

Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for information disclosure regulation) 2014

[2014] NZCC 38

Amendments made under s 52X of the Commerce Act 1986 to the input methodologies for electricity lines services, including Transpower, and gas pipeline services.

The Commission:	Transpower Division	Energy Division
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Date of Decision: 11 December 2014

Electricity Lines Services and Gas Pipeline Services Input Methodologies Determination Amendment (WACC percentile for information disclosure regulation) 2014

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

1. DETERMINATIONS AMENDED

This determination amends the following determinations, as previously amended:

- (a) Electricity Distribution Services Input Methodologies Determination 2012, [2012] NZCC 26 (the **EDB IM Determination**);
- (b) *Transpower Input Methodologies Determination 2012*, [2012] NZCC 17 (the **Transpower IM Determination**);
- (c) Gas Distribution Services Input Methodologies Determination 2012, [2012] NZCC 27 (the **GDB IM Determination**); and
- (d) Gas Transmission Services Input Methodologies Determination 2012, [2012] NZCC 28 (the **GTB IM Determination**).

2. COMMENCEMENT

This determination comes into force on the day notice of this determination is given in the New Zealand Gazette.

3. INTERPRETATION

- 3.1 Terms in bold type that are defined in this determination have the meaning given to those terms in this determination.
- 3.2 Terms in bold type that are not defined in this determination have the meaning given to those terms in the applicable determination.
- 3.3 Terms used in this determination that are defined in the Act, but not this determination, have the same meaning as in the Act.
- 3.4 Nothing in this determination limits the Commission's authority to amend the EDB IM Determination, Transpower IM Determination, GDB IM Determination or GTB IM Determination in accordance with the Act.

4. EDB IM AMENDMENTS

- 4.1 In clause 1.1.4(2) of the **EDB IM Determination**, replace the definition of "67th percentile estimate of WACC" with:

“**67th percentile estimate of WACC** means, estimate, made in accordance with, for the purpose of-

- “(a) Part 2, clause 2.4.7(5)(b), of the 67th percentile for the post-tax **mid-point estimate of WACC**;
- “(b) Part 4, clause 4.4.7(2), of the 67th percentile for the **mid-point estimate of WACC**; and
- “(c) Part 5, clause 5.3.28, of the 67th percentile for the **mid-point estimate of WACC**.”

4.2 In clause 2.2.11(2) of the **EDB IM Determination**, replace paragraph (b) with:

- “(b) calculated for a **non-exempt EDB**, using, subject to subclause (3), a rate no greater than -
 - “(i) for each **disclosure year** prior to **disclosure year 2016**, or if the **non-exempt EDB** is subject to a **CPP** commencing prior **disclosure year 2016**, the **75th percentile estimate of WACC**; and
 - “(ii) for **disclosure year 2016** and each **disclosure year** thereafter, unless the **non-exempt EDB** is subject to a **CPP** commencing prior to **disclosure year 2016**, the **67th percentile estimate of WACC**,

“applying in respect of the relevant date for its calculation under **GAAP**; and
- “(c) calculated for a **consumer-owned EDB**, using a rate no greater than the **EDB's** estimate of its post-tax **WACC** as at the relevant date for its calculation under **GAAP**.”

4.3 In clause 2.2.11(3) of the **EDB IM Determination**, replace paragraph (b) with:

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

- “(ii) for each part of that later period that is in **disclosure year 2016** or a **disclosure year** thereafter, unless the **non-exempt EDB** is subject to a **CPP** commencing prior **disclosure year 2016**, the **67th percentile estimate of WACC** applying to that later period.”.

4.4 Replace clause 2.4.7 of the **EDB IM Determination** with:

“2.4.7 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 x standard error;**
and
- “(ii) 25th percentile must be determined in accordance with the formula-
- mid-point estimate of WACC - 0.674 x standard error,**
- “where 'standard error' means the standard error of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 2.4.6(2) or 2.4.6(3), as the case may be.
- “(4) The **Commission** will determine a 67th percentile estimate of vanilla **WACC** and 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 'standard error' means the standard error of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 2.4.6(2) or 2.4.6(3), as the case may be.”.

