

Electricity Distribution Services Default Price-Quality Path Determination 2012

NZCC 35

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Regulation Branch, Commerce Commission

Wellington, NEW ZEALAND

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Note: This determination resets the default price-quality path set in *Decision 695: Electricity Distribution Services Default Price-Quality Path Determination 2010* (as amended) for all non-exempt electricity distribution businesses except Orion New Zealand Limited.

Electricity Distribution Services Default Price-Quality Path Determination 2012

Determination version history		
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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 Electricity Distribution Services Default Price-Quality Path Determination 2012.

2. Commencement Date

2.1 This determination comes into force on 1 April 2013.

3. Application

3.1 This determination resets the default price-quality path applying to Non-exempt EDBs, except Orion New Zealand Limited, and applies with respect to those EDBs' Fourth Assessment Period and Fifth Assessment Period.

3.2 Orion New Zealand Limited remains subject to the default price-quality path set out in the 2010 DPP Determination.

3.3 The reset of the default price-quality path for the Non-exempt EDBs in this determination is made pursuant to s 54K(3) of the Act.

3.4 For the avoidance of doubt, Non-exempt EDBs must comply with the 2010 DPP Determination for the Third Assessment Period and earlier Assessment Periods.

4. Interpretation

4.1 In this determination, unless the context otherwise requires,—

2010 DPP Determination means the Electricity Distribution Services Default Price-Quality Path Determination 2010 Decision 685 (as amended)

Act means the Commerce Act 1986

Annual Compliance Statement means a written statement made by a Non-exempt EDB under clause 11

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 Date means a date as at which compliance with the default price-quality path must be demonstrated, being 31 March of each of the years 2011 to 2015

Assessment Period means a period of 12 months ending on an Assessment Date

Auditor, in relation to a Non-exempt EDB, means a Person who:

- (a) is qualified for appointment as auditor of a company under the Companies Act 1993 or, where the Non-exempt EDB is a public entity (as defined in section 4 of the Public Audit Act 2001), is the Auditor-General; and
- (b) has no relationship with, or interest in, the Non-exempt EDB that is likely to involve the Person in a conflict of interest; and
- (c) has not assisted with the preparation of the Annual Compliance Statement or provided advice or opinions (other than in relation to audit reports) on the methodologies or processes used in preparing the Annual Compliance Statement; and
- (d) has the necessary expertise to properly undertake an audit required by clause 11.3; but
- (e) need not be the same Person as the Person who audits the Non-exempt EDB's accounts for any other purpose

Catastrophic Event has the meaning given in clause 5.6.1 of the IM Determination

Class B Interruptions means planned Interruptions by a Non-exempt EDB

Class C Interruptions means Unplanned Interruptions originating within the System Fixed Assets of a Non-exempt EDB

Commission means the Commerce Commission

Consumer has the same meaning as in section 2(1) of the Electricity Act 1992

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

EDB means a supplier of Electricity Lines Services other than Transpower

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

Electricity Industry Participation Code has the same meaning as the definition of 'code' in section 5 the Electricity Industry Act 2010

Electricity Lines Services has the meaning set out in section 54C of the Act

Fifth Assessment Period means the period 1 April 2014 to 31 March 2015

Fourth Assessment Period means the period 1 April 2013 to 31 March 2014

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

IM Determination refers to the Electricity Distribution Services Input Methodologies Determination 2010 Decision 710 (as amended) as re-determined at 30 September 2012

Indirect Transmission Charges means 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, where the charge is:

- (a) on-charged, at cost by an EDB that is directly connected to the Transmission System to a Non-exempt EDB that does not have a transmission agreement with Transpower for the indirect connection to the Transmission System; and
- (b) approved by the Commission under clause 11.5

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

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

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

- (a) the purchase of all the assets of another Non-exempt EDB; or
- (b) the acquisition of sufficient shares in another Non-exempt EDB to have an interest in the other Non-exempt EDB sufficient to enable it, whether directly or indirectly, to exert a substantial degree of influence over the activities of the other Non-exempt EDB, or 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 2

Normalised Reference Dataset means a Reference Dataset normalised in accordance with Schedule 2

Pass-Through Costs has the same meaning as clause 3.1.2 of the IM Determination

Person includes a corporation sole, a body corporate, and an unincorporated body

Posted Discount means a discount to charges payable for the supply of Electricity Distribution Services

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 3.1.1(4) of the IM Determination

Pricing Period means a 12 month period ending on 31 March

Quantity means the unit of quantity (which may include, but is not limited to, kWh, kVA, kW, and day) corresponding to a Price

Recoverable Costs has the same meaning as clause 3.1.3 of the IM Determination

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

Reference Period means the period 1 April 2004 to 31 March 2009

Regulatory Period means the period 1 April 2010 to 31 March 2015

Reliability Limits means the SAIDI and SAIFI levels against which a Non-exempt EDB'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

Second Assessment Period means the period 1 April 2011 to 31 March 2012

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

System Operator Services means co-ordination services for the control, dispatch, and security functions necessary to operate the Transmission System

Third Assessment Period means the period 1 April 2012 to 31 March 2013

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.

