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## Electricity Distribution Services Default Price-Quality Path Draft Determination 2015

[Mark-ups by Vector Limited for submission purposes](#)

Date of draft determination: 20 October 2014

**THIS DRAFT DETERMINATION IS FOR CONSULTATION PURPOSES ONLY**

Regulation Branch, Commerce Commission

Wellington, NEW ZEALAND

20 October 2014

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

### 1. Short Title

This determination is the Electricity Distribution Services Default Price-Quality Path Determination 2015.

### 2. Commencement

This determination comes into force on 1 April 2015.

### 3. Application

3.1 This determination applies to all Non-exempt EDBs, except as provided in clause 3.2.

3.2 This determination does not apply to Orion until the expiration of the *Orion New Zealand Limited Customised Price-Quality Path Determination 2013* [2013] NZCC 21.

### 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; and
- (d) a word which denotes the singular also denotes the plural and vice versa.

4.2 In this determination, unless the context otherwise requires, –

**2013-15 NPV Wash-up Allowance** has the meaning given in clause 1.1.4(2) of the IM Determination, and is specified in Schedule 5D

**Act** means the Commerce Act 1986

**Amalgamate** and **Amalgamation** has the meaning given in clause 1.1.4(2) of the IM Determination

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

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

**Capex Incentive Adjustment** has the meaning given in clause 1.1.4(2) of the IM Determination

**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 as defined in section 2 of the Act

**Consumer** has the meaning given in clause 1.1.4(2) of the IM Determination

**CPI** has the meaning given in clause 1.1.4(2) of the IM Determination

**CPP Regulatory Period** means the period during which a Non-exempt EDB is subject to a customised price-quality path

**Cost of Debt** means the amount, determined by the Commission in accordance with the IM Determination, applicable to a Regulatory Period or CPP Regulatory Period

**Director** has the meaning given in clause 1.1.4(2) of the IM Determination

**Distribution Prices** has the meaning given in clause 1.1.4(2) of the IM Determination

**EDB** means a supplier of Electricity Lines Services other than Transpower

**Electricity Distribution Services** has the meaning given in clause 1.1.4(2) of the IM Determination

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

**Energy Efficiency and Demand Incentive Allowance** has the meaning given in clause 1.1.4(2) of the IM Determination, and is the amount approved by the Commission in accordance with Schedule 5A

**Exempt EDB** means an EDB other than a Non-exempt EDB

**Extended Reserves Allowance** has the meaning given in clause 1.1.4(2) of the IM Determination

**ICP** means a point of connection which the EDB nominates as the point at which an electricity retailer will be deemed to supply electricity to a consumer

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

**Deleted:** **Consumer Group** means the category of Consumer used by a Non-exempt EDB for the purpose of setting Prices<sup>1</sup>

avoidance of doubt, any amendment in effect at the time of determination of a default price-quality path or customised price-quality path

**Independent Auditor** 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 s 4 of the Public Audit Act 2001), is the Auditor-General; and
- (b) has no relationship with, or interest in, the Non-exempt EDB being audited 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(b); but
- (e) need not be the same person as the person who audits the Non-exempt EDB's accounts for any other purpose

**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 in accordance with any extended reserves regulation made under the Electricity Industry Act 2010, or 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

**Major Event Day** means any day where the SAIDI Assessed Value or SAIFI Assessed Value exceeds the applicable SAIDI Unplanned Boundary Value or SAIFI Unplanned Boundary Value respectively

**Major Transaction** means any transaction (other than an Amalgamation or a Merger between Non-exempt EDBs) involving a transfer of assets that, as a result of that transfer, results in any Consumer being supplied Electricity Lines Services by a different EDB

**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;
- (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
- (c) a scheme of arrangement under Part 15 of the Companies Act 1993 having like effect

**Non-exempt EDB** has the meaning given in clause 1.1.4(2) of the IM Determination

**Opex Incentive Adjustment** has the same meaning as given in clause 1.1.4(2) of the IM Determination

**Orion** means Orion New Zealand Limited

**Pass-through Costs** has the meaning given in clause 1.1.4(2) of the IM Determination, and apply to an Assessment Period in accordance with Schedule 5

**Pass-through Balance** is the cumulative difference between the revenue from Pass-through Prices and the sum of Pass-through Costs and Recoverable Costs, and is calculated in accordance with clause 8.6

**Pass-through Prices** has the meaning given in clause 1.1.4(2) of the IM Determination

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

**Planned Interruption** means any Interruption other than an Unplanned Interruption

**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

**Price Category** means the grouping, and associated definitions, eligibility criteria and application by the Distributor that determines the Prices that apply to an ICP

Deleted: price category

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Deleted: of

**Prices** has the meaning given in clause 3.1.1(4) of the IM Determination and consists of Distribution Prices and Pass-through Prices

**Quality Incentive Adjustment** has the meaning given in clause 1.1.4(2) of the IM Determination, and is calculated in accordance with Schedule 5B

**Quantities** means the amount supplied (other than forecast) of Electricity Distribution Services corresponding to the extent practicable to a Price (which may include, but is not limited to, kWh, kVA, kW, and day)



**Recoverable Costs** has the meaning given in clause 1.1.4(2) of the IM Determination, and apply to an Assessment Period in accordance with Schedule 5

**Regulatory Period** means the period during which a Non-exempt EDB is subject to a default price-quality path

**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 Major Transaction occurs

**Restructure of Prices** means the modification or reorganisation of the structure of existing Prices; by way of example through a change to the grouping, or associated definitions, eligibility criteria and application of those Prices, by a Non-exempt EDB, but excludes:

- (a) a change to the value of a Price applicable to an existing JCP; or
- (b) the movement of JCPs between Price Categories at the request of the Consumer or retailer.

**SAIDI Assessed Value** means the sum of adjusted SAIDI Values for an Assessment Period calculated in accordance with Schedule 4A

**SAIDI Cap** means the maximum SAIDI Value used for purposes of calculating the Quality Incentive Adjustment, and is specified in Schedule 5B

**SAIDI Collar** means the minimum SAIDI Value used for purposes of calculating the Quality Incentive Adjustment, and is specified in Schedule 5B

**SAIDI Limit** means, for a Non-exempt EDB, the SAIDI Value against which a Non-exempt EDB's compliance with the quality standards is assessed, and is specified in Schedule 4A

**SAIDI Target** means the SAIDI Value used for purposes of calculating the Quality Incentive Adjustment, and is specified in Schedule 5B

**SAIDI Unplanned Boundary Value** means the value specified in Schedule 4A

**SAIDI Value** means the system average interruption duration index values, where any Interruption that spans multiple calendar days accrues to the day on which the Interruption began

**SAIFI Assessed Value** means the sum of adjusted SAIFI Values for an Assessment Period calculated in accordance with Schedule 4A

**SAIFI Cap** means the maximum SAIFI Value used for purposes of calculating the Quality Incentive Adjustment, and is specified in Schedule 5B

**Commented [A1]:** The way this was originally written, a price restructure was defined as:

- a change in the allocation of consumers to the categories of consumers used by an EDB for the purpose of setting prices.
- The introduction of a new category of consumer for...
- Or any change in prices (but excluding a change to the value of a price?)

In our view, the way this was written related less to the application of prices (which is in essence what a price restructure is about), and instead seemed more directed towards the setting of prices, for example in respect of high level cost categories used in cost allocation models.

We have re-written this, and the definition of Consumer group (being replaced by the term Price Category, which is used by the Electricity Authority in the MUoSA with subtle changes) to relate more specifically to the application of prices. This is therefore defined more in respect of changes to prices that have an impact on price compliance.

