

Orion New Zealand Limited Customised Price-Quality Path Determination 2013

[2013] NZCC 21

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Regulation Branch, Commerce Commission

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Orion Customised Price-Quality Path Determination 2013

Determination version history		
This determination amends the <i>Electricity Distribution Services Default Price-Quality Path Determination 2010</i> (Commerce Commission Decision 685, 30 November 2009), as it applies to Orion New Zealand Limited.		
Determination date	Decision number	Determination name
28 November 2013	[2013] NZCC 21	Orion New Zealand Limited Customised Price-Quality Path Determination 2013

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

1. Title

1.1 This determination is the Orion New Zealand Limited Customised Price-Quality Path Determination 2013.

2. Commencement

2.1 This determination takes effect on 1 April 2014.

3. Application

3.1 This determination amends the *Electricity Distribution Services Default Price-Quality Path Determination 2010* (Commerce Commission Decision 685, 30 November 2009) to set the customised price-quality path for Orion New Zealand Limited, and is made under sections 53Q and 53V of the Act.

3.2 This determination applies to Orion, and replaces all terms of the Orion DPP Determination as they apply to Orion.

4. Interpretation

4.1 Unless the context otherwise requires—

- (a) terms used in this determination that are defined in the Act but not in this determination have the same meanings as in the Act;
- (b) terms used in this determination that are defined in the IM Determination but not in this determination have the same meanings as in the IM Determination;
- (c) words appearing in this determination with capitalised initial letters that are defined in clause 4.2 bear the meaning given to them in clause 4.2;
- (d) a word which denotes the singular also denotes the plural and vice versa; and
- (e) references to clause are references to clauses of this determination, unless otherwise specified, and references to paragraphs are references to a paragraph in a Schedule to this determination in which the reference is made, unless another Schedule is specified.

4.2 In this determination, unless the context otherwise requires—

Act means the Commerce Act 1986

Additional Assets means any assets acquired in a transaction for which re-calculation of the Reliability Limits is required by clause 9.3

Allowed Controllable Opex has the same meaning as clause 1.1.4 of the IM Determination, and is specified in clause 12.3 of this determination

Amalgamate and **Amalgamation** have the same meaning as clause 1.1.4 of the IM Determination

Assessed Values means the aggregate SAIDI Values and SAIFI Values for an Assessment Period, which are derived from a Normalised Assessment Dataset

Assessment Dataset means the set of daily SAIDI Values and SAIFI Values for an Assessment Period, with SAIDI Values and SAIFI Values for an Interruption that spans multiple calendar days accrued to the day on which the Interruption began

Assessment Period means a 12 month period commencing 1 April and ending on 31 March of the following year during the Regulatory Period for which compliance with the customised price-quality path must be demonstrated by Orion

Auditor, in relation to Orion, means a person who:

- (a) is qualified for appointment as auditor of a company under the Companies Act 1993; and
- (b) has no relationship with, or interest in, Orion that is likely to involve the person in a conflict of interest; and
- (c) has not assisted with the preparation of the Compliance Statement or provided advice or opinions (other than in relation to audit reports) on the methodologies or processes used in preparing the Compliance Statement; and
- (d) has the necessary expertise to properly undertake an audit required by clause 10.2(e); but
- (e) need not be the same person as the person who audits Orion's accounts for any other purpose

Class B Interruptions means planned Interruptions by Orion

Class C Interruptions means Unplanned Interruptions originating within the System Fixed Assets of Orion

Commission means the Commerce Commission as defined in s 2 of the Act

Compliance Statement means the written statement required to be made by Orion under clause 10.1

Consumer has the same meaning as clause 1.1.4 of the IM Determination

Consumer-Owned has the meaning set out in section 54D of the Act

CPI has the same meaning as clause 1.1.4 of the IM Determination

Director has the same meaning as clause 1.1.4 of the IM Determination

DPP Regulatory Period means the Regulatory Period specified in the Orion DPP Determination

EDB has the same meaning as clause 1.1.4 of the IM Determination

Electricity Distribution Services has the same meaning as clause 1.1.4 of the IM Determination

Electricity Lines Services has the same meaning as clause 1.1.4 of the IM Determination

First Assessment Period means the 12 month Assessment Period ending 31 March 2015

ID Determination has the same meaning as clause 1.1.4 of the IM Determination

IM Determination means the *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26

Indirect Transmission Charges means a charge payable to Transpower for Electricity Lines Services provided to Orion in respect of the Transmission System in accordance with the Transmission Pricing Methodology, where the charge is an amount:

- (a) on-charged at cost to Orion by an EDB that is directly connected to the Transmission System; and
- (b) is not otherwise recovered as a Recoverable Cost

Input Methodology has the same meaning as in s 52C of the Act

Interruption means, in relation to the conveyance of electricity to a Consumer by means of a Prescribed Voltage Electric Line, the cessation of conveyance of electricity to that Consumer for a period of 1 minute or longer, other than by reason of disconnection of that Consumer—

