

Earthquake Readiness

Regulatory Compliance Schedules

5 December 2017

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1 Introduction

This document details the Regulatory Compliance Schedules that support Wellington Electricity’s submission to the Commerce Commission seeking regulatory approval for the additional funding required to implement a number of **readiness** initiatives, which will improve response and restoration times following a major earthquake.

This is one of two documents that, along with a number of supporting attachments and financial models form the customised price-quality path application. The table below shows how this document fits into the wider application structure.

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|---|
| Main Proposal and the following supporting documents |
| Earthquake readiness business case |
| Independent engineering review letter |
| Stakeholder engagement |
| 2017 Asset Management Plan |
| Further stakeholder engagement - addendum |
| Regulatory Compliance Schedules (this document) and the following supporting documents |
| Commission letter confirming IM modifications and exemptions |
| Directors certification |
| Audit terms of engagement |
| Audit opinion |
| Audit invoice |
| Financial Models and the following supporting information |
| CPP forecast expenditure |
| 2017 AMP forecast expenditure |
| CPI projections for EDBs |
| Disposals and other regulated income for EDBs |

Table 1 - Application Structure

2 IM Compliance Checklist

2.1 REQUIREMENTS OF THE COMMERCE ACT 1986

Section 53Q of the Commerce Act 1986 (the **Act**) provides that every proposal to the Commission for a customised price-quality path (**CPP proposal**) must:

- comply with the input methodologies referred to in section 52T(1)(d) relating to the process for, and content of, customised price-quality path proposals;

- be made within the period, or by the annual date, specified for the purpose in the section 52P determination;
- include the standard application fee for customised price-quality path proposals; and
- apply or adopt all relevant input methodologies.

Section 53Q also provides that a supplier:

- may only make one proposal during a regulatory period, and may not make a proposal within the 12 months before a default price-quality path is due to be reset; and
- must make its proposal publicly available as soon as practicable after it has been made to the Commission.

WELL's compliance with these requirements is detailed below.

2.1.1 Compliance with the IMs

The input methodologies referred to in section 52T(1)(d) relating to the process for, and content of, CPP proposals are specified in Part 5 of the Electricity Distribution Services Input Methodologies Determination 2012 (consolidated as at 28 February 2017) (**EDB IM Determination** or the **IMs**).

WELL's CPP proposal complies with the requirements of the IMs that govern the process for, and content of, CPP proposals, subject to the modifications and exemptions requested by WELL and approved by the Commission pursuant to clause 5.1.6 of Part 5, Subpart 1 of the IMs on 30 November 2017.

2.1.2 Application date

On 30 November 2017, the Commission amended the Electricity Distribution Services Default Price-Quality Path Determination 2015 (**EDB DPP Determination**) to provide an additional CPP application window for the period 4 December to 5 December 2017. This proposal is submitted on 5 December 2017, in accordance with the amended EDB DPP Determination.

This amendment is set out in the Electricity Distribution Services Default Price-Quality Path (CPP Window) Amendment Determination November 2017, published by the Commission on 30 November 2017.

2.1.3 Application fee

A cheque for the standard application fee of \$23,000, pursuant to clause 2 of the Commerce Act (Fees) Regulations 1990, is enclosed with this application.

2.1.4 Applies or adopts all relevant IMs

WELL's CPP proposal applies or adopts all relevant IMs.

WELL's CPP proposal seeks consideration for additional expenditure of \$31.24 million (opex and capex) over a proposed three year CPP for the period from 1 April 2018 to 31 March 2021, to improve WELL's readiness to respond to a major earthquake event.

For the first two regulatory years of the CPP (RY19 and RY20) the building block costs used to set the CPP maximum allowable revenue will comprise:

- the approved maximum allowable revenue (**MAR**) in the **EDB DPP Determination** applicable to WELL (**DPP MAR**); plus
- the building block costs of the earthquake readiness expenditure (**CPP BBAR**) relevant to each year.

For the third regulatory year of the CPP (RY21) the building block costs used to set the CPP maximum allowable revenue will comprise:

- a roll-forward of the building block values from the current DPP period using projected RY21 business as usual capital and operating expenditure; plus
- the relevant **CPP BBAR** costs.

The form of control will be by way of a revenue cap, consistent with the CPP IMs. This requires the determination of WELL's **MAR** in each year of the CPP, using a smoothing process.

The approach adopts existing DPP allowances, the Commission's 2015 DPP final financial model and the Commission's final financial model for Orion's CPP 2014 - 2019, and makes only the minimum changes necessary to accommodate the earthquake readiness expenditure.

The approach is depicted in the following diagram:

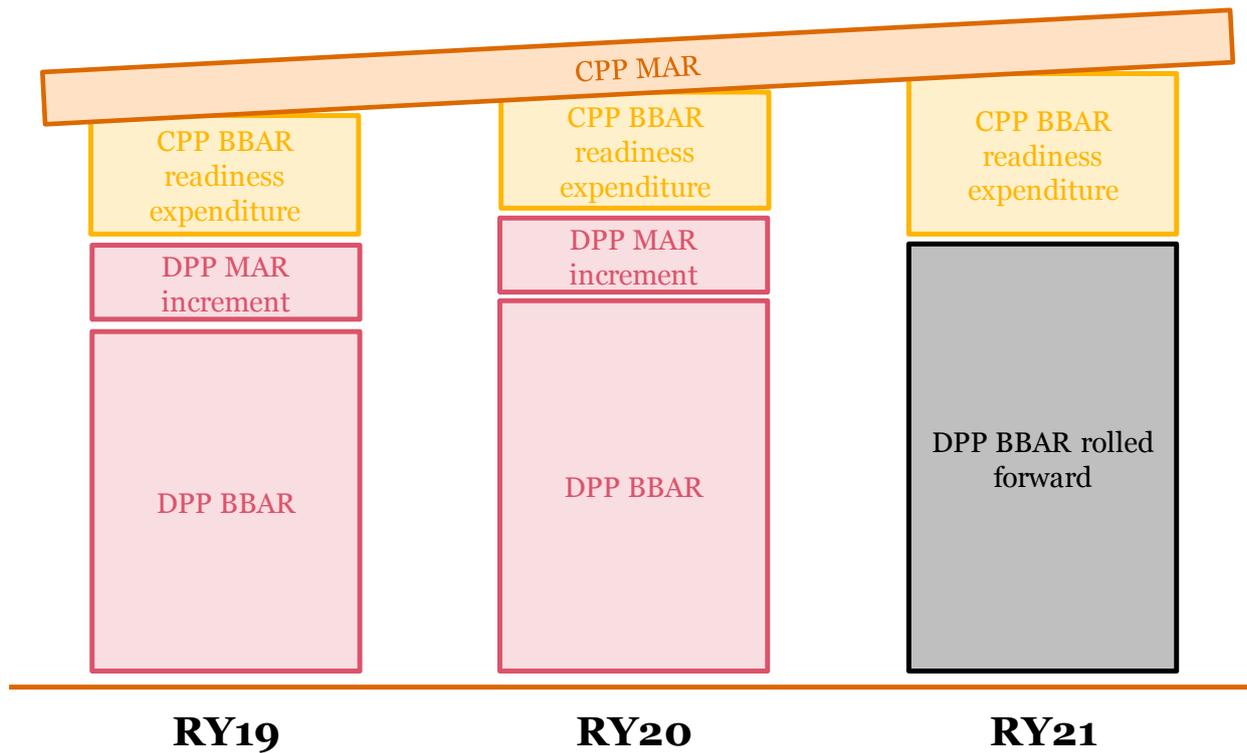


Figure 1 – Approach to calculating CPP maximum allowable revenue (MAR)

Given: (i) the urgency of the proposed expenditure; (ii) the importance of it as recognised by the Government Policy Statement; (iii) the ‘streamlined’ nature of this proposal and the extent to which the proposed approach draws upon Commission-approved DPP allowances and the Commission’s existing DPP and CPP financial models, WELL requested and the Commission approved a number of modifications to, and exemptions from, the process and content requirements of the IMs.

The modifications and exemptions are discussed in section 2.3 below.

In addition, and in order to implement the price path approach, WELL proposes a number of variations to the IMs pursuant to section 53V(2)(c) of the Act. The purpose of those variations is to apply or adopt relevant IMs, being the DPP IMs as adopted or applied in determining the 2015-2020 DPP allowances applicable to WELL.

The proposed variations are discussed in section 2.4 below.

2.1.5 Other requirements

This is WELL’s first and only CPP proposal during the current regulatory period, and is made more than 12 months before the DPP is due to be reset (on 31 March 2020).

WELL proposes to make this proposal available on its website on 5 December 2017.

2.2 IM REQUIREMENTS: PART 5, SUBPARTS 1 AND 4

An EDB seeking a CPP in accordance with section 53Q of the Act must provide the Commission with a CPP application. Clause 5.1.1 of the IMs provides that a CPP application must contain, in all material respects, the information specified in Part 5, Subparts 1 and 4.

The following sections detail how WELL has complied with those requirements.

A CPP Compliance Checklist in section 2.5 provides cross-references to the specific sections of this proposal and to its supporting materials that substantiate the relevant IM requirements.

2.3 MODIFICATIONS AND EXEMPTIONS APPROVED BY THE COMMISSION

On 13 October 2017, WELL requested, pursuant to clause 5.1.7 of the IMs, approval for modification to, and exemptions from, certain requirements in Subparts 1, 4 and 5 (and related schedules) of the IMs, which the Commission approved on 30 November 2017.

Clause 5.1.8 of the IMs requires that WELL provides, with its proposal:

- a copy of the Commission's approval;
- a list of the approved modifications or exemptions which WELL has elected to apply in its CPP application;
- evidence that any conditions or requirements of the approval have been met; and
- an indication, at the relevant locations within the document or documents comprising the CPP application, as to where the modifications or exemptions have been applied.

A copy of the Commission's letter approving the modifications and exemptions requested by WELL is attached, refer IM Modification and Exemptions Letter – November 2017.

For the further information required by clause 5.1.8, refer to the CPP Compliance Checklist in section 2.5.

2.3.1 Evidence of consumer consultation

Clause 5.1.2 of the IMs, as modified at WELL's request and approved by the Commission, requires WELL to include as part of its CPP application a summary of any available feedback from key stakeholders in respect of WELL's intended CPP proposal.

WELL's stakeholder and consumer engagement is detailed, and available feedback from key stakeholders is summarised, in section 5 of the Main Proposal with additional information in the addendum, refer *Further Stakeholder Engagement Addendum - December 2017.pdf*.

Letters from stakeholders are attached to the Main Proposal, refer *Stakeholder Engagement – December 2017.pdf*.

2.3.2 Verification-related material

WELL's CPP proposal focusses on the earthquake readiness expenditure. It adopts existing DPP allowances, and the Commission's financial models, and makes only the minimum changes to those models necessary to accommodate the earthquake readiness expenditure.

Consistent with proportionate scrutiny, but also recognising the policy intent of the IMs' verification-related information requirements and that the Commission needs to have confidence in the information provided by CPP applicants:

- WELL sought exemption from the requirements of clauses 5.1.3 (verification-related material), 5.5.2 (verification), and associated Schedules F and G.
- WELL engaged Jacobs Engineering to undertake an independent engineering review of the earthquake readiness expenditure that comprises its CPP proposal.
- The scope of work for Jacobs Engineering included reviewing the engineering options analysis and selection process used by WELL, reviewing the description of the preferred options, reviewing costings for the preferred options, and reviewing WELL's approach and the costs associated with an intensified seismic reinforcement programme.
- WELL committed to providing Jacobs' independent report to the Commission.

The Commission approved the exemptions sought by WELL on condition that the Commission would receive, as part of WELL's CPP proposal, Jacobs' independent engineering review report addressing the matters indicated.

Jacobs' independent engineering review report is attached to the Main Proposal, refer *Jacobs Letter WE Earthquake Readiness Indep Review 27 Oct 2017.pdf*, and summarised in section 4 of the Main Proposal.

Separately, the Commission engaged Strata to review the forecast expenditure across the regulatory period with a particular focus on the regulatory year 2021 and any variances to the 2017 AMP.

2.3.3 Audit and assurance reports

WELL sought modification to clauses 5.1.4 (audit and assurance reports) and 5.5.3 (audit and assurance) of the IMs on the basis that its CPP application would include a report by an auditor, with the scope and limitations of that audit engagement to be agreed between WELL and the Commission, and where the purpose of the audit would be to test and comment on:

- the application of the methodology for the 'streamlined' CPP price path modelling approach;
- the use of the existing, Commission-published, DPP price path model, the Orion CPP price path model, including any combining of those models and/or any modifications made to them, as being in accordance with the proposed price path methodology;

- the application of any stated assumptions in respect of the proposed price path for the CPP period;
- whether quantitative data used in the models is properly compiled on the basis of the relevant underlying source information; and
- whether quantitative forecast information used in the models is properly compiled on the basis of relevant disclosed assumptions.

The Commission approved the modifications sought by WELL. WELL engaged Deloitte to conduct the audit. Deloitte’s terms of engagement (including scope and limitations) were agreed between WELL and the Commission on 14 November 2017.

Audit terms of engagement

The scope of the audit is set out below. The full terms of engagement are attached to this document – *Deloitte’s Terms of Engagement – November 2017.pdf*.

The following principles apply to the audit as set out in paragraph 9.12 of the letter sent to the Commerce Commission on 13 October 2017 detailing modifications and exemptions to the Input Methodologies:

“5.5.3(2): For the purposes of agreeing, as between the CPP applicant and the Commission, the scope of the audit, and as a statement of the high level principles that shall apply to any interpretation of the scope (once agreed), the purpose of the audit is to test and comment on:

- a) the application of the methodology for the streamlined CPP price path modelling approach;
- b) the use of the existing, Commission-published, DPP price path model, and the Orion CPP price path model, including any combining of those models and/or any modifications made to them, as being in accordance with the proposed price path methodology;
- c) the application of any stated assumptions in respect of the proposed price path for the CPP period;
- d) whether quantitative data used in the models referred to in clause 5.5.3(2) (a),(b) and (c) is properly compiled on the basis of the relevant underlying source information; and
- e) whether quantitative forecast information used in the models referred to in clauses 5.5.3(2) (a), (b) and (c) is properly compiled on the basis of relevant disclosed assumptions.”

In respect of Regulatory Year (RY) 2019 and RY2020 Default Price-Quality Path (DPP) information obtained from the published DPP model - Reasonable Assurance

1. State whether or not Wellington Electricity’s (WE) RY2019 and RY2020 DPP ‘Maximum Allowable Revenue (MAR) before tax in revenue date terms’ and the ‘forecast regulatory tax allowance’ are extracted and agree with those amounts in the 2015 DPP financial model entitled ‘Financial-model-EDB-DPP-2015-2020’ (the DPP Financial Model).

