SUPPLEMENT TO

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COMMERCE ACT (SUMMARY OF ELECTRICITY DISTRIBUTION SERVICES DEFAULT PRICE-QUALITY PATH DETERMINATIONS AND AMENDMENT TO INPUT METHODOLOGIES FOR CUSTOMISED PRICE-QUALITY PATHS

PURSUANT TO PART 4 OF THE COMMERCE ACT 1986

Commerce Act (Summary of Electricity Distribution Services Default Price-Quality Path Determination 2012 NZCC 35) Notice 2012

The Commerce Commission ("Commission") gives the following notice under Part 4 of the Commerce Act 1986 ("Act")

1. Electricity Distribution Services Default Price-Quality Path Determination 2012

On 30 November 2012, the Commission made the Electricity Distribution Services Default Price-Quality Path Determination 2012 NZCC 35 ("Determination").

The Determination resets the default price-quality path for all electricity distribution businesses except those that are "consumer-owned" as defined in section 54D of the Act, and Orion New Zealand Limited. The Determination is made under section 54K(3) of the Act.

In accordance with section 52P(7)(b) of the Act, this notice is published as a summary of the Determination.

2. Summary of the Determination

The Determination resets the default price-quality paths applying to 16 electricity distribution businesses that are subject to default/customised price-quality regulation under the Act ("Non-exempt EDBs") other than Orion New Zealand Limited. The Non-exempt EDBs subject to the Determination are:

- Alpine Energy Limited
- Aurora Energy Limited
- Centralines Limited
- Eastland Networks Limited
- Electricity Ashburton Limited
- Electricity Invercargill Limited
- Horizon Energy Limited
- Network Tasman Limited
- Nelson Electricity Limited
- OtagoNet Joint Venture
- Powerco Limited
- The Lines Company Limited
- Top Energy Limited
- Unison Networks Limited
- Vector Limited
- Wellington Electricity Lines Limited

The Determination applies for the period 1 April 2010 to 31 March 2015 ("Regulatory Period").

The reset default price-quality paths consist of a price path and quality standard that each Non-exempt EDB must comply with for the assessment periods ending 31 March 2014 and 31 March 2015.

The Determination applies the input methodologies for electricity distribution services set out in *Electricity Distribution Services Input Methodologies Determination 2012 NZCC 26* (including all amendments to 16 November 2012).

In relation to the price path, the determination specifies:

a) the maximum prices a Non-exempt EDB may charge for the supply of electricity lines services, which are derived from its allowable notional revenue; and

b) starting prices based on the current and projected profitability of each Non-exempt EDB in accordance with s53P(3)(b); and

c) annual rates of change in prices, relative to the consumer price index that are allowed during the Regulatory Period for Non-Exempt EDBs.

In relation to quality standards, the Determination specifies:

a) annual reliability limits based on historic reliability performance; and

b) that annual compliance will be assessed by comparing the businesses annual performance against its reliability limits; and

c) that compliance with the quality standards will require annual compliance in no less than two out of three consecutive years.

Each Non-exempt EDB business is required to provide the Commission with an audited statement demonstrating whether or not it has complied with the default price-quality path within 50 working days of the assessment periods ending 31 March 2014 and 31 March 2015.

3. Further information

Copies of the *Electricity Distribution Services Default Price-Quality Path Determination 2012 NZCC 35*, *Electricity Distribution Services Default Price-Quality Path Determination Amendment No. 4 NZCC 36*, and reasons paper are available on the Commission's website at:

http://www.comcom.govt.nz/2010-2015-default-price-quality-path/

30 November 2012.

COMMERCE COMMISSION.

Explanatory Note

On 30 November 2009, the Commission made the *Electricity Distribution Default Price-Quality Path Determination 2010 Decision 685* (the 2010 Determination) under Part 4 of the Commerce Act 1986 ("Act"). The 2010 Determination sets the default price-quality path that applies from 1 April 2010 to 31 March 2015 to all electricity distribution businesses except those that are "consumer-owned" as defined in section 54D of the Act ("Non-exempt EDBs").