**Deleted:** any change in the allocation of connections to Consumer Groups

**Deleted:** the introduction of a new Consumer Group, or any change in Prices,

**Deleted:** Consumer Group

**Deleted:** connections

**Deleted:** existing Consumer Groups

**SAIFI Collar** means the minimum SAIFI Value used for purposes of calculating the Quality Incentive Adjustment, and is specified in Schedule 5B

**SAIFI Limit** means, for a Non-exempt EDB, the SAIFI Value against which a Non-exempt EDB's compliance with the quality standards is assessed, and is specified in Schedule 4A

**SAIFI Target** means the SAIFI Value used for purposes of calculating the Quality Incentive Adjustment, and is specified in Schedule 5B

**SAIFI Unplanned Boundary Value** means the value specified in Schedule 4A

**SAIFI Value** means the system average interruption frequency index values

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

**Transmission Asset Wash-up Adjustment** has the same meaning as given in clause 1.1.4(2) of the IM Determination, and is specified in Schedule 5F

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

**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

**Working Day** has the meaning given in section 2(1) of the Act.

**5. Default / customised price-quality path**

During a Regulatory Period or CPP Regulatory Period, every Non-exempt EDB must comply with the price-quality path, which consists of:

- (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 3 of Part 3 – incremental rolling incentive scheme;
- (d) Subpart 1 of Part 4 – cost allocation;
- (e) Subpart 2 of Part 4 – asset valuation;
- (f) Subpart 3 of Part 4 – treatment of taxation;
- (g) Subpart 4 of Part 4 – cost of capital;
- (h) Subpart 5 of Part 4 – reconsideration of the default price-quality path;
- (i) Subpart 6 of Part 4 – treatment of periods that are not 12 month periods; and
- (j) Subpart 7 of Part 4 – availability of information.

**7. Dates for proposing a customised price-quality path**

7.1 A Non-exempt EDB may, except in the 12 months before the end of the Regulatory Period, submit a proposal for a customised price-quality path to the Commission:

- (a) in the period beginning on the second Monday in February and ending 6 Working Days after;
- (b) in the period beginning on the first Monday of May and ending 6 Working Days after; or
- (c) within 24 months following a Catastrophic Event.

## 8. Price path

### *Starting prices*

- 8.1 The starting Distribution Prices that apply to a Non-exempt EDB, specified as maximum allowable revenue, and the Regulatory Period or CPP Regulatory Period to which they apply, are as set out in Schedule 1.

### *Rates of change*

- 8.2 The annual rates of change in Distribution Prices relative to CPI allowed by a Non-exempt EDB during a Regulatory Period or CPP Regulatory Period are as set out in Schedule 2.

### *Compliance with the price path*

- 8.3 The notional revenue of a Non-exempt EDB in an Assessment Period must not exceed the allowable notional revenue for the Assessment Period, such that:

$$NR \leq ANR$$

where-

*NR* is the notional revenue for the Assessment Period, calculated in accordance with clause 8.5; and

*ANR* is the allowable notional revenue for the Assessment Period, calculated in accordance with clause 8.4.

### *How to calculate notional revenue and allowable notional revenue*

- 8.4 Allowable notional revenue specifies the maximum Distribution Prices that may be charged during an Assessment Period, and is calculated in accordance with the formula –
- in Schedule 3A for the first Assessment Period of a Regulatory Period or CPP Regulatory Period; and
  - in Schedule 3B for all other Assessment Periods.
- 8.5 The notional revenue of a Non-exempt EDB is calculated in accordance with the formula –

$$\sum_i DP_{i,t} Q_{i,t-2}$$

where-

*t* is the year in which the Assessment Period ends;

*i* denotes each Distribution Price;

**Commented [A2]:** Prices, and by definition Distribution Prices, are already defined in respect of Electricity Lines Services.

**Deleted:** relating to Electricity Lines Services

$DP_{i,t}$  is the  $i^{th}$  Distribution Price during any part of the Assessment Period  $t$ ; and

$Q_{i,t-2}$  is the Quantity for the Assessment Period ending two years prior to year  $t$  that corresponds to the  $i^{th}$  Distribution Price;

*Demonstration of recovery of pass-through cost and recoverable cost charges*

8.6 Every Non-exempt EDB must, in respect of each Assessment Period, calculate a Pass-through Balance in accordance with the formula –

$$PTB_t = \sum_i PTP_{i,t} Q_{i,t} - K_t - V_t + PTB_{t-1}(1+r)$$

where-

$t$  is the year in which the Assessment Period ends;

$i$  denotes each Pass-through Price;

$PTB_t$  is the Pass-through Balance for the Assessment Period  $t$ ;

$PTB_{t-1}$  is–

- (a) nil in the first Assessment Period in which a Non-exempt EDB must calculate a Pass-through Balance, and
- (b) in all other Assessment Periods the Pass-through Balance for the Assessment Period prior to year  $t$ ;

$PTP_{i,t}$  is the  $i^{th}$  Pass-through Price during any part of the Assessment Period  $t$ ;

$Q_{i,t}$  is the Quantity for the Assessment Period  $t$  that corresponds to the  $i^{th}$  Pass-through Price;

$K_t$  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  $t$ ; and

$r$  is the Cost of Debt.

*Restructure of prices*

For the avoidance of doubt, a Restructure of Prices by a Non-exempt EDB during an Assessment Period does not change the allowable notional revenue for that Assessment Period.

8.7 If as a result of a Restructure of Prices, for the purposes of calculating either allowable notional revenue or notional revenue there is no Quantity that reasonably corresponds to a restructured Price, then the Non-exempt EDB may estimate the Quantity using any reasonable methodology, provided the Non-exempt EDB:

**Commented [A3]:** We note that for the first two years, the assessment period refers to a price-quality path under the previous determination. In our view this still works having reviewed the definition of Assessment Period and noting that this definition does not refer to the Regulatory Period (which is defined as 1 April 2015 to 31 March 2020).

**Commented [A4]:** The way this was written did not make it sufficiently clear that it was the quantity from t-2 not the price from t-2 that is relevant.

**Deleted:** corresponding

**Deleted:** for the Assessment Period ending two years prior to year  $t$

**Commented [A5]:** Prices, and by definition Pass-through Prices, are already defined in respect of Electricity Lines Services.

**Deleted:** relating to Electricity Lines Services

**Commented [A6]:** We recommend restricting the definition of Pass-through Balance to the amount from the end of the Assessment Period prior to year  $t$  only.

The way this definition is currently drafted would require the balance to be determined at the end of year t-1 and the same amount to be re-determined, to the extent this had changed even as a result of a minor change, again in year  $t$ . This would require distributors to face double the audit and management cost associated with Pass-through Balance.

**Deleted:** , as calculated using any additional information available at the end of Assessment Period  $t$

**Deleted:** corresponding

**Deleted:** during the Assessment Period  $t$

**Commented [A7]:** We note that this text is not necessary. It does not do any harm but also does not add anything.

**Deleted:** Where a Non-exempt EDB undertakes a Restructure of Prices, the EDB must:

(a) in the first Assessment Period during which a Restructure of Prices applies, calculate notional revenue for that Assessment Period using the Quantities determined in accordance with clause 8.9; and

(b) in the Assessment Period immediately following the Assessment Period during which a Restructure of Prices first applies, calculate –

(i) allowable notional revenue using the Quantities determined in accordance with clause 8.9; and

(ii) notional revenue using the Quantities determined in accordance with clause 8.9.

**Moved down [1]:** For the purposes of clause 8.8, and subject to clause 8.10, where:

two or more Consumer Groups are combined into one Consumer Group, the Quantity corresponding to the Consumer Group must be the sum of the Quantities corresponding to each of the previous Consumer Groups;

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**Deleted:** for the 12 month period ending on 31 March two years prior to an Assessment Period

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**Deleted:** must demonstrate to the reasonable satisfaction of the Commission a

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**Deleted:** using any reasonable methodology

- (a) demonstrates to the satisfaction of the Commission the reasonableness of the methodology for estimating quantities;
- (b) does not use a forecast Quantity as the estimate of a Quantity;
- (c) uses any available relevant Quantity information for the Assessment Period ending two years prior to the year in which the restructure occurred;
- (d) considers any other relevant information reasonably available; and
- (e) uses the same methodology for determining Quantities in each Assessment Period for which Quantities are determined under this clause.

8.8 For the purposes of clause 8.7 and in the event of a Price Restructure more generally, where:

- (a) a Price Restructure combines two or more Price Categories into one Price Category, the Quantities corresponding to the Prices in the new Price Category must be the sum of the Quantities corresponding to each of the Prices that applied in the Price Categories prior to the Price Restructure; and
- (b) a Price Restructure separates a Price Category into two or more new Price Categories, the Quantities corresponding to the Prices in the new Price Categories must be based on and equal to the Quantities corresponding to the Prices that applied in the original Price Category prior to the Price Restructure, but assigned to each new Price Category.