In respect of the roll-forward of the DPP model to Regulatory Year 2021 - Limited Assurance

2. State whether or not the forecast RY2021 DPP ‘Building Block Allowable Revenue (BBAR) before tax in revenue date terms’ and the ‘forecast regulatory tax allowance’ has been compiled, in all material respects, in a manner consistent with the applicable method applied in the DPP Financial Model rolled forward from the final year of the DPP regulatory period (RY2020) to RY2021 using the following inputs:

- a. RY2021 forecast nominal 'Assets Commissioned' and 'Operational Expenditure' sourced from WE's published 2017 Asset Management Plan (AMP) schedules spreadsheet entitled 'Schedules 11a-13' (schedules 11a and 11b);
- b. Consumer Price Index (CPI) inflation used in calculating RY2021 'Forecast changes in CPI used for revaluations' extracted from the DPP model entitled 'CPI-projections-model-EDB-DPP-2015-2020' published on 28 November 2014;
- c. RY2021 'Other Regulated Income' and 'Value of Disposed Assets' sourced from the DPP model entitled 'Other-regulated-income-and-disposed-assets-model-EDB-DPP-2015-2020' published on 28 November 2014

In respect of the calculation of RY2019 - RY2021 Customised Price-Quality Path (CPP) Building Block Allowable Revenue (BBAR) for readiness expenditure - Limited Assurance

3. State whether or not the forecast RY2019, RY2020, and RY2021 'BBAR before tax in revenue date terms' associated with CPP readiness expenditure has been compiled, in all material respects, in a manner consistent with the applicable method and formulas applied in the CPP model published by the Commerce Commission for the Orion CPP entitled '1633150-Orion-Customised-Price-Quality-Path-Model-29-November-2013.xls' published on 29 November 2013 (the Orion CPP Model):
 - a. adjusted to reflect the following IM amendments to Part 5 sub-part 3 of the IMs determined since the model was published:
 - i. 'Other Regulated Revenue' (see amended IM1 clause 5.3.2(1) and 5.3.13(4)); and
 - ii. 'Notional Deductible Interest' (See amended IM clause 5.3.16(2)).
 - b. and using the following inputs:
 - i. The 'Forecast Value of Commissioned Assets' by 'CPP Asset Category' sourced from WE's spreadsheet entitled 'WE CPP readiness capex and opex inputs' (CPP Inputs Model);
 - ii. The 'Value of Commissioned Assets for Tax' and applicable 'Tax Diminishing Value (DV) Rates' sourced from WE's CPP Inputs Model;
 - iii. The 'Forecast Operating Expenditure' sourced from WE's CPP Inputs Model;
 - iv. 'Forecast CPI for CPP Revaluations' consistent with the application of Clause 5.3.10(4) & (5) of the IMs;
 - v. Weighted Average Cost of Capital (WACC), cost of debt and leverage consistent with the DPP cost of capital determination published on 13 October 2014, consistent with IM clause 5.3.22;
 - vi. timing factor (TF), consistent with IM clause 5.3.2(4);
 - vii. the 'corporate tax rate' of 28%, consistent with the definition in clause 1.1.4 of the IMs;
 - viii. CPP Asset Lives for CPP Commissioned Assets as per Table A.2 of the IMs.

In respect of the calculation of total RY2019-2021 CPP MAR - Limited Assurance

¹ *Electricity Distribution Services Input Methodologies Determination 2012 – Consolidated 28 February 2017*

4. State whether or not the total RY2019, RY2020 and RY2021 CPP 'MAR before tax in revenue date terms' is calculated, in all material respects, as the aggregation of:
 - a. RY2019 and RY2020 DPP 'MAR before tax in revenue date terms';
 - b. RY2021 DPP 'BBAR before tax in revenue date terms'; and
 - c. RY2019, RY2020, RY2021 readiness CPP 'BBAR before tax in revenue date terms' smoothed in present value terms consistent with the CPP MAR revenue cap method set out in clause 5.3.4 of the IMs.

Audit opinion

Deloitte's assurance report - *Deloitte's Assurance Report- December 2017.pdf* is attached.

Pursuant to clause 5.1.4(3) of the IMs, WELL confirms that Deloitte's audit report relates to the CPP proposal as submitted to the Commission.

Recoverable cost

The cost of the audit to date is \$62, 074.83 (GST excl). Invoices are included as an attachment to this document – refer *Deloitte's Assurance Invoice – November 2017.pdf*.

We note that it is possible that further invoices may be received after this application is submitted. We also note that Deloitte may be required to extend its role after our CPP application has been submitted, in which case additional fees will be incurred.

2.3.4 Certification

Clause 5.1.5 of the IMs requires that WELL provides, with its application, certificates recording the certifications specified in clause 5.5.4.

With WELL having requested, and the Commission approved, exemption from the requirements of clauses 5.1.3 (verification-related material), 5.5.2 (verification), and associated schedules F and G, WELL sought a consequential modification to the certification requirements of clause 5.5.4 to dispense with the certification requirements in respect of verification.

Accordingly, a certificate executed in accordance with the requirements of clauses 5.1.5 and 5.5.4, as modified with the approval of the Commission pursuant clause 5.1.6, is attached – refer *Directors Certification WE-December 2017.pdf*.

2.3.5 Subpart 4 – Information required in a CPP proposal

Clause 5.4.1 of the IMs provides that a CPP proposal must contain, in all material respects, the information specified in Part 5, Subpart 4.

WELL's CPP proposal focusses on the earthquake readiness expenditure. It adopts existing DPP allowances, and the Commission's financial models, and makes only the minimum changes to those models necessary to accommodate the earthquake readiness expenditure.

Given this focus and consistent with proportionate scrutiny, WELL requested:

- exemption from the requirements of Sections 3 - 6 (inclusive) of Subpart 4, including related Schedules B and C;
- modification to delete the requirements of clauses 5.4.28 – 5.4.30 (Section 8) of Subpart 4, including the related Schedules D and E.

This was on the basis that the information to be provided with WELL’s CPP proposal would include:

- the detailed Business Case for the earthquake readiness expenditure, including quantitative information on the readiness spend, and analysis of different options considered to address earthquake risks;
- independent review of that expenditure, to be carried by Jacobs;
- WELL’s 2017 Asset Management Plan;
- a CPP financial model, including quantitative information on the proposed RY2021 business as usual operating and capital expenditure;
- commentary on any material differences in RY21 business as usual operating expenditure and capital expenditure as between WELL’s 2017 and expected 2018 Asset Management Plans, and against historical spend.

The Commission approved an exemption for WELL from those requirements of Subpart 4, on condition that WELL would provide with its CPP application the information set out above.

The information provided with WELL’s CPP application includes the following material, in fulfilment of the condition of exemption:

| Document | Cross-reference |
|--|--|
| WELL’s 2017 Asset Management Plan | 2017 Asset management Plan.pdf |
| Detailed Business Case for the earthquake readiness expenditure | Earthquake Readiness Business Case – December 2017.pdf |
| Jacobs independent review letter | Jacobs Letter WE Earthquake Readiness Indep Review 27 Oct 2017.pdf |
| CPP financial model | CPP Financial Model.pdf |
| Commentary on any material differences in RY2021 BAU Opex and Capex as between WELL’s 2017 and expected 2018 Asset Management Plans, and as against historical spend | Main Proposal , Section 3.3 |

Table 2 – Required Information

In light of the fact that the Commission is currently considering only one other CPP proposal (by Powerco) and no other CPP proposals are, to WELL's knowledge, expected to be made this regulatory year, WELL also sought, and the Commission approved, exemption from clause 5.4.3 (information regarding priority of proposal). As there is no expected need for the Commission to consider the exercise of its prioritisation powers under section 53Z of the Act, reasons going to the exercise of that power are unnecessary.

2.3.6 Duration of regulatory period

Section 53W of the Act provides that a CPP applies for five years. The Commission may set a shorter period than five years if it considers that this would better meet the purpose of Part 4 of the Act, but in any event may not set a term less than three years.

Clause 5.4.4 of the IMs provides that where a CPP applicant seeks a CPP of three or four years duration, the duration of the CPP sought must be stated in the CPP proposal, and the CPP proposal must contain an explanation as to why that duration better meets the purpose of Part 4 of the Act.

WELL seeks a CPP of three years duration. Three years better meets the purpose of Part 4 because the earthquake readiness spend is urgent. Three years is, practicably, the shortest period over which the expenditure can be incurred and the spares deployed.

2.4 PROPOSED IM VARIATIONS

Section 53V(2)(c) of the Act provides that in determining a CPP that complies with section 53M the Commission may, among other things, vary an IM that would otherwise apply to a supplier, with the agreement of that supplier.

In order to implement the price path approach described above, WELL is proposing a number of variations to the IMs pursuant to section 53V(2)(c) of the Act. These variations apply or adopt, in terms of section 53Q(2)(d), relevant IMs, being the DPP IMs that were adopted or applied in determining the 2015-2020 DPP and allowances applicable to WELL that are being carried over into the proposed price path.

WELL is proposing the following variations:

- Variation to the definitions of "CPP regulatory period" and "next period", in order that the calculations that are required by relevant IMs can be provided for the relevant period (being the proposed three year period of the CPP).
- Variation to the definitions of "building blocks allowable revenue before tax" and "forecast regulatory tax allowance", in order to implement the proposed approach to determining allowable revenue.
- Variation to the capex wash-up, recognising that under the proposed price path approach WELL's regulated asset base (**RAB**) is not being reset when it moves on to the 'streamlined'

CPP (but will be reset when it moves off the CPP in 2021, one year later than would otherwise have been the case under the current 2015-2020 DPP).

- Variation to the opex IRIS, recognising that under the proposed price path approach WELL's revenue building blocks are not being reset at the start of the CPP regulatory period (but will be reset when WELL moves off the CPP in 2021).
- Variation to "works under construction", recognising that the proposed price path approach combines an existing DPP allowance (where forecast commissioned assets equals forecast capital expenditure) with an increment for the earthquake readiness expenditure, and so the works under construction roll-forward should be limited to the increment for the earthquake readiness expenditure.
- Variation to the definition of "forecast value of commissioned assets", for the purpose of the capex IRIS, in order for the values used to determine the recoverable cost amount to incorporate both the DPP and earthquake readiness expenditure components.

Further detail on these proposed variations is provided in the following section.

2.4.1 Definitions of "CPP regulatory period" and "next period"

Background and context

Under the streamlined CPP, the analysis of allowable revenue and its components is limited to RY19 to RY21. However, the IMs require a number of items to be calculated for the duration of the "next period" or the "CPP regulatory period".

The 'next period' is defined as from the regulatory year in which the CPP application is made until the regulatory year five years after the start of the CPP regulatory period. The 'CPP regulatory period' is defined as five years long for the purposes of a **CPP proposal**, and can be only be shorter once a CPP determination has been made.

To enable the streamlined CPP approach, a variation is required to the definitions of both "CPP regulatory period" and "next period", such that these terms are limited to the three years in the proposed CPP regulatory period.

Proposed variation

It is proposed that, in clause 1.1.4(2), the definition of **CPP regulatory period** is varied, such that it is defined as:

"means-

- (a) *in relation to a **CPP proposal**, the period beginning on the first day of **disclosure year 2019** and terminating on the last day of **disclosure year 2021***

- (b) *in relation to a particular **CPP**, the period to which the relevant **CPP** determination relates”*

It is proposed that, in clause 1.1.4(2), the definition of **next period** is varied, such that it is defined as:

*“means the period beginning on the first day of **disclosure year 2019** and terminating on the last day of **disclosure year 2021**”*

2.4.2 Definition of “building blocks allowable revenue before tax”

Background and context

Under the streamlined CPP for WELL, it is proposed that allowable revenue is calculated by extending the current DPP by one year and then adding an increment each year related to earthquake readiness expenditure.

In order to implement this approach to determining allowable revenue, a variation is required to Part 5, Subpart 3, Section 1 of the IMs (which sets out how the revenue path is to be determined).

The variation proposed below involves a change to how BBAR before tax and the regulatory tax allowance is calculated.

Proposed variation

It is proposed that, in clause 1.1.4(2), the definition of **buildings blocks allowable revenue before tax** is varied, such that it is defined as:

“means, for-

- (a) ***disclosure years 2019 and 2020**, the sum of-*
- i. MAR_{bt} (DPP), determined in accordance with clause 5.3.2(7);*
 - and*
 - ii. $BBAR_{bt}$ (readiness), determined in accordance with clause 5.3.2(1);*
- (b) ***disclosure year 2021**, the sum of-*
- i. $BBAR_{bt}$ (DPP), determined in accordance with clause 5.3.2(8);*
 - and*
 - ii. $BBAR_{bt}$ (readiness), determined in accordance with clause 5.3.2(1);”*

It is proposed that clause 5.3.2(1) is varied, such that it reads:

“(1) ‘ $BBAR_{bt}$ (readiness)’ for each **disclosure year** of the **next period** is determined in accordance with the formula-

(regulatory investment value x cost of capital + total value of commissioned assets x $(TF_{VCA} - 1)$ + **term credit spread differential allowance** x TF - **total revaluation**) 4- $(TF_{rev} - \text{corporate tax rate} \times TF)$

+ **(total depreciation** x $(1 - \text{corporate tax rate} \times TF)$)

+ **forecast operating expenditure** x TF x $(1 - \text{corporate tax rate})$

+ **(closing deferred tax - opening deferred tax)** x $(TF - 1)$

+ **(permanent differences + regulatory tax adjustments – utilised tax losses)** x **corporate tax rate** x TF) ÷ $(TF_{rev} - \text{corporate tax rate} \times TF)$

where the values of each term specified in this formula, and the terms used to calculate those values, only reflect **earthquake readiness expenditure** incurred during the **CPP regulatory period**.”

It is proposed that clause 5.3.2(7) is renumbered 5.3.2(9).

It is proposed that new clauses, 5.3.2(7) and 5.3.2(8), are added as follows:

“(7) ‘ MAR_{bt} (DPP)’ means-

the value for “Maximum allowable revenue before tax in revenue-date terms for applicable X factor”, for Wellington Electricity Lines Limited for the applicable **disclosure year**, specified in the **2015 DPP Financial Model**;

(8) ‘ $BBAR_{bt}$ (DPP)’ means-

the value determined in accordance with the formula for “BBAR before tax in revenue date terms, calculation not referencing tax”, as applied in the **DPP Financial Model** for **disclosure year 2020**, applied to disclosure year 2021;

where the value for **disclosure year 2021** of each term in that formula is determined in accordance with the respective formulas applied in the **DPP Financial Model** for **disclosure year 2020**, applied to **disclosure year 2021**;

and for terms with no formula in the **DPP Financial Model**, the value for **disclosure year 2021** is determined as follows-

- **‘operating expenditure’ means, in relation to a CPP proposal-**
 - *that has not been assessed by the **Commission**, the amount of **operating expenditure** for the **relevant disclosure year** included by the **CPP applicant** in its **opex forecast**; or*
 - *undergoing assessment by the **Commission**, the amount of **operating expenditure** determined for the **relevant disclosure year** by the **Commission**.*

- **‘value of commissioned assets’ means, in relation to a CPP proposal-**
 - *that has not been assessed by the **Commission**, the **forecast aggregate value of commissioned assets** for the **relevant disclosure year** included by the **CPP applicant** in its **CPP proposal**; or*
 - *undergoing assessment by the **Commission**, the **forecast aggregate value of commissioned assets** determined for the **relevant disclosure year** by the **Commission**.*

- **‘forecast changes in CPI used for revaluations’ is determined in accordance with clause 4.2.3(4)**

- **‘disposed assets’ is the value of that term for disclosure year 2021 specified in the DPP Other Regulated Income and Disposed Assets Model**

- **‘other regulated income’ is the value of that term for disclosure year 2021 specified in the DPP Other Regulated Income and Disposed Assets Model**

*where, for the purpose of determining $B\bar{B}AR_{bt}$ (DPP), the value of **earthquake readiness expenditure** is nil;*

It is proposed that, in clause 1.1.4(2), the definition of forecast regulatory tax allowance is varied, such that it is defined as:

“means, the sum of

- (a) *forecast regulatory tax allowance (DPP), determined in accordance with clause 5.3.13(5); and*
- (b) *forecast regulatory tax allowance (readiness), determined in accordance with clause 5.3.13(1);”*

It is proposed that clause 5.3.13(1) is varied, such that it reads:

“(1) *‘Forecast regulatory tax allowance (readiness)’ is, where **forecast regulatory net taxable income** is-*

- (a) *nil or a positive number, the tax effect of **forecast regulatory net taxable income**; and*
- (b) *a negative number, nil.*

*where the value of **forecast regulatory net taxable income**, and the terms used to calculate that value, only reflect **earthquake readiness expenditure** incurred during the **CPP regulatory period**.”*

It is proposed that a new clause, 5.3.13(5), is added as follows:

“(5) *‘forecast regulatory tax allowance (DPP)’ means, for -*

- (a) ***disclosure years 2019 and 2020-***

*the value for “Regulatory tax allowance”, for Wellington Electricity Lines Limited for the applicable **disclosure year**, specified in the **2015 DPP Financial Model**;*

- (b) ***disclosure year 2021-***

*the value determined in accordance with the formula for “Regulatory tax allowance”, as applied in the **DPP Financial Model** for **disclosure year 2020**, applied to **disclosure year 2021**;*

*where the value for **disclosure year 2021** of each term in that formula is determined in accordance with the respective formulas applied in the **DPP Financial Model** for **disclosure year 2020**, applied to **disclosure year 2021**;*

*and for terms with no formula in the **DPP Financial Model**, the value for **disclosure year 2021** is determined as follows-*

- ‘operating expenditure’ means, in relation to a CPP proposal-
 - that has not been assessed by the **Commission**, the amount of **operating expenditure** for the relevant **disclosure year** included by the **CPP applicant** in its **opex forecast**; or
 - undergoing assessment by the **Commission**, the amount of **operating expenditure** determined for the relevant **disclosure year** by the **Commission**.