The Commission subsequently determined input methodologies that apply to the default price-quality regulation of Non-exempt EDBs in *Electricity Distribution Services Input Methodologies Determination 2012 NZCC 26* (including all amendments to 16 November 2012). Section 54K(3) of the Act allows the Commission to reset the default price-quality path previously set under section 54K(2) where the application of the input methodologies would have resulted in a materially different path being set.

On 30 November 2012, the Commission reset the default price-quality path for all for all Non-exempt EDBs except Orion New Zealand Limited under section 54K(3) by issuing the *Electricity Distribution Services Default Price-Quality Path Determination 2012 NZCC 35*. All Non-exempt EDBs must comply with the reset default price-quality path for the assessment periods ending 31 March 2014 and 31 March 2015. The quality standards are the same as those contained in the 2010 Determination.

The 2010 Determination has been amended by the *Electricity Distribution Services Default Price-Quality Path Determination Amendment No. 4 NZCC 36* so that only Orion New Zealand Limited remains subject to the default price-quality path contained in the 2010 Determination. All Non-exempt EDBs must comply with the 2010 Determination for the assessment period ending 31 March 2013 and for the earlier assessment periods.

Commerce Act (Summary of Electricity Distribution Services Default Price-Quality Path Determination Amendment No. 4 NZCC 36) Notice 2012

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

1. Title

This amendment determination is the Electricity Distribution Services Default Price-Quality Path Amendment Determination 2012.

In this amendment determination, the Electricity Distribution Default Price-Quality Path Determination 2010 is called the "principal determination".

2. Commencement Date

This amendment determination comes into force on 1 April 2013.

3. Amendment to clause 3

The principal determination is amended by omitting clause 3.2, and substituting the following:

3.2 This determination applies to Orion New Zealand Limited for the Regulatory Period.

The principal determination is amended by inserting the following in clause 3:

3.3 This determination applies to all Non-Exempt EDBs except Orion New Zealand Limited for the First, Second and Third Assessment Periods.

4. Further information

Copies of the *Electricity Distribution Services Default Price-Quality Path Determination 2012 NZCC 35*, *Electricity Distribution Services Default Price-Quality Path Determination Amendment No. 4 NZCC 36*, and reasons paper are available on the Commission's website at

http://www.comcom.govt.nz/2010-2015-default-price-quality-path/

30 November 2012

COMMERCE COMMISSION

Explanatory Note

The *Electricity Distribution Default Price-Quality Path Determination 2010 Decision 685* ("the 2010 Determination") sets out the default price-quality path that applies from 1 April 2010 to 31 March 2015 to all electricity distribution businesses except those that are "consumer-owned" as defined in section 54D of the Commerce Act 1986 ("Act"). Electricity distribution businesses meeting the requirements of section 54D are exempt from default/customised price-quality regulation under section 54G(2) of the Act.

On 30 November 2012, the Commission reset the default price-quality path for all non-exempt electricity distribution businesses except Orion New Zealand Limited. The reset is contained in *Electricity Distribution Services Default Price-Quality Path Determination 2012 NZCC 35* and was made pursuant to section 54K(3) of the Act.

Orion New Zealand Limited remains subject to the default price-quality path contained in the 2010 Determination. All electricity distribution businesses, except those that are "consumer-owned", must comply with the 2010 Determination for the assessment period ending 31 March 2013 and for the earlier assessment periods.