4.2 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 in this determination as in the Act;
- (b) words appearing in this determination with capitalised initial letters are defined terms and bear the meanings given to them in this clause 4; and
- (c) a word which denotes the singular also denotes the plural and vice versa.

5. Default price-quality path

5.1 During the Regulatory Period every Non-exempt EDB subject to this determination must comply with the default price-quality path, which consists of both:

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

6. Applicable input methodologies

6.1 The input methodologies that 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 1 of Part 4 – cost allocation;
- (d) Subpart 2 of Part 4 – asset valuation;
- (e) Subpart 3 of Part 4 – treatment of taxation;
- (f) Subpart 4 of Part 4 – cost of capital;
- (g) Subpart 5 of Part 4 – reconsideration of the default price-quality path; and
- (h) Subpart 6 of Part 4 – treatment of periods that are not 12 month periods.

7. Customised price-quality path proposal date

7.1 An EDB may only submit a proposal for a customised price-quality path to the Commission:

- (a) for 2013, in the period beginning Monday, 6 May and ending Monday, 13 May;
- (b) for 2014, in the period beginning Monday, 10 February and ending Monday, 17 February; and
- (c) following a Catastrophic Event, at any time within the 24 months after the Catastrophic Event, except in the 12 months before the end of the Regulatory Period.

8. Price path

8.1 Starting Prices

The starting Prices that apply during the Regulatory Period are as set out in Schedule 1A.

8.2 Rates of change

The annual rates of change in Prices (ie X), relative to the CPI, allowed during the Regulatory Period are set out in Schedule 1B.

8.3 Allowable notional revenue

Allowable notional revenue (R_t) specifies the maximum Prices that may be charged during an Assessment Period.

8.4 Compliance with the price path

The notional revenue (NR_t) of a Non-exempt EDB at any time during the Assessment Period must not exceed the allowable notional revenue (R_t) for the Assessment Period, such that:

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

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 denotes the year of the Assessment Date in the Assessment Period, for which compliance is being assessed;
- i denotes 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 Pricing Period $t-2$;
- K_t is the sum of all Pass-Through Costs during the Assessment Period t ;
- V_t is the sum of all Recoverable Costs and Indirect Transmission Charges during the Assessment Period t ;

and:

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

- (a) Schedule 1C for the Fourth Assessment Period ($t = 2014$); and
- (b) Schedule 1D for the Fifth Assessment Period ($t = 2015$).

8.5 Restructuring of Prices

If a Non-exempt EDB restructures its Prices that apply during an Assessment Period, it must demonstrate to the satisfaction of the Commission in its Annual Compliance Statement for that Assessment Period:

- (a) whether or not the restructuring of itself increased its allowable notional revenue for that Assessment Period above that which would have applied if the restructuring had not occurred; or
- (b) where it is not possible to demonstrate the effects of the restructure on allowable notional revenue under paragraph (a), whether or not the restructuring of itself increased its revenue for that Assessment Period above that which would have applied if the restructuring had not occurred;

and, if the restructuring of itself—

- (c) did not increase the Non-exempt EDB's allowable notional revenue (referred to in paragraph (a)) or revenue (referred to in paragraph (b)) for that Assessment Period, clause 8.4 will apply as if the new Price structure applied on and from the beginning of that Assessment Period; or
- (d) did increase the Non-exempt EDB's allowable notional revenue (referred to in paragraph (a)) or revenue (referred to in paragraph (b)) for that Assessment Period, the price path will not have been complied with.

8.6 Alternative compliance following restructuring of Prices

If a Non-exempt EDB restructures its Prices that apply during an Assessment Period, and—

- (a) the Commission is satisfied that, because of a lack of information beyond the control of the Non-exempt EDB, it is not practicable for the Non-exempt EDB to demonstrate the effect of the restructuring under clause 8.5 and therefore to demonstrate compliance with the price path for that Assessment Period; and
- (b) the Non-exempt EDB demonstrates to the satisfaction of the Commission, by use of an alternative approach that has the equivalent effect of clause 8.5, that the substance of that clause has been complied with—

the Non-exempt EDB will be regarded as having complied with the price path during that Assessment Period.

