 'forecast allowable revenue as a function of demand' is the **forecast allowable revenue** for the **disclosure year** divided by a function of demand as specified by the **Commission** at the start of the **regulatory period** in a s 52P determination.~~
- (6) For the purpose of this subpart, 'forecast net allowable revenue' for the first **disclosure year** of a **regulatory period** will be specified by the **Commission** at the start of the **regulatory period** in a s 52P determination.
- (7) For each **disclosure year** of the **regulatory period** after the first **disclosure year**, 'forecast net allowable revenue' is calculated by applying-
  - (a) the **forecast net allowable revenue** for the preceding **disclosure year**;
  - (b) the **forecast CPI**, as specified in subclause (8) and
  - (c) any X factor applicable to the **EDB**.

- (8) For the purpose of this subpart, 'forecast CPI' means-
- (a) a quarter prior to the quarter for which the vanilla **WACC** applicable to the relevant **DPP regulatory period** or **CPP 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 paragraph (b);
  - (b) 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** or **CPP regulatory period** was determined, the **CPI** last applying under paragraph (a) extended by the forecast change; and
  - (c) 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 ~~in respect of later quarters, the forecast last applying under paragraph (b) 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 paragraph (b).~~
- (9) '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**.
- (10) '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**.
- (11) '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.
- (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-
- (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**.
- (4) For the purpose of subclause (1), where a cost relates to both **electricity distribution services** and other services **supplied** by the **EDB**, only the proportion of the cost attributable to the **supply of electricity distribution services** (as determined in accordance with clause 2.1.1), may be a pass-through cost.

### 3.1.3 Recoverable costs

- (1) A recoverable cost is a cost that is-
- (a) any 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);
- (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** or **CPP regulatory period** for which the starting prices were determined by the Commission in a **DPP determination** or **CPP determination**–

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

where–

- l* is the number of **disclosure years** in the **DPP regulatory period** or **CPP regulatory period**;
- r* is the most recently published 67th percentile estimate of WACC cost of debt applying to the **DPP regulatory period** or **CPP regulatory period**; and
- y* is the number of **disclosure years** preceding the **disclosure year** in question in the **DPP regulatory period** or **CPP 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 most recently published 67th percentile estimate of WACC 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**;
- (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** 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~~ **negative recoverable costs** and be recovered from ~~passed through to consumers~~ **consumers** via corresponding increases ~~reductions~~ in **prices**; and
  - (b) revenues that an **EDB** may receive 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
  - (c) 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 subclause (1)(p), the 'capex wash-up adjustment' is an amount equal to the present value of the difference in the series of **forecast net allowable revenue** for the **disclosure years** of the **DPP regulatory period** or **CPP regulatory period** in question, subject to clause (9), from adopting—
  - (a) the sum of **value of commissioned assets** in the **building block allowable revenue before tax** for each **disclosure year** that follows the **base year** in the preceding **DPP regulatory period**,  
instead of—
  - (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 a **DPP determination** or **CPP determination**, or an amendment thereof.
- (9) For the purpose of subclause (8)–

- (a) ~~necessary adjustments may be made to the **building block allowable revenue before tax** for a **disclosure year** to enable the setting of the **forecast net allowable revenue** for a **disclosure year**;~~
- (b) the present value must be determined by discounting the **building block allowable revenue 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** or **CPP regulatory period** in question, to-
- (i) where the **capex wash-up** is applied for a **DPP regulatory period**, to the end of the preceding **DPP regulatory period**;
- (ii) where the **capex wash-up** is applied for a **CPP regulatory period**, to the point in the preceding **DPP regulatory period** where the **CPP regulatory period** began;
- (c) the series of **building block allowable revenue 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 revenue before tax**;
- (d) the series of **building blocks allowable revenue before tax** for the **CPP regulatory period** are those used in setting the series of **maximum allowable revenue after tax** in accordance with clause 5.3.4(1) and must-
- (i) be calculated using the same methodology that was applied by the **Commission** in setting starting prices for the **EDB** for the **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** 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 revenue before tax**;
  - (e) where **building block allowable revenue 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;
  - (f) where **building block allowable revenue 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
  - (g) 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 otherwise be recovered by the EDB ~~be included in a value of commissioned asset~~; and
  - (c) will be prudently incurred by an **EDB** before commencement of the resulting **CPP regulatory period** 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 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 amount** calculated in accordance with subclause (13)(b);

- (d) record in the **wash-up account** any **revenue wash-up draw down amount**; ~~and~~
- (e) record in the wash-up account any outstanding pass-through balance as calculated in accordance with clause 8.6 of the Electricity Distribution Services Default Price-Quality Path Determination 2015 as if that determination applies to the **disclosure year** and the balance was not washed up in a prior **assessment period**; and
- (f) record a time value of money adjustment in the **wash-up account**-
  - (i) using a rate equal to the most recently published **67th percentile estimate of WACC**; and
  - (ii) by applying the method as specified in a s 52P determination.

(13) For the purpose of subclause (12)-

- (a) 'voluntary undercharging deduction amount' means an amount deducted from the **wash-up account**, calculated based on the difference between **forecast allowable revenue** and the **forecast revenue from prices** applied in accordance with clause 3.1.1(1), where the method for calculating the amount is as specified in a s 52P determination;
- (b) 'wash-up amount' means, subject to subclause (c), the difference between **actual allowable revenue** and **actual revenue** for a **disclosure year**;
- (c) where the **actual allowable revenue** exceeds the **actual revenue** for a **disclosure year**, the **wash-up amount** for the **disclosure year** that may be recorded in the **wash-up account** shall be capped at an amount comprising 20% of the **forecast net allowable revenue** for the ~~first~~ **disclosure year of the regulatory period** as adjusted to reflect the ~~revenue wash-up draw down amount for the disclosure year and the impact of any limit on the forecast allowable revenue under clause 3.1.1(2) for the disclosure year;~~
- (d) 'actual revenue' for a **disclosure year** in a revenue wash-up calculation means the revenue amount calculated in accordance with a s 52P determination that is the sum of-
  - (i) ~~includes~~ actual revenue from **prices**; and
  - (ii) ~~includes~~ **other regulated income**;
- (e) 'actual allowable revenue' for a **disclosure year** in a revenue wash-up calculation is the sum of ~~includes~~-
  - (i) **actual net allowable revenue**;
  - (ii) **pass-through costs**; and
  - (iii) **recoverable costs**, including any **revenue wash-up draw down amount**;

- (f) 'actual net allowable revenue' for the first **disclosure year** of the **regulatory period** means the **forecast net allowable revenue** for that **disclosure year** in accordance with clause 3.1.1(6);
- (g) 'actual net allowable revenue' for each **disclosure year** of the **regulatory period** after the first **disclosure year** is calculated by applying-
  - (i) the **actual net allowable revenue** for the preceding **disclosure year**;
  - (ii) the **CPI** in place of the **forecast CPI** to the extent that **forecast CPI** was applied in setting **prices** for this **disclosure year** in accordance with clause 3.1.1(7); and
  - (iii) the X factor that was used when the **forecast net allowable revenue** was originally determined for this **disclosure year** in accordance with clause 3.1.1(7); and
- (h) 'revenue wash-up draw down amount' means-
  - (i) subject to subclause (ii), an amount drawn down from the **wash-up account** and applied to **forecast allowable revenue** in each **disclosure year** when setting **prices**, in accordance with the requirements of a s 52P determination; and
  - (ii) if the balance of the **wash-up account** before setting **prices** is a net excess amount of **actual revenues** over **actual allowable revenues** in respect of earlier **disclosure years**, the amount drawn down shall be such that the balance of the **wash-up account** is reduced to nil in respect of each earlier **disclosure year**.

## 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**-

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

where–

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

*r* is the most recently published 67th percentile estimate of WACC 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**

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

- (5) An ‘amount carried forward’ must be calculated for each **disclosure year** of a **regulatory period**, subject to subclause (6).
- (6) 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–

$$\text{forecast opex}_t - \text{actual opex}_t$$

where–

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

- (7) 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–

$$(\text{forecast opex}_t - \text{actual opex}_t) - (\text{forecast opex}_{t-1} - \text{actual opex}_{t-1})$$

where–

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

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

- (8) The ‘amount carried forward’ for the last **disclosure year** of a **regulatory period** is nil.

- (9) 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.
- (10) 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.
- (11) 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**.
- (12) ‘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).
- (13) ‘Actual opex’ is the amount of **operating costs** allocated to **electricity distribution services** for the relevant **disclosure year** calculated in accordance with Part 2.

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

- (14) 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*

- (15) 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–
- (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*

- (16) 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*

- (17) 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;

*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*

(18) 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*

(19) 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);

*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–

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

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–

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

×

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

×

$$(1+\text{WACC})^2$$

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

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

– (forecast opex<sub>*t-2*</sub> – actual opex<sub>*t-2*</sub>)

×

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

×

$(1+WACC)^2$

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.

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

– (forecast opex<sub>*t-4*</sub> – actual opex<sub>*t-2*</sub>)

×

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

×

$(1+WACC)^2$

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.

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

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

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

×

$$(1+WACC)^2$$

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-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**.

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

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

×

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

×

$$(1+WACC)^2$$

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**.

(24) 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**.

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

(25) 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**.

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

**(actual opex<sub>*t-4*</sub> – forecast opex<sub>*t-2*</sub>)**

×

**(1+WACC)<sup>2</sup>**

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**.

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

**(actual opex<sub>*t-5*</sub> – actual opex<sub>*t-4*</sub>)**

×

**((1-(1+WACC)<sup>-4</sup>)/WACC)**

×

**(1+WACC)<sup>3</sup>**

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**.

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

**(actual opex<sub>*t-4*</sub> – actual opex<sub>*t-3*</sub>)**

×

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

×

$$(1+WACC)^2$$

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**.