- (a) for breach of the contract under which the electricity is conveyed; or
- (b) as a result of a request from the Consumer; or
- (c) as a result of a request by the Consumer's electricity retailer; or
- (d) for the purpose of isolating an unsafe installation

IRIS Operating Expenditure means, for an Assessment Period, operating costs, as defined in clause 1.1.4 of the IM Determination, attributable to Electricity Distribution Services

IRIS Opex Categories means, for an Assessment Period, the categories specified in the ID Determination applicable for that Assessment Period to which operating costs, as defined in clause 1.1.4 of the IM Determination, are allocated

Merger means a transaction whereby an EDB takes over, or otherwise merges with, another EDB other than by an Amalgamation, which without limitation includes:

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

Non-exempt EDB means an EDB other than a Consumer-Owned EDB exempt under section 54G(2) of the Act

Normalised Assessment Dataset means an Assessment Dataset normalised in accordance with Schedule 3

Orion means Orion New Zealand Limited

Orion DPP Determination means the *Electricity Distribution Services Default Price-Quality Path Determination 2010* (Commerce Commission Decision 685, 30 November 2009) as at 31 March 2014

Pass-through Costs has the same meaning as clause 1.1.4 of the IM Determination, and are calculated for each Assessment Period in accordance with Schedule 2

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

Prices has the same meaning as clause 1.1.4 of the IM Determination

Quantities has the same meaning as clause 3.1.1(5) of the IM Determination

Recoverable Costs has the same meaning as clause 1.1.4 of the IM Determination, and are calculated for the Regulatory Period in accordance with Schedule 2

Regulatory Investment Value means the total opening RAB values plus the opening deferred tax as reported in accordance with the ID Determination applicable for an Assessment Period in which a transaction referred to in clause 9.1 occurs

Regulatory Period means the period 1 April 2014 to 31 March 2019

Reliability Limits means the SAIDI and SAIFI levels, set out in Schedule 3, against which Orion's annual reliability performance is assessed

SAIDI Values means system average interruption duration index values based on Class B Interruptions and Class C Interruptions

SAIFI Values means system average interruption frequency index values based on Class B Interruptions and Class C Interruptions

System Fixed Assets means all fixed assets owned, provided, maintained, or operated by a Non-exempt EDB or Transpower that are used or intended to be used for the supply of Electricity Lines Services

Transmission Pricing Methodology means the methodology determined by the Electricity Authority to determine how Transpower's charges for its services are allocated and who is to be charged

Transmission System means New Zealand's national electricity grid

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

Unplanned Interruption means any Interruption in respect of which less than 24 hours' notice, or no notice, was given, either to the public or to all Consumers affected by the Interruption.

5. Customised price-quality path

5.1 During the Regulatory Period Orion must comply with the customised price-quality path, which consists of both:

- (a) the price path specified in clause 7; and
- (b) the quality standards specified in clause 8.

6. Applicable Input Methodologies

6.1 The Input Methodologies that are applied through this determination are the following parts of the IM Determination:

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

- 6.2 The Input Methodologies that are applied are subject to the variations agreed with Orion, which are attached as Schedule 6.

7. Price path

Starting Prices

- 7.1 The starting Prices for Orion for the Regulatory Period, specified as maximum allowable revenue for the First Assessment Period, are \$154.8 million.

Rate of change in Prices

- 7.2 The annual rate of change in prices (X), relative to the CPI, allowed during the Regulatory Period is -1.0%.

Allowable notional revenue

- 7.3 Allowable notional revenue (ANR_t) determined under this clause 7 specifies the maximum Prices that may be charged during an Assessment Period.

Conversion of MAR to ANR

- 7.4 The change in constant price revenue for the period 1 April 2013 to 31 March 2015 is 1.016.

Compliance with the price path

- 7.5 The notional revenue of Orion for each Assessment Period must not exceed the allowable notional revenue for the Assessment Period, such that:

$$\frac{NR_t}{ANR_t} \leq 1$$

where:

NR_t is the notional revenue for the Assessment Period t , being equal to:

$$\sum_i P_{i,t} Q_{i,t-2} - K_t - V_t$$

where:

t is the year in which the Assessment Period ends

i is each Price relating to an Electricity Lines Service

$P_{i,t}$ is the i^{th} Price during any part of the Assessment Period t

$Q_{i,t-2}$ is the Quantity corresponding to the i^{th} Price during the 12 month period ending on 31 March two years prior to year t

K_t is the sum of all Pass-Through Costs for the Assessment Period t

V_t is the sum of all Recoverable Costs for the Assessment Period t , including any amounts specified in paragraph 2 of Schedule 2 applying paragraph 3 of Schedule 2

and

ANR_t is the allowable notional revenue for each Assessment Period t , as specified in:

- (a) Schedule 1A for the First Assessment Period ($t = 2015$); and
- (b) Schedule 1B for all other Assessment Periods ($t = 2016$ to 2019).