8.7 2009/10 Commerce Act Levies

If a Non-Exempt EDB paid levies as set out under clause 3.1.2(2)(b)(i) of the IM Determination during the Pricing Period 1 April 2009 to 31 March 2010 then that Non-Exempt EDB may apportion those levies evenly over the Regulatory Period and include the resulting apportioned amounts as Pass-Through Costs.

8.8 Recovery of claw-back within the Regulatory Period

Non-exempt EDBs listed in Schedule 1E must include the claw-back amount calculated in accordance with that schedule, as Recoverable Costs for the Fifth Assessment Period.

9. Quality standards

9.1 Compliance with quality standards

A Non-exempt EDB must, in respect of each Assessment Period, either:

- (a) comply with the annual reliability assessment specified in clause 9.2 for that Assessment Period; or
- (b) have complied with those annual reliability assessments for the two immediately preceding extant Assessment Periods.

9.2 Annual reliability assessment

A Non-exempt EDB'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 Non-exempt EDB for the Assessment Period t, and is calculated using the process outlined in Schedule 2;

$SAIDI_{LIMIT}$ is the SAIDI Reliability Limit for the Non-exempt EDB, and is calculated using the process outlined in Schedule 2;

$SAIFI_{ASSESS,t}$ is the SAIFI Assessed Value for the Non-exempt EDB for the Assessment Period t, and is calculated using the process outlined in Schedule 2; and

$SAIFI_{LIMIT}$ is the SAIFI Reliability Limit for the Non-exempt EDB, and is calculated using the process outlined in Schedule 2.

10. Transactions involving Non-exempt EDBs

10.1 Transactions resulting in an amalgamation or Merger

Where a Non-exempt EDB has completed an amalgamation in accordance with Part 13 of the Companies Act 1993 or otherwise carries out a Merger, clause 3.2.1 of the IM Determination applies.

10.2 Transactions resulting in Consumers being supplied by a different EDB

Where a Non-exempt EDB has completed a transaction (other than an amalgamation or a Merger) involving a transfer of assets to or from the Non-exempt EDB that, as a result of that transfer, results in any Consumer being supplied Electricity Lines Services by a different EDB:

- (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 1F;
- (b) if the transaction is required to be notified to the Commission under clause 10.4, for the Assessment Periods following the transaction's completion:
 - (i) the Reliability Limits must be recalculated using the process outlined in Schedule 2 as if the transaction was completed at the beginning of the Reference Period; and

- (ii) the Assessed Values for those Assessment Periods must be calculated using the process outlined in Schedule 2; and
- (c) the allowable notional revenue and notional revenue for the Fourth Assessment Period must be adjusted using the process outlined in Schedule 1F if:
 - (i) the transaction was completed during the Regulatory Period and prior to the Fourth Assessment Period; and
 - (ii) allowable notional revenue for the Fourth Assessment Period is calculated using Equation 2 in Schedule 1C.

10.3 Alternative compliance provisions following a transaction

If—

- (a) the Commission is satisfied that, due to a lack of information available, beyond the control of a Non-exempt EDB, it is not practicable to determine whether the Non-exempt EDB involved in a transaction complied with the price path and quality standards in an Assessment Period; and
- (b) the Non-exempt EDB demonstrates to the satisfaction of the Commission, by use of an alternative approach that has the equivalent effect of clauses 8 and 9, that the substance of those clauses has been complied with—

the Non-exempt EDB will be deemed to have complied with the default price-quality path during that Assessment Period.

10.4 Requirement to notify the Commission of large transactions

Where a Non-exempt EDB completes a transaction (or number of transactions) of the type set out in clauses 10.1 or 10.2 whereby:

- (a) the value of the assets of the Non-exempt EDB associated with the provision of electricity distribution services increases or decreases by more than 10% within an Assessment Period as a result of the transaction; or
- (b) the Non-exempt EDB's revenue from the supply of electricity distribution services increases or decreases by more than 10% within an Assessment Period as a result of the transaction,

the Non-exempt EDB must notify the Commission within 30 days of the completion of the transaction as to the nature and effect of the transaction.

11. Annual Compliance Statement

- 11.1 Every Non-exempt EDB must provide an Annual Compliance Statement to the Commission within 50 working days following the Assessment Dates 31 March 2014

(for the Fourth Assessment Period) and 31 March 2015 (for the Fifth Assessment Period).

11.2 The Annual Compliance Statement referred to in clause 11.1 must consist of:

- (a) a written statement that states whether or not the Non-exempt EDB has complied with the price path in clause 8 and the quality standards in clause 9 in respect of the Assessment Period ending on that Assessment Date; and
- (b) sufficient information to support the statement required by clause 11.2(a).