(29) 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–

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

(30) A ‘one-year adjustment term 9’ is calculated in accordance with the formula–

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

×

$$((1/(1+WACC))^4 + 1/(1+WACC)^2 - (1+WACC)^2)$$

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-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**—

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

where—

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

*r* is the most recently published 67th percentile estimate of WACC 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

(4) 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**.

(5) 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 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.

### 3.3.12 How to calculate the retention adjustment

- (6) 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.*
- (7) 'PV of forecast commissioned asset values' is an amount equal to the sum of—
- (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**.
- (8) '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**.

#### 3.3.14 Calculating incentive adjustments for other events

Where an event that is–

- (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**,

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-

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

where-

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

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

- (3) The incremental change for the final **disclosure year** of the **CPP regulatory period** 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-

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

where-

$t-1$  means the final **disclosure year** of the preceding **CPP regulatory period** 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 IRIS transitional provision** for the  $n$ th quarter of the **disclosure year** in question; and

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

- (6) For the purpose of clause 3.3.15, 'forecast CPI for IRIS transitional provision' means **CPI**, unless **CPI** does not apply to the quarter in question, in which case it means the most recent **CPI** extended by-
- (a) in the case of a quarter for which a forecast of the annual percent change in the headline **CPI** contained in the current Monetary Policy Statement issued by the Reserve Bank of New Zealand has been made, that forecast; and
  - (b) in respect of later quarters, a constant annual percent change equal to the arithmetic 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.

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

- (7) 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**.
- (8) 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-

- (c) a price-quality path is amended pursuant to clause 5.6.8 by reason of a **catastrophic event**; and
- (d) 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.

## 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-  
 $[1 \div \textit{remaining asset life for existing assets}] \times \textbf{aggregate opening RAB value for existing assets}$ ; and
  - (b) **additional assets** of the **EDB**, the value determined in accordance with the formula-  
 $[1 \div \textit{remaining asset life for additional assets}] \times \textbf{aggregate opening RAB value for additional assets}$ .
- (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-

**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; 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;

- (b) ~~for the purposes of subclause (2)(a),~~ **remaining asset life for additional assets means 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;

(4) For the purpose of subclause (2)(a)(ii)-

- (a) the **Commission** may, subject to the requirements in subclauses ~~(b)~~ and (c), apply an adjustment factor of not lower than 0.85, nor higher than 1;
- (b) the requirement of this subclause is that 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
- (c) the requirement of this subclause is that 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-

(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 DPP revaluation** for the quarter that coincides with the end of the **disclosure year**; and

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

- (4) For the purpose of subclause (3), 'forecast CPI for DPP revaluation' means-

- (a) for 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 paragraph (b);
- (b) for 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 paragraph (a) extended by the forecast change; and
- (c) 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 ~~in respect of later quarters, the forecast last applying under paragraph (b) 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 paragraph (b).~~

#### 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-  
$$\text{regulatory profit / (loss) before tax} + \text{regulatory tax adjustments.}$$
- (4) For the purpose of subclause (3), 'regulatory profit / (loss) before tax' is the amount determined in accordance with the following formula-  
$$\text{allowable revenue before tax} + \text{other regulated income} - \text{operating expenditure} - \text{total depreciation.}$$

#### 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-

**((opening investment value x leverage x cost of debt) + term credit spread differential allowance)**

÷

**v(1 + 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-
- (c) 'total closing regulatory tax asset value' means 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*

*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-

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

- (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:

$$r_f + \rho;$$

$r_e$  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;

$\rho$  is the **debt premium**;

$T_i$  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 average corporate tax rate, the equity beta 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 [XX].%.]
- (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.
- (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**.
- (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) The debt issuance costs are 0.35%.
- (6) ['Equity beta' is [XX].]
- (7) ['Tax-adjusted market risk premium' is, for a 5 year period commencing on the first day of the DPP regulatory period, [XX].%.]

#### 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.

#### 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;
    - (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**.
- (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-
  - (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 subparagraph (ii) from the yield obtained in accordance with subparagraph (i),

for each **business day** in the 3 month period of 8 to 10 months prior to the start of the **DPP regulatory period**;

- (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
  - (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** that is neither 100% owned by the Crown nor a **local authority**;
    - (ii) is publicly traded;
    - (iii) has a **qualifying rating** of grade BBB+; and
    - (iv) has a remaining term to maturity of 5 years.
- (4) For the purpose of subclause (3)(d), the **Commission** will have regard, subject to subclause (5), to the spreads observed on the following types of **vanilla NZ\$ denominated bonds** issued by a **qualifying issuer**:
- (a) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
  - (b) those that-
    - (i) have a **qualifying rating** of grade BBB+; and
    - (ii) are issued by an entity other than an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
  - (c) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**;
  - (d) those that-
    - (i) have a **qualifying rating** of a grade different to BBB+; and
    - (ii) are issued by an entity, other than an **EDB** or a **GPB** that is neither 100% owned by the Crown nor a **local authority**; and
  - (e) those that are-
    - (i) **investment grade credit rated**; and

- (ii) issued by an entity that is 100% 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);
- (b) the spread on any bond of the type described in subclause (4) that has a remaining term to maturity of less than 5 years will ordinarily be considered to be the minimum spread that would reasonably be expected to apply on an equivalently credit-rated bond issued by the same entity with a remaining term to maturity of 5 years; and
- (c) the **Commission** will adjust spreads observed on bonds described under subclauses (4)(b) to (4)(e) to approximate the spread that is likely to have been observed had the bonds in question been of the type described in subclause (4)(a).

#### 4.4.5 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 [XX]; 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-

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

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 has had and/or will 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 **forecast net allowable revenue** for the **disclosure years** of the **DPP** in which the cost was or will be incurred.

#### 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 either-
    - (e) necessitates incurring additional efficient reasonable costs in responding to the change or new requirement that has had and/or will have an impact on the price path of the **disclosure years** of the **DPP regulatory period** in which the change or new requirement applies of at least 1% of the aggregate amount of the **forecast net allowable revenue** for the **disclosure years** in which the net costs are or will be incurred; or
    - (f) prevents or materially hinders an **EDB** from achieving its quality standard for the **DPP regulatory period**;
    - (g) causes an **input methodology** to become incapable of being applied.

#### 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.

#### 4.5.4 Major transaction

‘Major transaction’ means a transaction, whether contingent or not, where additional consumers are acquired or disposed by the EDB 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 any either or both of-
  - ~~(i) the mean of SAIDI and SAIFI:  $\mu_{SAIDI}$  and  $\mu_{SAIFI}$ ;~~
  - ~~(ii) the standard deviation of SAIDI and SAIFI:  $\sigma_{SAIDI}$  and  $\sigma_{SAIFI}$ ;~~
  - (iii) the SAIDI and SAIFI limits;
  - (iv) the SAIDI and SAIFI targets;
  - (v) the SAIDI and SAIFI unplanned boundary values;
  - (vi) the SAIDI and SAIFI caps; and
  - (vii) the SAIDI and SAIFI collars,

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** 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) In assessing a **quality standard variation** proposal, the **Commission** will consider the extent to which-
- (a) the proposed **quality standard variation** better reflects the realistically achievable performance of the **EDB** over the remainder of the **regulatory period**;
  - (b) the **EDB** has consulted with **consumers** on its proposed **quality standard variation**; and
  - (c) the proposed **quality standard variation** is supported by **consumers**.

#### 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).
- (2) For the purpose of subclause (1)(b)(i), 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
    - (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**; or
  - (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.

## 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.

#### 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);

*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**.

#### 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.
- (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.

### 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**.

### 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**;
- (d) **maximum allowable revenue after tax** for the **CPP regulatory period**;
- and
- (e) **forecast allowable revenue** for the **CPP regulatory period**,

will be determined.

~~(2) For the purpose of subclause (1), necessary adjustments may be made to the **maximum allowable revenue before tax** and **maximum allowable revenue after tax** determined under this subpart to enable the setting of the **forecast allowable revenue** for the purpose of clause 3.1.1(1).~~

### 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-

$$\begin{aligned} & (\text{regulatory investment value} \times \text{cost of capital} + \text{total value of commissioned} \\ & \text{assets} \times (TF_{VCA} - 1) + \text{term credit spread differential allowance} \times TF - \text{total} \\ & \text{revaluation}) \div (TF_{rev} - \text{corporate tax rate} \times TF) \\ & + (\text{total depreciation} \times (1 - \text{corporate tax rate} \times TF) \\ & + \text{forecast operating expenditure} \times TF \times (1 - \text{corporate tax rate}) \\ & + (\text{closing deferred tax} - \text{opening deferred tax}) \times (TF - 1) \\ & + (\text{permanent differences} + \text{regulatory tax adjustments} - \text{utilised tax losses}) \times \\ & \text{corporate tax rate} \times TF) \div (TF_{rev} - \text{corporate tax rate} \times TF). \end{aligned}$$

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

$$\text{total opening RAB value} + \text{opening deferred tax.}$$

- (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-

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

- (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-

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

- (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' has the meaning specified in clause 5.3.22.
- (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 revenue after tax** must equal the present value of the series of **building blocks allowable revenue 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)-
  - (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 the cost of capital as specified in clause 5.3.22.
- (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) For the purpose of this subpart, 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) For the purpose of this subpart, the 'maximum allowable revenue before tax' for each **disclosure year** of the **CPP regulatory period** except the first must equal-
 
$$MAR_{y-1} \times (1 + \Delta CPI) \times (1 - X),$$
 where-
  - $MAR_{y-1}$  is the **maximum allowable revenue before tax** in the preceding **disclosure year**;
  - $\Delta CPI$  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**.

### 5.3.6 RAB roll forward

- (1) The opening RAB value of an asset in relation to-
  - (a) the **disclosure year** 2010, is the **initial RAB value**; and
  - (b) a **disclosure year** thereafter, is, where the **disclosure year**-
    - (i) follows a **disclosure year** in respect of which disclosure pursuant to an **ID determination** relating to that asset has been made, that asset's disclosed **closing RAB value**;
    - (ii) is the first **disclosure year** of the **next period** for which disclosure pursuant to an **ID determination** relating to that asset for the preceding **disclosure year** has not been made, determined in accordance with subclause (2); or
    - (iii) is any other **disclosure year**, the **closing RAB value** for the preceding **disclosure year**.