- ‘value of commissioned assets’ means, in relation to a **CPP proposal**-
 - that has not been assessed by the **Commission**, the **forecast aggregate value of commissioned assets** for the relevant **disclosure year** included by the **CPP applicant** in its **CPP proposal**; or
 - undergoing assessment by the **Commission**, the **forecast aggregate value of commissioned assets** determined for the relevant **disclosure year** by the **Commission**.

- ‘forecast changes in CPI used for revaluations’ is determined in accordance with clause 4.2.3(4)

- ‘disposed assets’ is the value of that term for **disclosure year 2021** specified in the **DPP Other Regulated Income and Disposed Assets Model**

- ‘other regulated income’ is the value of that term for **disclosure year 2021** specified in the **DPP Other Regulated Income and Disposed Assets Model**

where, for the purpose of determining ‘forecast regulatory tax allowance (DPP)’, the value of **earthquake readiness expenditure** is nil;”

It is proposed that, in clause 1.1.4(2), the following definitions be added:

2015 DPP financial model

“means the spreadsheet entitled “Financial-model-EDB-DPP-2015-2020” published by

the Commission alongside the 2015 DPP determination”

earthquake readiness expenditure *“means commissioned assets and operating expenditure, reflecting additional expenditure to improve Wellington Electricity Lines Limited’s readiness to respond in the event of a major earthquake”*

2.4.3 Capex wash-up

Background and context

Capex wash-up for 2015 RAB reset - WELL is currently in the process of recovering a capex wash-up amount, based on the RAB reset in 2015 when the current DPP was determined (and the variance between RY15 actual capex and the RY15 capex used to set prices). The recovery of the wash-up amount is spread over RY17 to RY20 (years two to five of the DPP period). The total wash-up amount, and the annual recoverable cost values, have been specified by the Commission.

The value of the capex wash-up was calculated assuming that the RAB used to determine allowable revenue would apply for five years before being reset.

As WELL’s RAB is not being reset when it moves onto the streamlined CPP, it is appropriate that WELL recovers the unrecovered portion of the capex wash-up as specified in the DPP determination (ie: during RY19 and RY20).

Under the proposed ‘streamlined’ CPP approach to setting allowable revenue, WELL’s RAB will be reset one year later than assumed when specifying the capex wash up. Accordingly, the capex forecasting variance which is reflected in the DPP BBAR will continue for another year, and a capex wash up can be included for RY21 to offset this variance.

Clause 3.1.3(9)(f) of the IMs states that, when an EDB moves onto a CPP, the CPP determination will specify the amount of any unrecovered capex wash-up adjustment to be included as a recoverable cost in each year. The variation proposed below implements the unrecovered capex wash-up (as described above).

Since the value of the wash-up can be calculated today, the CPP determination can specify the specific values, rather than just a formula. This is the approach used in the **EDB DPP Determination** for claw-back and NPV wash-up amounts.

Capex wash-up for 2018 RAB reset - because WELL's RAB will not be reset when it moves onto the CPP, there is no need for a capex wash-up related to a 2018 reset. The only capex wash-up amount to be recovered during the CPP should be that related to the 2015 reset (as discussed above).

The variations proposed below incorporate this.

Proposed variation

It is proposed that clause 3.1.3(1)(p) is varied, such that it reads:

*“an amount reflecting the recovery of a capex wash-up adjustment, as specified in a **CPP determination**”*

It is proposed that clauses 3.1.3(8) and 3.1.3(9) are deleted.

It is proposed that, in clause 1.1.4(2), the definition of **capex wash-up adjustment** is deleted.

Implementation

In order to implement the above variations, the CPP determination will need to specify the annual recoverable cost values for the capex wash-up, for each year of the CPP period.

As noted above, the information is available to calculate these values now, and hence specifying the values is preferable to stating the formula to calculate them. This is consistent with the approach used in the **EDB DPP Determination** for the claw-back and NPV wash-up recoverable costs, where the determination included the annual values for each EDB.

2.4.4 Opex IRIS

Background and context

The policy intent of the opex IRIS is that:

- EDBs can retain the benefits of permanent cost efficiencies for five years
- at the time a price/revenue path is reset, permanent cost efficiencies are incorporated into revenue building blocks
- following the price/revenue path reset, the IRIS recoverable cost provides EDBs with a financial incentive which enables the five-year retention period to be achieved.

Under the proposed 'streamlined' CPP, WELL's revenue building blocks will not be reset at the start of the CPP regulatory period. A three-year CPP period will mean that the revenue building blocks will not be reset until the start of RY22 – one year later than what would have been the case under the DPP.

Accordingly, it is appropriate to defer the IRIS recoverable cost to the start of the following regulatory period, to coincide with the reset of the revenue building blocks at that time.

The current IMs implicitly assume that the revenue path will be reset at the start of the CPP, which is not the case for WELL's 'streamlined' CPP Proposal. In order to implement the amended IRIS approach described above, a variation to Part 3, Subpart 3, Section 2 is required.

The variation proposed below implements the proposed approach to opex IRIS, by adjusting the definitions of 'regulatory year' and 'DPP regulatory year' for the purposes of Section 2 of Subpart 3.

Furthermore, the method specified in the IMs involves a calculation using actual and forecast opex. For the purpose of the 'streamlined' CPP, these values need to include both the DPP and earthquake readiness components.

The definition of 'actual opex' refers to Part 2, which implies that it would include all opex incurred - both BAU and readiness spend. However, the definition of 'forecast opex' for a CPP refers to the amount specified by the Commission. To provide certainty over the proposed approach, an IM variation is proposed.

The variation proposed below includes a revised definition of 'forecast opex', to incorporate both the DPP and readiness components.

Proposed variation

It is proposed that, in clause 1.1.4(2), the definition of regulatory period is varied, such that it is defined as:

"means, for the purposes of-

- (a) Part 3, Subpart 3, Section 2, the period starting on the first day of **disclosure year 2016** and terminating on the last day of **disclosure year 2021**;*
- (b) All other sections, the regulatory period for default/customised price-quality regulation applicable to an **EDB** as specified in a determination made under s 52P of the **Act**;"*

It is proposed that, in clause 1.1.4(2), the definition of **DPP regulatory period** is varied, such that it is defined as:

"means, for the purposes of-

- (a) Part 3, Subpart 3, Section 2, the period starting on the first day of **disclosure year 2016** and terminating on the last day of **disclosure year 2021**;*
- (b) All other sections, the period to which the relevant **DPP determination** relates;"*

It is proposed that clause 3.3.3(8) is varied, such that it reads:

- “(8) ‘Forecast opex’, subject to clauses 3.3.13 and 3.3.14, is, for-
- (a) **disclosure years 2019 and 2020, the sum of-**
 - (i) the amount of forecast **operating expenditure** specified by the **Commission** for the relevant **disclosure year** in the **2015 DPP determination** for the purpose of calculating an **opex incentive amount**; and
 - (ii) the amount of forecast **operating expenditure** specified by the **Commission** for the relevant **disclosure year**, where the value reflects **earthquake readiness expenditure** to be incurred during the **CPP regulatory period**;
 - (b) **disclosure year 2021, the sum of-**
 - (i) the amount of forecast **operating expenditure** specified by the **Commission** for **disclosure year 2021**. where for the purpose of determining this value, the value of **earthquake readiness expenditure** is nil: and
 - (ii) the amount of **forecast operating expenditure** specified by the **Commission** for **disclosure year 2021**. where the value reflects **earthquake readiness expenditure** to be incurred during the **CPP regulatory period**.”

2.4.5 Works under construction

Background and context

The ‘streamlined’ CPP approach combines an existing DPP allowance with an increment for the earthquake readiness expenditure. While the CPP IMs define a “works under construction” roll-forward, the DPP IMs do not because for the purposes of DPPs forecast commissioned assets equals forecast capital expenditure.

For the streamlined CPP, we propose to limit the works under construction roll-forward to the earthquake readiness expenditure - incorporating the CPP IMs but maintaining the current DPP treatment. The proposed variation below implements this.

Proposed variation

It is proposed that clause 5.3.12 is varied. such that it reads:

- “(1) *Opening works under construction means. in respect of-*
- (a) *the first **disclosure year** of the **next period**, nil; and*
 - (b) *any year other than the first **disclosure year** of the **next period**, **closing works under construction** of the preceding **disclosure year**.*
- (2) *Closing works under construction is the amount determined in accordance with the formula-*
- Opening works under construction + **capital expenditure** - **forecast value of commissioned assets**,*
- where the values of each term specified in this formula and the terms used to calculate those values only reflect **earthquake readiness expenditure** incurred during the **CPP regulatory period**.”*

2.4.6 Capex IRIS and definition of forecast value of commissioned assets

Background and context

As with the opex IRIS the method specified in the IMs involves a calculation using actual and forecast commissioned asset values. For the purpose of the ‘streamlined’ CPP these values include both the DPP and earthquake readiness components.

The definition of ‘actual’ value of commissioned assets refers to Part 2 which implies that it includes both components. But the definition of forecast commissioned asset values for a CPP does not explicitly include the DPP component.

The variation proposed below includes a revised definition of “forecast value of commissioned assets” for the purpose of the capex IRIS to incorporate both the DPP and readiness components.

Proposed variation

It is proposed that in clause 1.1.4(2) the definition of **forecast value of commissioned asset** is varied such that it is defined as:

- “means, for the purposes of-*
- (a) *Part 3, Subpart 3, Section 3, for-*
 - (i) ***disclosure years** 2019 and 2020, the sum of-*
 - (1) *the **forecast aggregate value of commissioned assets** determined by the **Commission** for the relevant disclosure year in the **2015 DPP determination**; and*

- (2) *the **forecast value of commissioned assets** specified by the **Commission** for the relevant **disclosure year**, where the value reflects **earthquake readiness expenditure** to be incurred during the **CPP regulatory period**;*
- (ii) *disclosure year 2021, the sum of-*
 - (1) *the **forecast aggregate value of commissioned assets** determined by the **Commission** for **disclosure year 2021**, where for the purposes of determining this value, the value of **earthquake readiness expenditure** is nil; and*
 - (2) *the **forecast value of commissioned assets** specified by the **Commission** for **disclosure year 2021**, where the value only reflects **earthquake readiness expenditure** to be incurred during the **CPP regulatory period**;*
- (b) *All other sections, the value determined in accordance with clause 5.3.11;”*