Restructuring of Prices

- 7.6 For the avoidance of doubt, the restructuring of Prices during an Assessment Period does not change the allowable notional revenue for that Assessment Period.
- 7.7 If Orion restructures its Prices during an Assessment Period, and there is no Quantity for the 12 month period ending on 31 March two years prior that reasonably relates to a restructured Price, then the Compliance Statement for the Assessment Period must provide:
- (a) information demonstrating that Orion has complied with the price path in this clause 7 using alternative Quantities, which must include the methodology used to determine the Quantity for the 12 month period ending on 31 March two years prior, that corresponds to each restructured Price;
 - (b) Quantity information corresponding to each restructured Price for the Assessment Period in which the restructure occurred, including the forecast of the Quantity for that period prepared by Orion at the time it restructured its Prices, and the actual Quantity; and
 - (c) an explanation for any differences between the actual and forecasted Quantity for the Assessment Period in which the restructure occurred.

8. Quality standards

Compliance with quality standards

- 8.1 Orion must, in respect of each Assessment Period, either:
- (a) comply with the annual reliability assessment specified in clause 8.2 for that Assessment Period; or
 - (b) have complied with those annual reliability assessments for the two immediately preceding extant Assessment Periods.

Annual reliability assessment

8.2 Orion's Assessed Values for an Assessment Period must not exceed its Reliability Limits for that Assessment Period, such that:

$$\frac{SAIDI_{ASSESS,t}}{SAIDI_{LIMIT}} \leq 1$$

and

$$\frac{SAIFI_{ASSESS,t}}{SAIFI_{LIMIT}} \leq 1$$

where:

$SAIDI_{ASSESS,t}$ is the SAIDI Assessed Value for the Assessment Period t , and is calculated using the process outlined in Schedule 3;

$SAIDI_{LIMIT}$ is the SAIDI Reliability Limit for the Assessment Period t , as set out in Schedule 3;

$SAIFI_{ASSESS,t}$ is the SAIFI Assessed Value for the Assessment Period t , and is calculated using the process outlined in Schedule 3; and

$SAIFI_{LIMIT}$ is the SAIFI Reliability Limit for the Assessment Period t , as set out in Schedule 3.

9. Transactions

Requirement to notify the Commission of large transactions

9.1 Orion must notify the Commission in writing within 30 working days of any Amalgamation, Merger, or of any transfer of assets governed by clause 9.3, where:

- (a) the Regulatory Investment Value of Orion's assets associated with the provision of Electricity Distribution Services as at the start of the next Assessment Period is anticipated to increase or decrease by more than 10% as a result of the transaction; or
- (b) Orion's total revenues recovered through Prices from Consumers for the supply of Electricity Distribution Services is anticipated to increase or decrease by more than 10% within an Assessment Period as a result of the transaction.

Transactions resulting in an Amalgamation

9.2 Where Orion completes an Amalgamation with one or more EDBs, clause 3.2.1 of the IM Determination applies.

Transactions resulting in Consumers being supplied by a different EDB

9.3 Where Orion enters into a transaction (other than an Amalgamation or a Merger) involving a transfer of assets to or from Orion that, as a result of that transfer, results in any Consumer being supplied Electricity Lines Services by a different EDB than prior to the transaction:

- (a) for the Assessment Period in which the transaction is completed, the allowable notional revenue and notional revenue for that Assessment Period must be adjusted using the process outlined in Schedule 1C;
- (b) if the transaction is required to be notified to the Commission under clause 9.1, for the Assessment Periods following the transaction's completion Orion must:
 - (i) re-calculate the Reliability Limits and the boundary values set out in Schedule 3 using any reasonable methodology that takes into account the then-current Reliability Limits and boundary values, the historical performance of the assets acquired or disposed of by Orion, the weighted average number of customers served by Orion during that Assessment Period, and the timing of the transaction within the Assessment Period; and
 - (ii) calculate the Assessed Values for those Assessment Periods using the process outlined in Schedule 3.

Alternative demonstration of compliance for transaction

9.4 If Orion participates in a transaction for which it cannot calculate the increase or decrease to allowable notional revenue, notional revenue, Assessed Values, or the impact of the transactions on the Reliability Limits in accordance with clause 9.3, Orion must provide to the Commission:

- (a) an explanation as to why the calculations could not be performed; and
- (b) a calculation of allowable notional revenue, notional revenue, Assessed Values, and impact on Reliability Limits using an alternative approach that demonstrates compliance with clauses 7 and 8, with all supporting data, information, and calculations.

10. Compliance Statement

10.1 Orion must:

- (a) provide to the Commission a written statement for each Assessment Period within 50 working days following the end of the Assessment Period (the Compliance Statement); and
- (b) make the Compliance Statement publicly available on its website within 5 working days after providing it to the Commission.

10.2 The Compliance Statement must:

- (a) state whether or not Orion has complied with:
 - (i) the price path in clause 7 for the Assessment Period; and
 - (ii) the quality standards in clause 8 for the Assessment Period;
- (b) state whether:
 - (i) Orion has restructured its Prices during the Assessment Period (as referred to in clause 7.7);
 - (ii) an Amalgamation or Merger has taken place in the Assessment Period; and
 - (iii) a transfer of assets governed by clause 9.3 has taken place in the Assessment Period;
- (c) state the date on which the statement was prepared;
- (d) include a certificate in the form set out in Schedule 4, signed by at least one Director of Orion; and
- (e) be accompanied by an assurance report on the Compliance Statement that is signed by an Auditor, as specified in Schedule 5.