- (2) For the purpose of subclause (1)(b)(ii), the opening RAB value of an asset to which this subclause applies is determined as the value allocated to **electricity distribution services** as a result of applying clause 2.1.1 to its **unallocated closing RAB value** for the preceding **disclosure year**.
- (3) Closing RAB value means, subject to subclause (4), for an asset-
- (a) with an **opening RAB value**, the value determined in accordance with the formula-
    - opening RAB value - depreciation + revaluation;**
  - (b) having or forecast to have a **commissioning date** in that **disclosure year**, where the asset-
    - (i) has been **commissioned** by the date the **CPP application** is made, its **value of commissioned asset**; or
    - (ii) has not been **commissioned** by the date the **CPP application** is made, its **forecast value of commissioned asset**,

but only to the extent that the value would be included in the closing RAB value consistent with application of clause 2.1.1; or
  - (c) that is or is forecast to be a **disposed asset**, nil.
- (4) For the purpose of subclause (3), where a sale of the assets used to **supply electricity distribution services** and either or both-
- (a) an **other regulated service**; and
  - (b) an **unregulated service**,
- is
- (c) completed between the start of the **assessment period** and the time the **CPP application** is made; or
  - (d) **highly probable**,
- closing RAB value in respect of each asset not **directly attributable** affected by the sale is determined as the value allocated to **electricity distribution services** as a result of applying clause 2.1.1 in respect of its **unallocated closing RAB value** of the last **disclosure year** of the **assessment period**.
- (5) The unallocated opening RAB value of any asset in relation to-
- (a) the **disclosure year 2010**, is the **unallocated initial RAB value**;
  - (b) a **disclosure year** thereafter, is, where the **disclosure year**-
    - (i) follows a **disclosure year** in respect of which disclosure pursuant to an **ID determination** relating to that asset has been made, that asset's disclosed **unallocated closing RAB value**; and

- (ii) is any other **disclosure year**, its **unallocated closing RAB value** in the preceding **disclosure year**.
- (6) Unallocated closing RAB value means, in relation to-
- (a) an asset that is or is forecast to be a **disposed asset**, nil;
  - (b) any other asset with an **unallocated opening RAB value**, the value determined in accordance with the formula-
 
$$\text{unallocated opening RAB value} - \text{unallocated depreciation} + \text{unallocated revaluation};$$
 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

[Drafting Notes: Please see the extensive mark ups to this clause, and related definitions in Clause 1.1.4 set out in the ENA's August submission on the Draft Determination]

- (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**.

#### 5.3.9 Unallocated depreciation constraint

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

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

#### 5.3.10 Revaluation

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

**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 CPP revaluation** for the quarter that coincides with the end of the **disclosure year**; and

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

- (5) Forecast CPI for CPP revaluation means, for the purpose of subclause (4), when calculating the **revaluation rate**-

- (a) in the **CPP regulatory period** and up to the end of the **DPP regulatory period**, as for **forecast CPI for DPP revaluation** in accordance with clause 4.2.3(4)(a); and
- ~~(b) for 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 paragraph (a) extended by the forecast change; and~~
- (c) 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 ~~in respect of later quarters, the forecast last applying under paragraph (b) 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 paragraph (b).~~

#### 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-

- (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**;

- (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**; and

- (j) a **finance lease** excludes the value of any asset for which annual charges are a **recoverable cost** under clause 3.1.3(1)(c).
- (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 forecast 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.

(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**.

(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-

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

where-

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

### 5.3.14 Tax losses

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

**((regulatory investment value + RAB proportionate investment) x leverage x cost of debt) + term credit spread differential allowance)**

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**√(1 + 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 ÷ opening 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 subclause (1), 'opening weighted average remaining useful life of relevant assets' means-
- $q = a - b$
- where:
- $a$  = the 2010 weighted average **remaining asset life** of assets included in the initial RAB calculated by using **initial RAB values** as weights
- $b$  = **disclosure year** less 2010.
- (5) 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.

- (6) 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**.

- (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**.

##### **5.3.23 Methodology for estimating term credit spread differential**

'Term credit spread differential' is the amount determined for a **qualifying supplier** in accordance with the formula-

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

where-

- (a) 'A' is the sum of the **term credit spread difference**;
- (b) 'B' is the book value of the **qualifying supplier's** total interest-bearing debt as at the balance date of 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**.

##### **5.3.24 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-
$$[XX] \times (\text{original tenor of the } \mathbf{qualifying\ debt} - 5);$$
  - (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.

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

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

### SECTION 5 Alternative methodologies with equivalent effect

#### 5.3.26 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**.
- (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.

#### 5.4.2 Reasons for the proposal

A **CPP proposal** must contain a-

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

#### 5.4.3 Information regarding priority of proposal

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

#### 5.4.4 Duration of regulatory period

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

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

## SECTION 2 Information regarding quality

### 5.4.5 Information on proposed quality standard variation

Where a **CPP applicant** seeks a **quality standard variation** 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  $\mu_{SAIFI}$ ;~~
  - ~~(ii) the standard deviation of SAIDI and SAIFI:  $\sigma_{SAIDI}$  and  $\sigma_{SAIFI}$ ;~~
  - (iii) the SAIDI and SAIFI limits;
  - (iv) the SAIDI and SAIFI targets;
  - (v) the SAIDI and SAIFI unplanned boundary values;
  - (vi) the SAIDI and SAIFI caps; and
  - (vii) the SAIDI and SAIFI collars,

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** by use of historic data, by contrast with the quality standards specified in the **DPP determination**.

## SECTION 3 Price path information

### 5.4.6 Interpretation

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

### 5.4.7 Proposed building blocks allowable revenue

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

- (a) **building blocks allowable revenue before tax** for each **disclosure year** of the **next period**; and
  - (b) **building blocks allowable revenue after tax** for each **disclosure year** of the **next period**.
- (2) Subject to subclause (4), 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 which -
  - (a) clearly demonstrates how **building blocks allowable revenue before tax** and **building blocks allowable revenue after tax** for each **disclosure year** of the **next period** have been derived using the formulae specified in clauses 5.3.2 and 5.3.3; and
  - (b) where data has been computed or derived from other values on the spreadsheet through the use of formulae, makes the underlying formulae accessible.
- (4) Where the information specified in subclause (2) is included in a **CPP proposal** in a spreadsheet format-
  - (a) the information must be cross-referenced in the text of the **CPP proposal** document; and
  - (b) the spreadsheet(s) must-
    - (i) provide cross-references to any **CPP** information requirement **input methodology** that the spreadsheet satisfies;
    - (ii) use terms and labels, consistent with the terminology in the **input methodologies**;
    - (iii) identify and explain the source inputs, and outputs, of each spreadsheet;

- (iv) produce all of the intermediate outputs, as set out in Part 5, Subpart 3 and Part 5, Subpart 4; and
- (v) demonstrate links and interdependencies between source inputs, intermediate calculations and outputs.

#### 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**-
  - (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: Allocation of asset values;*
  - (ii) *Table 2: Report supporting allocations of asset values (non-public);*
  - (iii) *Table 3: Allocation of operating costs;*
  - (iv) *Table 4: Report supporting allocation of operating costs (non-public);*  
and
  - (v) *Table 5: Rationale for selecting proxy allocator.*
- (3) Subject to subclause (7), 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: Revised allocation of regulated asset values;*
  - (d) *Table 2: Report supporting revised allocations of asset values (non-public);*
  - (e) *Table 3: Revised allocation of operating costs; and*
  - (f) *Table 4: Report supporting revised allocation of operating costs (non-public); and*
  - (g) *Table 5: Rationale for selecting proxy allocator.*
- (4) For the purpose of this clause-
- (a) the information specified in the tables of the schedules referred to must be provided on spreadsheets;
  - (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;
  - (c) the information specified in Table 2 and Table 4 of Schedule B and Table 2 and Table 4 of Schedule C may be provided by way of non-public disclosure to the **Commission**; and
  - (d) the information in Schedule B must be provided-
    - (i) for the **disclosure year** prior to submitting the **CPP proposal** if it has not been disclosed in accordance with an **ID determination**;
    - ~~(ii) in the next period where there is a change in the allocation methodology type; and~~

~~(iii) in the next period where the allocator metric changes by at least 5%.~~

- (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**.
- (7) The information in Schedule C is not required where the value of the assets to be sold as specified in clause 5.3.6(4) is less than 5% of the **unallocated closing RAB value** for the last **disclosure year** of the **assessment period**.

#### 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 2.1.4) 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 2.1.4) not been made: *[list relevant unregulated services]*."

## **SECTION 5 Asset valuation information**

### **5.4.11 RAB roll forward information**

For each **disclosure year**, after the last disclosure made under an **ID determination**, until the last **disclosure year** of the **next period**, provide values, in accordance with Subpart 3 Section 2, for the-

- (a) **total opening RAB value**; and
- (b) 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**, the **CPP applicant** must provide the information specified in this clause.
- (2) The sum of **depreciation**
  - (a) by either **asset category** or each type of asset for which the proposed method of determining depreciation is the **standard depreciation method**; and

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

#### 5.4.13 Revaluation information

- (1) For each **disclosure year**, after the last disclosure made under an **ID determination**, until the last **disclosure year** of the **next period**, provide the following:
- (a) sum of **opening RAB values**;
  - (b) **forecast CPI for CPP revaluation** for the last quarter of the **disclosure year**;
  - (c) **forecast CPI for CPP revaluation** for the last quarter of the preceding **disclosure year**; and
  - (d) **revaluation rate**.