2.5 CPP COMPLIANCE CHECKLIST

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
|--|--|--|--|---|---|----------|
| Part 5, Subpart 1 – Contents of a CPP application | | | | | | |
| 5.1.1 | <p><u>Applying for a CPP</u></p> <p>(1) An EDB seeking a CPP in accordance with s 53Q of the Act must provide the Commission with a CPP application.</p> <p>(2) CPP application means an application containing, in all material respects, the information specified in-</p> <p>(a) this subpart; and</p> <p>(b) Subpart 4.</p> | Applied | | Main Proposal | Section 1 | |
| 5.1.2 | <p><u>Evidence of consumer consultation</u></p> <p>For the purpose of clause 5.1.1(2)(a), in respect of consumer consultation, the specified information is-</p> <p>(a) a description as to how the requirements of clause 5.5.1 were met;</p> <p>(b) a list of respondents to the consultation required by that clause;</p> <p>(c) a description of all issues raised by consumers in response to the CPP applicant's intended CPP proposal;</p> <p>(d) a summary of the arguments raised in respect of each issue described in accordance with paragraph (c); and</p> <p>(e) in respect of the issues described in accordance with paragraph (c), an explanation as to whether its CPP proposal accommodates the arguments referred to in (d); and</p> <p>(i) if so, how; and</p> <p>(ii) if not, why not.</p> | Modification | CPP application includes a summary of any available feedback from key stakeholders in respect of WELL's intended CPP proposal. | Main Proposal Regulatory compliance schedules Stakeholder letters | Section 5.1 Section 2.3.1 Supporting document: Stakeholder Engagement – December 2017 | |
| 5.1.3 | <p><u>Verification-related material</u></p> <p>(1) For the purpose of clause 5.1.1(2)(a), in respect of verification, the specified information is-</p> <p>(a) a verification report;</p> <p>(b) any information relating to the CPP proposal, other than information required to be included in a CPP proposal by Subpart 4, provided to the verifier by or on behalf of the CPP applicant, pursuant to clauses 5.5.2(3)(a)-(c) and 5.5.2(3)(e);</p> <p><i>Examples: instructions as to how to interpret information provided to the verifier; details as to the source of the information;</i></p> <p>(c) any other information relied upon by the verifier relating to the CPP proposal pursuant to clause 5.5.2(3)(d); and</p> <p>(d) subject to subclause (2), a certificate signed by the verifier stating that the relevant parts of the CPP proposal were verified and verification report was prepared in accordance with Schedule G.</p> | Exemption | <p>The Commission will receive, as part of WELL's CPP application, an independent engineering review report.</p> <p>The scope of work includes:</p> <ul style="list-style-type: none"> reviewing the engineering options analysis and selection process used by WELL commenting on the prudence of the preferred options | Main Proposal | Section 4 | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
|-----------|---|--|--|--|--|----------|
| | (2) For the purpose of subclause (1)(c), the CPP applicant must ensure that the certificate described in subclause (1)(c) relates to verification of the relevant parts of the CPP proposal as submitted to the Commission. | | <ul style="list-style-type: none"> review of project costings for the preferred option a detailed review of WELL's approach and the costs associated with its seismic reinforcement programme. | Independent engineering review letter | Supporting document Jacobs Letter WE Earthquake Readiness Indep Review 27 Oct 2017 | |
| 5.1.4 | <p><u>Audit and assurance reports</u></p> <p>(1) For the purpose of clause 5.1.1(2)(a), in respect of audit or assurance, the specified information is a report written by an auditor and signed by that auditor (either in an individual's name or that of a firm) in respect of an audit or assurance engagement undertaken of the matters specified in clause 5.5.3, stating-ee</p> <p>(a) the work done by the auditor;</p> <p>(b) the scope and limitations of the audit or assurance engagement;</p> <p>(c) the existence of any relationships (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the CPP applicant or any of its subsidiaries;</p> <p>(d) whether the auditor obtained all information and explanations that he or she required to undertake the audit or assurance engagement, and, if not-</p> <p>(i) details of the information and explanations not obtained; and</p> <p>(ii) any reasons provided by the CPP applicant for its or their non-provision;</p> <p>(e) the auditor's opinion of the matters in respect of which the audit or assurance engagement was undertaken.</p> <p>(2) A report in respect of an audit or assurance engagement undertaken other than expressly to meet the requirements of clause 5.5.3 may be considered to comply with subclause (1) to the extent that the report in respect of that other audit or assurance engagement fully or partially meets the requirements of clause 5.5.3.</p> <p>(3) The CPP applicant must ensure that reports required by this clause relate to the CPP proposal as submitted to the Commission.</p> <p>(4) For the avoidance of doubt, the reports required by this clause need not be-</p> <p>(a) prepared in advance of the verifier undertaking verification of the CPP proposal; nor</p> <p>(b) provided to the verifier.</p> <p>(5) If, notwithstanding subclause (4), a report prepared in accordance with this clause is provided to the verifier, subclause (3) continues to apply.</p> | Modification | <p>WELL will engage an auditor to undertake a confined scope audit of the CPP financial model in accordance with the terms of engagement agreed with the Commission.</p> <p>The purpose of the audit is to test and comment on:</p> <ul style="list-style-type: none"> the application of the methodology for the streamlined CPP revenue path modelling approach the use of the existing, Commission-published, DPP price path model, and the Commission's Orion CPP price path model, including any combining of those models and/or any modifications made to them, as being in accordance with the proposed revenue path methodology the application of any stated assumptions in respect of the proposed revenue path for the CPP period; whether quantitative data used in the models referred to in clause 5.5.3(2) (a),(b) and (c) is properly compiled on the basis of the relevant underlying source information | <p>Regulatory compliance schedules</p> <p>Audit terms of engagement</p> <p>Audit opinion</p> | <p>Section 2.3.3</p> <p>Supporting document: Deloitte's Terms of Engagement – November 2017</p> <p>Supporting document: - Deloitte's Assurance Report– December 2017</p> | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
|-----------|--|--|---|--|--|---|
| | | | <ul style="list-style-type: none"> whether quantitative forecast information used in the models referred to in clauses 5.5.3(2) (a), (b) and (c) is properly compiled on the basis of relevant and reasonably disclosed assumptions. | | | |
| 5.1.5 | <p><u>Certification</u></p> <p>(1) For the purpose of clause 5.1.1(2)(a), in respect of certification, the specified information is the certificates recording the certifications specified in clause 5.5.4.</p> <p>(2) For the avoidance of doubt, one physical document may contain more than one of the certifications specified in clause 5.5.4.</p> | Applied | | Directors certification | Supporting document: Directors Certification WE-December 2017 | The form of the Director certification is subject to clause 5.5.4, which has been modified. |
| 5.1.6 | <p><u>Modification or exemption of a CPP application requirements</u></p> <p>(1) The Commission may approve a modification to, or exemption from, any requirement set out in—</p> <p>(a) this subpart;</p> <p>(b) Subpart 4;</p> <p>(c) Subpart 5; or</p> <p>(d) schedules relating to subparts identified in paragraphs (a) to (c) above.</p> <p>(2) A modification or exemption may be approved where, in the Commission’s opinion, the modification or exemption will not detract, to an extent that is more than minor, from—</p> <p>(a) the Commission’s evaluation of the CPP proposal;</p> <p>(b) the Commission’s determination of a CPP; and</p> <p>(c) the ability of interested persons to consider and provide their views on the CPP proposal.</p> <p>(3) When considering whether a modification or exemption is likely to detract, to an extent that is more than minor, from the processes listed in subclauses (2)(a)-(c), the Commission may have regard to the size of the supplier’s business.</p> <p>(4) A modification or exemption will only apply for the purposes of assessing compliance of a CPP application under s 53S(1) of the Act—</p> <p>(a) if the Commission has previously approved a request by a CPP applicant for the modification or exemption in accordance with clause 5.1.7;</p> <p>(b) in respect of the CPP applicant and the CPP application identified in the Commission’s approval; and</p> <p>(c) if the CPP applicant elects to apply the modification or exemption by:</p> <p>(i) meeting all conditions and requirements specified in the approval that relates to the modification or exemption; and</p> <p>(ii) providing the relevant information specified in clause 5.1.8 as part of its CPP application.</p> | Applied | | Main Proposal Regulatory compliance schedules Commission letter confirming IM modifications and exemptions | Section 6.2 Section 2.3 Supporting document: IM Modification and Exemptions Letter – November 2017 | On 13 October 2017, WELL requested, pursuant to clause 5.1.7, approval for modification to, and exemptions from, certain requirements in Subparts 1, 4 and 5 (and related schedules) of the IMs, which the Commission approved on 30 November 2017. |
| 5.1.7 | <p><u>Process for obtaining a modification or exemption</u></p> <p>(1) At any time prior to providing the Commission with a CPP application, a CPP applicant may request modifications or exemptions to the requirements listed in clause 5.1.6(1) as alternatives to those</p> | Applied | | Main Proposal Regulatory compliance | Section 6.2 Section 2.3 | On 13 October 2017, WELL requested, pursuant to clause 5.1.7, |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
|-----------|--|--|---|--|--|---|
| | <p>requirements.</p> <p>(2) A request by a CPP applicant must—</p> <p>(a) be in writing;</p> <p>(b) include the following information:</p> <p>(i) the CPP applicant’s name and contact details;</p> <p>(ii) a brief description of the key features of its intended CPP proposal;</p> <p>(iii) the date that the CPP applicant intends to submit the CPP application for which a modification or exemption is sought;</p> <p>(iv) a list of the specific modifications or exemptions sought;</p> <p>(v) an explanation of why the CPP applicant considers the requirements in clause 5.1.6(2) are met;</p> <p>(vi) evidence in support of the explanation provided under subparagraph (v); and</p> <p>(vii) identification of any information that is commercially sensitive.</p> <p>(3) Subparagraph (2)(b)(vi) may be satisfied by submitting a certificate, signed by a senior manager of the CPP applicant, setting out the factual basis on which he or she believes the requirements in subclause 5.1.6(2) are met.</p> <p>(4) In considering whether to approve a request for modification or exemptions, the Commission may seek, and have regard to—</p> <p>(a) views of interested persons within any time frames and processes set by the Commission; and</p> <p>(b) views of any person the Commission considers has expertise on a relevant matter.</p> <p>(5) As soon as reasonably practicable after receipt of a request for modifications or exemptions the Commission will, by notice in writing, advise the CPP applicant as to whether:</p> <p>(a) any of the modifications or exemptions are approved; and</p> <p>(b) the approval of any modification or exemption is subject to conditions or requirements that must be met by the CPP applicant.</p> | | | <p>schedules</p> <p>Commission letter confirming IM modifications and exemptions</p> | <p>Supporting document: IM Modification and Exemptions Letter – November 2017</p> | <p>approval for modification to, and exemptions from, certain requirements in Subparts 1, 4 and 5 (and related schedules) of the IMs, which the Commission approved on 30 November 2017.</p> |
| 5.1.8 | <p><u>Information on modification or exemption of information requirements</u></p> <p>Where a CPP applicant elects to apply a modification or exemption approved by the Commission in accordance with clause 5.1.7, it must include as part of its CPP application—</p> <p>(a) a copy of the Commission’s approval;</p> <p>(b) a list of the approved modifications or exemptions which the CPP applicant has elected to apply in its CPP application;</p> <p>(c) evidence that any conditions or requirements of the approval have been met; and</p> <p>(d) an indication, at the relevant locations within the document or documents comprising the CPP application, as to where the modifications or exemptions have been applied.</p> | Applied | | <p>Main Proposal</p> <p>Regulatory compliance schedules</p> <p>Commission letter confirming IM modifications and exemptions</p> <p>CPP financial model</p> | <p>Section 6.2</p> <p>Section 2.3</p> <p>Supporting document: IM Modification and Exemptions Letter – November 2017</p> <p>Supporting document: CPP Financial Model supporting information alongside</p> | <p>On 13 October 2017, WELL requested, pursuant to clause 5.1.7, approval for modification to, and exemptions from, certain requirements in Subparts 1, 4 and 5 (and related schedules) of the IMs, which the Commission approved on 30 November 2017.</p> <p>WELL has elected to apply all the modifications and</p> |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
|--|---|--|--|--|---|--|
| | | | | CPP compliance checklist | calculations Regulatory Compliance Schedules, Section 2.5 | exemptions requested and approved by the Commission. |
| Part 5, Subpart 2 – Commission assessment of a customised price-quality path proposal | | | | | | |
| 5.2.1 | <p><u>Evaluation criteria</u></p> <p>The Commission will use the following evaluation criteria to assess each CPP proposal:</p> <ul style="list-style-type: none"> (a) whether the CPP proposal is consistent with the input methodologies specified in Part 5; (b) the extent to which a CPP in accordance with the CPP proposal would promote the purpose of Part 4 of the Act; (c) whether data, analysis, and assumptions underpinning the CPP proposal are fit for the purpose of the Commission determining a CPP under s 53V, including consideration as to the accuracy and reliability of data and the reasonableness of assumptions and other matters of judgement; (d) whether proposed capital expenditure and operating expenditure meet the expenditure objective; (e) the extent to which any proposed quality standard variation provided in a CPP proposal better reflects the realistically achievable performance of the EDB over the CPP regulatory period, taking into account either or both- <ul style="list-style-type: none"> (i) statistical analysis of past SAIDI and SAIFI performance; and (ii) the level of investment provided for in proposed maximum allowable revenue before tax, as the case may be; and (f) the extent to which- <ul style="list-style-type: none"> (i) the CPP applicant has consulted with consumers on its CPP proposal; and (ii) the CPP proposal is supported by consumers, where relevant. | Applied | | CPP compliance checklist | Regulatory Compliance Schedules, Section 2.5 | This table provides details of how many of the IM clauses specified in Part 5 have been complied with. |
| Part 5, Subpart 3 – Determination of customised price-quality path proposal | | | | | | |
| 5.3.1 | <p><u>Annual allowable revenues</u></p> <p>Amounts for-</p> <ul style="list-style-type: none"> (a) building blocks allowable revenue before tax for the next period; (b) building blocks allowable revenue after tax for the next period; (c) maximum allowable revenue before tax for the CPP regulatory period; and (d) maximum allowable revenue after tax for the CPP regulatory period, <p>will be determined.</p> | Variation | <p>The definition of building blocks allowable revenue before tax is proposed to be varied, in order to implement the approach described in Section 7.5 of the proposal.</p> <p>This has flow on effects for the other Annual Allowable Revenue items.</p> | Regulatory compliance schedules CPP financial model | Section 2.4.2 Supporting document: CPP Financial Model supporting information alongside calculations | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
|-----------|--|--|---|--|---|--|
| 5.3.2 | <p><u>Building blocks allowable revenue before tax</u></p> <p>(1) 'Building blocks allowable revenue before tax' for each disclosure year of the next period is determined in accordance with the formula-</p> $\frac{\text{regulatory investment value} \times \text{cost of capital} + \text{total value of commissioned assets} \times (\text{TF}_{\text{VCA}} - 1) + \text{term credit spread differential allowance} \times \text{TF} - \text{total revaluation}}{(\text{TF}_{\text{rev}} - \text{corporate tax rate} \times \text{TF})} + (\text{total depreciation} \times (1 - \text{corporate tax rate} \times \text{TF}) + \text{forecast operating expenditure} \times \text{TF} \times (1 - \text{corporate tax rate}) + (\text{closing deferred tax} - \text{opening deferred tax}) \times (\text{TF} - 1) + (\text{permanent differences} + \text{regulatory tax adjustments} - \text{utilised tax losses}) \times \text{corporate tax rate} \times \text{TF}) \div (\text{TF}_{\text{rev}} - \text{corporate tax rate} \times \text{TF}).$ <p>(2) 'Regulatory investment value' means the amount obtained in accordance with the formula- total opening RAB value + opening deferred tax.</p> <p>(3) For the purpose of subclause (1) 'total value of commissioned assets' means, in relation to a disclosure year, the sum of closing RAB values for all commissioned assets calculated in accordance with clause 5.3.6(3)(b).</p> <p>(4) For the purpose of subclause (1) –</p> <p>(a) 'TF' is determined in accordance with the formula- $(1 + \text{cost of capital})^{182/365}$;</p> <p>(b) 'TF_{rev}' is determined in accordance with the formula- $(1 + \text{cost of capital})^{148/365}$;</p> <p>(c) 'TF_{VCA}' is determined in accordance with the formula- $\text{PV}_{\text{VCA}} \times (1 + \text{cost of capital}) \div \text{total value of commissioned assets}$; and</p> <p>(d) 'PV_{VCA}' means the sum of the present value of closing RAB values for commissioned assets calculated in accordance with clause 5.3.6(3)(b), where each present value is determined by discounting each closing RAB value by the cost of capital from the relevant commissioning date to the commencement of the relevant disclosure year.</p> <p>(5) For the purpose of this clause, 'cost of capital' has the meaning specified in clause 5.3.22.</p> <p>(6) 'Forecast operating expenditure' means, in relation to a CPP proposal -</p> <p>(a) that has not been assessed by the Commission, the amount of operating expenditure for the relevant disclosure year included by the CPP applicant in its opex forecast; or</p> <p>(b) undergoing assessment by the Commission, the amount of operating expenditure determined for the relevant disclosure year by the Commission after assessment of the amount in paragraph (a) against the expenditure objective.</p> <p>(7) For the purpose of this clause, all values and amounts are expressed in nominal terms unless otherwise specified.</p> | Variation | The definition of building blocks allowable revenue before tax is proposed to be varied, in order to implement the approach described in Section 7.5 of the proposal. | Regulatory compliance schedules CPP financial model | Section 2.4.2 Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.3.3 | <p><u>Building blocks allowable revenue after tax</u></p> <p>(1) 'Building blocks allowable revenue after tax' is building blocks allowable revenue before tax less forecast regulatory tax allowance.</p> <p>(2) For the purpose of this clause, all values and amounts are expressed in nominal terms.</p> | Applied | | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | The method of calculating both building blocks allowable revenue before tax and forecast regulatory tax allowance are proposed to be |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>commissioned asset; or</p> <p>(ii) has not been commissioned by the date the CPP application is made, its forecast value of commissioned asset, but only to the extent that the value would be included in the closing RAB value consistent with application of clause 2.1.1; or</p> <p>(c) that is or is forecast to be a disposed asset, nil.</p> <p>(4) For the purpose of subclause (3), where a sale of the assets used to supply electricity distribution services and either or both-</p> <p>(a) an other regulated service; and</p> <p>(b) an unregulated service,</p> <p>is</p> <p>(c) completed between the start of the assessment period and the time the CPP application is made; or</p> <p>(d) highly probable,</p> <p>closing RAB value in respect of each asset not directly attributable affected by the sale is determined as the value allocated to electricity distribution services as a result of applying clause 2.1.1 in respect of its unallocated closing RAB value of the last disclosure year of the assessment period.</p> <p>(5) The unallocated opening RAB value of any asset in relation to-</p> <p>(a) the disclosure year 2010, is the unallocated initial RAB value;</p> <p>(b) a disclosure year thereafter, is, where the disclosure year-</p> <p>(i) follows a disclosure year in respect of which disclosure pursuant to an ID determination relating to that asset has been made, that asset's disclosed unallocated closing RAB value; and</p> <p>(ii) is any other disclosure year, its unallocated closing RAB value in the preceding disclosure year.</p> <p>(6) Unallocated closing RAB value means, in relation to-</p> <p>(a) an asset that is or is forecast to be a disposed asset, nil;</p> <p>(b) any other asset with an unallocated opening RAB value, the value determined in accordance with the formula-</p> <p style="padding-left: 40px;">unallocated opening RAB value - unallocated depreciation + unallocated revaluation; and</p> <p>(c) any other asset-</p> <p>(i) that has a commissioning date between the commencement of the disclosure year in which the CPP application is made and the application's submission, its value of commissioned asset; or</p> <p>(ii) forecast to have a commissioning date thereafter, its forecast value of commissioned asset.</p> <p>(7) The total opening RAB value in relation to-</p> <p>(a) the disclosure year 2010, is the sum of all initial RAB values; and</p> <p>(b) any disclosure year thereafter, is the total closing RAB value in the preceding disclosure year.</p> <p>(8) For the purpose of subclause (7), 'total closing RAB value' means, in relation to a disclosure year, the sum of closing RAB values for all assets.</p> | | | | | |