Price path compliance

10.3 The Compliance Statement must include any information reasonably necessary to demonstrate whether Orion has complied with the price path set out in clause 7, including but not limited to:

- (a) if Orion has not complied with the price path, the reasons for the non-compliance;
- (b) the amount of allowable notional revenue, the amount of notional revenue, Prices, Quantities, units of measurement associated with all numeric data, and other relevant data, information, and calculations;
- (c) the amounts of Pass-through Costs and Recoverable Costs, including the forecast amounts that Orion used to set Prices for the Assessment Period, and the actual amounts incurred for the Assessment Period, and supporting data, information, and calculations used to determine those amounts, including when each Pass-through Cost and Recoverable Cost amount was paid and the period to which those costs relate, and an explanation of any differences between the forecast and actual amounts;

- (d) information relating to any amounts of avoided transmission charges specified as Recoverable Costs (as defined in clause 3.1.3(1)(e) of the IM Determination), including:
 - (i) the amount of charge that Orion has avoided liability to pay as a result of Orion having purchased transmission assets from Transpower;
 - (ii) for the Assessment Period in which the charge is first recovered, the amount that would have been charged by Transpower for the use of the assets transferred to Orion, as specified in a pricing schedule determined by Transpower for the year immediately preceding the Assessment Period in which the charge is first recovered; and
 - (iii) for each of the remaining Assessment Periods in which the avoided charge may be recovered under clause 3.1.3(4) of the IM Determination, the adjusted amount calculated by applying a method consistent with the Transmission Pricing Methodology;
- (e) information relating to any amounts specified as Recoverable Costs consistent with clauses 3.1.3(1)(b) and (c) of the IM Determination, including evidence of the amount of charge relating to the contract entered into in relation to clause 3.1.3(1)(c) of the IM Determination, which may be provided by confidential disclosure of the contract to the Commission; and
- (f) in respect of Indirect Transmission Charges:
 - (i) the amounts of Indirect Transmission Charges recovered through its Prices during the Assessment Period, and any information showing how that amount was calculated; and
 - (ii) where there are such amounts, a statement signed by at least one Director of Orion that the amount of Indirect Transmission Charges accurately reflects the transmission services supplied to Orion, consistent with the Transmission Pricing Methodology.

Quality standards compliance

10.4 The Compliance Statement must include any information reasonably necessary to demonstrate whether Orion has complied with the quality standards set out in clause 8, including but not limited to:

- (a) if Orion has not complied with the annual reliability assessment in clause 8.2, the reasons for not complying with the annual reliability assessment;
- (b) Assessed Values and Reliability Limits for the Assessment Period, SAIDI and SAIFI statistics, and any calculations or re-calculations in relation to quality

standards, the annual reliability assessments for the two previous extant Assessment Periods, and any other relevant data and information; and

- (c) a description of policies and procedures which Orion has used for recording the SAIDI and SAIFI statistics for the Assessment Period.

10.5 If System Fixed Assets are transferred from Transpower to Orion in an Assessment Period, the Compliance Statement for the Assessment Period must include SAIDI and SAIFI statistics and calculations for the Assessment Period in which the transfer was completed that demonstrate whether or not the transfer increased Orion's Assessed Values.

Amalgamations, Mergers or Transfers of Assets

10.6 If Orion participates in an Amalgamation, a Merger, or in a transfer of assets governed by clause 9.3, the Compliance Statement for that Assessment Period must:

- (a) state whether Orion has complied with clause 9; and
- (b) include any information or calculations that are reasonably required to demonstrate compliance with clause 9.

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

11.1 The price-quality path in this determination may be reconsidered in accordance with clause 5.6.4 of the IM Determination.

12. Implementation of the Incremental Rolling Incentive Scheme

12.1 All IRIS Operating Expenditure must be allocated to IRIS Opex Categories in a manner consistent with the ID Determination in effect for that Assessment Period.

12.2 All IRIS Opex Categories are controllable for the purpose of Allowed Controllable Opex.

12.3 The specified amounts of Allowed Controllable Opex for each Assessment Period of the Regulatory Period are set out in Schedule 7.



Sue Begg,
Deputy Chair

Dated at Wellington this 28th day of November, 2013.
Commerce Commission

Schedule 1A: Calculation of allowable notional revenue for First Assessment Period

1. The allowable notional revenue for the First Assessment Period must be calculated in accordance with Equation 1.

Equation 1

2. The allowable notional revenue for the First Assessment Period is equal to:

$$\frac{MAR_{2015} + K_{2015} + V_{2015}}{\Delta D} - K_{2015} - V_{2015}$$

where:

MAR_{2015} is the maximum allowable revenue for the First Assessment Period as specified in clause 7.1;

ΔD is the change in constant price revenue for the period 1 April 2013 to 31 March 2015 as specified in clause 7.4;

K_{2015} is the sum of all Pass-Through Costs relating to the First Assessment Period;

V_{2015} is the sum of all Recoverable Costs relating to the First Assessment Period.