#### 5.4.14 Commissioned assets information

- (1) For each **disclosure year**, after the last disclosure made under an **ID determination**, until the last **disclosure year** of the **next period**, provide the-
  - (a) sum of **value of commissioned assets**; and
  - (b) sum of **forecast value of commissioned assets**,in respect of each of the following groups of assets:
  - (c) 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**;
  - (d) 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**;
  - (e) **network spares**; and
  - (f) all other assets having a **commissioning date** or forecast to have a **commissioning date** in that period.
- (2) In respect of each value provided in accordance with subclause (1) provide-
  - (a) all data, information, calculations and assumptions used to derive it from relevant data provided in the **capex forecast**; and
  - (b) where **capital contributions** are taken into account in any value disclosed pursuant to subclause (1)-
    - (i) the amount of such **capital contributions**, with respect to asset types and quantities; and
    - (ii) policies relevant to such **capital contributions**.
- (3) In respect of each asset to which subclause (1)(e) applies, provide—
  - (a) the name of the relevant **person** or other part of the **EDB**, as the case may be; and
  - (b) where the acquisition was or is intended to be from a **related 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) For each **disclosure year**, after the last disclosure made under an **ID determination**, until the last **disclosure year** of the **next period**, in respect of each of the following groups of assets:

- (a) assets likely to be-
  - (i) sold to a **related party**; or
  - (ii) transferred to another part of the **EDB**; and
- (b) all other **disposed assets**,

provide the-

- (c) sum of **unallocated opening RAB values**; and
- (d) 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**.

#### 5.4.16 Works under construction information

For each **disclosure year**, after the last disclosure made under an **ID determination**, until the last **disclosure year** of the **next period**, provide-

- (a) **opening works under construction**;
- (b) sum of **capital expenditure**;
- (c) 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**;
- (d) 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(b)(ii); and
- (e) 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 for each **disclosure year**, after the last disclosure made under an **ID determination**, until 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**.

## SECTION 8 Expenditure information

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

The information specified in Schedule D must be-

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

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

(1) A **CPP proposal** must contain the information specified in the **regulatory templates** and that information must be-

- (a) in spreadsheet format whereby each item of data is linked between all cells to which it is relevant, irrespective of whether such cells are on the same or different tabs; and
- (b) provided in accordance with the instructions specified in clause 5.4.30.

(2) Regulatory templates means the tables included in Schedule E named-

- (a) *Table 1: 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 categories;*
- (f) *Table 6: Opex projects and programmes;*
- (g) *Table 7: Non-network opex;*
- (h) *Table 8: Aggregate forecast commissioned assets by asset categories;*
- (i) *Table 9: Cost escalation factors;* and
- (j) *Table 10: Network demand forecasts.*

(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

[Drafting suggestion – reorder this section so that the references to the Tables are sequential]

- (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 categories* of the **regulatory templates**.
  - (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: Cost escalation factors* of the **regulatory templates** for each of the cost escalators used to convert ~~real~~ constant prices to nominal prices.
  - (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) Provide the information specified in *Table 8: Aggregate forecast commissioned assets by asset categories* of the **regulatory templates**.
  - (10) Provide the information specified in *Table 10: Network demand forecasts* of the **regulatory templates**.
  - (11) For the purposes of subclauses (1) and (9), where applicable, the values in *Table 2: Capex summary* must reconcile with the total values in *Table 4: Capex projects and programmes* and *Table 8: Aggregate forecast commissioned assets by asset categories* of the **regulatory templates**.

## **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-

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

#### 5.4.32 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 5.3.26, 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).

### **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** where these are

directly associated with the rationale for seeking the **CPP proposal**, as required to be disclosed under clause 5.4.2;

- (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;
  - (e) where and how further information in respect of the intended **CPP proposal** may be obtained;
  - (f) of the process for making submissions to the **EDB** in respect of the intended **CPP proposal**; and
  - (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**.
- (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.
- (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**.
- (2) The **verifier** must be engaged in accordance with Schedule F.
- (3) The **CPP applicant** must provide the **verifier** with-
  - (a) the materials-
    - (i) required by the **verifier** to verify the **CPP proposal** in accordance with the terms of his, her or its engagement and Schedule G; and
    - (ii) that it intends to submit to the **Commission** as a **CPP proposal**;

- (b) subject to paragraph (c), the materials referred to in paragraph (a) prior to the **verifier** commencing verification in accordance with Schedule G;
- (c) upon the **verifier's** request, the information described in clause D10 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); and
- (e) in advance of the **verifier's** selection of **identified programmes**, summary information on the forecast **projects** and **programmes**, in the format specified in *Table 1: Projects and programmes* of the **regulatory templates**.

### 5.5.3 Audit and assurance

- (1) A **CPP application** 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.
- (2) For the avoidance of doubt, the **auditor** must provide an opinion as to whether-
  - (a) in respect of **operating costs** not **directly attributable**, the **opex forecast** was provided by the **CPP applicant** as specified in clause 5.3.5; and

- (b) in respect of **regulated service asset values** not **directly attributable**, the **forecast value of commissioned assets** were provided by the **CPP applicant** in accordance with clause ~~5.4.14~~ 5.3.6(3)(b) and as specified in clause 5.3.11(2)(b).

#### 5.5.4 Certification

- (1) In the case of all information of a quantitative nature, other than forecast information, provided in accordance with this Part, no fewer than 2 **directors** of the **CPP applicant** must certify in writing his or her belief that-
  - (a) the information was derived and is provided in accordance with the relevant requirements; and
  - (b) it properly represents the results of financial or non-financial operations as the case may be.
- (2) In the case of all information of a qualitative nature, other than forecast information, provided in accordance with this Part, no fewer than 2 **directors** of the **CPP applicant** must certify in writing his or her belief that-
  - (a) the information is provided in accordance with the relevant requirements; and
  - (b) it properly represents the events that occurred during the **current period**.
- (3) In the case of all forecast information provided in accordance with this Part, no fewer than 2 **directors** of the **CPP applicant** must certify in writing his or her belief that-
  - (a) the information was derived and is provided in accordance with the relevant requirements; and
  - (b) the assumptions made are reasonable.
- (4) No fewer than 2 **directors** of the **CPP applicant** must certify in writing-
  - (a) that, to the best of his or her knowledge, the **verifier** was engaged by the **CPP applicant** in accordance with Schedule F;
  - (b) that, to the best of his or her knowledge, the **CPP applicant** provided the **verifier** with all the information specified in Part 5, including its schedules, relevant to Schedule F;
  - (c) that, to the best of his or her knowledge, the information described in clause 5.5.2(3)(e) 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;
  - (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) the cost of remediation net of any insurance or compensatory entitlements has had or will 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.

#### 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 either-
  - (e) necessitates incurring additional ~~efficient reasonable~~ costs in responding to the change or new requirement that has an impact on the price path of the **disclosure years** of the **CPP regulatory period** in which the change or new requirement applies of at least 1% of the aggregate amount of the **forecast allowable revenue** for the **disclosure years** in which the net costs are or will be incurred; or
  - (f) causes an **input methodology** to become incapable of being applied.

#### 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 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 additional consumers are acquired or disposed by the EDB ~~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
    - (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), or (5) 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**.
- (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 or dates on which it occurred;
  - (b) detailed cost information relating to proposed expenditure on the **contingent project** for its duration; and
  - (c) any other information of relevance to the **contingent project** 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 of relevance to the **unforeseen project** required by the **Commission**.

#### 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).
- (2) In determining the extent of any amendment to the price path, the **Commission** must take into account the **expenditure objective**.
- (3) The **Commission** must not amend the-
- (a) price path more than is reasonably necessary to take account of the change in costs net of any insurance or compensatory entitlements; and
  - (b) quality standards more than are reasonably necessary to take into account any necessary change in quality,
- arising from-
- (c) the **catastrophic event**;
  - (d) the **change event**;
  - (e) 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.
- (4) 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;

- (b) pursuant to the occurrence of an **unforeseen project**-
    - (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**.
- (5) Where the **Commission's** reconsideration of the price-quality path was triggered by a **WACC change**, the **Commission** will for the remaining **disclosure 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(6) and determine any consequential changes to the **forecast allowable revenue** for the remaining **disclosure years** of the **CPP regulatory period**; 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 DPP revaluation** 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);
    - (iv) the **cost of debt** for the **DPP regulatory period** referred to in clause 5.3.16(2); to calculate notional deductible interest
    - (v) 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
    - (vi) 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**

TYPE OF ASSET	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
Gas cables	70
Fluid-filled cables	60
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

<b>TYPE OF ASSET</b>	<b>STANDARD PHYSICAL ASSET LIFE (YEARS)</b>
Circuit/Transformer/Feeder/Bus Section/Coupler Protection & Controls - Digital	20
<i>Outdoor Structure (if not included in category above):</i>	
Concrete pole	60
Wood pole	45
Ripple Injection Plant	20
DC Supplies, Batteries and Inverters	20
Other Items	40
<b>DISTRIBUTION LINES</b>	
<i>22/11 kV O/H, single phase or SWER lines:</i>	
Concrete pole	60
Wood pole	45
<b>DISTRIBUTION CABLES</b>	
<i>22/11 kV Cables:</i>	
XLPE installed prior to 1985	45
XLPE installed in or after 1985	55
PILC	70
<b>DISTRIBUTION SWITCHGEAR</b>	
22 / 11 kV Disconnecter 3ph, 2ph (Excl Pole)	35
22 / 11 kV Load Break Switch (Excl Pole)	35
22 / 11 kV Dropout Fuse 3ph, 2ph (Excl Pole)	35
22 / 11 kV Sectionaliser (Excl Pole)	40
22 / 11 kV Recloser (Excl Pole)	40
Voltage Regulator	55
Ring Main Unit – 3 Way	40
Extra Oil Switch	40
Extra Fuse Switch	40

TYPE OF ASSET	STANDARD PHYSICAL ASSET LIFE (YEARS)
<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 and / or wider Network Communications Equipment)	15