| 5.3.7 | <p><u>Depreciation</u></p> <p>(1) Total depreciation means the sum of depreciation calculated for existing CPP assets under subclause (2)(a) and for additional CPP assets under subclause (2)(b).</p> | Varied | The proposed variation to the definition of building blocks allowable revenue before tax | CPP financial model | Supporting document: CPP Financial Model | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>(2) For the purpose of subclause (1)-</p> <p>(a) 'depreciation', in the case of existing CPP assets with an opening RAB value, is determined, subject to subclause (3) and clauses 5.3.6 and 5.3.8, in accordance with the formula- $[1 \div \text{remaining asset life for existing CPP assets}] \times \text{opening RAB value.}$</p> <p>(b) 'depreciation', in the case of additional CPP assets with an opening RAB value, is determined, subject to subclause (3) and clauses 5.3.6 and 5.3.8, in accordance with the formula- $[1 \div \text{remaining asset life for additional assets}] \times \text{opening RAB value for additional CPP assets.}$</p> <p>(3) For the purposes of subclauses (1) and (2)-</p> <p>(a) depreciation is nil in the case of-</p> <p>(i) land; and</p> <p>(ii) an easement other than a fixed life easement; and</p> <p>(iii) network spare in respect of the period before which depreciation for the network spare in question commences under GAAP; and</p> <p>(b) in all other cases, where the asset's physical asset life at the end of the disclosure year is nil-</p> <p>(i) unallocated depreciation is the asset's unallocated opening RAB value; and</p> <p>(ii) depreciation is the asset's opening RAB value.</p> <p>(4) For the purpose of subclause (2)-</p> <p>(a) 'remaining asset life for existing CPP assets' means, for each asset, the value determined in accordance with the formula- $\text{opening RAB value} \div \text{depreciation for the last year of the current period, less the number of disclosure years from the last year of the current period to the disclosure year in question; and}$</p> <p>(b) 'remaining asset life for additional assets' means the asset life for CPP commissioned assets for an asset category less the number of disclosure years from the disclosure year in which the additional assets are forecast to be commissioned.</p> | | restricts the scope of this method to earthquake readiness expenditure. | | supporting information alongside calculations | |
| 5.3.8 | <p><u>Depreciation - alternative depreciation method</u></p> <p>(1) Depreciation and, subject to clause 5.3.9, unallocated depreciation may be determined in respect of a CPP regulatory period using an alternative depreciation method, provided the Commission is satisfied that the result of applying the alternative depreciation method would better promote the purpose of Part 4 than the result of applying the standard depreciation method.</p> <p>(2) For the avoidance of doubt, subclause (1) does not apply to the determination of depreciation or unallocated depreciation in the assessment period.</p> | Varied | The proposed variation to the definition of building blocks allowable revenue before tax restricts the scope of this method to earthquake readiness expenditure. | | | WELL has not applied an alternative depreciation method. |
| 5.3.9 | <p><u>Unallocated depreciation constraint</u></p> <p>For the purposes of clauses 5.3.7 and 5.3.8, the sum of unallocated depreciation of an asset calculated over its asset life may not exceed the sum of-</p> <p>(a) all unallocated revaluations applying to that asset in all disclosure years; and</p> <p>(b) in the case of an asset-</p> <p>(i) in the initial RAB, its unallocated initial RAB value; and</p> <p>(ii) not in the initial RAB, its value of commissioned asset or forecast value of commissioned asset, as the case may be.</p> | Varied | The proposed variation to the definition of building blocks allowable revenue before tax restricts the scope of this method to earthquake readiness expenditure. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| 5.3.10 | <p><u>Revaluation</u></p> <p>(1) Unallocated revaluation, subject to subclause (3), is determined in accordance with the formula- unallocated opening RAB value × revaluation rate.</p> <p>(2) Revaluation, subject to subclause (3), is determined in accordance with the formula- opening RAB value × revaluation rate.</p> <p>(3) For the purposes of subclauses (1) and (2), where-</p> <p>(a) the asset's physical asset life at the end of the disclosure year is nil; or</p> <p>(b) the asset is a-</p> <p>(i) disposed asset; or</p> <p>(ii) lost asset,</p> <p>unallocated revaluation and revaluation are nil.</p> <p>(4) Revaluation rate means, in respect of a disclosure year, the amount determined in accordance with the formula-</p> $(CPI_t \div CPI_{t-4}) - 1,$ <p>where-</p> <p>CPI_t means forecast CPI for CPP revaluation for the quarter that coincides with the end of the disclosure year; and</p> <p>CPI_{t-4} means forecast CPI for CPP revaluation for the quarter that coincides with the end of the preceding disclosure year.</p> <p>(5) Forecast CPI for CPP revaluation means, for the purpose of subclause (4), when calculating the revaluation rate-</p> <p>(a) in the CPP regulatory period and up to the end of the DPP regulatory period, as for forecast CPI for DPP revaluation in accordance with clause 4.2.3(4)(a); and</p> <p>(b) for each later quarter for which a forecast of the change in headline CPI has been included in the Monetary Policy Statement last issued by the Reserve Bank of New Zealand prior to the date for which the vanilla WACC applicable to the relevant DPP regulatory period was determined, the CPI last applying under paragraph (a) extended by the forecast change; and</p> <p>(c) in respect of later quarters, the forecast last applying under paragraph (b), adjusted such that an equal increment or decrement made to that forecast for each of the following three years results in the forecast for the last of those years being equal to the target midpoint for the change in headline CPI set out in the Monetary Policy Statement referred to in paragraph (b).</p> | Varied | The proposed variation to the definition of building blocks allowable revenue before tax restricts the scope of this method to earthquake readiness expenditure. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.3.11 | <p><u>Forecast value of commissioned assets</u></p> <p>(1) 'Forecast value of commissioned asset', in relation to an asset for which capital expenditure is included in forecast capital expenditure (including an asset in respect of which capital contributions are or are forecast to be received, or a vested asset) means the forecast cost of the asset to an EDB determined by applying GAAP to the asset as on its forecast commissioning date, except that, subject to subclauses (2) and (3), the cost of-</p> <p>(a) an intangible asset, unless it is-</p> <p>(i) a finance lease; or</p> <p>(ii) an identifiable non-monetary asset,</p> <p>is nil;</p> <p>(b) an easement, is limited to its forecast market value as on its forecast commissioning date as determined by a valuer;</p> | Varied | The proposed variation to the definition of building blocks allowable revenue before tax restricts the scope of this method to earthquake readiness expenditure. | Main Proposal 2017 Asset Management Plan Earthquake readiness business case | Section 3 Supporting document: 2017 Asset Management Plan Supporting document: Earthquake Readiness Business Case - December | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>average must include costs of borrowings made or forecast to be made specifically for the purpose of any particular –</p> <ul style="list-style-type: none"> (i) capex projects; or (ii) capex programmes; and <p>(c) the amount of borrowing costs forecast to be capitalised during the disclosure year must not exceed the amount of borrowing costs forecast to be incurred during the disclosure year;</p> <p>(d) where a capital contribution is received by an EDB, the relevant asset will become works under construction for the purposes of calculating the cost of financing;</p> <p>(e) subject to subclause (i), a capital contribution will reduce the cost of works under construction for the purpose of the calculation of the finance cost, even if the resulting value of works under construction is negative;</p> <p>(f) subject to subclause (g), where the value of works under construction will be negative in accordance with subclause (e), the cost of financing for the period ending on the forecast commissioning date will be negative;</p> <p>(g) where the cost of financing an asset which is works under construction is negative under subclause (f), it will reduce the forecast value of the relevant asset or assets by that negative amount where such a reduction is not otherwise made under GAAP;</p> <p>(h) for the purpose of subclause (d), works under construction includes assets that are forecast to be enhanced or acquired; and</p> <p>(i) where the cost of financing is forecast to be derived as income in relation to works under construction and is-</p> <ul style="list-style-type: none"> (i) negative; and (ii) included in regulatory income under an ID determination, it will not reduce the forecast value of the relevant asset or assets where such reduction would not otherwise be made under GAAP. <p>(5) For the avoidance of doubt-</p> <ul style="list-style-type: none"> (a) revenue derived or forecast to be derived in relation to works under construction that is not included in regulatory income under an ID determination reduces the cost of an asset by the amount of the revenue where such reduction is not otherwise made under GAAP; and (b) where expenditure on an asset which forms or is forecast to form part of the cost of that asset under GAAP is incurred or forecast to be incurred by an EDB after that asset is commissioned or forecast to be commissioned, such expenditure is treated as relating to a separate asset. <p>(6) In this clause, 'forecast capital expenditure' means, in relation to a CPP proposal-</p> <ul style="list-style-type: none"> (a) that has not been assessed by the Commission, the amount of capital expenditure for the relevant disclosure year of the next period included by the CPP applicant in its capex forecast; and (b) undergoing assessment by the Commission, the amount of capital expenditure determined for the relevant disclosure year of the next period by the Commission after assessment of the amount in paragraph (a) against the expenditure objective. <p>(7) For the purpose of paragraph 5.3.11(1)(g), the forecast value of any assets, or components of assets, must be consistent with values determined in accordance with one of the following –</p> <ul style="list-style-type: none"> (a) the forecast price to be paid by the EDB for the asset, where the forecast cost of all assets to be acquired from the related party and first commissioned in any disclosure year of the CPP regulatory period will be less than – <ul style="list-style-type: none"> (i) one percent of the sum of opening RAB values for the EDB for that disclosure year, or (ii) 20% of the cost of all assets to be first commissioned by the EDB in that disclosure year; | | | | | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>(b) the forecast price to be paid by the EDB for the asset, where–</p> <p>(i) it is reasonably expected that at least 50% of the related party's sales of assets will be to third parties in the disclosure year in which the asset is first commissioned, and third parties may purchase the same or substantially similar assets from the related party on substantially the same terms and conditions, including price; or</p> <p>(ii) that forecast price is substantially the same as the price paid for substantially similar assets (including any adjustments for inflation using CPI or an appropriate input price index) in the preceding 3 disclosure years from a party other than a related party;</p> <p>(c) the price to be paid by the EDB to the related party for an asset to be commissioned in a disclosure year in the CPP regulatory period has been determined following a completed competitive tender process, provided that–</p> <p>(i) the price is no more than 5% higher than the price of the lowest conforming tender received;</p> <p>(ii) all relevant information material to consideration of the proposal was provided to third parties, or made available upon request;</p> <p>(iii) at least one other qualifying proposal was received; and</p> <p>(iv) the EDB retains for a period of 7 years following the closing date of tender proposals a record of the tender and tender process, including request for information and/or proposal, the criteria used for the assessment of proposals, reasons for acceptance or rejection of proposals, and all proposals and requests for information on the tender for the purposes of making proposals;</p> <p>(d) its forecast depreciated historic cost on the day before the forecast acquisition by the EDB determined in accordance with GAAP;</p> <p>(e) its forecast inventory value on the day before the forecast acquisition by the EDB determined in accordance with GAAP;</p> <p>(f) its forecast market value as at its commissioning date as determined by a valuer;</p> <p>(g) its forecast directly attributable cost as would be incurred by the group to which the EDB and related party are a part, determined in accordance with GAAP, as if the consolidated group was the EDB;</p> <p>(h) the forecast price to be paid by the EDB for the asset reflects the price or prices that would be paid in an arm's-length transaction, provided the price cannot otherwise be determined under paragraphs (a) – (g).</p> | | | | | |
| 5.3.12 | <p><u>Works under construction</u></p> <p>(1) Opening works under construction means, in respect of-</p> <p>(a) the first disclosure year of the next period where that year is consecutive to a disclosure year in respect of which disclosure pursuant to an ID determination-</p> <p>(i) has not been made, initial works under construction; and</p> <p>(ii) has been made, the value of works under construction last disclosed in accordance with the ID determination to the extent that it is intended to be included in a closing RAB value; and</p> <p>(b) any year other than the first disclosure year of the next period, closing works under construction of the preceding disclosure year.</p> <p>(2) For the purpose of subclause (1)(a)(i), 'initial works under construction' means expenditure incurred on works under construction as of the first day of the disclosure year in question, calculated in</p> | Variation | A variation is proposed to limit works under construction to earthquake readiness expenditure. | Regulatory compliance schedules CPP Financial Model | Section 2.4.5 Supporting document: CPP Financial Model supporting information alongside calculations | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>accordance with clause 5.3.11, modified in that references in that clause to "forecast commissioning date" are substituted with "forecast date that expenditure is incurred".</p> <p>(3) Closing works under construction is the amount determined in accordance with the formula- opening works under construction + sum of capital expenditure - (sum of value of commissioned assets + sum of forecast value of commissioned assets), where-</p> <p>(a) the sum of value of commissioned assets only includes values to the extent that they are included in closing RAB values disclosed pursuant to an ID determination; and</p> <p>(b) the sum of forecast value of commissioned assets only includes values to the extent that they are included in the sum of closing RAB values provided pursuant to clause 5.4.11(b)(ii).</p> | | | | | |
| 5.3.13 | <p><u>Forecast regulatory tax allowance</u></p> <p>(1) Forecast regulatory tax allowance is, where forecast regulatory net taxable income is-</p> <p>(a) nil or a positive number, the tax effect of forecast regulatory net taxable income; and</p> <p>(b) a negative number, nil.</p> <p>(2) Regulatory net taxable income means regulatory taxable income less utilised tax losses.</p> <p>(3) Regulatory taxable income is determined in accordance with the formula- regulatory profit / (loss) before tax + permanent differences + regulatory tax adjustments.</p> <p>(4) Regulatory profit / (loss) before tax means the value determined in accordance with the formula- building blocks allowable revenue before tax - operating expenditure - total depreciation.</p> | Variation | The definition of 'forecast regulatory tax allowance' is proposed to be varied, in order to implement the approach described in Section 7.5 of the proposal. | Regulatory compliance schedules CPP financial model | Section 2.4.2 Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.3.14 | <p><u>Tax losses</u></p> <p>(1) Utilised tax losses means opening tax losses, subject to subclause (2).</p> <p>(2) For the purpose of subclause (1), utilised tax losses may not exceed regulatory taxable income.</p> <p>(3) Opening tax losses in relation to-</p> <p>(a) the first disclosure year of the next period, is nil, subject to subclause (4); and</p> <p>(b) subsequent disclosure years of the next period, is closing tax losses for the preceding disclosure year.</p> <p>(4) For the purpose of subclause (3)(a), if the Commission is satisfied that an EDB will incur forecast tax losses, opening tax losses is the amount of losses in respect of which the Commission is satisfied.</p> <p>(5) For the purpose of subclause (3)(b), 'closing tax losses' means the amount determined in accordance with the following formula, in which each term is an absolute value: opening tax losses + current period tax losses - utilised tax losses.</p> <p>(6) In this clause, 'current period tax losses' is, where regulatory taxable income is-</p> <p>(a) nil or a positive number, nil; and</p> <p>(b) a negative number, regulatory taxable income.</p> | Varied | The proposed variation to the definitions of building blocks allowable revenue before tax and forecast regulatory tax allowance restricts the scope of this method to earthquake readiness expenditure. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.3.15 | <p><u>Permanent differences</u></p> <p>(1) Permanent differences is the amount determined in accordance with the formula- positive permanent differences - discretionary discounts and customer rebates - negative permanent differences.