Schedule 1B: Calculation of allowable notional revenue for all Assessment Periods other than the First Assessment Period

1. The allowable notional revenue for all Assessment Periods other than the First Assessment Period must be calculated in accordance with Equation 2.

Equation 2

$$ANR_t = \left(\sum_i P_{i,t-1} Q_{i,t-2} - (K_{t-1} + V_{t-1}) + (ANR_{t-1} - NR_{t-1}) \right) (1 + \Delta CPI_t) (1 - X)$$

where:

- t is the year in which the Assessment Period ends;
- i is each Price relating to an Electricity Lines Service;
- $P_{i,t-1}$ is the i^{th} Price for any part of the Assessment Period ending the year prior to year t ;
- $Q_{i,t-2}$ is the Quantity corresponding to the i^{th} Price for the 12 month period ending two years prior to year t ;
- $K_{t-1} + V_{t-1}$ is the sum of all Pass-through Costs and Recoverable Costs for the Assessment Period ending the year prior to year t ;
- $ANR_{t-1} - NR_{t-1}$ is the difference between allowable notional revenue and notional revenue for the Assessment Period ending the year prior to year t ;
- X is the annual rate of change in prices, as specified in clause 7.2;
- ΔCPI_t is the derived change in the CPI to be applied for the Assessment Period ending in year t , being equal to:

$$\frac{CPI_{Dec,t-3} + CPI_{Mar,t-2} + CPI_{Jun,t-2} + CPI_{Sep,t-2}}{CPI_{Dec,t-4} + CPI_{Mar,t-3} + CPI_{Jun,t-3} + CPI_{Sep,t-3}} - 1$$

where:

$CPI_{q,t-n}$ is the CPI for the quarter year ending q in the 12 month period n years prior to year t .

Schedule 1C: Adjustments to allowable notional revenue and notional revenue resulting from a transaction to transfer assets

1. Where Orion completes a transaction governed by clause 9.3, the adjustment for the Assessment Period required under clause 9.3(a) is:

- (a) to include allowable notional revenue and notional revenue amounts that are associated with an increase in Electricity Lines Services Orion supplies as a result of the transaction; or
- (b) to remove allowable notional revenue and notional revenue amounts that are associated with a reduction in the Electricity Lines Services Orion supplies as a result of the transaction,

such that allowable notional revenue is adjusted by the amount calculated using Equation 3.

Equation 3

$$\pm ANR_t^{adj} = \left(\sum_i P_{i,t-1} Q_{i,t-2} \right) (1 + \Delta CPI_t)$$

where:

- t is the year in which the Assessment Period ends;
- ANR_t^{adj} is the amount that allowable notional revenue for the Assessment Period ending in year t is adjusted as a result of the additional or excluded services;
- i is each Price relating to the increase in or reduction of Electricity Lines Services;
- $P_{i,t-1}$ is the i^{th} Price charged by the supplier of the services in the 12 month period ending on 31 March the year prior to year t ;
- $Q_{i,t-2}$ is the Quantity corresponding to the i^{th} Price in the 12 month period ending on 31 March two years prior to year t ;
- ΔCPI_t is the derived change in the CPI to be applied for the Assessment Period ending in year t , being equal to:

$$\frac{CPI_{Dec,t-3} + CPI_{Mar,t-2} + CPI_{Jun,t-2} + CPI_{Sep,t-2}}{CPI_{Dec,t-4} + CPI_{Mar,t-3} + CPI_{Jun,t-3} + CPI_{Sep,t-3}} - 1$$

where:

$CPI_{q,t-n}$ is the CPI for the quarter year ending q in the 12 month period n years prior to year t .

2. For the avoidance of doubt, ANR_t^{adj} is:
- (a) a positive value where Orion acquires assets from another supplier and as a result increases its provision of Electricity Lines Services; and
 - (b) a negative value where Orion disposes of assets with a Regulatory Investment Value greater than zero to another supplier and as a result reduces its provision of Electricity Lines Services; and
 - (c) in all other cases, zero.
3. The adjustment to notional revenue required under clause 9.3 is determined by adjusting each Quantity used in the calculation of notional revenue under clause 7.5 by:
- (a) where Orion acquires assets from another supplier and as a result increases its provision of Electricity Lines Services, an amount that reflects the increase that would likely have occurred had the additional services been provided in the 12 month period ending on 31 March two years prior to year t ; or
 - (b) where Orion disposes of assets to another supplier and reduces its provision of Electricity Lines Services, the Quantity specified in Equation 3.