4.5 In clause 5.3.11(3)(b) of the **EDB IM Determination**, replace "75th percentile" with "67th percentile".

5. TRANSPOWER IM AMENDMENTS

5.1 In clause 1.1.4(2) of the **Transpower IM Determination**, replace the definition of "67th percentile estimate of WACC" with:

"67th percentile estimate of WACC means, estimate, made in accordance with, for the purpose of-

“(a) Part 2, clause 2.4.7(5)(b), of the 67th percentile for the post-tax **mid-point estimate of WACC**; and

“(b) Part 3, clause 3.5.7(2), of the 67th percentile for the **mid-point estimate of WACC**.”.

5.2 In clause 2.2.7(2) of the **Transpower IM Determination**, replace paragraph (b) with:

“(b) is calculated using, subject to subclause (3), a rate no greater than-

“(i) for each **disclosure year** prior to **disclosure year 2016**, the **75th percentile estimate of WACC**; and

“(ii) for **disclosure year 2016** and each **disclosure year** thereafter, the **67th percentile estimate of WACC**,

“applying in respect of the relevant date for its calculation under **GAAP**.”.

5.3 In clause 2.2.7(3) of the **Transpower IM Determination**, replace paragraph (b) with:

- “(b) where an asset has not been **commissioned** within the period to which the **75th percentile estimate of WACC** or **67th percentile estimate of WACC**, as applicable, referred to in subclause (2)(b) applied, the cost of financing in each **disclosure year** after that period is calculated using a rate no greater than–
- “(i) for each part of that later period that is in a **disclosure year** prior to **disclosure year 2016**, the **75th percentile estimate of WACC** applying to that later period; and
- “(ii) for each part of that later period that is in **disclosure year 2016** or a **disclosure year** thereafter, the **67th percentile estimate of WACC** applying to that later period.”.

5.4 In the **Transpower IM Determination**, replace clause 2.4.7 with:

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

“where 'standard error' means the standard error of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 2.4.6(2) or 2.4.6(3), as the case may be.

“(4) The **Commission** will determine a 67th percentile estimate of vanilla **WACC** and 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 'standard error' means the standard error of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 2.4.6(2) or 2.4.6(3), as the case may be.”.

6. GDB IM AMENDMENTS

6.1 In clause 1.1.4(2) of the **GDB IM Determination**, replace the definition of “67th percentile estimate of WACC” with:

“**67th percentile estimate of WACC** means, estimate, made in accordance with, for the purpose of-

“(a) Part 2, clause 2.4.7(5)(b), of the 67th percentile for the post-tax **mid-point estimate of WACC**;

“(b) Part 4, clause 4.4.7(2), of the 67th percentile for the **mid-point estimate of WACC**; and

“(c) Part 5, clause 5.3.28, of the 67th percentile for the **mid-point estimate of WACC**.”.

6.2 In clause 2.2.11(2) of the **GDB IM Determination**, replace paragraph (b) with:

“(b) calculated using, subject to subclause (3), a rate no greater than-

“(i) for each **disclosure year** prior to **disclosure year 2018**, the **75th percentile estimate of WACC**; and

“(ii) for **disclosure year 2018** and each **disclosure year** thereafter, the **67th percentile estimate of WACC**,

“published pursuant to clause 2.4.8 applying in respect of the relevant date for its calculation under **GAAP**.”.

6.3 In clause 2.2.11(3) of the **GDB IM Determination**, replace paragraph (b) with:

“(b) where an asset has not been **commissioned** within the period to which the **75th percentile estimate of WACC** or **67th percentile estimate of WACC**, as applicable, referred to in subclause (2)(b) applied, the cost of financing in each **disclosure year** after that period is calculated using a rate no greater than–

“(i) for each part of that later period that is in a **disclosure year** prior to **disclosure year 2018**, the **75th percentile estimate of WACC** applying to that later period; and

“(ii) for each part of that later period that is in **disclosure year 2018** or a **disclosure year** thereafter, the **67th percentile estimate of WACC** applying to that later period.”.