**Table A.2: Asset lives for CPP commissioned assets**

<b>Asset category</b>	<b>Asset life for CPP commissioned asset</b>
a. Subtransmission lines	55
b. Subtransmission cables	55
c. Zone substations	45
d. Distribution and LV lines	60
e. Distribution and LV cables	55
f. Distribution substations and transformers	45
g. Distribution switchgear	40
h. Other network assets	25
i. Non-network assets	15

## SCHEDULE B COST ALLOCATION INFORMATION

**Table 1: Allocation of asset values**

Table 1: Allocation of asset values	Value allocated (\$000s) Electricity distribution services
<b>Subtransmission lines</b>	
Directly attributable	-
Not directly attributable	-
<b>Total attributable to regulated service</b>	-
<b>Subtransmission cables</b>	
Directly attributable	-
Not directly attributable	-
<b>Total attributable to regulated service</b>	-
<b>Zone substations</b>	
Directly attributable	-
Not directly attributable	-
<b>Total attributable to regulated service</b>	-
<b>Distribution and LV lines</b>	
Directly attributable	-
Not directly attributable	-
<b>Total attributable to regulated service</b>	-
<b>Distribution and LV cables</b>	
Directly attributable	-
Not directly attributable	-
<b>Total attributable to regulated service</b>	-
<b>Distribution substations and transformers</b>	
Directly attributable	-
Not directly attributable	-
<b>Total attributable to regulated service</b>	-
<b>Distribution switchgear</b>	
Directly attributable	-
Not directly attributable	-
<b>Total attributable to regulated service</b>	-
<b>Other network assets</b>	
Directly attributable	-
Not directly attributable	-
<b>Total attributable to regulated service</b>	-
<b>Non-network assets</b>	
Directly attributable	-
Not directly attributable	-
<b>Total attributable to regulated service</b>	-
<b>Regulated service asset value directly attributable</b>	-
<b>Regulated service asset value not directly attributable</b>	-
<b>Total closing RAB value</b>	-

**Table 2: Report supporting allocations of asset values (non-public)**

**Table 2: Report supporting allocations of asset values (non-public)**

Asset description	Allocation methodology type	Allocator	Allocator type	Allocator Metric (%)			Value allocated (\$000)			OVABAA allocation increase (\$000)
				Electricity distribution services	Non-electricity distribution services	Arm's length deduction	Electricity distribution services	Non-electricity distribution services	Total	
<b>Subtransmission lines</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							
Insert asset description	e.g. ABAA	Allocator 2	Select one							
Insert asset description	e.g. ABAA	Allocator 3	Select one							
Insert asset description	e.g. ABAA	Allocator 4	Select one							
Subtotal not directly attributable										
<b>Subtransmission cables</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							
Insert asset description	e.g. ABAA	Allocator 2	Select one							
Insert asset description	e.g. ABAA	Allocator 3	Select one							
Insert asset description	e.g. ABAA	Allocator 4	Select one							
Subtotal not directly attributable										
<b>Zone substations</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							
Insert asset description	e.g. ABAA	Allocator 2	Select one							
Insert asset description	e.g. ABAA	Allocator 3	Select one							
Insert asset description	e.g. ABAA	Allocator 4	Select one							
Subtotal not directly attributable										
<b>Distribution and LV lines</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							
Insert asset description	e.g. ABAA	Allocator 2	Select one							
Insert asset description	e.g. ABAA	Allocator 3	Select one							
Insert asset description	e.g. ABAA	Allocator 4	Select one							
Subtotal not directly attributable										
<b>Distribution and LV cables</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							
Insert asset description	e.g. ABAA	Allocator 2	Select one							
Insert asset description	e.g. ABAA	Allocator 3	Select one							
Insert asset description	e.g. ABAA	Allocator 4	Select one							
Subtotal not directly attributable										
<b>Distribution substations and transformers</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							
Insert asset description	e.g. ABAA	Allocator 2	Select one							
Insert asset description	e.g. ABAA	Allocator 3	Select one							
Insert asset description	e.g. ABAA	Allocator 4	Select one							
Subtotal not directly attributable										
<b>Distribution switchgear</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							
Insert asset description	e.g. ABAA	Allocator 2	Select one							
Insert asset description	e.g. ABAA	Allocator 3	Select one							
Insert asset description	e.g. ABAA	Allocator 4	Select one							
Subtotal not directly attributable										
<b>Other network assets</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							
Insert asset description	e.g. ABAA	Allocator 2	Select one							
Insert asset description	e.g. ABAA	Allocator 3	Select one							
Insert asset description	e.g. ABAA	Allocator 4	Select one							
Subtotal not directly attributable										
<b>Non-network assets</b>										
Insert asset description	e.g. ABAA	Allocator 1	Select one							
Insert asset description	e.g. ABAA	Allocator 2	Select one							
Insert asset description	e.g. ABAA	Allocator 3	Select one							
Insert asset description	e.g. ABAA	Allocator 4	Select one							
Subtotal not directly attributable										
Total regulated service asset value not directory attributable										

*\* include additional rows if needed*

**Table 3: Allocation of operating costs**

	Value allocated (\$000s)				OVABAA allocation increase (\$000s)
	Arm's length deduction	Electricity distribution services	Non-electricity distribution services	Total	
<b>Service interruptions and emergencies</b>					
Directly attributable					
Not directly attributable				-	
<b>Total attributable to regulated service</b>		-			
<b>Vegetation management</b>					
Directly attributable					
Not directly attributable				-	
<b>Total attributable to regulated service</b>		-			
<b>Routine and corrective maintenance and inspection</b>					
Directly attributable					
Not directly attributable				-	
<b>Total attributable to regulated service</b>		-			
<b>Asset replacement and renewal</b>					
Directly attributable					
Not directly attributable				-	
<b>Total attributable to regulated service</b>		-			
<b>System operations and network support</b>					
Directly attributable					
Not directly attributable				-	
<b>Total attributable to regulated service</b>		-			
<b>Business support</b>					
Directly attributable					
Not directly attributable				-	
<b>Total attributable to regulated service</b>		-			
<b>Operating costs directly attributable</b>		-			
<b>Operating costs not directly attributable</b>	-	-	-	-	-
<b>Operational expenditure</b>		-			

**Table 4: Report supporting allocation of operating costs (non-public)**

**Table 4: Report supporting allocation of operating costs (non-public)**  
 This table requires additional detail on the asset allocation methodology applied in allocating asset values that are not directly attributable, to support the information provided in Table 3.

Cost description	Allocation methodology type	Cost allocator	Allocator type	Allocator Metric (%)		Value allocated (\$000)				OVABAA allocation increase (\$000)
				Electricity distribution services	Non-electricity distribution services	Arm's length deduction	Electricity distribution services	Non-electricity distribution services	Total	
<b>Service interruptions and emergencies</b>										
Insert cost description	e.g. ABAA	Allocator 1	Select one							-
Insert cost description	e.g. ABAA	Allocator 2	Select one							-
Insert cost description	e.g. ABAA	Allocator 3	Select one							-
Insert cost description	e.g. ABAA	Allocator 4	Select one							-
Not directly attributable						-	-	-	-	-
<b>Vegetation management</b>										
Insert cost description	e.g. ABAA	Allocator 1	Select one							-
Insert cost description	e.g. ABAA	Allocator 2	Select one							-
Insert cost description	e.g. ABAA	Allocator 3	Select one							-
Insert cost description	e.g. ABAA	Allocator 4	Select one							-
Not directly attributable						-	-	-	-	-
<b>Routine and corrective maintenance and inspection</b>										
Insert cost description	e.g. ABAA	Allocator 1	Select one							-
Insert cost description	e.g. ABAA	Allocator 2	Select one							-
Insert cost description	e.g. ABAA	Allocator 3	Select one							-
Insert cost description	e.g. ABAA	Allocator 4	Select one							-
Not directly attributable						-	-	-	-	-
<b>Asset replacement and renewal</b>										
Insert cost description	e.g. ABAA	Allocator 1	Select one							-
Insert cost description	e.g. ABAA	Allocator 2	Select one							-
Insert cost description	e.g. ABAA	Allocator 3	Select one							-
Insert cost description	e.g. ABAA	Allocator 4	Select one							-
Not directly attributable						-	-	-	-	-
<b>System operations and network support</b>										
Insert cost description	e.g. ABAA	Allocator 1	Select one							-
Insert cost description	e.g. ABAA	Allocator 2	Select one							-
Insert cost description	e.g. ABAA	Allocator 3	Select one							-
Insert cost description	e.g. ABAA	Allocator 4	Select one							-
Not directly attributable						-	-	-	-	-
<b>Business support</b>										
Insert cost description	e.g. ABAA	Allocator 1	Select one							-
Insert cost description	e.g. ABAA	Allocator 2	Select one							-
Insert cost description	e.g. ABAA	Allocator 3	Select one							-
Insert cost description	e.g. ABAA	Allocator 4	Select one							-
Not directly attributable						-	-	-	-	-
Operating costs not directly attributable						-	-	-	-	-



## SCHEDULE C COST ALLOCATION INFORMATION

**Table 1: Revised allocation of regulated asset values**

	Value allocated (\$000s) Electricity distribution services	Revised value allocated (\$000s) Electricity distribution services
<b>Subtransmission lines</b>		
Directly attributable		
Not directly attributable		
<b>Total attributable to regulated service</b>	-	-
<b>Subtransmission cables</b>		
Directly attributable		
Not directly attributable		
<b>Total attributable to regulated service</b>	-	-
<b>Zone substations</b>		
Directly attributable		
Not directly attributable		
<b>Total attributable to regulated service</b>	-	-
<b>Distribution and LV lines</b>		
Directly attributable		
Not directly attributable		
<b>Total attributable to regulated service</b>	-	-
<b>Distribution and LV cables</b>		
Directly attributable		
Not directly attributable		
<b>Total attributable to regulated service</b>	-	-
<b>Distribution substations and transformers</b>		
Directly attributable		
Not directly attributable		
<b>Total attributable to regulated service</b>	-	-
<b>Distribution switchgear</b>		
Directly attributable		
Not directly attributable		
<b>Total attributable to regulated service</b>	-	-
<b>Other network assets</b>		
Directly attributable		
Not directly attributable		
<b>Total attributable to regulated service</b>	-	-
<b>Non-network assets</b>		
Directly attributable		
Not directly attributable		
<b>Total attributable to regulated service</b>	-	-
<b>Regulated service asset value directly attributable</b>	-	-
<b>Regulated service asset value not directly attributable</b>	-	-
<b>Total closing RAB value</b>	-	-