Schedule 2: Determining the amount of Pass-through Costs and Recoverable Costs for an Assessment Period

1. The amount of each Pass-through Cost or Recoverable Cost that is used to calculate allowable notional revenue or notional revenue for an Assessment Period must:
 - (a) not be able to be otherwise recovered from Consumers or other parties, other than through Prices; and
 - (b) have not already been passed through to, or recovered from, Consumers or other parties by Orion through Prices in a previous Assessment Period.

2. Orion may include as a Recoverable Cost any amount incurred prior to the Regulatory Period that is:
 - (a) a fee payable by Orion as described in clause 3.1.3(1)(j), (k) or (l) of the IM Determination, up to the amounts set out in Table 1; or
 - (b) a fee payable by Orion as described in clauses 3.1.3(1)(h) or (i) of the IM Determination.

Table 1: Recoverable cost amounts relating to Orion’s CPP proposal as set in accordance with clause 3.1.3(3) of the IM Determination

Type of Recoverable Cost	Recoverable Cost Amount (GST-exclusive)
Verifier fee for CPP proposal	\$204,190.81
Auditor fee for CPP proposal	\$244,000.00
Engineer fee for quality standard variation in CPP proposal	\$15,225.00

3. The amounts referred to in paragraphs 2(a) and (b) of this Schedule 2 are to be included as a Recoverable Cost in equal instalments (including an adjustment for the time value of money) in each of the five Assessment Periods of the Regulatory Period, calculated as follows:

$$RC_t = 0.23126 \times PV_{14}$$

where:

- t is the year in which the Assessment Period ends;
- RC_t is the Recoverable Cost amount allowed in the Assessment Period ending in year t ;

PV_{14} is the present value at 1 April 2014 of each amount recoverable under paragraph 2, with each present value calculated using a cost debt of 7.93% per annum.

4. For the purpose of clause 3.1.3(4) of the IM Determination, the disclosure year in respect of which the Commission first approved the amount of Recoverable Cost determined under clause 3.1.3(1)(e) of the IM Determination is the disclosure year in which Orion purchased the transmission assets from Transpower.
5. In the First Assessment Period, Orion may include as a Pass-through Cost any remaining amount equal to the unrecovered cost of the levies paid during the period 1 April 2009 to 31 March 2010 that Orion was recovering in accordance with clause 8.8 of the Orion DPP Determination.

Schedule 3: Reliability Limits and Assessed Values

1. This schedule sets out the process for calculating Orion's Assessed Values for the purposes of assessing compliance with the quality standards as set out in clause 8.

Reliability Limits

2. Orion's Reliability Limits for the Regulatory Period are set out in Table 2 or, where Additional Assets are acquired in a transaction requiring re-calculation of SAIDI Reliability Limits and SAIFI Reliability Limits for those Additional Assets under clause 9.3, as re-calculated in accordance with that clause.

Table 2: Reliability Limits for Assessment Periods in the Regulatory Period

Assessment Period t	$SAIDI_{LIMIT}$	$SAIFI_{LIMIT}$
2015	103.8	1.36
2016	94.7	1.21
2017	91.0	1.16
2018	82.4	1.02
2019	73.4	0.87

Assessed Values

3. In order to calculate its Assessed Values, Orion must undertake the steps set out in paragraphs 4 to 8 of this Schedule.

Boundary values

4. The SAIDI boundary value (B_{SAIDI}) for each Assessment Period in the Regulatory Period is set out in Table 3 or, where Additional Assets are acquired in a transaction requiring re-calculation of SAIDI Reliability Limits and SAIFI Reliability Limits for those Additional Assets under clause 9.3, as re-calculated in accordance with that clause.
5. The SAIFI boundary value (B_{SAIFI}) for each Assessment Period in the Regulatory Period is set out in Table 3 or, where Additional Assets are acquired in a transaction requiring re-calculation of SAIDI Reliability Limits and SAIFI Reliability Limits for those Additional Assets under clause 9.3, as re-calculated in accordance with that clause.

Table 3: B_{SAIDI} and B_{SAIFI} boundary values

Assessment Period t	B_{SAIDI}	B_{SAIFI}
2015	6.2	0.09
2016	5.7	0.08
2017	5.5	0.07
2018	5.0	0.07
2019	4.4	0.06

Normalise the Assessment Dataset for Major Event Days

6. For any day in the Assessment Dataset for Assessment Period t where the daily SAIDI Value is greater than the applicable B_{SAIDI} set out in Table 3, Orion must calculate the normalised daily SAIDI Value in the Normalised Assessment Dataset by replacing the daily SAIDI Value with the applicable B_{SAIDI} set out in Table 3.
7. If the daily SAIFI Value for the day specified in paragraph 6 of this Schedule exceeds the applicable B_{SAIFI} set out in Table 3, calculate the normalised SAIFI Value by replacing the daily SAIFI Value with the applicable B_{SAIFI} set out in Table 4.

Calculate Assessed Values

8. The SAIDI Assessed Value ($SAIDI_{ASSESS,t}$) is the sum of daily SAIDI Values in the Normalised Assessment Dataset for the Assessment Period t .
9. The SAIFI Assessed Value ($SAIFI_{ASSESS,t}$) is the sum of daily SAIFI Values in the Normalised Assessment Dataset for the Assessment Period t .