</p> <p>(2) For the purpose of subclause (1), 'positive permanent differences' means, subject to subclause (3),</p> | Varied | The proposed variation to the definitions of building blocks allowable revenue before tax and forecast regulatory tax allowance restricts the scope of this method | CPP financial model | Supporting document: CPP Financial Model supporting information | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>the sum of-</p> <p>(a) all amounts of income-</p> <p>(i) treated as taxable were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and</p> <p>(ii) not included as amounts of income in determining regulatory profit / (loss) before tax; and</p> <p>(b) all amounts of expenditure or loss-</p> <p>(i) included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax; and</p> <p>(ii) not treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services,</p> <p>if the difference in treatment of amounts of-</p> <p>(c) income under paragraph (a)(i) and paragraph (a)(ii); or</p> <p>(d) expenditure or loss under paragraph (b)(i) and paragraph (b)(ii),</p> <p>is a difference that is not -</p> <p>(e) a reversal or partial reversal of a difference for a prior disclosure year; and</p> <p>(f) forecast to reverse in a subsequent disclosure year.</p> <p>(3) For the purpose of subclause (2), positive permanent differences excludes any amounts that are-</p> <p>(a) amortisation of initial differences in asset values; or</p> <p>(b) amortisation of revaluations.</p> <p>(4) For the purpose of subclause (1), 'negative permanent differences' means, subject to subclause (5), the sum of-</p> <p>(a) all amounts of income-</p> <p>(i) included as amounts of income in determining regulatory profit / (loss) before tax; and</p> <p>(ii) not treated as taxable were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and</p> <p>(b) all amounts of expenditure or loss-</p> <p>(i) treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and</p> <p>(ii) not included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax,</p> <p>if there are differences between the values in-</p> <p>(c) paragraph (a)(i) and paragraph (a)(ii); and</p> <p>(d) paragraph (b)(i) and paragraph (b)(ii),</p> <p>and such differences are not-</p> <p>(e) the reversal of a difference in a prior disclosure year; and</p> <p>(f) forecast to reverse in a subsequent disclosure year.</p> <p>(5) For the purpose of subclause (4), negative permanent differences excludes any amounts that are-</p> <p>(a) discretionary discounts and customer rebates;</p> <p>(b) expenditure or loss determined in accordance with the tax rules that is-</p> <p>(i) interest; or</p> <p>(ii) forecast to be incurred in borrowing money; and</p> <p>(c) any-</p> <p>(i) tax losses; and</p> <p>(ii) subvention payment made or received by an EDB.</p> | | to earthquake readiness expenditure. | | alongside calculations | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| 5.3.16 | <p><u>Regulatory tax adjustments</u></p> <p>(1) Regulatory tax adjustments are determined in accordance with the formula- amortisation of initial differences in asset values + amortisation of revaluations - notional deductible interest.</p> <p>(2) For the purpose of subclause (1), 'notional deductible interest' means the amount determined in accordance with the formula- $\frac{(((\text{regulatory investment value} + \text{RAB proportionate investment}) \times \text{leverage} \times \text{cost of debt}) + \text{term credit spread differential allowance})}{\div \sqrt{1 + \text{cost of debt}}}$</p> <p>(3) For the purpose of subclause (2), 'RAB proportionate investment' means the sum of the proportionate value of each asset forecast to be commissioned less the sum of the proportionate value of each disposed asset.</p> <p>(4) For the purpose of subclause (3), 'proportionate value' means for-</p> <p>(a) an asset forecast to be commissioned, its forecast value of commissioned asset multiplied by the proportion of that disclosure year in question from the forecast commissioning date to the end of that disclosure year out of the whole disclosure year; and</p> <p>(b) a disposed asset, its opening RAB value multiplied by the proportion of that disclosure year from the date of sale or transfer to the end of that disclosure year out of the whole disclosure year.</p> | Varied | The proposed variation to the definitions of building blocks allowable revenue before tax and forecast regulatory tax allowance restricts the scope of this method to earthquake readiness expenditure. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.3.17 | <p><u>Amortisation of initial differences in asset values</u></p> <p>(1) Amortisation of initial differences in asset values is, subject to subclause (4), determined in accordance with the formula $\frac{\text{opening unamortised initial differences in asset values} \div \text{opening weighted average remaining useful life of relevant assets.}}$</p> <p>(2) For the purpose of this clause, 'opening unamortised initial differences in asset values' means, in respect of-</p> <p>(a) the disclosure year 2010, initial differences in asset values; and</p> <p>(b) each disclosure year thereafter, subject to subclause (4), closing unamortised initial difference in asset values for the preceding disclosure year.</p> <p>(3) For the purpose of subclause (2)(a), 'initial differences in asset values' means, subject to subclause (4), the sum of initial RAB values less the sum of regulatory tax asset values on the first day of the disclosure year 2010.</p> <p>(4) For the purpose of subclause (1), 'opening weighted average remaining useful life of relevant assets' means-</p> <p>$q - a - b$</p> <p>where:</p> <p>a = the 2010 weighted average remaining asset life of assets included in the initial RAB calculated by using initial RAB values as weightings</p> <p>b = disclosure year less 2010.</p> <p>(5) For the purpose of subclauses (1) and (2)-</p> <p>(a) no account may be taken of unamortised initial differences in asset values of sold assets from the date of sale; and</p> <p>(b) account must be taken of unamortised initial differences in asset values of acquired assets from</p> | Varied | The proposed variation to the definitions of building blocks allowable revenue before tax and forecast regulatory tax allowance restricts the scope of this method to earthquake readiness expenditure. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>the date of acquisition.</p> <p>(6) For the purpose of subclause (2)(b), 'closing unamortised initial difference in asset values' is determined in accordance with the formula-</p> <p style="padding-left: 40px;">Opening unamortised initial differences in asset values - amortisation of initial difference in asset values</p> | | | | | |
| 5.3.18 | <p><u>Amortisation of revaluations</u></p> <p>Amortisation of revaluations in relation to an EDB for a disclosure year is calculated in accordance with the formula</p> <p style="padding-left: 40px;">total depreciation - adjusted depreciation.</p> | Varied | The proposed variation to the definitions of building blocks allowable revenue before tax and forecast regulatory tax allowance restricts the scope of this method to earthquake readiness expenditure. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.3.19 | <p><u>Deferred tax</u></p> <p>(1) Opening deferred tax means, in respect of-</p> <p style="padding-left: 40px;">(a) the disclosure year 2010, nil; and</p> <p style="padding-left: 40px;">(b) each disclosure year thereafter, closing deferred tax for the preceding disclosure year.</p> <p>(2) For the purpose of subclause (1)(b), 'closing deferred tax' is determined in accordance with the formula</p> <p style="padding-left: 40px;">Opening deferred tax + tax effect of temporary differences - tax effect of amortisation of initial difference in asset values + deferred tax balance relating to assets acquired in the disclosure year in question – deferred tax balance relating to assets disposed of in the disclosure year in question + cost allocation adjustment.</p> <p>(3) For the purpose of subclause (2), 'deferred tax balance relating to assets acquired in the disclosure year in question' means the amount of deferred tax associated with the assets acquired by the EDB from another regulated supplier, excluding the reversal of temporary adjustments arising as a consequence of the sale, as determined in accordance with input methodologies applicable to the regulated services that the assets in question were used to supply.</p> <p>(4) For the avoidance of doubt, the amount referred to in subclause (3) must include proportionate adjustments for</p> <p style="padding-left: 40px;">(a) the tax effect of temporary differences; and</p> <p style="padding-left: 40px;">(b) the amortisation of initial differences in asset values, up to the date the assets in question were acquired.</p> <p>(5) For the purpose of subclause (2), 'cost allocation adjustment' means the tax effect of the dollar value difference between the change in the sum of regulatory tax asset values on the last day of the disclosure year and the change in the sum of closing RAB values as a result only of applying-</p> <p style="padding-left: 40px;">(a) the result of asset allocation ratios to the tax asset value in accordance with clause 5.3.21(1); and</p> <p style="padding-left: 40px;">(b) Clause 2.1.1 to the unallocated closing RAB value, where either or both clauses 5.3.6(1)(b)(ii) and 5.3.6(3) apply.</p> <p>(6) For the purpose of subclause (2), 'deferred tax balance relating to assets disposed of in the disclosure year in question' means the amount of deferred tax associated with the assets disposed of by the EDB and, where that deferred tax balance is a deferred tax liability, it must have a negative value.</p> | Varied | The proposed variation to the definitions of building blocks allowable revenue before tax and forecast regulatory tax allowance restricts the scope of this method to earthquake readiness expenditure. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| 5.3.20 | <p><u>Temporary differences</u></p> <p>(1) Temporary differences is the amount determined in accordance with the formula- depreciation temporary differences + positive temporary differences - negative temporary differences.</p> <p>(2) For the purpose of this clause, 'depreciation temporary differences' is adjusted depreciation less tax depreciation.</p> <p>(3) For the purpose of subclause (2) 'tax depreciation' is the sum of the amounts determined for all assets by application of the tax depreciation rules to the regulatory tax asset value of each asset.</p> <p>(4) For the purpose of subclause (1), 'positive temporary differences' means the sum of-</p> <p>(a) all amounts of income-</p> <p>(i) treated as taxable if the tax rules were applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and</p> <p>(ii) not included as amounts of income in determining regulatory profit / (loss) before tax; and</p> <p>(b) all amounts of expenditure or loss-</p> <p>(i) included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax; and</p> <p>(ii) not treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services, less any amount that is depreciation temporary differences, if there are differences between the values in-</p> <p>(c) paragraph (a)(i) and paragraph (a)(ii); and</p> <p>(d) paragraph (b)(i) and paragraph (b)(ii), and such differences-</p> <p>(e) are the reversal of a difference in a prior disclosure year; or</p> <p>(f) are forecast to reverse in a subsequent disclosure year.</p> <p>(5) For the purpose of subclause (1), 'negative temporary differences' means the sum of-</p> <p>(a) all amounts of income-</p> <p>(i) included as amounts of income in determining regulatory profit / (loss) before tax; and</p> <p>(ii) not treated as taxable were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and</p> <p>(b) all amounts of expenditure or loss-</p> <p>(i) treated as deductions were the tax rules applied to determine income tax payable in respect of the EDB's supply of electricity distribution services; and</p> <p>(ii) not included as amounts of expenditure or loss in determining regulatory profit / (loss) before tax, less any amount that is depreciation temporary differences, if there are differences between the values in-</p> <p>(c) paragraph (a)(i) and paragraph (a)(ii); and</p> <p>(d) paragraph (b)(i) and paragraph (b)(ii), and such differences-</p> <p>(e) are the reversal of a difference in a prior disclosure year; or</p> <p>(f) are forecast to reverse in a subsequent disclosure year.</p> | Varied | The proposed variation to the definitions of building blocks allowable revenue before tax and forecast regulatory tax allowance restricts the scope of this method to earthquake readiness expenditure. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| 5.3.21 | <p><u>Regulatory tax asset value</u></p> <p>(1) Regulatory tax asset value, in relation to an asset, means the value determined in accordance with the formula- tax asset value x result of asset allocation ratio.</p> <p>(2) Tax asset value means, in respect of-</p> <p>(a) an asset-</p> <p>(i) in the initial RAB where, in the disclosure year 2010, the sum of unallocated initial RAB values is less than the sum of the adjusted tax values of all assets in the initial RAB;</p> <p>(ii) acquired from a regulated supplier who used it to supply regulated goods or services; or</p> <p>(iii) acquired or transferred from a related party, the value of the asset determined by applying the tax depreciation rules to its notional tax asset value; and</p> <p>(b) any other asset, its forecast adjusted tax value.</p> <p>(3) 'Notional tax asset value' means, for the purpose of-</p> <p>(a) subclause (2)(a)(i), adjusted tax value of the asset in the disclosure year 2010 adjusted to account proportionately for the difference between the-</p> <p>(i) sum of the unallocated initial RAB values; and</p> <p>(ii) sum of the adjusted tax values, of all assets in the initial RAB;</p> <p>(b) subclause (2)(a)(ii), value after applying the tax depreciation rules to the tax asset value (as 'tax asset value' is defined in the input methodologies applying to the regulated goods or services in question) in respect of the disclosure year in which the asset was acquired; and</p> <p>(c) subclause (2)(a)(iii), value in respect of the disclosure year in which the asset was acquired or transferred that is-</p> <p>(i) consistent with the tax rules; and</p> <p>(ii) limited to its value of commissioned asset or, if relevant capital contributions are treated for tax purposes in accordance with section CG 8 of the Income Tax Act 2007 (or subsequent equivalent provisions), limited to the value of commissioned asset plus any taxed capital contributions applicable to the asset.</p> <p>(4) For the purpose of subclause (1), 'result of asset allocation ratio' means, where an asset or group of assets maintained under the tax rules-</p> <p>(a) has a matching asset or group of assets maintained for the purpose of Part 2 Subpart 2, the value obtained in accordance with the formula-</p> $\frac{\text{opening RAB value or sum of opening RAB values, as the case may be}}{\text{unallocated opening RAB value or sum of unallocated opening RAB values, as the case may be,}}$ <p>applying the formula in respect of the asset or smallest group of assets maintained for the purpose of Part 2 Subpart 2 that has a matching asset or group of assets maintained under the tax rules; and</p> <p>(b) does not have a matching asset or group of assets maintained for the purpose of Part 2 Subpart 2, the value of the asset allocated to the supply of electricity distribution services were clause 2.1.1 to apply to the asset or group of assets.</p> | Varied | The proposed variation to the definitions of building blocks allowable revenue before tax and forecast regulatory tax allowance restricts the scope of this method to earthquake readiness expenditure. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| 5.3.22 | <p><u>Methodology for estimating the weighted average cost of capital</u></p> <p>(1) Where the Commission takes into account the cost of capital in making a CPP determination, the Commission will use the 67th percentile estimate of WACC that was used for the DPP applying at the start of the CPP regulatory period in accordance with clause 4.4.7(1).</p> <p>(2) Where there has been a WACC change, the cost of capital for the CPP is the DPP WACC referenced in clause 5.6.7(4)(a), which has effect in the remaining years of the CPP regulatory period.</p> | Applied | | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.3.23 | <p><u>Methodology for estimating term credit spread differential</u></p> <p>(1) 'Term credit spread differential' is the amount determined for a qualifying supplier in accordance with the formula- $(A \div B) \times C \times D$, where- (a) 'A' is the sum of the term credit spread difference and debt issuance cost re-adjustment; (b) 'B' is the book value of the qualifying supplier's total interest-bearing debt as at the balance date of the supplier's financial statements audited and published in the disclosure year in question relate; (c) 'C' is leverage; and (d) 'D' is, in relation to the qualifying supplier, the average of- (i) the sum of opening RAB values; and (ii) the sum of closing RAB values.</p> <p>(2) For the purpose of subclause (1)(a), 'debt issuance cost re-adjustment' is the amount determined in accordance with the formula- $(0.01 \div \text{original tenor of the qualifying debt} - 0.002) \times \text{book value in New Zealand dollars of the qualifying debt at its date of issue}$, which amount, for the avoidance of doubt, will be a negative number.</p> | Varied | <p>The proposed variation to the definition of building blocks allowable revenue before tax restricts the scope of this method to earthquake readiness expenditure.</p> <p>Under that proposed variation, the DPP component of building blocks allowable revenue also includes an allowance for the term credit spread differential.</p> | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.3.24 | <p><u>Term credit spread difference</u></p> <p>(1) 'Term credit spread difference' is determined in accordance with the formula- $T \times U$, where- (a) 'T' is the amount determined in accordance with the formula- $0.00075 \times (\text{original tenor of the qualifying debt} - 5)$; (b) 'U' is the book value in New Zealand dollars of the qualifying debt at its date of issue.</p> <p>(2) For the purpose of this clause, where the qualifying debt is issued to a related party, 'original tenor of the qualifying debt' means the- (a) tenor of the qualifying debt; or (b) period from the qualifying debt's date of issue to the earliest date on which its repayment is or may be required, whichever is the shorter.</p> | Applied | <p>The proposed variation to the definition of building blocks allowable revenue before tax restricts the scope of this method to earthquake readiness expenditure.</p> <p>Under that proposed variation, the DPP component of building blocks allowable revenue also includes an allowance for the term credit spread differential.</p> | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.3.25 | <p><u>Interpretation of terms relating to term credit spread differential</u></p> <p>(1) 'Qualifying debt' means a line of debt-</p> | Applied | | CPP financial model | Supporting document: CPP Financial Model | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>(a) with an original tenor greater than 5 years; and</p> <p>(b) issued by a qualifying supplier.</p> <p>(2) 'Qualifying supplier' means a regulated supplier whose debt portfolio, as at the date of that supplier's most recently published audited financial statements, has a weighted average original tenor greater than 5 years.</p> | | | | supporting information alongside calculations | |
| 5.3.26 | <p><u>Alternative methodologies with equivalent effect</u></p> <p>(1) A CPP applicant, in making a CPP application, may apply an alternative methodology to that specified for—</p> <p>(c) cost allocation and asset valuation in Section 2;</p> <p>(d) treatment of taxation in Section 3; or</p> <p>(e) the estimation of term credit spread differentials in Section 4.</p> <p>(2) The Commission, in evaluating a CPP proposal and in determining a CPP for an EDB, may apply the alternative methodology elected by the CPP applicant.</p> <p>(3) An alternative methodology applied by either an EDB or the Commission in accordance with this clause must:</p> <p>(a) produce an equivalent effect within the CPP regulatory period to the methodology that would otherwise apply; and</p> <p>(b) not detract from the promotion of the purpose of Part 4 of the Act.</p> | Applied | | | | WELL has not applied any alternative methodologies. |
| Part 5, Subpart 4 – Information required in a CPP proposal | | | | | | |
| 5.4.1 | <p><u>Application of this subpart</u></p> <p>(1) Subject to subclause (2), a CPP proposal must contain, in all material respects, the information specified in this subpart.</p> <p>(2) For the purpose of subclause (1), where a CPP proposal is made in accordance with provisions in a DPP determination relating to the submission of CPP proposals in response to a catastrophic event, the information specified in clause 5.4.3 is not required.</p> | Applied, subject to modifications and exemptions noted below | | Main Proposal | Section 1 | This proposal is not made in response to a catastrophic event. |