**Table 2: Report supporting revised allocations of asset values (non-public)**

**Table 2: Report supporting revised allocations of asset values (non-public)**

Asset description	Previous allocation					Revised allocation				
	Allocation methodology type	Allocator	Allocator type	Electricity distribution services	Non-electricity distribution services	Allocation methodology type	Allocator	Allocator type	Electricity distribution services	Non-electricity distribution services
<b>Subtransmission lines</b>										
Insert asset description	e.g. ABAA	Allocator 1	(Select one)							
Insert asset description	e.g. ABAA	Allocator 2	(Select one)							
Insert asset description	e.g. ABAA	Allocator 3	(Select one)							
Insert asset description	e.g. ABAA	Allocator 4	(Select one)							
Subtotal not directly attributable										
<b>Subtransmission cables</b>										
Insert asset description	e.g. ABAA	Allocator 1	(Select one)							
Insert asset description	e.g. ABAA	Allocator 2	(Select one)							
Insert asset description	e.g. ABAA	Allocator 3	(Select one)							
Insert asset description	e.g. ABAA	Allocator 4	(Select one)							
Subtotal not directly attributable										
<b>Zone substations</b>										
Insert asset description	e.g. ABAA	Allocator 1	(Select one)							
Insert asset description	e.g. ABAA	Allocator 2	(Select one)							
Insert asset description	e.g. ABAA	Allocator 3	(Select one)							
Insert asset description	e.g. ABAA	Allocator 4	(Select one)							
Subtotal not directly attributable										
<b>Distribution and LV lines</b>										
Insert asset description	e.g. ABAA	Allocator 1	(Select one)							
Insert asset description	e.g. ABAA	Allocator 2	(Select one)							
Insert asset description	e.g. ABAA	Allocator 3	(Select one)							
Insert asset description	e.g. ABAA	Allocator 4	(Select one)							
Subtotal not directly attributable										
<b>Distribution and LV cables</b>										
Insert asset description	e.g. ABAA	Allocator 1	(Select one)							
Insert asset description	e.g. ABAA	Allocator 2	(Select one)							
Insert asset description	e.g. ABAA	Allocator 3	(Select one)							
Insert asset description	e.g. ABAA	Allocator 4	(Select one)							
Subtotal not directly attributable										
<b>Distribution substations and transformers</b>										
Insert asset description	e.g. ABAA	Allocator 1	(Select one)							
Insert asset description	e.g. ABAA	Allocator 2	(Select one)							
Insert asset description	e.g. ABAA	Allocator 3	(Select one)							
Insert asset description	e.g. ABAA	Allocator 4	(Select one)							
Subtotal not directly attributable										
<b>Distribution switchgear</b>										
Insert asset description	e.g. ABAA	Allocator 1	(Select one)							
Insert asset description	e.g. ABAA	Allocator 2	(Select one)							
Insert asset description	e.g. ABAA	Allocator 3	(Select one)							
Insert asset description	e.g. ABAA	Allocator 4	(Select one)							
Subtotal not directly attributable										
<b>Other network assets</b>										
Insert asset description	e.g. ABAA	Allocator 1	(Select one)							
Insert asset description	e.g. ABAA	Allocator 2	(Select one)							
Insert asset description	e.g. ABAA	Allocator 3	(Select one)							
Insert asset description	e.g. ABAA	Allocator 4	(Select one)							
Subtotal not directly attributable										
<b>Non-network assets</b>										
Insert asset description	e.g. ABAA	Allocator 1	(Select one)							
Insert asset description	e.g. ABAA	Allocator 2	(Select one)							
Insert asset description	e.g. ABAA	Allocator 3	(Select one)							
Insert asset description	e.g. ABAA	Allocator 4	(Select one)							
Subtotal not directly attributable										
Total regulated service asset value not directly attributable										
*Include additional rows if needed										

**Table 3: Revised allocation of operating costs**

	Value allocated (\$000s)					Revised value allocated (\$000s)				
	Arm's length deduction	Electricity distribution services	Non-electricity distribution services	Total	OVABAA allocation increase (\$000s)	Arm's length deduction	Electricity distribution services	Non-electricity distribution services	Total	OVABAA allocation increase (\$000s)
<b>Service interruptions and emergencies</b>										
Directly attributable										
Not directly attributable										
<b>Total attributable to regulated service</b>		-					-			
<b>Vegetation management</b>										
Directly attributable										
Not directly attributable										
<b>Total attributable to regulated service</b>		-					-			
<b>Routine and corrective maintenance and inspection</b>										
Directly attributable										
Not directly attributable										
<b>Total attributable to regulated service</b>		-					-			
<b>Asset replacement and renewal</b>										
Directly attributable										
Not directly attributable										
<b>Total attributable to regulated service</b>		-					-			
<b>System operations and network support</b>										
Directly attributable										
Not directly attributable										
<b>Total attributable to regulated service</b>		-					-			
<b>Business support</b>										
Directly attributable										
Not directly attributable										
<b>Total attributable to regulated service</b>		-					-			
<b>Operating costs directly attributable</b>		-					-			
<b>Operating costs not directly attributable</b>	-	-	-	-	-	-	-	-	-	-
<b>Operational expenditure</b>		-					-			

**Table 4: Report supporting revised allocation of operating costs (non-public)**

**Drafting notes**

Remove the repeated heading, and the explanation which follows it, which incorrectly refers to asset allocations, and is inconsistent with the other tables in this section, which include no such explanation

**Table 4: Report supporting revised allocation of operating costs (non-public)**  
 This table requires additional detail on the asset allocation methodology applied in allocating asset values that are not directly attributable, to support the information provided in Table 3.

Cost description	Previous allocation					Revised allocation					
	Allocation methodology type	Cost allocator	Allocator type	Electricity distribution services	Non-electricity distribution services	Allocation methodology type	Cost allocator	Allocator type	Electricity distribution services	Non-electricity distribution services	
<b>Service interruptions and emergencies</b>											
Insert cost description	e.g. ABAA	Allocator 1				e.g. ABAA	Allocator 1				
Insert cost description	e.g. ABAA	Allocator 2				e.g. ABAA	Allocator 2				
Insert cost description	e.g. ABAA	Allocator 3				e.g. ABAA	Allocator 3				
Insert cost description	e.g. ABAA	Allocator 4				e.g. ABAA	Allocator 4				
Not directly attributable											
<b>Vegetation management</b>											
Insert cost description	e.g. ABAA	Allocator 1				e.g. ABAA	Allocator 1				
Insert cost description	e.g. ABAA	Allocator 2				e.g. ABAA	Allocator 2				
Insert cost description	e.g. ABAA	Allocator 3				e.g. ABAA	Allocator 3				
Insert cost description	e.g. ABAA	Allocator 4				e.g. ABAA	Allocator 4				
Not directly attributable											
<b>Routine and corrective maintenance and inspection</b>											
Insert cost description	e.g. ABAA	Allocator 1				e.g. ABAA	Allocator 1				
Insert cost description	e.g. ABAA	Allocator 2				e.g. ABAA	Allocator 2				
Insert cost description	e.g. ABAA	Allocator 3				e.g. ABAA	Allocator 3				
Insert cost description	e.g. ABAA	Allocator 4				e.g. ABAA	Allocator 4				
Not directly attributable											
<b>Asset replacement and renewal</b>											
Insert cost description	e.g. ABAA	Allocator 1				e.g. ABAA	Allocator 1				
Insert cost description	e.g. ABAA	Allocator 2				e.g. ABAA	Allocator 2				
Insert cost description	e.g. ABAA	Allocator 3				e.g. ABAA	Allocator 3				
Insert cost description	e.g. ABAA	Allocator 4				e.g. ABAA	Allocator 4				
Not directly attributable											
<b>System operations and network support</b>											
Insert cost description	e.g. ABAA	Allocator 1				e.g. ABAA	Allocator 1				
Insert cost description	e.g. ABAA	Allocator 2				e.g. ABAA	Allocator 2				
Insert cost description	e.g. ABAA	Allocator 3				e.g. ABAA	Allocator 3				
Insert cost description	e.g. ABAA	Allocator 4				e.g. ABAA	Allocator 4				
Not directly attributable											
<b>Business support</b>											
Insert cost description	e.g. ABAA	Allocator 1				e.g. ABAA	Allocator 1				
Insert cost description	e.g. ABAA	Allocator 2				e.g. ABAA	Allocator 2				
Insert cost description	e.g. ABAA	Allocator 3				e.g. ABAA	Allocator 3				
Insert cost description	e.g. ABAA	Allocator 4				e.g. ABAA	Allocator 4				
Not directly attributable											
Operating costs not directly attributable						Operating costs not directly attributable					



## 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 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 **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);
- (b) finance and regulation including compliance activities, valuations and auditing;

- (c) chief executive and director costs;
- (d) legal services;
- (e) consulting services (excluding engineering/technical consulting);
- (f) property management;
- (g) corporate communications;
- (h) corporate information technology;
- (i) industry liaison and participation;
- (j) commercial activities including pricing, billing, revenue collection and marketing; and
- (k) 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**;

**constant prices** means prices expressed in New Zealand dollars as at the mid-point of the first year of the **assessment period**, and constant price expenditure forecasts are forecasts based on constant price assumptions

**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;

**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-

- (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**;

**nominal prices** means New Zealand dollar prices applied or expected to apply in the year of the transaction and nominal price expenditure forecasts are forecasts based on nominal price assumptions

**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;**

**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;
- (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-

- (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, except where limited by subclause (5); 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
  - (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) providing the information required by this schedule separately from its **asset management plan**.
- (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) Detailed information described in clause D10 in relation to **identified programmes**-
- (a) need only be provided to the **verifier** upon the **verifier's** request; and
  - (b) must 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;
  - (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.
- (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 the **disclosure years** 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**.
- (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;
  - (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**.