6.4 Replace clause 2.4.7 of the **GDB IM Determination** with:

“2.4.7 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 x standard error;
and

“(ii) 25th percentile must be determined in accordance with the formula-

mid-point estimate of WACC - 0.674 x standard error,

“where 'standard error' means the standard error of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 2.4.6(2) or 2.4.6(3), as the case may be.

“(4) The **Commission** will, commencing with **disclosure year 2018**, determine a 67th percentile estimate of vanilla **WACC** and 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 'standard error' means the standard error of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 2.4.6(2) or 2.4.6(3), as the case may be.”.

6.5 In clause 5.3.11(3)(b) of the **GDB IM Determination**, replace “75th percentile” with “67th percentile”.

7. GTB IM AMENDMENTS

7.1 In clause 1.1.4(2) of the **GTB IM Determination**, replace the definition of “67th percentile estimate of WACC” with:

“**67th percentile estimate of WACC** means, estimate, made in accordance with, for the purpose of-

“(a) Part 2, clause 2.4.7(5)(b), of the 67th percentile for the post-tax **mid-point estimate of WACC**;

- “(b) Part 4, clause 4.4.7(2), of the 67th percentile for the **mid-point estimate of WACC**; and
- “(c) Part 5, clause 5.3.24, of the 67th percentile for the **mid-point estimate of WACC**.”.

7.2 In clause 2.2.11(2) of the **GTB IM Determination**, replace paragraph (b) with:

- “(b) calculated using, subject to subclause (3), a rate no greater than—
 - “(i) for each **disclosure year** prior to **disclosure year 2018**, the **75th percentile estimate of WACC**; and
 - “(ii) for **disclosure year 2018** and each **disclosure year** thereafter, the **67th percentile estimate of WACC**,

“published pursuant to clause 2.4.8 applying in respect of the relevant date for its calculation under **GAAP**.”.

7.3 In clause 2.2.11(3) of the **GTB IM Determination**, replace paragraph (b) with:

- “(b) where an asset has not been **commissioned** within the period to which the **75th percentile estimate of WACC** or **67th percentile estimate of WACC**, as applicable, referred to in subclause (2)(b) applied, the cost of financing in each **disclosure year** after that period is calculated using a rate no greater than—
 - “(i) for each part of that later period that is in a **disclosure year** prior to **disclosure year 2018**, the **75th percentile estimate of WACC** applying to that later period; and
 - “(ii) for each part of that later period that is in **disclosure year 2018** or a **disclosure year** thereafter, the **67th percentile estimate of WACC** applying to that later period.”.

7.4 Replace clause 2.4.7 of the **GTB IM Determination** with:

- “2.4.7 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 x standard error;**
and
- “(ii) 25th percentile must be determined in accordance with the formula-
- mid-point estimate of WACC - 0.674 x standard error,**
- “where 'standard error' means the standard error of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 2.4.6(2) or 2.4.6(3), as the case may be.
- “(4) The **Commission** will, commencing with **disclosure year** 2018, determine a 67th percentile estimate of vanilla **WACC** and 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 'standard error' means the standard error of the relevant **mid-point estimate of WACC**, as determined in accordance with clause 2.4.6(2) or 2.4.6(3), as the case may be.”.

7.5 In clause 5.3.11(3)(b) of the **GTB IM Determination**, replace “75th percentile” with “67th percentile”.



Mark Berry, *Chair*

Dated at Wellington this 11th day of December 2014.

COMMERCE COMMISSION

Explanatory Note

This amendment gives effect to the Commission's decision to determine and publish a 67th percentile estimate of WACC on an annual basis for the purposes of information disclosure regulation for electricity lines services and gas pipeline services. The amendment also reduces the maximum rate, applicable under GAAP, that suppliers of electricity lines services and gas pipeline services subject to price-quality regulation may use for calculating the financing costs of assets for the purposes of information disclosure and customised price-quality regulation from the 75th percentile estimate of WACC to the 67th percentile estimate of WACC.