| 5.4.2 | <p><u>Reasons for the proposal</u></p> <p>A CPP proposal must contain a-</p> <p>(a) detailed description of the CPP applicant's rationale for seeking a CPP; and</p> <p>(b) summary of the key evidence in the proposal supporting that rationale.</p> | Applied | | Main Proposal | Executive Summary, Section 1.3 | |
| 5.4.3 | <p><u>Information regarding priority of proposal</u></p> <p>(1) A CPP proposal must contain an explanation as to why the proposal deserves to be prioritised for assessment before other CPP proposals, were the Commission to exercise its prioritisation powers under s 53Z of the Act.</p> <p>(2) For the purpose of subclause (1), a CPP applicant must address the prioritisation criteria specified in paragraphs (b) and (c) of s 53Z(3) of the Act, viz.-</p> <p>(c) urgency of any proposed additional investment (compared to historic rates of investment) required to meet consumer requirements on quality, in accordance with subclause (3); and</p> <p>(d) materiality of the proposal relative to the size and revenues of the applicant in accordance with</p> | Exemption | None | Regulatory compliance schedules | Section 2.3.5 | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>subclause (4).</p> <p>(3) For the purpose of subclause (2)(a), the CPP applicant must explain-</p> <p>(a) how any proposed investment-</p> <p>(i) compares with historic rates of investment; and</p> <p>(ii) relates to meeting consumer requirements on quality; and</p> <p>(b) the optimal timing of any proposed investment, including any timeframes that would apply to the process of undertaking that proposed investment.</p> <p>(4) For the purpose of subclause (2)(b), the CPP applicant must-</p> <p>(a) explain the current size of its business and how the proposed CPP would affect the size of its business; and</p> <p>(b) describe its revenue under the DPP and explain how its revenue under the proposed CPP would differ, if at all, from that revenue.</p> | | | | | |
| 5.4.4 | <p><u>Duration of regulatory period</u></p> <p>Where a CPP applicant seeks a CPP of 3 years' or 4 years' duration-</p> <p>(a) the duration of the CPP sought must be stated in the CPP proposal; and</p> <p>(b) the CPP proposal must contain an explanation as to why that duration better meets the purpose of Part 4 of the Act than 5 years.</p> | Applied | | Main Proposal Regulatory compliance schedules | Section 6.1 Section 2.3.6 | WELL seeks a CPP of 3 years duration. |
| 5.4.5 | <p><u>Information on proposed quality standard variation</u></p> <p>Where a CPP applicant seeks a quality standard variation as part of a CPP proposal, the CPP proposal must contain the following information:</p> <p>(a) different values of either or both of-</p> <p>(iii) the mean of SAIDI and SAIFI: μSAIDI and μSAIFI;</p> <p>(iv) the standard deviation of SAIDI and SAIFI: σ SAIDI and σ SAIFI;</p> <p>(v) the SAIDI and SAIFI limits;</p> <p>(vi) the SAIDI and SAIFI targets;</p> <p>(vii) the SAIDI and SAIFI unplanned boundary values;</p> <p>(viii) the SAIDI and SAIFI caps; and</p> <p>(ix) the SAIDI and SAIFI collars, to those which would be determined in accordance with the methodology for calculating reliability limits specified in the DPP determination;</p> <p>(b) an explanation of the reasons for the proposed quality standard variation;</p> <p>(c) demonstration of the extent to which the quality standard variation better reflects the realistically achievable performance of the EDB over the CPP regulatory period based on either or both of-</p> <p>(i) statistical analysis of past SAIDI and SAIFI performance; and</p> <p>(ii) the level of investment provided for in proposed maximum allowable revenue before tax; and</p> <p>(d) demonstration of the estimated effect of the proposed quality standard variation by use of historic data, by contrast with the quality standards specified in the DPP determination.</p> | Applied | | Main Proposal | Section 6.5 | WELL is not seeking a quality standard variation. |
| 5.4.6 | <p><u>Interpretation</u></p> <p>(1) In this section, the meanings of defined terms that are values or amounts to be determined by the</p> | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and | CPP financial model | Supporting document: CPP Financial Model | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>Commission when making a CPP determination are modified to mean the values or amounts proposed by the CPP applicant, subject to any other provision to the contrary.</p> <p>(2) Any values and amounts used by a CPP applicant to determine the quantum of allowances, amounts, sums or values required by this section must be consistent with other information provided in accordance with this part.</p> | | how it is calculated. | <p>CPP forecast expenditure model</p> <p>2017 AMP forecast expenditure model</p> <p>CPI projections for EDBs model</p> <p>Disposals and other regulated income for EDBs model</p> | <p>supporting information alongside calculations</p> <p>Supporting Model – CPP readiness capex and opex</p> <p>Supporting Model – AMP 2017 schedule</p> <p>Supporting Model – CPI projections</p> <p>Supporting Model – Other regulated income and disposed assets</p> | |
| 5.4.7 | <p><u>Proposed building blocks allowable revenue</u></p> <p>(1) A CPP proposal must contain amounts for-</p> <p>(a) building blocks allowable revenue before tax for each disclosure year of the next period; and</p> <p>(b) building blocks allowable revenue after tax for each disclosure year of the next period.</p> <p>(2) Subject to subclause (4), a CPP proposal must contain all data, information, calculations and assumptions used to determine the amounts required by subclause (1), including but not limited to-</p> <p>(a) forecasts of-</p> <p>(iii) regulatory investment value;</p> <p>(iv) total value of commissioned assets determined in accordance with clause 5.3.2(3);</p> <p>(v) total depreciation; and</p> <p>(vi) total revaluation;</p> <p>(b) all data, information, calculations and assumptions used to derive amounts or forecasts of TF_{VCA}, PV_{VCA}, TF, and TF_{rev} determined in accordance with clause 5.3.2(4);</p> <p>(c) forecast operating expenditure; and</p> <p>(d) any proposed term credit spread differential allowance.</p> <p>(3) All calculations, values and amounts required by this clause must be presented in a spreadsheet which -</p> <p>(a) clearly demonstrates how building blocks allowable revenue before tax and building blocks allowable revenue after tax for each disclosure year of the next period have been derived using the formulae specified in clauses 5.3.2 and 5.3.3; and</p> <p>(b) where data has been computed or derived from other values on the spreadsheet through the use of formulae, makes the underlying formulae accessible.</p> <p>(4) Where the information specified in subclause (2) is included in a CPP proposal in a spreadsheet format-</p> | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including BBAR. | <p>CPP financial model</p> <p>CPP forecast expenditure model</p> <p>2017 AMP forecast expenditure model</p> <p>CPI projections for EDBs model</p> <p>Disposals and other regulated income for EDBs model</p> | <p>Supporting document: CPP Financial Model supporting information alongside calculations</p> <p>Supporting Model – CPP readiness capex and opex</p> <p>Supporting Model – AMP 2017 schedule</p> <p>Supporting Model – CPI projections</p> <p>Supporting Model – Other regulated income and disposed assets</p> | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <ul style="list-style-type: none"> (a) the information must be cross-referenced in the text of the CPP proposal document; and (b) the spreadsheet(s) must- <ul style="list-style-type: none"> (i) provide cross-references to any CPP information requirement input methodology that the spreadsheet satisfies; (ii) use terms and labels, consistent with the terminology in the input methodologies; (iii) identify and explain the source inputs, and outputs, of each spreadsheet; (iv) produce all of the intermediate outputs, as set out in Part 5, Subpart 3 and Part 5, Subpart 4; and (v) demonstrate links and interdependencies between source inputs, intermediate calculations and outputs. | | | | | |
| 5.4.8 | <p><u>Maximum Allowable Revenues</u></p> <ul style="list-style-type: none"> (1) A CPP proposal must contain amounts for- <ul style="list-style-type: none"> (a) maximum allowable revenue before tax for each disclosure year of the CPP regulatory period; and (b) maximum allowable revenue after tax for each disclosure year of the CPP regulatory period. (2) For the purpose of subclauses (1)(a) and (1)(b), the CPP applicant must - <ul style="list-style-type: none"> (a) apply an X factor; and (b) state the value of the X factor. (3) For the purpose of subclause (2) the X factor is that defined in the CPP applicant's DPP determination, subject to subclause (4). (4) For the purpose of subclause (3), a different X factor or factors may be used, provided that the CPP proposal contains an explanation and supporting evidence as to why that would better meet the purpose of Part 4 of the Act. (5) All calculations and values required by this clause must be presented in a spreadsheet format which clearly demonstrates how maximum allowable revenue before tax and maximum allowable revenue after tax for each disclosure year of the CPP regulatory period have been derived from building blocks allowable revenue after tax and the variables in clause 5.4.7. (6) For the purpose of subclause (5), the spreadsheet must be provided in a format that- <ul style="list-style-type: none"> (a) shows clearly how the values required by subclause (1) were derived in accordance with the formulae specified in clauses 5.3.2 to 5.3.4; and (b) where data has been computed or derived from other values on the spreadsheet through the use of formulae, makes the underlying formulae accessible. | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including MAR, BBAR and the X-factor. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.9 | <p><u>Cost allocation information</u></p> <ul style="list-style-type: none"> (1) Where a CPP applicant- <ul style="list-style-type: none"> (a) makes allocations of operating costs not directly attributable pursuant to clause 5.3.5(1); or (b) determines opening RAB values pursuant to clause 5.3.6(1)(b)(ii), the CPP proposal must contain the information specified in subclause (2). (2) For the purpose of subclause (1), the information is that specified in the applicable tables in Schedule B, subject to subclause (4), which tables comprise- <ul style="list-style-type: none"> (i) Table 1: Allocation of asset values; (ii) Table 2: Report supporting allocations of asset values (non-public); (iii) Table 3: Allocation of operating costs; | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated. | CPP financial model CPP forecast expenditure | Supporting document: CPP Financial Model supporting information alongside calculations Supporting Model – CPP readiness capex | WELL has no operating costs or opening RAB values which are not directly attributable. |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>(iv) Table 4: Report supporting allocation of operating costs (non-public); and (v) Table 5: Rationale for selecting proxy allocator.</p> <p>(3) Subject to subclause (7), in respect of-</p> <p>(a) operating costs not directly attributable allocated to electricity distribution services in accordance with clause 5.3.5(2); or</p> <p>(b) closing RAB values determined in accordance with clause 5.3.6(4), the CPP proposal must contain the information specified in Schedule C, subject to subclause (4), which tables comprise-</p> <p>(c) Table 1: Revised allocation of regulated asset values;</p> <p>(d) Table 2: Report supporting revised allocations of asset values (non-public);</p> <p>(e) Table 3: Revised allocation of operating costs; and</p> <p>(f) Table 4: Report supporting revised allocation of operating costs (non-public); and</p> <p>(g) Table 5: Rationale for selecting proxy allocator.</p> <p>(4) For the purpose of this clause-</p> <p>(a) the information specified in the tables of the schedules referred to must be provided on spreadsheets;</p> <p>(b) where data has been computed or derived from other values on the spreadsheet through the use of formulae, all underlying formulae must be accessible;</p> <p>(c) the information specified in Table 2 and Table 4 of Schedule B and Table 2 and Table 4 of Schedule C may be provided by way of non-public disclosure to the Commission; and</p> <p>(d) the information in Schedule B must be provided-</p> <p>(i) for the disclosure year prior to submitting the CPP proposal if it has not been disclosed in accordance with an ID determination; and</p> <p>(ii) for the next period where a value in units in an allocator metric has been changed by at least 5% from the value used in the disclosure year referred to in (i).</p> <p>(5) Where the CPP applicant has used a proxy cost allocator to provide the information specified in subclauses (2) or (3), the CPP applicant must explain in the CPP proposal, for each proxy cost allocator used-</p> <p>(a) why a causal relationship cannot be established; and</p> <p>(b) the rationale for the quantifiable measure used for that proxy cost allocator.</p> <p>(6) Where the CPP applicant has used a proxy asset allocator to provide the information specified in subclauses (2) or (3), the CPP applicant must explain in the CPP proposal, for each proxy asset allocator used-</p> <p>(a) why a causal relationship cannot be established; and</p> <p>(b) the rationale for the quantifiable measure used for that proxy asset allocator.</p> <p>(7) The information in Schedule C is not required where the value of the assets to be sold as specified in clause 5.3.6(4) is less than 5% of the unallocated closing RAB value for the last disclosure year of the assessment period.</p> | | | model | and opex | |
| 5.4.10 | <p><u>Certification requirements</u></p> <p>(1) Where any arm's-length deduction was applied for the purpose of this Section, the CPP proposal must contain certification by no fewer than 2 of the EDB's directors in the following terms, where words in bold bear the meanings specified in this determination:</p> <p>"I, [insert name], director of [insert name of Supplier of services regulated under Part 4 of the Commerce Act] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information [information required by clause 5.4.9(2)] for the purpose of</p> | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | No arm's length deductions applied. |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>the supplier's CPP proposal, it was appropriate to make the arm's-length deductions the amount and nature of which are detailed in the tables below, namely: Table 4 of Schedule B / Table 5 of Schedule B / Table 3 of Schedule C / Table 4 of Schedule C [delete as appropriate]."</p> <p>(2) Where, in relation to regulated service asset values, OVABAA was applied for the purpose of this clause in accordance with Subpart 3 Section 2, the CPP proposal must contain certification by no fewer than 2 of the EDB's directors in respect of its application in the following terms, where words in bold bear the meanings specified in this determination: "I, [insert name], director of [insert name of Supplier of services regulated under Part 4 of the Commerce Act] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information (being information required by clause 5.4.9(2)) for the purpose of the supplier's CPP proposal-</p> <p>(a) the attached information is accurate; (b) the OVABAA was applicable in accordance with clause 2.1.2; and (c) the following unregulated services would be unduly deterred had adjustments to allocations of regulated service asset values (in accordance with clause 2.1.4) not been made: [list relevant unregulated services]."</p> <p>(3) Where, in relation to operating costs provided in a CPP proposal in accordance with subclause 5.4.8(1) and Schedule C, the OVABAA was applied, the CPP proposal must contain certification by no fewer than 2 of the EDB's directors in respect of application of the OVABAA in the following terms: "I, [insert name], director of [insert name of Supplier of services regulated under Part 4 of the Commerce Act] certify that, having made all reasonable enquiry, my belief is that having had regard to the attached information (being information required by clause 5.4.9(2)) for the purpose of the supplier's CPP proposal-</p> <p>(a) the attached information is accurate; (b) the OVABAA was applicable in accordance with clause 2.1.2; and (c) the following unregulated services would be unduly deterred had adjustments to allocations of operating costs (in accordance with clause 2.1.4) not been made: [list relevant unregulated services]."</p> | | | | | |
| 5.4.11 | <p><u>RAB roll forward information</u></p> <p>For each disclosure year, after the last disclosure made under an ID determination, until the last disclosure year of the next period, provide values, in accordance with Subpart 3 Section 2, for the-</p> <p>(a) total opening RAB value; and (b) sum of each of the following things: (i) forecast value of commissioned assets; and (ii) closing RAB values.</p> | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including RAB roll-forward. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.12 | <p><u>Depreciation information</u></p> <p>(1) In respect of each disclosure year of the CPP regulatory period, the CPP applicant must provide the information specified in this clause. (2) The sum of depreciation</p> | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including | CPP financial model | Supporting document: CPP Financial Model supporting information | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>(b) sum of forecast value of commissioned assets, in respect of each of the following groups of assets:</p> <p>(c) assets-</p> <p>(i) acquired or intended to be acquired from a related party; or</p> <p>(ii) transferred from a part of the EDB that supplies unregulated services;</p> <p>(d) assets-</p> <p>(i) acquired or intended to be acquired from another regulated supplier and used by that regulated supplier in the supply of regulated services; or</p> <p>(ii) transferred or intended to be transferred from a part of the EDB that supplies other regulated services;</p> <p>(e) network spares; and</p> <p>(f) all other assets having a commissioning date or forecast to have a commissioning date in that period.</p> <p>(2) In respect of each value provided in accordance with subclause (1) provide-</p> <p>(a) all data, information, calculations and assumptions used to derive it from relevant data provided in the capex forecast; and</p> <p>(b) where capital contributions are taken into account in any value disclosed pursuant to subclause (1)-</p> <p>(i) the amount of such capital contributions, with respect to asset types and quantities; and</p> <p>(ii) policies relevant to such capital contributions.</p> <p>(3) In respect of each asset to which subclause (1)(e) applies, provide—</p> <p>(a) the name of the relevant person or other part of the EDB, as the case may be; and</p> <p>(b) where the acquisition was or is intended to be from a related party, a description of the relationship between the EDB and that person.</p> <p>(4) In respect of the likely vendor of each asset to which subclause (1)(f) applies, provide—</p> <p>(a) the name of the vendor;</p> <p>(b) a description of each asset likely to be acquired from that vendor; and</p> <p>(c) the forecast closing RAB value of each asset in the vendor's regulatory asset base for the disclosure year in which the acquisition is intended.</p> | | <p>commissioned assets information.</p> | <p>CPP forecast expenditure model</p> | <p>alongside calculations</p> <p>Supporting Model – CPP readiness capex and opex</p> | |
| <p>5.4.15</p> | <p><u>Asset disposals information</u></p> <p>(1) For each disclosure year, after the last disclosure made under an ID determination, until the last disclosure year of the next period, in respect of each of the following groups of assets:</p> <p>(a) assets likely to be-</p> <p>(i) sold to a related party; or</p> <p>(ii) transferred to another part of the EDB; and</p> <p>(b) all other disposed assets, provide the-</p> <p>(c) sum of unallocated opening RAB values; and</p> <p>(d) sum of opening RAB values.</p> <p>(2) In respect of each asset to which the values provided pursuant to subclause (1) relate, provide—</p> <p>(a) the name of the relevant person or other part of the EDB, as the case may be; and</p> <p>(b) where the disposal is proposed to be to a related party, a description of the relationship between the EDB and that person.</p> | <p>Exemption</p> | <p>CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including asset disposals information.</p> | <p>CPP financial model</p> | <p>Supporting document: CPP Financial Model supporting information alongside calculations</p> | |