11.3 Sufficient information referred to in 11.2(b) must include:

- (a) 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;
- (b) the amounts of Pass-Through Costs, including both the forecast amounts when the Non-exempt EDB set Prices for the Assessment Period and the actual amounts for the Assessment Period, and any information relevant to the variance between the forecast and actual amounts;
- (c) the amounts of Recoverable Costs, including both the forecast amounts when the Non-exempt EDB set Prices for the Assessment Period and the actual amounts for the Assessment Period, and any information relevant to the variance between the forecast and actual amounts;
- (d) information relating to any amounts specified as Recoverable Costs consistent with clause 3.1.3(1)(b), (c), and (e) of the IM Determination including:
 - (i) the amount of charge relating to clause 3.1.3(1)(b) of the IM Determination that the Non-exempt EDB has avoided liability to pay as result of that Non-exempt EDB having purchased transmission assets from Transpower, subject to clause 11.4;
 - (ii) 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
 - (iii) evidence that a transaction was completed consistent with clause 3.1.3(1)(e) of the IM Determination;
- (e) in respect of Indirect Transmission Charges, the amounts of Indirect Transmission Charges approved by the Commission under clause 11.5 for the Assessment Period;

- (f) in respect of clauses 8.5 and 8.6, a written statement that states whether or not those clauses applies in respect of the Assessment Period;
- (g) if the Non-exempt EDB restructured its Prices as referred to in clause 8.5, information of the kind set out in clause 11.3(a) to (c) that demonstrates:
 - (i) if clause 8.5(a) applies, whether or not the restructuring has of itself increased the Non-exempt EDB's allowable notional revenue above that which would have applied if the restructuring had not occurred, using both the previous and restructured Prices and Quantities;
 - (ii) if clause 8.5(b) applies, whether or not the restructuring has of itself increased the Non-exempt EDB's revenue above that which would have applied if the restructuring had not occurred, using both the previous and restructured Prices and Quantities, and reasoning why it is not practicable for the Non-exempt EDB to demonstrate the effects of the restructuring on allowable notional revenue; and
 - (iii) if clause 8.6 applies, why it is not practicable for the Non-exempt EDB to demonstrate the effects of the restructuring on allowable notional revenue or revenue;
- (h) Assessed Values and Reliability Limits for the Assessment Period, relevant SAIDI and SAIFI statistics and calculations (including those in Schedule 2), the annual reliability assessments for the two previous Assessment Periods, and other relevant data and information;
- (i) a description of policies and procedures which the Non-exempt EDB has used for recording the SAIDI and SAIFI statistics for the Assessment Period;
- (j) in respect of clause 10:
 - (i) a written statement that states whether or not clauses 10.1, 10.2, 10.3 or 10.4 applied in respect of the Assessment Period;
 - (ii) if clauses 10.1, 10.2, 10.3 or 10.4 applied, a written statement that states whether or not the Non-exempt EDB has complied with those clauses;
 - (iii) if clause 10.2(a) applied, a written statement that states whether or not the Non-exempt EDB has complied with the price path in clause 8 before and after the transaction was completed; and
 - (iv) if clauses 10.1, 10.2 or 10.3 applied, any calculations that may be required by those clauses;
- (k) if System Fixed Assets were transferred from Transpower to the Non-exempt EDB, SAIDI and SAIFI statistics and calculations (including those in Schedule 2) for the Assessment Period in which the transfer was completed

that demonstrate whether or not the transfer increased the Non-exempt EDB's Assessed Values;

- (l) the date on which the statement was prepared; and
- (m) a certificate in the form set out in Schedule 3B, signed by at least one Director of the Non-exempt EDB.

11.4 The amount of charge referred to in clause 11.3(d)(i):

- (a) for the Assessment Period in which the charge is first recovered, is the amount that would have been charged by Transpower for the use of the assets transferred to the Non-exempt EDB 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
- (b) for each of the remaining Assessment Periods in which the charge may be recovered under clause 3.1.3(4) of the IM Determination, may be adjusted where an Non-exempt EDB can demonstrate to the Commission that the Non-exempt EDB has made adjustments using a method consistent with the Transmission Pricing Methodology.

11.5 Any Non-exempt EDB that includes Indirect Transmission Charges in its Prices during an Assessment Period must submit to the Commission before each Assessment Period:

- (a) the amount of Indirect Transmission Charges that the Non-exempt EDB seeks to recover through its Prices for the Assessment Period and any information showing how the amount has been calculated; and
- (b) a statement signed by at least one Director of the Non-exempt EDB which has Indirect Transmission Charges arising from indirect connection to the Transmission System that the amount of Indirect Transmission Charges accurately reflects the transmission services supplied to the Non-exempt EDB, consistent with the Transmission Pricing Methodology.