Schedule 4: Form of Directors' certificate for Compliance Statement

We, [*insert full name/s*], being Directors of Orion New Zealand Limited certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached compliance statement of Orion New Zealand Limited, and related information, prepared for the purposes of the *Orion New Zealand Limited Customised Price-Quality Path Determination 2013* has been prepared in accordance with all the relevant requirements**[except in the following respects]*.

**[insert description of non-compliance]*

[Signatures of Directors]

[Date]

*Delete if inapplicable.

Schedule 5: Form of Auditor's report on Compliance Statement

1. Orion must procure an assurance report by an Auditor in respect of the Compliance Statement that is prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000) or their successor standards, signed by the Auditor (either in his or her own name or that of his or her firm), and that-
 - (a) is addressed to the Directors of Orion and to the Commission as the intended users of the assurance report;
 - (b) states–
 - (i) that it has been prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000) or their successor standards;
 - (ii) the work done by the Auditor;
 - (iii) the scope and limitations of the assurance engagement;
 - (iv) the existence of any relationship (other than that of auditor) which the Auditor has with, or any interests which the Auditor has in, Orion or any of its subsidiaries;
 - (v) whether the Auditor has obtained sufficient recorded evidence and explanations that he or she required and, if not, the information and explanations not obtained;
 - (vi) whether, in the Auditor's opinion, as far as appears from an examination, the information used in the preparation of the Compliance Statement has been properly extracted from the Orion's accounting and other records, sourced from its financial and non-financial systems; and
 - (vii) whether, in the Auditor's opinion, as far as appears from an examination of them, proper records to enable the complete and accurate compilation of the Compliance Statement required by the *Orion New Zealand Limited Customised Price-Quality Path Determination 2013* have been kept by Orion and, if not, the records not so kept; and
 - (c) states whether (and, if not, the respects in which it has not), in the Auditor's opinion, Orion has complied, in all material respects, with the *Orion New*

Zealand Limited Customised Price-Quality Path Determination 2013 in preparing the Compliance Statement.

2. Orion must publicly disclose the Auditor's assurance report prepared in accordance with paragraph 1 above at the same time as Orion publicly discloses the Compliance Statement.

Schedule 6: Variations to Applicable Input Methodologies

1. The variations to the Input Methodologies agreed between Orion and the Commission are recorded in the following instruments:
 - (a) Agreement to vary the Input Methodologies that will apply to Orion New Zealand Limited's CPP determination, dated 9 August 2013.
 - (b) Agreement to vary the Input Methodologies that will apply to Orion New Zealand Limited's CPP determination, Variation No. 2, dated 27 November 2013.
2. The variations are attached to, and form a part of, this Schedule 6.

Agreement to vary the Input Methodologies that will apply to Orion New Zealand Limited's CPP determination

This agreement is entered into as a deed between **Orion New Zealand Limited (Orion)** and the **Commerce Commission** (the Commission) in accordance with s 53V(2)(c) of the Commerce Act 1986 (the Act).

Background

On 19 February 2013, the Commission accepted a CPP application from Orion New Zealand Limited. The Commission is currently in the process of evaluating Orion's customised price-quality path proposal for the purpose of making a determination, as required by s 53T and 53V of the Act.

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

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


Agreement

1. This agreement varies the *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (the IM Determination) as it applies to the Commerce Commission's customised price-quality path determination for Orion New Zealand Limited's CPP proposal of 19 February 2013.
2. Paragraph 5.3.4(4)(b) of the IM Determination is deleted and replaced with:

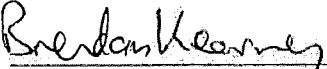
“(b) subclause (2)(a)(ii) applies, it will only be determined in respect of the period between 4 September 2010 and the date the **CPP determination** will come into effect.”

Executed as a Deed on ____ day of _____, 2013.

by Orion

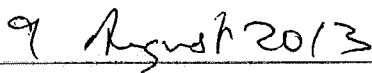


Signature of representative authorised to execute a deed




Name of authorised representative

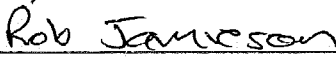
Date



9 August 2013

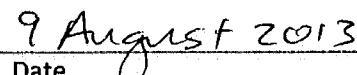


Signature of representative authorised to execute a deed (or witness)



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

Date



9 August 2013

by the Commerce Commission

Mark Newman Berry
Signature of authorised representative

Mark Newman Berry
Name of authorised representative

8 August 2013.
Date

SJBegg
Signature of authorised representative

Susan Janice Begg
Name of authorised representative

8 August 2013
Date

Agreement to vary the Input Methodologies that will apply to Orion New Zealand Limited's CPP determination

Variation No. 2

This agreement is entered into as a deed between **Orion New Zealand Limited (Orion)** and the **Commerce Commission** (the Commission) in accordance with s 53V(2)(c) of the Commerce Act 1986 (the Act).