8.9 At least 30 Working Days prior to any Assessment Period for which Quantities must be determined in accordance with clause 8.7, a Non-Exempt EDB must provide to the Commission:

- (a) a schedule of each restructured Price and the corresponding Quantity;
- (b) the methodology used to determine the Quantity that corresponds to each restructured Price; and
- (c) its forecast of the quantities that correspond to each restructured Price for the Assessment Period in which the Restructure of Prices will occur.

9. **Quality standards**

9.1 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 any annual reliability assessments for the two preceding Assessment Periods.

**Commented [A10]:** We note that for the first two years, the assessment period refers to a price-quality path under the previous determination. In our view this still works having reviewed the definition of Assessment Period and noting that this definition does not refer to the Regulatory Period (which is defined as 1 April 2015 to 31 March 2020).

**Deleted:** in the 12 month period ending on 31 March two years prior to the Assessment Period

**Moved (insertion) [1]**

**Deleted:** 8.8

**Deleted:** and subject to clause 8.10,

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**Deleted:** Consumer Group

**Deleted:** , and the sum of the Quantities corresponding to each new Consumer Group must equal the sum of the Quantities corresponding to the original Consumer Group; and ¶ a new Consumer Group is to be populated only by consumers or retailers requesting to join that Consumer Group, the Quantities corresponding to the new Consumer Group is nil;

**Commented [A11]:** In our view, the proposal here unreasonably penalises EDBs for 2 years and incentivises EDBs not to introduce new and innovative price structures that might favour consumers.

If a consumer or retailer opted for a new price category, they would presumably do this because it was financially beneficial to them (i.e. distribution charges would be less). However, the requirement here is that EDBs would not be able to factor such a reduction into their charges for a period of 2 years, hence incentivising them not to introduce such initiatives.

**Deleted:** and the Quantities corresponding to each Price are the same as the Quantities corresponding to the Consumer Groups to which the Prices apply. ¶

**Deleted:** 8.10

**Commented [A12]:** The definition of Quantity explicitly excludes forecasts, meaning this needs to have a small q not a capital Q.

**Deleted:** Quantities

**Deleted:** associated

**Deleted:** with each

- 9.2 For the purpose of subclause 9.1(a), to comply with the annual reliability assessment—
- (a) a Non-exempt EDB's SAIDI Assessed Value for each Assessment Period must not exceed the SAIDI Limit specified in Schedule 4A; and
  - (b) a Non-exempt EDB's SAIFI Assessed Value for each Assessment Period must not exceed the SAIFI Limit specified in Schedule 4A.

## 10. Large transactions

### *Requirement to notify the Commission of large transactions*

- 10.1 Each Non-exempt EDB must notify the Commission in writing within 30 Working Days after entering into an agreement with another EDB for an Amalgamation, Merger, or Major Transaction, where:
- (a) the Regulatory Investment Value of the Non-exempt EDB'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) the Non-exempt EDB's notional revenues for an Assessment Period is anticipated to increase or decrease by more than 10% within an Assessment Period as a result of the transaction.
- 10.2 Where a Non-exempt EDB enters into a Major Transaction, any notice required under clause 10.1 must include, to the extent practically available at the time of the notice, the:
- (a) allowable notional revenue attributable to the Major Transaction, determined in accordance with Schedule 3C, for the Assessment Period in which consumers are or will be first supplied Electricity Lines Services by a different EDB as a result of the Major Transaction;
  - (b) Non-exempt EDB's allowable notional revenue for the Assessment Period in which the transaction will occur, as adjusted in accordance with Schedule 3C;
  - (c) Pass-through Costs and Recoverable Costs attributable to the Major Transaction, determined in accordance with Schedule 3C, for the Assessment Period in which the transaction will occur;
  - (d) basis on which allowable notional revenue, Pass-through Costs, and Recoverable Costs were allocated between the parties or otherwise determined in accordance with Schedule 3C; and
  - (e) SAIDI Limits, SAIDI Unplanned Boundary Values, SAIFI Limits, and SAIFI Unplanned Boundary Values, as adjusted in accordance with Schedule 4B.

*Transactions resulting in an Amalgamation or Merger*

10.3 Where a Non-exempt EDB completes–

- (a) an Amalgamation with one or more Non-exempt EDBs, clause 3.2.1 of the IM Determination applies; and
- (b) a Merger with one or more Non-exempt EDBs, clause 3.2.1 of the IM Determination applies as if it were an Amalgamation.

*Major Transactions*

10.4 A Non-exempt EDB that completes all the terms and conditions of a Major Transaction must:

- (a) in the Assessment Period in which the Major Transaction is completed, adjust the allowable notional revenue for that Assessment Period in accordance with Schedule 3C;
- (b) in the Assessment Period immediately following the completion of the Major Transaction, calculate the Pass-through Balance using the Pass-through Costs and Recoverable Costs determined in accordance with Schedule 3C; and
- (c) re-calculate the quality standards applicable to the Non-exempt EDB in accordance with Schedule 4B.

*Purchase of System Fixed Assets from Transpower*

10.5 A Non-exempt EDB that completes all the terms and conditions of a transaction for a transfer of transmission assets from Transpower that become System Fixed Assets of the Non-exempt EDB, including a transaction completed in the year immediately preceding the current Regulatory Period for which a Transmission Asset Wash-up Adjustment has been specified by the Commission, must re-calculate the quality standards applicable to the Non-exempt EDB in accordance with Schedule 4B.

**11. Annual compliance statements**

11.1 All Non-exempt EDBs 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 Annual Compliance Statement);
- (b) provide to the Commission copies of their price-quantity schedules reflecting the Prices and Quantities disclosed in accordance with clause 11.4(c) and 11.4(d) in an electronic format that is compatible with Microsoft Excel within five Working Days after providing their Annual Compliance Statement to the Commission; and
- (c) make the Annual Compliance Statement publicly available on its website within five Working Days after providing it to the Commission.

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11.2 The Annual Compliance Statement must:

- (a) state whether or not the Non-exempt EDB has complied with:
  - (i) the price path in clause 8 for the Assessment Period; and
  - (ii) the quality standards in clause 9 for the Assessment Period;
- (b) include any information required under clause 11.4 (price path compliance);
- (c) include any information required under clause 11.5 (quality standards compliance);
- (d) state whether or not:
  - (i) the Non-exempt EDB has undertaken a Restructure of Prices during the Assessment Period;
  - (ii) the Non-exempt EDB has received a transfer of System Fixed Assets from Transpower;
  - (iii) any Amalgamation or Merger has taken place in the Assessment Period;
  - (iv) a Major Transaction has taken place in the Assessment Period;
- (e) if there has been an Amalgamation, Merger, or Major Transaction, include any additional information in accordance with clause 11.6 (large transactions compliance); and
- (f) if there has been a Restructure of Prices in the Assessment Period or the previous Assessment Period, include any additional information in accordance with clauses 11.7 and 11.8 (Restructure of Prices compliance);
- (g) state the date on which the statement was prepared.

11.3 The Annual Compliance Statement must be accompanied by:

- (a) a certificate in the form set out in Schedule 6, signed by at least one Director of the Non-exempt EDB; and
- (b) an assurance report, meeting the requirements specified in Schedule 7, in respect of all information contained in the Annual Compliance Statement.

*Price path compliance*

- 11.4 The Annual Compliance Statement must include any information reasonably necessary to demonstrate whether the Non-exempt EDB has complied with the price path set out in clause 8, including but not limited to:

- (a) if the Non-exempt EDB has not complied with the price path, the reasons for the non-compliance;
- (b) actions taken to mitigate any non-compliance and to prevent similar non-compliance in future Assessment Periods;
- (c) the amount of allowable notional revenue, the amount of notional revenue, Distribution Prices, Quantities, units of measurement associated with all numeric data, and other relevant data, information, and calculations;
- (d) the Pass-through Balance, Pass-through Prices, and Quantities for the Assessment Period and the Pass-through Balance for the previous Assessment Period, along with the units of measurement associated with all numeric data, and other relevant data information, and calculations;
- (e) the amount of Pass-through Costs and Recoverable Costs, included in the calculation of the Pass-through Balance for the Assessment Period, the Assessment Periods to which the costs apply, and supporting data, information, and calculations used to determine those amounts;
- (f) information relating to any Recoverable Costs for the Assessment Period under clauses 3.1.3(1)(b) and (c) of the IM Determination, including evidence of the amount of charge relating to any new investment contract entered into in the Assessment Period consistent with clause 3.1.3(1)(c) of the IM Determination, which need not be publicly disclosed under 11.1(c);
- (g) the amount of any Pass-through Costs and Recoverable Costs (actual or forecast) used to set Pass-through Prices for the Assessment period;
- (h) an explanation as to the cause, or likely cause, of any differences between the amounts of Pass-through or Recoverable Costs used to set Pass-through Prices and actual amounts of those Pass-through Costs and Recoverable Costs; and
- (i) where the Pass-through Balance does not equal zero, an explanation as to why.