11.6 An Annual Compliance Statement referred to in clause 11.1 must be accompanied by a report on the Annual Compliance Statement that is signed by an Auditor and is in the form set out in Schedule 3A.

11.7 An Auditor's report given for the purposes of clause 11.6:

- (a) may be qualified only if the Auditor considers that the Annual Compliance Statement concerned has not been prepared, in all material respects, in accordance with this determination, and the report explains with full reasons the respects in which the statement so fails; and

- (b) where this determination requires the Commission to be satisfied in relation to a matter, need not express a view in relation to the Commission's satisfaction.

12. Reconsideration of the price-quality path

- 12.1 The circumstances in which the default price-quality path may be reconsidered are set out in Subpart 5 of Part 4 of the IM Determination.

Dated at Wellington this 30th day of November 2012.
Commerce Commission

Schedule 1A: Starting Prices

The starting Prices for each Non-exempt EDB for the Regulatory Period, specified as maximum allowable revenue, is set in out in Table 1.

Table 1: Starting Prices for each Non-exempt EDB, 2010/11

Non-exempt EDB	Maximum allowable revenue (\$000)
Alpine Energy Limited	34,560
Aurora Energy Limited	53,674
Centralines Limited	9,325
Eastland Network Limited	20,300
Electricity Ashburton Limited	27,016
Electricity Invercargill Limited	12,712
Horizon Energy Distribution Limited	19,917
Nelson Electricity Limited	6,736
Network Tasman Limited	27,036
OtagoNet Joint Venture	23,337
Powerco Limited	230,793
The Lines Company Limited	31,245
Top Energy Limited	32,443
Unison Networks Limited	90,359
Vector Limited	377,152
Wellington Electricity Lines Limited	101,571

Schedule 1B: Rates of Change

The annual rate of change in Prices (ie, X) is 0%, unless specified otherwise in Table 2.

Table 2: Rates of change for specified Non-exempt EDBs

Non-exempt EDB	Rate of change for calculating allowable notional revenue in the Fourth Assessment Period (%)	Rate of change for calculating allowable notional revenue in the Fifth Assessment Period (%)
Alpine Energy Limited	-10	-10
Centralines Limited	-10	-10
The Lines Company Limited	-10	-10
Top Energy Limited	-10	-10
Unison Networks Limited	n/a	-8

Schedule 1C: Allowable notional revenue for the Fourth Assessment Period

Allowable notional revenue for the Fourth Assessment Period ($R_{2013/14}$) is calculated using:

- (a) Equation 1 for Non-Exempt EDBs listed in Table 3; and
- (b) Equation 2 for all other Non-Exempt EDBs subject to this determination.

Table 3: Non-exempt EDBs that must use Equation 1 to determine allowable notional revenue for the Fourth Assessment Period

Non-exempt EDB	
Alpine Energy Limited	The Lines Company Limited
Centralines Limited	Top Energy Limited

Equation 1

$$R_{2013/14} = \left(\sum_i P_{i,2012/13} Q_{i,2011/12} - K_{2012/13} - V_{2012/13} + (R_{2012/13} - NR_{2012/13}) \right) (1 + \Delta CPI_{2013/14}) (1 - X)$$

where:

$R_{2013/14}$	is the allowable notional revenue for the Fourth Assessment Period
i	denotes each Price relating to an Electricity Lines Service
$P_{i,2012/13}$	is the i^{th} Price during any part of the Third Assessment Period
$Q_{i,2011/12}$	is the Quantity corresponding to the i^{th} Price during the Second Assessment Period
$K_{2012/13}$	is the sum of all Pass-Through Costs during the Third Assessment Period
$V_{2012/13}$	is the sum of all Recoverable Costs during the Third Assessment Period
$R_{2012/13}$	is the allowable notional revenue for the Third Assessment Period as calculated under the 2010 DPP Determination
$NR_{2012/13}$	is the notional revenue for the Third Assessment Period as calculated under the 2010 DPP Determination
X	is the rate of change for the Fourth Assessment Period, as specified in Table 2 in Schedule 1B

$\Delta CPI_{2013/14}$ is the derived change in the CPI to be applied during the Fourth Assessment Period, being equal to:

$$\frac{CPI_{Dec,2011} + CPI_{Mar,2012} + CPI_{Jun,2012} + CPI_{Sep,2012}}{CPI_{Dec,2010} + CPI_{Mar,2011} + CPI_{Jun,2011} + CPI_{Sep,2011}} - 1$$

where:

CPI_{q, t} is the CPI for the quarter q of year t

Equation 2

$$R_{2013/14} = \frac{MAR_{2013/14} + K_{2013/14} + V_{2013/14}}{\Delta D} - K_{2013/14} - V_{2013/14}$$

where:

$MAR_{2013/14}$ is the maximum allowable revenue for the Fourth Assessment Period, as specified in Table 4

ΔD is the change in constant price revenue for the period 1 April 2012 to 31 March 2014, as specified in Table 4

$K_{2013/14}$ is the sum of all Pass-Through Costs relating to the Fourth Assessment Period

$V_{2013/14}$ is the sum of all Recoverable Costs and Indirect Transmission Charges relating to the Fourth Assessment Period

Table 4: Allowable notional revenue inputs for the Fourth Assessment Period

Non-exempt EDB	$MAR_{2013/14}$ (\$000)	ΔD
Aurora Energy Limited	57,536	1.013
Eastland Network Limited	21,200	0.996
Electricity Ashburton Limited	29,789	1.032
Electricity Invercargill Limited	13,320	0.998
Horizon Energy Distribution Limited	20,901	0.999
Nelson Electricity Limited	7,196	1.011
Network Tasman Limited	28,939	1.012
OtagoNet Joint Venture	24,759	1.006
Powerco Limited	246,378	1.010
Unison Networks Limited	91,594	1.001
Vector Limited	416,760	1.034
Wellington Electricity Lines Limited	109,404	1.016

Schedule 1D: Allowable notional revenue for Fifth Assessment Period

Allowable notional revenue for the Fifth Assessment Period ($R_{2014/15}$) is calculated using Equation 3.

Equation 3

$$R_{2014/15} = \left(\sum_i P_{i,2013/14} Q_{i,2012/13} - K_{2013/14} - V_{2013/14} + (R_{2013/14} - NR_{2013/14}) \right) (1 + \Delta CPI_{2014/15}) (1 - X)$$

where:

$R_{2014/15}$	is the allowable notional revenue for the Fifth Assessment Period t
i	denotes each Price relating to an Electricity Lines Service
$P_{i,2013/14}$	is the i th Price during any part of the Fourth Assessment Period
$Q_{i,2012/13}$	is the Quantity corresponding to the i th Price during the Third Assessment Period
$K_{2013/14}$	is the sum of all Pass-Through Costs during the Fourth Assessment Period
$V_{2013/14}$	is the sum of all Recoverable Costs and Indirect Transmission Charges during the Fourth Assessment Period
$R_{2013/14}$	is the allowable notional revenue for the Fourth Assessment Period
$NR_{2013/14}$	is the notional revenue for the Fourth Assessment Period
X	is the rate of change for the Fifth Assessment Period, as specified in Table 2 in Schedule 1B
$\Delta CPI_{2014/15}$	is the derived change in the CPI to be applied during the Assessment Period t, being equal to:

$$\frac{CPI_{Dec,2012} + CPI_{Mar,2013} + CPI_{Jun,2013} + CPI_{Sep,2013}}{CPI_{Dec,2011} + CPI_{Mar,2012} + CPI_{Jun,2012} + CPI_{Sep,2012}} - 1$$

where:

CPI_{q, t} is the CPI for the quarter q of year t

Schedule 1E: Claw-back

The amount of claw-back applying to each Non-exempt EDB listed in Table 5 must be calculated using Equation 4. The sum of Recoverable Costs used to calculate notional revenue for the Fifth Assessment Period therefore:

- (a) Increases where the amount of claw-back is positive ; and
- (b) Decreases where the amount of claw-back is negative.

Equation 4

$$clawback_{2014/15} = (MAR_{2012/13} - \omega)(1 + r)^2$$

where:

$clawback_{2014/15}$ is the claw-back amount to be treated as Recoverable Costs for the Fifth Assessment Period

$MAR_{2012/13}$ is the maximum allowable revenue for the year 2012/13, as specified in Table 5

ω is the line charge revenue (as disclosed pursuant to the relevant information disclosure determination for the disclosure year 2013) less actual Pass-through Costs and actual Recoverable Costs and Indirect Transmission Charges for 2012/13

r is the interest rate of 5.84% to be applied for under- and over-recovery.

Table 5: Non-exempt EDBs that must include claw-back as Recoverable Costs for the Fifth Assessment Period

Non-exempt EDB	$MAR_{2012/13}$ (\$000)
Aurora Energy Limited	56,442
Eastland Limited	20,978
Electricity Ashburton Limited	28,949
Electricity Invercargill Limited	13,166
Horizon Energy Limited	20,650
Nelson Electricity Limited	7,067
Network Tasman Limited	28,403
OtagoNet Joint Venture	24,373
Powerco Limited	242,028
Vector Limited	404,718
Wellington Electricity Lines Limited	107,153

Schedule 1F: Adjustments to allowable notional revenue and notional revenue resulting from a transaction

This schedule sets out the process for adjusting a Non-exempt EDB's allowable notional revenue as a result of transaction other than an amalgamation or a Merger.