Background

On 19 February 2013, the Commission accepted a customised price-quality path (CPP) application from Orion. The Commission is currently in the process of evaluating Orion's CPP proposal for the purpose of making a determination, as required by s 53T and 53V of the Act.

The Commission's Electricity Distribution Services Input Methodologies Determination 2012 provides for reconsideration of Orion's customised price quality path determination (the CPP determination) following a catastrophic event. The Commission is concerned that subpart 6 may limit Orion's ability to recover remediation costs incurred prior to any reconsideration taking effect.

The Commission and Orion have agreed in principle that in relation to the period in between any catastrophic event and a reconsideration taking effect, Orion should be able to recover, subject to Commission approval:

- (a) Additional net costs (over and above those provided for in the CPP determination price-path) prudently incurred in responding to a catastrophic event;
- (b) Any claw-back amounts, recoverable costs and pass-through costs that Orion is permitted to recover under the CPP determination through its prices during that period, but did not actually recover due to the catastrophic event.

The Commission and Orion have therefore agreed to the following variations to the input methodologies that apply to the Commission's CPP determination in accordance with s 53V(2)(c) of the Act.

For the avoidance of doubt, these variations are not intended to:


- (a) Prohibit Orion seeking recovery, through means other than recoverable costs, of lost revenue resulting from the catastrophic event as remediation costs;
- (b) Limit the Commission's consideration under subpart 6 of Part 5 of the Electricity Distribution Services Input Methodologies Determination 2012 of any application by Orion to recover foregone revenue due to a catastrophic event should it seek a reconsideration of its CPP determination under that subpart;
- (c) Limit the basis on which Orion can appeal the CPP determination.

Agreement

1. This agreement varies the *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (the IM Determination) as it applies to the Commerce Commission’s customised price-quality path determination for Orion New Zealand Limited’s CPP proposal of 19 February 2013.
2. Subclause 3.1.3(1) is amended by –
 - 2.1 inserting a new paragraph (m):
 - “(m) following a reconsideration and amendment of the price-quality path made under clauses 5.6.4(2)(a) and 5.6.5(1), an amount, approved by the **Commission**, for the period prior to the effective date of the amendment giving effect to the reconsidered **CPP** –
 - “(i) for the additional net costs (over and above those provided for in the **CPP determination**) prudently incurred in responding to a **catastrophic event** which, for the purposes of clause 3.1.3(1)(m) only does not include foregone revenue;
 - “(ii) any claw-back amounts, recoverable costs, and pass-through costs that Orion is permitted to recover under the **CPP determination** through its prices, but did not actually recover due to the **catastrophic event**.”
 - 2.2 deleting “or” from the end of paragraph 3.1.3(1)(k); and
 - 2.3 deleting “.” from the end of paragraph 3.1.3(1)(l) and replacing it with “; or”.

Executed as a Deed on the 27th day of November, 2013.

by Orion




Signature of representative authorised to execute a deed

Brendan Kearney

Name of authorised representative

27 November 2013

Date



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

Rob Jamieson

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

27 November 2013

Date

by the Commerce Commission


Signature of authorised representative

Susan Janice Begg
Name of authorised representative

27 November 2013
Date


Signature of authorised representative

ELISABETH WELSON
Name of authorised representative

27 NOVEMBER 2013
Date

Schedule 7: Allowed Controllable Opex

1. Amounts for Allowed Controllable Opex for the Regulatory Period are set out in Table 4.

Table 4: Allowed Controllable Opex by Assessment Period

Assessment Period	Allowed Controllable Opex
1 April 2014 – 31 March 2015	\$54,908,541
1 April 2015 – 31 March 2016	\$58,104,277
1 April 2016 – 31 March 2017	\$57,926,114
1 April 2017 – 31 March 2018	\$57,997,421
1 April 2018 – 31 March 2019	\$58,854,007

Explanatory note

The purpose of the *Orion New Zealand Limited Customised Price-Quality Path Determination 2013* (“the Determination”) is to set a customised price-quality path for Orion New Zealand Limited for the regulatory period beginning 1 April 2014 and ending 31 March 2019, pursuant to Part 4 of the Commerce Act 1986 (“the Act”).

This Determination will take effect from 1 April 2014, and expire, except for purposes of demonstrating compliance and enforcing any breach for non-compliance, on 31 March 2019.

Pursuant to section 53N of the Act, Orion is required to provide to the Commerce Commission (“the Commission”) a compliance statement stating whether or not it has complied with its customised price-quality path set out in the Determination together with supporting evidence. The compliance statement is to be accompanied by both an auditor’s report and a directors’ certificate. Orion must publish its compliance statement on its website within five working days after submitting it to the Commission.

The Commission conducted a comprehensive process of consultation before making the Determination. A decision paper explaining our decisions reflected in this Determination can be found at:

<http://www.comcom.govt.nz/regulated-industries/electricity/cpp/orion-cpp/>

Copies of this Determination are available for inspection free of charge at the Commission (during ordinary office hours), on the Commission’s website at the above link, or for purchase at a reasonable price at the Commission.