#### **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** 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;
    - (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; and
  - (iii) 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.

**D12 Related parties**

- (1) Identify and describe all **related parties** in respect of whom costs are disclosed for the last **disclosure year** of the **current period**.
- (2) Describe, at an aggregate level, the-
  - (a) nature of the **services** undertaken by all **related party** in the last year of the **current period**; and
  - (b) processes for procuring **services** undertaken by **related parties** or **prospective related parties** during the last year of the **current period** and the **assessment period**.
- (3) For **services** identified in subclause (2), describe-
  - (a) whether similar **services** are expected to be provided by **related parties** or **prospective related parties** during the **next period**;
  - (b) whether any additional **services** are expected to be provided by **related parties** or **prospective related parties** during the **CPP regulatory period**; and
  - (c) the basis for establishing the **related party** transaction values for the purpose of the **capex forecast** and the **opex forecast**.
- (4) Describe the nature of the contract for any periodic **services**, including the duration of any such contract.
- (5) For each **service** identified in accordance with subclause (2), provide an example of-
  - (a) any tendering process used to procure the **service**;
  - (b) relevant documents used to tender for the provision of the **service**, including, but not limited to, requests for tender, and tender submissions;
  - (c) explain-
    - (i) whether the **service** 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; and
  - (d) 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;
  - (c) the extent that the activities provided for in the **capex forecast** and the **opex forecast** 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) Explain the methodologies applied to convert constant price **capex forecast** and **opex forecast** to the nominal price **capex forecast** and **opex forecast**.
- (2) Explain why the methodologies applied, each **key assumption**, and the resulting quantum are reasonable.
- (3) For each **key assumption**, including unit rates, indexes, weightings, and contingency factors-
  - (a) identify-
    - (i) the **key assumption**;

- (ii) source material from which it was derived; and
  - (iii) the components of expenditure to which it applies; and
- (b) explain-
- (i) how it has been applied in the **capex forecast** and **opex forecast**;
  - (ii) the quantum of costs in the **capex forecast** and **opex forecast** resulting from the application of the **key assumption**; and
  - (iii) whether, and if so, how the **key assumption** relates to **capex** and **opex** incurred during the **current period**.

#### **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 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**.

## SCHEDULE E CAPITAL AND OPERATING EXPENDITURE - REGULATORY TEMPLATES

**Table 1: Projects and programmes**

**Drafting Notes:**

Title: Suggest remove comment ‘for information of Commission and for selection for detailed review by the verifier). This is not accurate, as it is also required for the CPP proposal, and the explanations for completing Schedule E templates are appropriately included in Clause 5.4.30.

Tables 1a and 1b: Suggest replacing column heading ‘Reference for policy/business case/supporting information/’ with ‘Reference to primary supporting document(s)’. It is possible that there could be numerous sources of information which support a project or programme. It is not necessary for them to be all listed in this summary schedule. They can be referenced in the primary supporting documents instead.

Table 3: The ‘3c’ reference is missing from the third table, and the table title should be ‘Actual and forecast opex by provider in nominal prices (\$000)’. Also, it is not clear why Table 3c is optional, whereas Table 2d (which captures similar information for capex) is not.

<b>Table 1: Projects and programmes</b>									
Summary of all proposed projects and programmes for information of Commission and for selection for detailed review by the verifier									
Capex-Projects (total for CPP regulatory period)					Opex-Projects (total for CPP regulatory period)				
Rank	Project-name	Capex-category-brief- description	Project- reference- number	Forecast-Estimated-costs-in-constant-prices- \$(000)	Rank	Project-name	Opex-category-brief- description	Project- reference- number	Forecast- Estimated- costs-in- constant- prices-\$(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					*include additional rows if needed			
<b>Table 1a Capex project and programmes</b>									
Number	Project reference* number	Project/programme name	Capex category	Brief description of project/programme	Forecast-Estimated- costs in constant prices \$(000)	Reference for policy/ business case/ supporting information			
1		Project name							
2		Project name							
3		Project name							
4		Project name							
5		Project name							
	*include additional rows if needed								
	Project reference also means reference identification for programmes.								
<b>Table 1b Opex project and programmes</b>									
Number	Project reference number	Project/programme name	Opex category	Brief description of project/programme	Forecast-Estimated- costs in constant prices \$(000)	Reference for policy/ business case/ supporting information			
1		Project name							
2		Project name							
3		Project name							
4		Project name							
5		Project name							
	*include additional rows if needed								



**Table 3: Opex summary**

**Table 3: Opex summary**

**3a Actual and forecast opex in constant prices**

Opex Categories	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	
	\$(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>													

  

**3b Actual and forecast opex in nominal prices**

Opex Categories	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	
	\$(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)**

	CY-4	CY-3	CY-2	CY-1	CY0	CA	CA+1	Year 1	Year 2	Year 3	Year 4	Year 5	Total CPP period
EDB													
Related party													
Other sources													
Unknown													

**Table 4: Capex projects and programmes**

**Drafting notes:**

Suggest include rows for ‘total network assets’ (after Table 4e3) and ‘total assets’ (after Table 4f2), which will help with reconciliation to other capex schedules.

**Table 4: Capex projects and programmes**  
 The table is intended only for presentation purposes. It does not contain any data.  
 Apply the column widths as required.

4a. Capex programme name	Financial forecast years: 2010-2011 financial year (2010)												Financial forecast years: 2011-2012 financial year (2011)												Financial forecast years: 2012-2013 financial year (2012)													
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
4b. Component of expenditure																																						
4c. System growth																																						
4d. Asset lifecycle and renewal by project or programme																																						
4e. Asset replacement and renewal by project or programme																																						
4f. Asset replacement and renewal by project or programme																																						
4g. Asset replacement and renewal by project or programme																																						
4h. Asset replacement and renewal by project or programme																																						
4i. Asset replacement and renewal by project or programme																																						
4j. Asset replacement and renewal by project or programme																																						
4k. Asset replacement and renewal by project or programme																																						
4l. Asset replacement and renewal by project or programme																																						
4m. Asset replacement and renewal by project or programme																																						
4n. Asset replacement and renewal by project or programme																																						
4o. Asset replacement and renewal by project or programme																																						
4p. Asset replacement and renewal by project or programme																																						
4q. Asset replacement and renewal by project or programme																																						
4r. Asset replacement and renewal by project or programme																																						
4s. Asset replacement and renewal by project or programme																																						
4t. Asset replacement and renewal by project or programme																																						
4u. Asset replacement and renewal by project or programme																																						
4v. Asset replacement and renewal by project or programme																																						
4w. Asset replacement and renewal by project or programme																																						
4x. Asset replacement and renewal by project or programme																																						
4y. Asset replacement and renewal by project or programme																																						
4z. Asset replacement and renewal by project or programme																																						







**Table 7: Non-network opex**

**Drafting Notes:**

Include rows for 'total non-network opex' (after Table 7b), which will help with reconciliation to other opex schedules. A 'total opex' row at the end of Table 7 would also help achieve the same objective.

**Table 7: Non-network opex**

Project reference	Project/Program name	Actual and forecast opex in constant prices (\$000)										Actual and forecast opex in nominal prices (\$000)														
		Current period		Assessment period		CP Regulatory Period		Regulatory Period		Regulatory Period		Regulatory Period		Regulatory Period		Regulatory Period		Regulatory Period								
		C14	C13	C12	C11	CP	CP	Nov 1	Nov 2	Nov 3	Nov 4	Nov 5	Regulatory Period	C14	C13	C12	C11	CP	CP	Nov 1	Nov 2	Nov 3	Nov 4	Nov 5	Regulatory Period	
<b>7a System operators and network support</b>																										
System operators and network support																										
Total System operators and network support																										
<b>7b Business support</b>																										
Business support																										
Total Business support																										

**Table 8: Aggregate forecast commissioned assets by asset categories**

**Drafting Notes:**

Replace 'nominal prices' in the last table with 'nominal terms', to be consistent with other information about commissioned asset values

**Table 8: Cost allocation**

Opex Allocation	Assessment period Year 1		
	Directly attributable	Not directly attributable	Total
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			

**Table 8: Aggregate forecast commissioned assets by asset categories**

*Applicant may disaggregate other assets by **asset types***

*Forecast amounts should be net after adjustments for any **capital contributions** and **related party** transactions.*

Asset category	Forecast commissioned asset values in nominal prices \$(000)							
	Assessment Period		CPP Regulatory Period					Total CPP Period
	CA	CA+1	Year 1	Year 2	Year 3	Year 4	Year 5	
Subtransmission lines								
Subtransmission cables								
Zone substations								
Distribution and LV lines								
Distribution and LV cables								
Distribution substations and transformers								
Distribution switchgear								
Other network assets								
Non-network assets								
Total forecast commissioned assets								

**Table 9: Cost escalation factors**

**Drafting Notes:**

Add 'CPP' before the term 'Regulatory Period'.