Adjustments for the Assessment Period in which the transaction is completed

Where clause 10.2(a) applies, allowable notional revenue and notional revenue for the Assessment Period is adjusted to:

- (a) include allowable notional revenue and notional revenue amounts that are associated with the provision of any additional Electricity Lines Services the Non-exempt EDB supplies as a result of the transaction; or
- (b) remove allowable notional revenue and notional revenue amounts that are associated with the Electricity Lines Services the Non-exempt EDB no longer supplies as a result of the transaction,

such that allowable notional revenue (R_t) is adjusted by the amount calculated using Equation 5 (R_t^{adj}), and the corresponding adjustment to notional revenue uses the same Quantities as used in Equation 5.

Notional revenue must not exceed allowable notional revenue at any time during the Assessment Period (as required by clause 8.4), including before and after the transaction is completed.

Equation 5

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

where:

- R_t^{adj} is the amount that allowable notional revenue for Assessment Period t is adjusted for as a result of the additional or excluded services
- i denotes each price relating to the additional or excluded services
- $P_{i,t-1}$ is the i^{th} price charged by the supplier of the services in the Pricing Period immediately prior to the completed transaction, t-1
- $Q_{i,t-2}$ is the Quantity corresponding to the i^{th} price in the Pricing Period two years prior to the completed transaction, t-2
- ΔCPI_t is the derived change in the CPI to be applied during Assessment Period 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:

$CPI_{q,t}$ is the CPI for the quarter q of year t

Adjustments for the Fourth Assessment Period

Where clause 10.2(c) applies, allowable notional revenue and notional revenue for the Fourth Assessment Period is adjusted as per any other Assessment Period (as set out above).

The allowable notional revenue and notional revenue amounts that are associated with the provision of the additional or excluded services, however, must be rolled forward from the Assessment Period in which the transaction was completed.

The roll forward must be completed using the derived change in the CPI (ΔCPI_t), as calculated in Equation 5.

Calculating allowable notional revenue and notional revenue in the Assessment Period following the transaction

When calculating allowable notional revenue and notional revenue for the Assessment Period following the transaction, the Non-exempt EDB must treat any variables that relate to the previous Assessment Period as if any additional or excluded revenue amounts were combined in the allowable notional revenue and notional revenue amounts at the beginning of that previous Assessment Period.

Schedule 2: Reliability Limits and Assessed Values

This schedule sets out the process for calculating a Non-exempt EDB's Reliability Limits and Assessed Values for the purposes of assessing compliance with the quality standards as set out in clause 9.

Reliability Limits

In order for a Non-exempt EDB to calculate its Reliability Limits, the Non-exempt EDB must undertake the steps set out below:

Develop a non-zero dataset

Construct a non-zero dataset containing only those days from the Reference Dataset where the daily SAIDI Value is greater than zero (ie exclude zero SAIDI days).

Calculate boundary values

Using the non-zero dataset, calculate the SAIDI boundary value (B_{SAIDI}) as follows:

$$B_{SAIDI} = e^{(\alpha_{SAIDI} + 2.5\beta_{SAIDI})}$$

where:

α_{SAIDI} is the average of the natural logarithm (\ln) of each daily SAIDI Value in the non-zero dataset;

β_{SAIDI} is the standard deviation of the natural logarithm (\ln) of each daily SAIDI Value in the non-zero dataset.

Using the non-zero dataset, calculate the SAIFI boundary value (B_{SAIFI}) as follows:

$$B_{SAIFI} = e^{(\alpha_{SAIFI} + 2.5\beta_{SAIFI})}$$

where:

α_{SAIFI} is the average of the natural logarithm (\ln) of each daily SAIFI Value in the non-zero dataset;

β_{SAIFI} is the standard deviation of the natural logarithm (\ln) of each daily SAIFI Value in the non-zero dataset.

Normalise the Reference Dataset

For any day in the Reference Dataset where the daily SAIDI Value is greater than B_{SAIDI} :

- (a) replace the daily SAIDI Value with B_{SAIDI} ; and
- (b) replace the daily SAIFI Value with B_{SAIFI} if the daily SAIFI Value for that day exceeds B_{SAIFI} .

Calculate Reliability Limits

The SAIDI Reliability Limit ($SAIDI_{LIMIT}$) is as follows:

$$SAIDI_{LIMIT} = \mu_{SAIDI} + \sigma_{SAIDI}$$

where:

μ_{SAIDI} is the average annual SAIDI Value in the Normalised Reference Dataset, which is given by:

Sum of daily SAIDI Values in the Normalised Reference Dataset

5

σ_{SAIDI} is the standard deviation of daily SAIDI Values in the Normalised Reference Dataset multiplied by $\sqrt{365}$.