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#### *Quality standards compliance*

- 11.5 The Annual Compliance Statement must include any information reasonably necessary to demonstrate whether the Non-exempt EDB has complied with the quality standards set out in clause 9, including but not limited to:
- (a) if the Non-exempt EDB has not complied with the quality standards in clause 9, the reasons for not complying;
  - (b) actions taken to mitigate any non-compliance and to prevent similar non-compliance in future Assessment Periods;

- (c) SAIDI and SAIFI Assessed Values, Limits, Unplanned Boundary Values, Caps, Collars, and the Targets for the Assessment Period, and any supporting calculations (including those in Schedule 4A) and the annual reliability assessments for the two previous Assessment Periods;
- (d) any re-calculations of the SAIDI and SAIFI Limits, Unplanned Boundary Values, Targets, Caps, and Collars following a Major Transaction or transfer of transmission assets from Transpower that become System Fixed Assets, including any supporting information, calculations, or data used to determine the historic SAIDI and SAIFI Values of the newly acquired or transferred assets;
- (e) a description of the policies and procedures which the Non-exempt EDB has used for capturing and recording Interruptions and for calculating SAIDI and SAIFI Assessed Values for the Assessment Period; and
- (f) the cause of each Major Event Day within the Assessment Period.

*Large transactions compliance*

11.6 If a Non-exempt EDB participates in an Amalgamation, a Merger, or Major Transaction, the Annual Compliance Statement for that Assessment Period must:

- (a) state whether the Non-exempt EDB has complied with clause 10; and
- (b) include any information or calculations required to be made under clause 10.

*Restructure of Prices compliance*

11.7 If a Non-exempt EDB has undertaken a Restructure of Prices that affects notional revenue or allowable notional revenue, the Annual Compliance Statement must state the nature of the Restructure of Prices and identify the Price Categories impacted by the Restructure of Prices.

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11.8 If a Non-exempt EDB has undertaken a Restructure of Prices and for the purposes of calculating either allowable notional revenue or notional revenue during the Assessment Period, there is no Quantity that reasonably corresponds to a restructured Price, the Annual Compliance Statement must include:

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(a) the methodology used to determine the Quantities that correspond to each restructured Price;

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(b) the forecast of the quantities that correspond to each restructured Price for the Assessment Period in which the Restructure of Prices will occur, prepared by the Non-exempt EDB at the time it restructured its Prices, and the actual Quantity; and

**Commented [A14]:** This information is required as part of the compliance statement anyway. Hence there is no need to duplicate the requirement here.

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(c) an explanation for any differences between the actual and forecast quantities provided in clause 11.8(b).

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**12. Reconsideration of a default price-quality path**

A default price-quality path in this determination may be reconsidered in accordance with Subpart 5 of Part 4 of the IM Determination.

**Schedule 1: Starting Prices**

1. The starting Distribution Prices that apply to the Regulatory Period 1 April 2015 to 31 March 2020 for each Non-exempt EDB, specified as maximum allowable revenue, are as set out in Table 1.1.

**Table 1.1: Starting Prices for the Regulatory Period  
1 April 2015 – 31 March 2020**

<b>Non-Exempt EDB</b>	<b>Maximum allowable revenue (\$000)</b>	<b>Change in Constant Price Revenue (ΔD)</b>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-

**Schedule 2: Annual rates of change**

1. The annual rate of change for all Non-exempt EDBs is the annual rate of change generally applicable to all Non-exempt EDBs for that Regulatory Period, unless an alternative rate of change is specified for the Non-exempt EDB.
2. The annual rate of change generally applicable to all Non-exempt EDBs for the Regulatory Period 1 April 2015 to 31 March 2020 is [--]%.
3. The Non-exempt EDBs subject to an alternative annual rate of change for the Regulatory Period 1 April 2015 to 31 March 2020, and the alternative rate of change that applies, are as set out in Table 2.1.

**Table 2.1: Alternative rates of change for the  
Regulatory Period 1 April 2015 - 31 March 2020**

Non-exempt EDB	Alternative rate of change
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-

**Schedule 3A: Calculation of allowable notional revenue for the first Assessment Period**

1. The allowable notional revenue for the first Assessment Period must be calculated in accordance with the formula –

$$ANR_t = \frac{MAR_t}{\Delta D}$$

where-

- $t$  is the first Assessment Period of the Regulatory Period
- $MAR_t$  is the maximum allowable revenue for the first Assessment Period as specified in Schedule 1;
- $\Delta D$  is the change in constant price revenue specified in Schedule 1;

**Schedule 3B: Calculation of allowable notional revenue for the remaining Assessment Periods**

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

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

where-

$t$  is the year in which the Assessment Period ends;

$i$  denotes each Distribution Price;

$DP_{i,t-1}$  is the  $i^{\text{th}}$  Distribution Price during any part of the Assessment Period ending the year prior to year  $t$ ;

$Q_{i,t-2}$  is the Quantity corresponding to the  $i^{\text{th}}$  Distribution Price for the Assessment Period ending 2 years 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 Schedule 2; and

$\Delta CPI_t$  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  $t$ .

**Deleted:** relating to an Electricity Lines Service



**Schedule 3C: Recalculation of the price path following a Major Transaction**

1. A Non-exempt EDB that enters into a Major Transaction must demonstrate to the reasonable satisfaction of the Commission its allowable notional revenue, Pass-through Costs, and Recoverable Costs –
  - (a) in accordance with paragraph 2 where the Major Transaction is with another Non-exempt EDB; or
  - (b) in accordance with paragraph 5 where the Major Transaction is with an Exempt EDB.

*Transactions with a Non-exempt EDB*

2. Each Non-exempt EDB must, in the Assessment Period in which consumers are or will be first supplied Electricity Lines Services by a different Non-exempt EDB as a result of a Major Transaction, agree a reasonable allocation of:
  - (a) the allowable notional revenue for that Assessment Period attributable to the ICPs transferred as a result of the transaction; and
  - (b) the Pass-through Costs and Recoverable Costs attributable to the ICPs transferred as a result of the transaction.
3. The Non-exempt EDB transferring assets to another Non-exempt EDB as part of a Major Transaction must:
  - (a) reduce its allowable notional revenue for that Assessment Period by the amount determined in accordance with paragraph 2(a); and
  - (b) exclude any Pass-through Costs and Recoverable Costs by the amounts determined in accordance with paragraph 2(b) for the purposes of calculating the Pass-through Balance.
4. The Non-exempt EDB receiving a transfer of assets from another Non-exempt EDB as part of a Major Transaction must:
  - (a) increase its allowable notional revenue for that Assessment Period by the amount determined in accordance with paragraph 2(a); and
  - (b) include any Pass-through Costs and Recoverable Costs by the amounts determined in accordance with paragraph 2(b) for the purposes of calculating the Pass-through Balance.