**Table 9: Unit Cost escalators escalation factors**

*Supplier may modify this table to suit its processes*

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)	-											

*Supplier must provide inflation and other factors used to convert real prices into nominal prices.*  
*Supplier may modify this table to suit its processes*

Unit Cost item Escalator name and description	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

*Include additional rows if needed*





## 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**.

### F5 Summary of intended CPP proposal

- (1) Before the **verifier** enters into a deed with the **Commission** as described in clause F6, the **CPP applicant** must provide the **Commission** with a high-level summary of the intended **CPP proposal**, including-
  - (a) a high-level description of its rationale for seeking a **CPP** and a brief explanation of the key **projects** or **programmes** that are linked to this rationale;
  - (b) when it proposes the intended **CPP proposal** to take effect as a **CPP**;
  - (c) the extent to which its estimated **capex** forecast and estimated **opex** forecast for the intended **CPP proposal** differs to the **capex** forecast and **opex** forecast included in the most recent **asset management plan** published by the applicant in accordance with the **ID Determination**;
  - ~~(d) the indicative impact on prices of the intended **CPP proposal**;~~

- (e) whether it intends to propose a **quality standard variation** as part of its intended **CPP proposal** and, if so, the extent to which estimated SAIDI and SAIFI targets differ to those included in the most recent **asset management plan** published by the applicant in accordance with the **ID Determination**, ~~the indicative impact on quality standards of the intended **quality standard variation**;~~
  - (f) how it intends to consult **consumers** on the intended **CPP proposal**; and
  - (g) any other information it considers would assist the **Commission's** planning for the **Commission's** assessment of the intended **CPP proposal**.
- (2) With the agreement of the **Commission**, the requirements in subclause (1) may be satisfied by way of a workshop with the **Commission**.

#### **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**;
    - (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-
- (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(1)(a);
  - (ii) changed its proposed time for taking effect as described in clause F5(1)(b); or
  - (iii) changed its intention on whether to propose a **quality standard variation** as described in clause F5(1)(e).
- (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

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 **CPP applicant** to meet the **expenditure objective**;
- (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 the **verifier** with the information specified in clause 5.5.2(3);
- (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, opex forecasts and key assumptions** meet the **expenditure objective**;
- (f) prior to the **Commission's** assessment of the **CPP proposal**, assessing the extent to which the **CPP applicant** is able to deliver its **capex forecast and opex forecast** during the **CPP regulatory period**;
- (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**.

### G3 Service measures, levels and quality standards

- (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; and
  - (d) the extent and effectiveness of a **CPP applicant's** consultation with its **consumers**, as specified in clause 5.5.1.
- (2) Where the **CPP applicant** intends to propose a **quality standard variation** in the **CPP proposal** under clause 5.4.5, the **verifier** must review, assess and report on the extent to which the **quality standard variation** better reflects the realistically achievable performance of the **EDB** over the **CPP regulatory period**.

### G4 Selection of identified programmes

- (1) For the purposes of the reviews under clauses G5(1)(d) and G6(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 long term interests of **consumers**;
  - (b) the **Commission's** ability to effectively review whether the **CPP applicant's capex forecast** and **opex forecast** are consistent with the **expenditure objective**;
  - (c) the **CPP applicant's** rationale for seeking a **CPP**;
  - (d) 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** -
    - (i) in aggregate; and
    - (ii) for each of the **capex categories**;
  - (e) 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**-

- (i) in aggregate; and
    - (ii) for each of the **opex categories**;
  - (f) its ability to assess any **quality standard variation** proposed; and
  - (g) the materiality of the **programmes** or **projects** to the **CPP proposal**, the **capex forecast** and the **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.

#### **G5 Capex forecast**

- (1) The **verifier** must-
- (a) provide an opinion as to whether the-
    - (i) **policies**;
    - (ii) **planning standards**; and
    - (iii) **key assumptions**,relied upon by the **CPP applicant** in determining the **capex forecast** are of the nature and quality required for that **capex forecast** to meet the **expenditure objective**;
  - (b) provide an opinion as to whether the **capex forecast** has been prepared in accordance with the **policies** and **planning standards** at both the aggregate system level and for each of the **capex categories**;
  - (c) provide an opinion on the reasonableness of the **key assumptions** relevant to **capex** relied upon the **CPP applicant** including-
    - (i) the method and information used to develop them;
    - (ii) how they were applied; and
    - (iii) their effect or impact on the **capex forecast** by comparison to their effect or impact on **actual capex**;

- (d) report conclusions of a detailed review of **identified programmes** that are **capex projects** or **capex programmes** including, but not limited to assessment of-
    - (i) whether relevant **policies** and **planning standards** were applied appropriately;
    - (ii) whether **policies** regarding the need for, and prioritisation of, the **project** or **programme** are reasonable and have been applied appropriately;
    - (iii) the process undertaken by the **CPP applicant** to determine the reasonableness and cost-effectiveness of the chosen solution, including the use of cost-benefit analyses to target efficient solutions;
    - (iv) the approach used to prioritise **capex projects** over time including the application of that approach for the **next period**;
    - (v) the **project** capital costing methodology and formulation, including unit rate sources, the method used to test the efficiency of unit rates and the level of contingencies included for **projects**;
    - (vi) the impact on other cost categories including the relationship with **opex**;
    - (vii) links with other **projects**;
    - (viii) cost control and delivery performance for **actual capex**;
    - (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;
- (b) which of the **CPP applicant's forecast capex programmes** for each **capex category** might warrant further assessment by the **Commission**; and
- (c) what type of assessment would be the most effective.

## G6 Opex forecast

- (1) The **verifier** must-
  - (a) provide an opinion as to whether the-
    - (i) **policies**,
    - (ii) **planning standards**; and
    - (iii) **key assumptions**,
 relied upon by the **CPP applicant** in determining the **opex forecast** are of the nature and quality required for that **opex forecast** to meet the **expenditure objective**;
  - (b) provide an opinion as to whether the **opex forecast** has been prepared in accordance with the **policies** and **planning standards**, at both the aggregate system level and for each of the **opex categories**;
  - (c) provide an opinion on the reasonableness of the **key assumptions** relevant to **opex** relied upon by the **CPP applicant** including-
    - (i) the method and information used to develop them;
    - (ii) how they have been applied; and
    - (iii) their effect or impact on the **opex forecast** by comparison to their effect or impact on **actual opex**;
  - (d) review, assess and report on any other **opex** drivers not covered by the **key assumptions** that have led to an increase in the **opex forecast** including whether the quantum of such an increase is required to meet the **expenditure objective**;
  - (e) provide an opinion as to the reasonableness of the methodology used in forecasting **opex** (such as cost benchmarking or internal historic cost trending), including the relationship between the **opex forecast** and **capex forecast**;
  - (f) provide an opinion as to the reasonableness of any **opex** reduction initiatives undertaken or planned during the **current period** or the **next period**;

- (g) report conclusions of a detailed review of **identified programmes** that 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-

- (a) whether the provision of further information is required to enable assessment against the **expenditure objective** to be undertaken and, if so, the type of information required;
- (b) which of the **CPP applicant's forecast opex programmes** for each **opex category** might warrant further assessment by the **Commission**; and
- (c) what type of assessment would be the most effective.

#### **G7 Capital contributions**

The **verifier** must provide an opinion as to whether the forecast of **capital contributions**-

- (a) is reasonable; and
- (b) consistent with other aspects of the **CPP proposal**, in particular-
  - (i) the **capex forecast**; and
  - (ii) forecast demand data provided in accordance with clause D6.

#### **G8 Demand forecasts**

- (1) The **verifier** must provide an opinion as to whether-
  - (a) the **key assumptions**, key input data and forecasting methods used in determining demand forecasts were reasonable; and
  - (b) it was appropriate to use the demand forecasts resulting from these methods and assumptions to determine the-
    - (i) **capex forecast**; and
    - (ii) **opex forecast**.

#### **G9 Assessment techniques**

- (1) When-
  - (a) undertaking analysis and reviews of information; and
  - (b) considering the matters,  
required by this Schedule, the **verifier** must use some or all of the following assessment techniques:
    - (c) process benchmarking;
    - (d) process or functional modelling;
    - (e) unit rate benchmarking;
    - (f) trending or time-series analysis;

- (g) high level governance and process reviews;
  - (h) internal benchmarking of forecast costs against costs in the **current period**;
  - (i) **capex category** and **opex category** benchmarking;
  - (j) **project** and **programme** sampling; and
  - (k) critiques or **independent** development of-
    - (i) demand forecasts;
    - (ii) labour unit cost forecasts;
    - (iii) materials forecasts;
    - (iv) plant forecasts; and
    - (v) equipment unit cost forecasts.
- (2) The **verifier** must explain why particular techniques listed in subclause (1) were applied and others were not applied.
- (3) Where, for the purpose of applying any of the techniques listed in subclause (1), the **verifier** uses information that is not provided to it by the **CPP applicant**, the **verifier** must, in respect of that information-
- (a) describe in the draft verification report its nature and source and the reason for wishing to rely on it;
  - (b) subject to subclause (4), provide it to the **CPP applicant**;
  - (c) when finalising the **verification report**, take into account any comments made about it by the **CPP applicant** in response to the draft verification report; and
  - (d) where, notwithstanding paragraph (c), the **verifier** continues to rely on it, describe in the **verification report**-
    - (i) the nature and source of the information relied upon and the reason for relying on it; and
    - (ii) the **CPP applicant's** concerns in respect thereof.
- (4) Subclause (3)(b) does not apply if the **verifier's** terms of use of the information prevent such disclosure.

## **G10 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** in meeting the **expenditure objective**;  
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).

#### **G11 Completeness of CPP proposal**

A **verification report** must-

- (a) list the information in, and relating to, the **CPP proposal** provided by the **CPP applicant** to the **verifier**, that was relied upon by the **verifier** in fulfilling its obligations under Schedule G;
- (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;
- (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).

**G12 Overview of key issues and additional information requirements**

Based on its assessment, the **verifier** must, in the **verification report**-

- (a) provide a list of the key issues that it considers the **Commission** should focus on when undertaking its own assessment of the information to which the assessment related;
- (b) specify information identified in the **CPP proposal** that, were it to be provided, would assist the **Commission's** assessment of the **CPP proposal**;  
and
- (c) identify any other information it reasonably believes would-
  - (i) be held by the **CPP applicant**; and
  - (ii) assist the **Commission's** assessment of the **CPP proposal**.