The SAIFI Reliability Limit ($SAIFI_{LIMIT}$) is as follows:

$$SAIFI_{LIMIT} = \mu_{SAIFI} + \sigma_{SAIFI}$$

where:

μ_{SAIFI} is the average annual SAIFI Value in the Normalised Reference Dataset, which is given by:

Sum of daily SAIFI Values in the Normalised Reference Dataset

5

σ_{SAIFI} is the standard deviation of daily SAIFI Values in the Normalised Reference Dataset multiplied by $\sqrt{365}$.

Assessed Values

In order to calculate its Assessed Values, a Non-exempt EDB must undertake the steps set out below.

Normalise the Assessment Dataset

For any day in the Assessment Dataset for Assessment Period t where the daily SAIDI Value is greater than B_{SAIDI} :

- (a) replace the daily SAIDI Value with B_{SAIDI} ; and
- (b) replace the daily SAIFI Value with B_{SAIFI} if the daily SAIFI value for that day exceeds B_{SAIFI} .

Calculate Assessed Values

- (a) The SAIDI Assessed Value ($SAIDI_{ASSESS,t}$) is the sum of daily SAIDI Values in the Normalised Assessment Dataset for the Assessment Period t ; and
- (b) 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 3A: Form of Auditor's Report on Annual Compliance Statement

To the readers of the Annual Compliance Statement of [*insert name of Non-exempt EDB*] for the Assessment Period ended on [*insert Assessment Date*]:

I/We have audited the attached statement, which is an Annual Compliance Statement in respect of the default price-quality path prepared by [*insert name of Non-exempt EDB*] for the period [*insert Assessment Period*] and dated [*insert date*] for the purposes of clause 11 of the *Electricity Distribution Services Default Price-Quality Path Determination 2012* ("the Determination").

In relation to the price path set out in clause 8 of the Determination, my/our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [*insert page references*] of the Annual Compliance Statement.

In relation to the SAIDI and SAIFI statistics for the Reference Period and the Assessment Period ended on [*insert Assessment Date*], including the calculation of the Reliability Limits and the Assessed Values, which are relevant to the quality standards set out in clause 9 of the Determination, my/our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [*insert page references*] of the Annual Compliance Statement.

My/Our audit also included assessment of the significant estimates and judgments, if any, made by [*insert name of Non-exempt EDB*] in the preparation of the Annual Compliance Statement and assessment of whether the basis of preparation has been adequately disclosed.

Directors' Responsibilities

The Directors of [*insert name of Non-exempt EDB*] are responsible for the preparation of the Annual Compliance Statement in accordance with the Determination and for such internal control as the Directors determine is necessary to enable the preparation of an Annual Compliance Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

My/Our responsibility is to express an opinion on the Annual Compliance Statement based on my/our audit. I/We conducted my/our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that I/we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Annual Compliance Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Compliance Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Annual Compliance Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Annual Compliance Statement in order to design audit procedures that are appropriate

in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the Annual Compliance Statement.

I/We believe that the audit evidence I/we have obtained is sufficient and appropriate to provide a basis for my/our audit opinion.

I/we have no relationship with, or interests in [*insert name of Non-exempt EDB*] other than [*insert relationship and/or interests including a statement verifying that no conflict of interest exists*].

Opinion

In my/our opinion, the Annual Compliance Statement of [*insert name of Non-exempt EDB*] for the Assessment Period ended on [*insert Assessment Date*], has been prepared, in all material respects, in accordance with the Determination.

***[Qualification on Opinion]**

*[My/Our opinion is qualified as follows:]

*[*Insert the nature of and reason(s) for the qualification together with the impact on the Annual Compliance Statement*].

My/Our audit was completed on [*insert date*] and my/our opinion is expressed as at that date.

[*Signature of Auditor*]

[*Name of auditing firm*]

[*Address of auditing firm*]

[*Date*]

*Delete if inapplicable.

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding \$10,000 in the case of an individual or \$30,000 in the case of a body corporate.

Schedule 3B: Form of Directors' Certificate on Annual Compliance Statement

I/We, [*insert full name/s*], being director/s of [*insert name of Non-exempt EDB*] certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached Annual Compliance Statement of [*name of Non-exempt EDB*], and related information, prepared for the purposes of the *Electricity Distribution Services Default Price-Quality Path Determination 2012* are true and accurate **[except in the following respects]*.

**[insert description of non-compliance]*

[Signatures of Directors]

[Date]

*Delete if inapplicable.

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding \$10,000 in the case of an individual or \$30,000 in the case of a body corporate.