*Transactions with an Exempt EDB*

5. A Non-exempt EDB that enters into a Major Transaction with an Exempt EDB must determine its allowable notional revenue, Pass-through Costs, and Recoverable Costs:

- (a) in accordance with paragraph 6 or paragraph 9 where the Non-exempt EDB receives a transfer of assets from an Exempt EDB; or
- (b) in accordance with paragraph 7 or paragraph 9 where the Non-exempt EDB transfers assets to an Exempt EDB.
6. Each Non-exempt EDB must, in the Assessment Period in which consumers are or will be first supplied Electricity Lines Services by the Non-exempt EDB as a result of a Major Transaction with an Exempt EDB –
- (a) increase its allowable notional revenue by an amount calculated in accordance with the formula–

$$\left( \sum_i P_{i,t-1} Q_{i,t-2} - K_{proportion,t-1} - V_{proportion,t-1} \right) (1 + \Delta CPI_t) \times \text{Part-year Factor}$$

where–

$t$  is the year in which the Assessment Period ends;

$i$  denotes each Price relating to Electricity Lines Services;

$P_{i,t-1}$  is the  $i^{th}$  Price of the Exempt EDB during any part of the Assessment Period prior to year  $t$ ;

$Q_{i,t-2}$  is the Quantity attributable to the ICPs transferred to the Non-exempt EDB corresponding to the  $i^{th}$  Price for the Assessment Period ending 2 years prior to year  $t$ ;

$K_{proportion,t-1}$  is the proportion of all Pass-through Costs of the Exempt EDB for the Assessment Period prior to year  $t$ , being equal to:

$$\text{Transaction Factor} \times K_{t-1}$$

where–

$K_{t-1}$  is the sum of all Pass-through Costs of the Exempt EDB for the Assessment Period prior to year  $t$ ;

$V_{proportion,t-1}$  is the proportion of all Recoverable Costs of the Exempt EDB for the Assessment Period prior to year  $t$ , being equal to:

$$\text{Transaction Factor} \times V_{t-1}$$

where–

$V_{t-1}$  is the sum of all Recoverable Costs of the Exempt EDB for the Assessment Period prior to year  $t$ ; and

$\Delta CPI_t$  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  $t$ ; and

- (b) include a proportion of Pass-through Costs and Recoverable Costs for the Assessment Period for the purposes of calculating the Pass-through Balance, being equal to:

$$\text{Transaction Factor} \times (K_t + V_t) \times \text{Part-year Factor}$$

where-

$K_{t-1}$  is the sum of all Pass-through Costs of the Exempt EDB for the Assessment Period  $t$ ;

$V_{t-1}$  is the sum of all Recoverable Costs of the Exempt EDB for the Assessment Period  $t$ .

7. Each Non-exempt EDB must, in the Assessment Period in which consumers are or will be first supplied Electricity Lines Services by an Exempt EDB as a result of a Major Transaction with the Exempt EDB –

- (a) re-calculate its allowable notional revenue for the assessment period in accordance with the formula–

$$ANR = ANR_p - (ANR_p \times \text{Transaction Factor} \times \text{Part-year Factor})$$

where–

$ANR_p$  is the allowable notional revenue, calculated in accordance with Schedule 3A or 3B, that would have applied for the Assessment Period absent the transaction; and

- (b) exclude a proportion of Pass-through Costs and Recoverable Costs for the Assessment Period for the purposes of calculating the Pass-through Balance, being equal to:

$$\text{Transaction Factor} \times (K_t + V_t) \times \text{Part-year Factor}$$

where–

$K_{t-1}$  is the sum of all Pass-through Costs of the Non-exempt EDB for the Assessment Period  $t$ ;

$V_{t-1}$  is the sum of all Recoverable Costs of the Non-exempt EDB for the Assessment Period  $t$ .

8. For the purposes of paragraph 6 and 7–

(a) the ‘Transaction Factor’ is calculated in accordance with the formula–

$$\frac{\sum P_{i,t-1} Q_{lost,i,t-2}}{\sum P_{i,t-1} Q_{i,t-2}}$$

where–

$t$  is the year in which the Assessment Period ends;

$i$  denotes each Price relating to Electricity Lines Services of the EDB transferring assets to the other EDB;

$P_{i,t-1}$  is the  $i^{th}$  Price of the EDB transferring assets to the other EDB during any part of the Assessment Period prior to year  $t$ ;

$Q_{i,t-2}$  is the Quantity of the EDB transferring assets to the other EDB corresponding to the  $i^{th}$  Price for the Assessment Period ending 2 years prior to year  $t$ ; and

$Q_{lost,i,t-2}$  is the Quantity of the EDB transferring assets to the other EDB attributable to the ICPs transferred and corresponding to the  $i^{th}$  Price for the Assessment Period ending 2 years prior to year  $t$ ; and

(b) the ‘Part-year Factor’ is calculated in accordance with the formula–

$$\frac{n}{365}$$

where–

$n$  is the number of days between the date on which assets are first transferred to the other EDB and the last day of the Assessment Period in which the assets are transferred.

*Alternative methodology following a Major Transaction with an Exempt EDB*

9. A Non-exempt EDB may propose an alternative approach to calculating the allowable notional revenue, Pass-through Costs, and Recoverable Costs, including components of those costs, attributable to the ICPs transferred as part of a Major Transaction with an Exempt EDB using any reasonable alternative methodology approved by the Commission.



3. The SAIDI Assessed Value ( $SAIDI_{assess}$ ) for Orion for the Assessment Period ending 31 March 2020 is the sum of the daily SAIDI Values for Class B Interruptions and Class C Interruptions commencing within the Assessment Period, where any daily SAIDI Value greater than [–] equals [–].

*Calculation of the SAIFI Assessed Values*

4. Subject to paragraph 5, the SAIFI Assessed Value ( $SAIFI_{assess}$ ) for an Assessment Period is calculated in accordance with the formula –

$$SAIFI_{assess} = (0.5 \times SAIFI_B) + SAIFI_C$$

where-

$SAIFI_B$  is the sum of the daily SAIFI Values for Class B Interruptions commencing within the Assessment Period; and

$SAIFI_C$  is the sum of the daily SAIFI Values for Class C Interruptions commencing within the Assessment Period, where any daily SAIFI Value for Class C Interruptions greater than the SAIFI Unplanned Boundary Value equals the SAIFI Unplanned Boundary Value.

5. The SAIFI Assessed Value ( $SAIFI_{assess}$ ) for Orion for the Assessment Period ending 31 March 2020 is the sum of the daily SAIFI Values for Class B Interruptions and Class C Interruptions commencing within the Assessment Period, where any daily SAIFI Value greater than [–] equals [–].

**Schedule 4B Adjustments to quality standards following a Major Transaction or a purchase of System Fixed Assets**

1. A Non-exempt EDB required to re-calculate quality standards in accordance with clause 10.4(c) or 10.5 must, for the Assessment Period in which the transaction occurs and in each remaining Assessment Period of the Regulatory Period or CPP Regulatory Period, adjust:
  - (a) the SAIDI Targets and SAIDI Unplanned Boundary Values applicable to the Non-exempt EDB in accordance with paragraph 2;
  - (b) the SAIDI Limits, SAIDI Caps, and SAIDI Collars applicable to the Non-exempt EDB in accordance with paragraph 4;
  - (c) the SAIFI Targets applicable to the Non-exempt EDB in accordance with paragraph 5; and
  - (d) the SAIFI Limits, SAIFI Caps, and SAIFI Collars applicable to the Non-exempt EDB in accordance with paragraph 7.
2. For the purposes of paragraph 1, the SAIDI Target and SAIDI Unplanned Boundary Values for each Assessment Period must be calculated in accordance with the formula –

$$\frac{(SAIDI_{t-1} * ICP_t) + (SAIDI_{other,t} * ICP_{added,t}) - (SAIDI_{t-1} * ICP_{lost,t})}{ICP_t + ICP_{added,t} - ICP_{lost,t}}$$

where-

$t$  is the Assessment Period in which the assets are transferred to or from a Non-exempt EDB;

$SAIDI_{t-1}$  is, for the purposes of –

- (a) calculating the SAIDI Target, the SAIDI Target, and
- (b) calculating the SAIDI Unplanned Boundary Value, the SAIDI Unplanned Boundary Value

of the Non-exempt EDB in the Assessment Period prior to year  $t$ ;

$SAIDI_{other,t}$  is, for the purposes of –

- (a) calculating the SAIDI Target, the SAIDI Target, subject to paragraph 3, and
- (b) calculating the SAIDI Unplanned Boundary Value, the SAIDI Unplanned Boundary Value

in the Assessment Period  $t$  of the EDB from which assets have been transferred to or from as part of the Major Transaction or transfer of transmission assets from Transpower;

$ICP_t$  is the number of ICPs on the Non-exempt EDB's network immediately prior to the Major Transaction or transfer of transmission assets from Transpower;

$ICP_{added, t}$  is, for the purposes of—

- (a) a Major Transaction, the number of ICPs transferred to the Non-exempt EDB in the Assessment Period  $t$  as part of the Major Transaction,
- (b) a transfer of transmission assets from Transpower, equal to  $ICP_t$ ; and

$ICP_{lost, t}$  is, for the purposes of—

- (a) a Major Transaction, the number of ICPs transferred from the Non-exempt EDB in the Assessment Period  $t$  as part of the Major Transaction,
- (b) a transfer of transmission assets from Transpower, nil.