Notification of Amendment to Input Methodologies for Customised Price-Quality Paths

The Commerce Commission has amended the input methodologies applicable to customised price-quality regulations for non-exempt electricity distribution businesses, gas distribution businesses, and gas transmission businesses under Part 4 of the Commerce Act 1986. The amended input methodologies are:

- Electricity Distribution Services Input Methodologies Determination 2012, [2012] NZCC 26
- Gas Distribution Services Input Methodologies Services Determination 2012, [2012] NZCC 27
- Gas Transmission Services Input Methodologies Determination 2012, [2012] NZCC 28

The amendment is set out in Electricity and Gas Input Methodology Determination Amendments (No. 2) 2012, NZCC 34, and has been made to specify more accurate assumptions for the modelling of cash flows for customised price-quality paths.

In summary, our decisions on the forecast cash flow timing assumptions for customised price-quality paths are:

Revenue—forecast even monthly revenues to be recognised as being received on the 20th day of each following month. Suppliers generally expect to receive revenue from electricity distribution services or gas pipeline services on the 20th day of the month following supply. This is the industry standard, and late payment generally attracts additional fees or interest. Assuming that revenues are received evenly throughout the year on this basis is equivalent to assuming that forecast aggregate revenues are received slightly later than mid-year on average. While there is some seasonality of accrued revenue, this is somewhat offset by the timing effect of when revenues are actually received. We expect that any forecast seasonality of revenues would not materially detract from this assumption.

Operating expenditure—to be recognised as occurring evenly during the year. Operating expenditure is generally incurred on standard commercial terms, ie, the 20th day of the following month; and other expenses are often paid somewhat earlier, such as salaries and wages. Assuming that forecast operating expenditure is paid on this basis evenly throughout the year, then treating the aggregate operating expenditure as being paid mid-year is a reasonable approximation of the timing of operating expenditure.

Commissioned assets—to be recognised at commissioning date. The CPP input methodologies provide for commissioned assets to be recognised according to their forecast commissioning dates. In conjunction with the works under construction allowance provided for in the input methodologies, in our view this provides a reasonable reflection of the actual timing of forecast capital project payments. To the extent this does not take into account cash payments that occur after the commissioning date, it would be to the benefit of regulated suppliers. The calculation of the notional deductible interest for the purposes of the tax building block continues to adopt the relevant forecast commissioning dates. There has been no change to that treatment.

Disposed assets—to be recognised at disposal date. Consistent with the original CPP input methodologies treatment of forecast disposed assets, the value of disposed assets is not modelled as a cash flow. The cost of capital building block has been amended to remove the value of disposed assets from the forecast cost of capital in the year of disposal. The calculation of the notional deductible interest for the purposes of the tax building block continues to adopt the relevant forecast disposal dates. There has been no change to that treatment.

Tax—to be recognised as occurring evenly during the year. Corporate tax is required to be paid on the provisional and terminal tax dates, which average out to later than mid-year. A mid-year timing assumption for the forecast tax amount is likely to be closer to actual cash flow timing than the end of year assumption originally implicit in the CPP building blocks formula.

Other regulatory income—to be recognised as being received evenly during the year. An assumption that suppliers receive other regulatory income evenly during the year is consistent with a cash flow timing assumption that other regulatory income is received, in aggregate, at mid-year. As other regulatory income could generally expect to represent a relatively small proportion of overall income, we consider that there should not be any material difference between these different timing assumptions. However, a mid-year assumption is consistent with general revenue and operating expenditure, and in the interests of consistency these should be aligned.

Term credit spread differential allowance—to be recognised as occurring evenly during the year. The costs of issuing debt generally occur in relation to the issue dates of the particular debt instruments, however an assumption that those costs occur, on average, evenly throughout the year is consistent with an expectation that an efficient firm would arrange its debt financing obligations to match its overall net cash flows. A mid-year timing assumption is consistent with this and would have the additional benefit of reflecting the calculation of the notional interest deduction for tax purposes on a mid-year basis.

The timing of depreciation and revaluations has not been reconsidered, since these are non-cash items in the context of the relevant CPP building blocks formulae.

Copies of the amendment determination and reasons paper are available on the Commission's website at
http://www.comcom.govt.nz/amendments-and-clarifications/

29 November 2012.

COMMERCE COMMISSION.

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