3. For the purposes of paragraph 2—

- (a) the SAIDI Target of an Exempt EDB or Transpower is calculated in accordance with the formula—

$$\frac{\sum(SAIDI_{planned} * 0.5) + \sum(SAIDI_{unplanned})}{10}$$

where—

$SAIDI_{planned}$  is the historic SAIDI Values for Planned Interruptions of the Exempt EDB or of the assets transferred by Transpower for the most recent 10 years of available data; and

$SAIDI_{unplanned}$  is —

- (i) the historic SAIDI Values for Unplanned Interruptions of the Exempt EDB for the most recent 10 years of available data, where any daily SAIDI Value for Unplanned Interruptions greater than the 23<sup>rd</sup> highest daily SAIDI Value for Unplanned Interruption of the Exempt EDB equals that value, or
- (ii) the historic SAIDI Values for Unplanned Interruptions of the assets transferred by Transpower for the most recent 10 years of available data, where any daily SAIDI Value greater than the



Non-exempt EDB's SAIDI Unplanned Boundary Value equals that value.

- (b) the SAIDI Unplanned Boundary Value of an Exempt EDB or Transpower is—
- (i) for an Exempt EDB, the 23<sup>rd</sup> highest SAIDI Value for Unplanned Interruptions of the Exempt EDB; and
  - (ii) for Transpower, the SAIDI Unplanned Boundary Value of the Non-exempt EDB to which assets have been transferred.

4. For the purposes of paragraph 1:

- (a) the SAIDI Cap and SAIDI Collar must be adjusted by an amount equal to the percentage change in the SAIDI Target following recalculation in accordance with paragraph 2; and
- (b) the SAIDI Limit equals the SAIDI Cap determined in accordance with subparagraph (a).

5. For the purposes of paragraph 1, the SAIFI Target for each Assessment Period must be calculated in accordance with the formula –

$$\frac{(SAIFI_{t-1} * ICP_t) + (SAIFI_{other,t} * ICP_{added,t}) - (SAIFI_{t-1} * ICP_{lost,t})}{ICP_t + ICP_{added,t} - ICP_{lost,t}}$$

where-

$t$  is the Assessment Period in which the assets are transferred to or from a Non-exempt EDB;

$SAIFI_{t-1}$  is, for the purposes of –

- (a) calculating the SAIFI Target, the SAIFI Target, and
- (b) calculating the SAIFI Unplanned Boundary Value, the SAIFI Unplanned Boundary Value

of the Non-exempt EDB in the Assessment Period prior to year  $t$ ;

$SAIFI_{other,t}$  is, for the purposes of –

- (a) calculating the SAIFI Target, the SAIFI Target, subject to paragraph 6, and
- (b) calculating the SAIFI Unplanned Boundary Value, the SAIFI Unplanned Boundary Value

in the Assessment Period  $t$  of the EDB from which assets have been transferred to or from as part of the Major Transaction or transfer of transmission assets from Transpower;

$ICP_t$  is the number of ICPs on the Non-exempt EDB's network immediately prior to the Major Transaction or transfer of transmission assets from Transpower;

$ICP_{added, t}$  is, for the purposes of–

- (a) a Major Transaction, the number of ICPs transferred to the Non-exempt EDB in the Assessment Period  $t$  as part of the Major Transaction,
- (b) a transfer of transmission assets from Transpower, equal to  $ICP_t$ ; and

$ICP_{lost, t}$  is, for the purposes of–

- (a) a Major Transaction, the number of ICPs transferred from the Non-exempt EDB in the Assessment Period  $t$  as part of the Major Transaction,
- (b) a transfer of transmission assets from Transpower, nil.

6. For the purposes of paragraph 5–

- (a) the SAIFI Target of an Exempt EDB or Transpower is calculated in accordance with the formula–

$$\frac{\sum(SAIFI_{planned} * 0.5) + \sum(SAIFI_{unplanned})}{Years\ of\ data}$$

where–

$SAIFI_{planned}$  is the historic SAIFI Values for Planned Interruptions of the Exempt EDB or of the assets transferred by Transpower for the most recent 10 years of available data; and

$SAIFI_{unplanned}$  is–

- (i) for an Exempt EDB, the historic SAIFI Values for Unplanned Interruptions of the Exempt EDB for the most recent 10 years of available data, where any daily SAIFI Value for Unplanned Interruptions greater than the 23<sup>rd</sup> highest daily SAIFI Value for Unplanned Interruptions of the Exempt EDB equals that value, and
- (ii) for Transpower, the historic SAIFI Values for Unplanned Interruptions of the assets transferred by Transpower for the

most recent 10 years of available data, where any daily SAIFI Value for Unplanned Interruptions greater than the Non-exempt EDB's SAIFI Unplanned Boundary Value equals that value; and

- (b) the SAIFI Unplanned Boundary Value of an Exempt EDB or Transpower is—
  - (i) for an Exempt EDB, the 23<sup>rd</sup> highest SAIFI Value for Unplanned Interruptions of the Exempt EDB; and
  - (ii) for Transpower, the SAIFI Unplanned Boundary Value of the Non-exempt EDB to which assets have been transferred.

7. For the purposes of paragraph 1:

- (a) the SAIFI Cap and SAIFI Collar must be adjusted by an amount equal to the percentage change in the SAIFI Target following recalculation in accordance with paragraph 5; and
- (b) the SAIFI Limit equals the SAIFI Cap determined in accordance with subparagraph (a).

**Schedule 5: Pass-through Costs and Recoverable Costs for an Assessment Period**

1. The amount of each Pass-through Cost or Recoverable Cost passed through to Pass-through Prices during an Assessment Period, must:
  - (a) not have already been passed through to, or recovered in a previous Assessment Period;
2. For the purposes of determining Pass-through Costs and Recoverable Costs:
  - (a) any Energy Efficiency and Demand Incentive Allowance must be approved in accordance with Schedule 5A;
  - (b) a Quality Incentive Adjustment must be calculated in accordance with Schedule 5B;
  - (c) any claw-back that applies to a Non-exempt EDB for an Assessment Period is specified in Schedule 5C;
  - (d) the 2013-15 NPV Wash-up Allowance is specified in Schedule 5D;
  - (e) the amount of charge described in paragraph 3.1.3(1)(b) of the IM Determination that a Non-exempt EDB has avoided liability to pay as a result of the EDB having purchased transmission assets from Transpower must be calculated in accordance with Schedule 5E;
  - (f) the Transmission Asset Wash-up Adjustment is specified in Schedule 5F;
  - (g) the forecast operating expenditure, forecast value of commissioned assets, and retention factor used for purposes of calculating the Opex Incentive Adjustment and Capex Incentive Adjustment are specified in Schedule 5G; and
  - (h) any Extended Reserves Allowance must be approved in accordance with Schedule 5H.

**Deleted:** from, Consumers or other parties

**Deleted:** <#>not otherwise be recovered from Consumers or other parties, other than through Pass-through Prices. ¶

### Schedule 5A: Approval of Energy Efficiency and Demand Incentive Allowances

1. All Non-exempt EDBs may, no later than 50 Working Days following the end of the Assessment Period, submit an application for approval of an allowance for foregone revenue attributable to an energy efficiency or demand side management initiative, project, or activity undertaken—
  - (a) by or on behalf of the Non-exempt EDB, either independently or in conjunction with any other persons (including generators, retailers, and consumers); and
  - (b) with the purpose and intent of reducing the costs of providing Electricity Distribution Services and/or reducing energy consumption by altering the pattern of consumption of energy, the source of energy, or the use of the EDB's distribution system,

but excluding any activities which expand the distribution system or its capacity or which renew, repair, or maintain it, or that are primarily tariff-based.
2. The application for approval must include:
  - (a) a detailed description of the energy efficiency or demand-side management initiative, program, or activity for which the EDB seeks an Energy Efficiency and Demand Incentive Allowance;
  - (b) reasonable estimates of the actual foregone quantities arising in the Assessment Period from each energy efficiency or demand-side management initiative, program, or activity, as well as the data, calculations, and assumptions used to derive the estimate;
  - (c) a statement identifying other factors that may have materially contributed to the foregone quantities and reasonable estimates of their impact;
  - (d) the Price(s) that applied to the foregone quantities during the Assessment Period; and
  - (e) an estimate of foregone revenue directly attributable to the energy efficiency or demand-side management initiative, program, or activity.
3. The Commission may request additional information, independent evidence, director certificates, or audit statements relating to the information provided in the application or to the attribution of foregone revenue to the initiative, program, or activity. When making requests for such information the Commission will have regard to the likely costs of providing the information and the value of the foregone revenue amount that is included in the application for approval.
4. The Commission may approve, by notice in writing to the Non-exempt EDB, an amount, as determined by the Commission, equal to the foregone revenue in the Assessment Period and adjusted for the time-value of money using the Cost of Debt.

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**Commented [A15]:** We suggest changing “and” to “or” as energy efficiency and DSM can be quite different – i.e. an EDB could apply for an allowance relating to foregone energy from an energy efficiency initiative or from a DSM initiative, but the initiative is not necessarily going to be an energy efficiency **and** DSM initiative.

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**Commented [A16]:** We suggest adding this wording as “energy efficiency” can include a reduction in usage, which could reduce costs across the energy supply chain even if it did not reduce EDB costs in the short term.

**Commented [A17]:** This is an important change as the foregone revenue amounts may be quite small, while the costs of providing audited data can be high.

5. When providing an application for approval of foregone revenue all non-exempt EDBs must have regard to the Principles for estimating foregone revenue. When deciding whether to approve an amount equal to the foregone revenue, the Commission must have regard to the Principles for estimating foregone revenue.
6. The amount approved by the Commission is an 'energy efficiency and demand incentive allowance' Recoverable Cost under subclause 3.1.3(1)(m) of the IM Determination in the Assessment Period following its approval.

**Commented [A18]:** We also recommend setting out the Principles in the Determination. In our view, specifying the Principles in the determination would provide more certainty for all parties of how applications for approval of foregone revenue should be prepared by EDBs and how they will be handled by the Commission.

**Schedule 5B: How to calculate the Quality Incentive Adjustment**

1. The Quality Incentive Adjustment must be calculated within 50 Working Days following the expiration of the Assessment Period in accordance with paragraph 4, adjusted for the time-value of money using the Cost of Debt, and is a Recoverable Cost in the Assessment Period following that in which it was calculated.
2. The SAIDI Target, SAIDI Collar, and SAIDI Cap for each Non-exempt EDB during the Regulatory Period 1 April 2015 to 31 March 2020, subject to Schedule 4B, are as set out in Table 5B.1.

**Commented [A19]:** For avoidance of doubt, should this clause specify who should calculate the adjustment?

**Deleted:** s

**Table 5B.1: SAIDI quality incentive measures for the Regulatory Period 1 April 2015 – 31 March 2020**

Non-exempt EDB	SAIDI Target	SAIDI Collar	SAIDI Cap
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-

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3. The SAIFI Target, SAIFI Collar, and SAIFI Cap for each Non-exempt EDB during the Regulatory Period 1 April 2015 to 31 March 2020, subject to Schedule 4B, are as set out in Table 5B.2.

**Table 5B.2: SAIFI quality incentive measures for the  
Regulatory Period 1 April 2015 – 31 March 2020**

	Non-exempt EDB	SAIFI Target	SAIFI Collar	SAIFI Cap
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-

4. The Quality Incentive Adjustment is calculated in accordance with the following formula–

$$S_{TOTAL} = S_{SAIDI} + S_{SAIFI}$$

where–

$S_{TOTAL}$  is the Quality Incentive Adjustment applicable as a Recoverable Cost;

$S_{SAIDI}$  is the amount calculated in accordance with paragraph 5; and

$S_{SAIFI}$  is the amount calculated in accordance with paragraph 7.

5. For the purposes of paragraph 4–

- (a)  $S_{SAIDI}$  is the amount, subject to subparagraph (b) and (c), calculated in accordance with the following formula –

$$S_{SAIDI} = SAIDI_{IR} \times (SAIDI_{target} - SAIDI_{assess})$$



where-

- $SAIDI_{IR}$  is the amount calculated in accordance with paragraph 6;
- $SAIDI_{target}$  is the SAIDI Target specified for the Non-exempt EDB for the Regulatory Period, subject to Schedule 4B; and
- $SAIDI_{assess}$  is the SAIDI Assessed Value for the Assessment Period, calculated in accordance with Schedule 4A, subject to subclause (b).

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(b) Where  $SAIDI_{assess}$  is –

- (i) greater than the  $SAIDI_{cap}$ ,  $SAIDI_{assess}$  equals the  $SAIDI_{cap}$ ;
- (ii) less than the  $SAIDI_{collar}$ ,  $SAIDI_{assess}$  equals the  $SAIDI_{collar}$ .

6. For the purposes of paragraph 5, 'SAIDI<sub>IR</sub>' is the amount calculated in accordance with the following formula –

$$SAIDI_{IR} = \frac{0.5 \times REV_{RISK}}{SAIDI_{cap} - SAIDI_{target}}$$

where-

- $SAIDI_{cap}$  is the SAIDI Cap specified for the Non-exempt EDB for the Regulatory Period in Schedule 4, subject to Schedule 4B;
- $SAIDI_{target}$  is the SAIDI Target specified for the Non-exempt EDB for the Regulatory Period, subject to Schedule 4B; and
- $REV_{RISK}$  is –
- (a) subject to (b), 1% of the maximum allowable revenue for the Non-exempt EDB specified in Schedule 1; and
- (b) for Orion in the Assessment Period ending 31 March 2020, nil.

7. For the purposes of paragraph 4–

(a)  $S_{SAIFI}$  is the amount, subject to subparagraph (b), calculated in accordance with the following formula –

$$S_{SAIFI} = SAIFI_{IR} \times (SAIFI_{target} - SAIFI_{assess})$$

where-

- $SAIFI_{IR}$  is the amount calculated in accordance with paragraph 8;

$SAIFI_{target}$  is the SAIFI Target specified for the Non-exempt EDB for the Regulatory Period, subject to Schedule 4B; and

$SAIFI_{assess}$  is the SAIFI Assessed Value for the Assessment Period, calculated in accordance with Schedule 4A, subject to subclause (b).

(b) Where  $SAIFI_{assess}$  is –

(i) greater than the  $SAIFI_{cap}$ ,  $SAIFI_{assess}$  equals the  $SAIFI_{cap}$ ;

(ii) less than the  $SAIFI_{collar}$ ,  $SAIFI_{assess}$  equals the  $SAIFI_{collar}$ .

8. For the purposes of paragraph 7, ‘ $SAIFI_{IR}$ ’ is the amount calculated in accordance with the following formula –

$$SAIFI_{IR} = \frac{0.5 \times REV_{RISK}}{SAIFI_{cap} - SAIFI_{target}}$$

where-

$SAIFI_{cap}$  is the SAIFI Cap specified for the Non-exempt EDB for the Regulatory Period, subject to Schedule 4B;

$SAIFI_{target}$  is the SAIFI Target specified for the Non-exempt EDB for the Regulatory Period, subject to Schedule 4B; and

$REV_{RISK}$  is –

(a) subject to (b), 1% of the maximum allowable revenue for the Non-exempt EDB specified in Schedule 1; and

(b) for Orion in the Assessment Period ending 31 March 2020, nil.

9. For the purposes of this Schedule, ‘ $SAIDI_{cap}$ ’ is the SAIDI Cap specified for the Non-exempt EDB for the Regulatory Period, subject to Schedule 4B.

10. For the purposes of this Schedule, ‘ $SAIDI_{collar}$ ’ is the SAIDI Collar specified for the Non-exempt EDB for the Assessment Period, subject to Schedule 4B.

11. For the purposes of this Schedule, ‘ $SAIFI_{cap}$ ’ is the SAIFI Cap specified for the Non-exempt EDB for the Regulatory Period, subject to Schedule 4B.

12. For the purposes of this Schedule, ‘ $SAIFI_{collar}$ ’ is the SAIFI Collar specified for the Non-exempt EDB for the Assessment Period, subject to Schedule 4B.

**Schedule 5C: Claw-back**

1. The amount of claw-back applying to a Non-exempt EDB for the Regulatory Period 1 April 2015 to 31 March 2020, and the Assessment Period in which it is a Recoverable Cost under clause 3.1.3(1)(g) of the IM Determination, are set out in Table 5C.1.

**Table 5C.1: Claw-back amounts to be applied by specified non-exempt EDBs in each Assessment Period**

(All amounts in \$000)

Non-exempt EDB	2015/16	2016/17	2017/18	2018/19	2019/20
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

**Schedule 5D: NPV Wash-Up Allowances**

1. The 2013-15 NPV Wash-up Allowance for a Non-exempt EDB for the Regulatory Period 1 April 2015 to 31 March 2020, and the Assessment Period in which it is a Recoverable Cost, are set out in Table 5D.1.

**Table 5D.1: 2013-15 NPV wash-up allowances to be applied by specified non-exempt EDBs in each Assessment Period**

(All amounts in \$000)

Non-exempt EDB	2015/16	2016/17	2017/18	2018/19	2019/20
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

**Schedule 5E: Avoided transmission charges**

1. For the purposes of calculating the a Recoverable Cost under clause 3.1.3(1)(e) of the IM Determination, the amount of charge described in paragraph 3.1.3(1)(b) of the IM Determination that a Non-exempt EDB has avoided liability to pay as a result of the EDB having purchased System Fixed Assets from Transpower is—
  - (a) for a purchase prior to 1 April 2015 —
    - (i) the amount that would have been charged by Transpower for the use of the System Fixed 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 was first recovered, or
    - (ii) the adjusted amount determined in accordance with (i) 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; or
  - (b) for a purchase made on or after 1 April 2015 —
    - (i) in the first Assessment Period following the purchase of the System Fixed Assets from Transpower, the difference between the costs of transmission payable to Transpower for the first full Assessment Period following the transfer of the System Fixed Assets and the costs of transmission that would have been payable to Transpower for the Assessment Period in question had the transfer of System Fixed Assets not occurred; and
    - (ii) in each of the four following Assessment Periods after the first Assessment Period for which an amount is calculated, the amount calculated in accordance with (i), in constant nominal terms.

**Schedule 5F: Transmission Asset Wash-up Adjustments**

1. The Transmission Asset Wash-up Adjustment for Eastland Network Limited for the Regulatory Period 1 April 2015 to 31 March 2020, and the transmission assets forecast to be purchased in the period 1 April 2014 to 31 March 2015 to which the amount relates, is set out in Table 5F.1.

**Table 5F.1: Transmission Asset Wash-up for Eastland Network Limited**

(Amounts in \$000)	
Asset	Transmission asset wash-up adjustment
Eastland Spur Asset 1	–

where the Eastland Spur Asset 1 consists of the following assets: Transmission Line GIS-TUI-A, Transmission Line GIS-TOB-A, Transmission Line TUI-WRA-A, and any associated substation assets.

2. The Transmission Asset Wash-up Adjustment for Powerco Limited for the Regulatory Period 1 April 2015 to 31 March 2020, and the transmission assets forecast to be purchased in the period 1 April 2014 to 31 March 2015 to which the amount relates, is set out in Table 5F.2.

**Table 5F.2: Transmission Asset Wash-up for Powerco Limited**

(Amounts in \$000)	
Asset	Transmission asset wash-up adjustment
Powerco Spur Asset 1	–

where the Powerco Spur Asset 1 consists of the following assets: Hinuera substation and Hinuera to Karapiro Line A.

3. The Transmission Asset Wash-up Adjustment for Network Tasman Limited for the Regulatory Period 1 April 2015 to 31 March 2020, and the transmission assets forecast to be purchased in the period 1 April 2014 to 31 March 2015 to which the amount relates, is set out in Table 5F.3.

**Table 5F.3: Transmission Asset Wash-up for Network Tasman Limited**

(Amounts in \$000)	
Asset	Transmission asset wash-up adjustment
Network Tasman Spur Asset 1	–

where the Network Tasman Spur Asset 1 consists of the following assets: Motueka Substation, Upper Takaka Substation, Cobb Substation, Upper Takaka\_Motupipi 66kV Line (1), Stoke Upper Takaka Lines (2), Cobb\_Upper Takaka Lines (2).

**Schedule 5G: How to calculate recoverable costs for the incremental rolling incentive scheme**

1. For the purposes of calculating the Opex Incentive Adjustment for each Non-exempt EDB for the Regulatory Period 1 April 2015 to 31 March 2020, the forecast operating expenditure, and the Assessment Period to which it applies, is as set out in Table 5G.1.

**Table 5G.1: Forecast operating expenditure for Non-exempt EDBs for the Regulatory Period 2015-2020**

(All amounts in \$000)

Non-exempt EDB	2015/16	2016/17	2017/18	2018/19	2019/20
	-	-	-	-	-
	-	-	-	-	-

2. For the purposes of calculating the Capex Incentive Adjustment for each Non-exempt EDB for the Regulatory Period 1 April 2015 to 31 March 2020, the forecast value of commissioned assets, and the Assessment Period to which it applies, is as set out in Table 5G.2.

**Table 5G.2: Forecast value of commissioned assets for Non-exempt EDBs for the Regulatory Period 2015-2020**

(All amounts in \$000)

Non-exempt EDB	2015/16	2016/17	2017/18	2018/19	2019/20
	-	-	-	-	-
	-	-	-	-	-

3. For the purposes of calculating the Capex Incentive Adjustment for each Non-exempt EDB for the Regulatory Period 1 April 2015 to 31 March 2020, the retention factor is [-].



**Schedule 5H: Approval of Extended Reserves Allowances**

1. A Non-exempt EDBs must, no later than 50 Working Days following the end of an Assessment Period, submit an application for approval of an Extended Reserves Allowance if any amounts were incurred or received in relation to any extended reserves regulations made under the Electricity Industry Act 2010.
2. The application for approval must include:
  - (a) all compensation payments made by the Non-exempt EDB in the Assessment Period under the extended reserves regime;
  - (b) all compensation payments and revenue received by the Non-exempt EDB in the Assessment Period under the extended reserves regime;
  - (c) an estimate of the compensation payments and revenue received by the Non-exempt EDB in the Assessment Period under the extended reserves regime that should be treated as unregulated income, along with reasons for such treatment; and
  - (d) any other explanatory material or supporting information reasonably necessary to demonstrate costs incurred and amounts payable or receivable under the extended reserves regime.
3. The Commission may request additional information, independent evidence, director certificates, or audit statements relating to the information provided in the application.
4. The Commission may approve by notice in writing to the Non-exempt EDB, subject to clause 3.1.3(7) of the IM Determination, a positive allowance for costs incurred and amounts payable, or a negative allowance for amounts receivable, under any extended reserves regulations made under the Electricity Industry Act 2010, as determined by the Commission.
5. The amount approved by the Commission is an 'extended reserves allowance' Recoverable Cost under subclause 3.1.3(1)(o) of the IM Determination in the Assessment Period to which the application relates.

**Schedule 6: Form of Director's Certificate**

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 2015* 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.

**Schedule 7: Independent Auditor's report on Annual Compliance Statement**

1. Each Non-exempt EDB must procure an assurance report by an Independent Auditor in respect of the Annual 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 Independent Auditor (either in his or her own name or that of his or her firm), and that-
  - (a) is addressed to the Directors of the Non-exempt EDB 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 Independent Auditor;
    - (iii) the scope and limitations of the assurance engagement;
    - (iv) the existence of any relationship (other than that of auditor) which the Independent Auditor has with, or any interests which the Independent Auditor has in, the Non-exempt EDB or any of its subsidiaries;
    - (v) whether the Independent 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 Independent Auditor's opinion, as far as appears from an examination, the information used in the preparation of the Annual Compliance Statement has been properly extracted from the Non-exempt EDB's accounting and other records, sourced from its financial and non-financial systems;
    - (vii) whether, in the Independent Auditor's opinion, as far as appears from an examination of them, proper records to enable the complete and accurate compilation of the Annual Compliance Statement required by the *Electricity Distribution Services Default Price-Quality Path Determination 2015* have been kept by the Non-exempt EDB and, if not, the records not so kept; and
  - (c) states whether (and, if not, the respects in which it has not), in the Independent Auditor's opinion, the Non-exempt EDB has complied, in all material respects, with the *Electricity Distribution Services Default Price-Quality Path Determination 2015* in preparing the Annual Compliance Statement.

2. The Non-exempt EDB must publicly disclose the Independent Auditor's assurance report prepared in accordance with paragraph 1 above at the same time as the Non-exempt EDB publicly discloses the Annual Compliance Statement.