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| 5.4.16 | <p><u>Works under construction information</u></p> <p>For each disclosure year, after the last disclosure made under an ID determination, until the last disclosure year of the next period, provide-</p> <ul style="list-style-type: none"> (a) opening works under construction; (b) sum of capital expenditure; (c) sum of value of commissioned assets but only to the extent that values are included in closing RAB values disclosed pursuant to an ID determination; (d) sum of forecast value of commissioned assets but only to the extent that values are included in the sum of closing RAB values provided pursuant to clause 5.4.11(b)(ii); and (e) sum of closing works under construction. | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including works under construction. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.17 | <p><u>Tax information – Interpretation</u></p> <p>In this section, a term that is not emboldened but is defined for the purpose of a specific clause in Subpart 3 Section 3 bears the same meaning as it does in the clause of Subpart 3 Section 3 in which it is defined.</p> | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including tax information. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.18 | <p><u>Period in respect of which tax information to be provided</u></p> <p>A CPP proposal must contain the information specified in this section for each disclosure year, after the last disclosure made under an ID determination, until the last disclosure year of the next period, in accordance with Subpart 3 Section 3.</p> | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including tax information. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.19 | <p><u>Regulatory tax allowance information</u></p> <ul style="list-style-type: none"> (1) forecast regulatory tax allowance and particulars of how it was calculated (2) other regulated income (3) sum of discretionary discounts and customer rebates; (4) notional deductible interest and the cost of debt assumptions relied upon in its calculation | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including the regulatory tax allowance. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.20 | <p><u>Tax losses information</u></p> <ul style="list-style-type: none"> (1) amount of opening tax losses (if any) and particulars of how it was calculated (2) information describing the nature and amounts of significant items giving rise to any opening tax losses (3) information demonstrating that any opening tax losses arose from the supply of electricity distribution services | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including tax losses. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| 5.4.21 | <u>Permanent differences information</u> (1) sum of positive permanent differences (2) sum of negative permanent differences (3) amounts and nature of items used to determine- (a) positive permanent differences; and (b) negative permanent differences | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including permanent differences. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.22 | <u>Amortisation of initial differences in asset values information</u> (1) opening unamortised balance of the initial differences in asset values by asset category (2) amortisation in respect of the disclosure year (3) average weighted remaining useful life of the assets relevant to calculation of the initial regulatory tax asset value | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including the amortisation of initial differences. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.23 | <u>Amortisation of revaluations information</u> (1) unamortised balance of revaluations to date (2) adjusted depreciation (3) average weighted remaining useful life of the assets used to determine the amortisation of revaluations (4) particulars of how the average weighted remaining useful life was calculated | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including the amortisation of revaluations. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.24 | <u>Deferred tax information</u> (1) opening deferred tax (2) analysis of temporary differences and other adjustments by nature that give rise to opening deferred tax value (3) closing deferred tax (4) reconciliation of opening deferred tax to closing deferred tax by nature of temporary differences and other adjustments | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including deferred tax. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.25 | <u>Temporary differences information</u> (1) description of the methodology and depreciation rates by asset category used to determine the forecast tax depreciation (2) amounts and nature of other forecast temporary differences (3) particulars of the calculation of the tax effect of temporary differences showing tax rates used | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including temporary differences. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.26 | <u>Regulatory tax asset value information</u> (1) sum of tax asset values at the start of the disclosure year (2) sum of regulatory tax asset values at the start of the disclosure year (3) weighted average remaining tax life of assets employed | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated, including | CPP financial model | Supporting document: CPP Financial Model supporting information | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>(4) tax depreciation methodology employed</p> <p>(5) particulars of the calculation used to derive the regulatory tax asset values at the start of the disclosure year from the tax asset values at the start of the disclosure year</p> <p>(6) sum of regulatory tax asset values at the end of the disclosure year</p> <p>(7) reconciliation between the sum of regulatory tax asset values at the start of the disclosure year in accordance with subclause (2) and the sum of regulatory tax asset values at the end of the disclosure year in accordance with subclause (6) showing the values of capital additions, disposals, tax depreciation and other asset adjustments including cost allocation adjustments.</p> | | regulatory tax asset values. | | alongside calculations | |
| 5.4.27 | <p><u>Information regarding WACC and TCSD allowance</u></p> <p>(1) A CPP proposal must, subject to subclause (2), identify the 67th percentile estimate of WACC used for the purpose of clause 5.4.7(1).</p> <p>(2) For the purpose of subclause (1), the identified 67th percentile estimate of WACC is the applicable cost of capital specified in clause 5.3.22.</p> <p>(3) Where a term credit spread differential allowance is proposed, a CPP proposal must contain all data, information, calculations, and assumptions used to determine any proposed term credit spread differential.</p> | Applied | | Main Proposal CPP financial model | Section 6.3 Supporting document: CPP Financial Model supporting information alongside calculations | |
| 5.4.28 | <p><u>Capex, opex, demand and network qualitative information</u></p> <p>The information specified in Schedule D must be-</p> <p>(a) contained in a CPP proposal; and</p> <p>(b) provided in accordance with the requirements of that schedule.</p> | Modification | <p>WELL's CPP application will include:</p> <ul style="list-style-type: none"> WELL's 2017 Asset Management Plan The detailed Business Case for the earthquake readiness expenditure, including quantitative information on the readiness spend, and analysis of different options considered to address identified earthquake risks Independent review of that expenditure, to be carried out by Jacobs Engineering A CPP financial model, including quantitative information on the proposed RY 2021 business as usual operating and capital expenditure Commentary on any material differences in RY2021 business as usual operating expenditure and capital expenditure as between WELL's 2017 and | Main Proposal 2017 Asset Management Plan | Section 3, 4 Supporting document: 2017 Asset Management Plan | |
| 5.4.29 | <p><u>Capex, opex, demand and network quantitative information</u></p> <p>(1) A CPP proposal must contain the information specified in the regulatory templates and that information must be-</p> <p>(a) in spreadsheet format whereby each item of data is linked between all cells to which it is relevant, irrespective of whether such cells are on the same or different tabs; and</p> <p>(b) provided in accordance with the instructions specified in clause 5.4.30.</p> <p>(2) 'Regulatory templates' means the tables included in Schedule E named-</p> <p>(a) Table 1: Projects and programmes;</p> <p>(b) Table 2: Capex summary;</p> <p>(c) Table 3: Opex summary;</p> <p>(d) Table 4: Capex projects and programmes;</p> <p>(e) Table 5: Capex by asset categories;</p> <p>(f) Table 6: Opex projects and programmes;</p> <p>(g) Table 7: Non-network opex;</p> <p>(h) Table 8: Aggregate forecast commissioned assets by asset categories;</p> <p>(i) Table 9: Cost escalation factors; and</p> <p>(j) Table 10: Network demand forecasts.</p> <p>(3) Where data provided in accordance with subclause (1) has been computed or derived from other amounts or values on the spreadsheet through the use of formulae, the underlying formulae for the cells containing the data must be accessible.</p> <p>(4) For the purpose of subclause (1), terms used in the regulatory templates must be interpreted in the</p> | | | Earthquake readiness business case Independent engineering review letter CPP financial model | Supporting document: Earthquake Readiness Business Case - December 2017 Supporting document: Jacobs Letter WE Earthquake Readiness Indep Review 27 Oct 2017 Supporting document: CPP Financial Model supporting information alongside calculations | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| 5.4.30 | <p>same way as those terms are defined for the purpose of Schedule D.</p> <p><u>Instructions for completion of the regulatory templates</u></p> <ol style="list-style-type: none"> (1) Provide the information specified in Table 1: Projects and programmes of the regulatory templates for all projects or programmes that form part of the CPP proposal. (2) Provide the information specified in Table 2: Capex summary of the regulatory templates using the information provided in Table 4: Capex projects and programmes of the regulatory templates, where- <ol style="list-style-type: none"> (a) the values in Table 2: Capex summary must reconcile with the total values in Table 4: Capex projects and programmes and Table 8: Aggregate forecast commissioned assets by asset categories of the regulatory templates; and (b) the total forecast value of capex resulting in commissioned assets in Table 2c of Schedule E must reconcile with the total value of commissioned assets in Table 2d of Schedule E. (3) Provide the information in Table 3: Opex summary of the regulatory templates using the information provided in Table 6: Opex projects and programmes of the regulatory templates. (4) Provide the information specified in Table 4: Capex projects and programmes and Table 6: Opex projects and programmes of the regulatory templates for each project and for each programme. (5) Provide the information specified in Table 5: Capex by asset categories of the regulatory templates. (6) Provide the information specified in Table 7: Non-network opex of the regulatory templates in respect of system operation and network support opex and business support opex. (7) Provide the information specified in Table 8: Aggregate forecast commissioned assets by asset categories of the regulatory templates. (8) Provide the information specified in Table 9: Cost escalation factors of the regulatory templates for each of the cost escalators used to convert real prices to nominal prices. (9) Provide the information specified in Table 10: Network demand forecasts of the regulatory templates. (10) For the purpose of specifying the relevant capex category or opex category in accordance with subclause (4), where expenditure within each project or programme is relevant to more than one capex category or opex category- <ol style="list-style-type: none"> (a) select the capex category or opex category that is most relevant based on the nature of the expenditure; or (b) redefine the project or programme into two or more new projects or programmes and reallocate the expenditure so as to resolve the overlap. | | expected 2018 Asset Management Plans, and as against historical spend. | CPP forecast expenditure model | Supporting Model – CPP readiness capex and opex | |
| 5.4.31 | <p><u>Information on proposed new pass-through costs</u></p> <p>A CPP proposal must contain details of any cost not specified in clause 3.1.2(2) that is sought to be specified as a new pass-through cost in accordance with clause 3.1.2(1)(b), including information on-</p> <ol style="list-style-type: none"> (a) how the cost is likely to arise; (b) who the cost would be payable to; (c) how the cost would be calculated; (d) any good or service the EDB would receive in exchange; and (e) how the cost meets the criteria specified in clause 3.1.2(3). | Applied | | | | WELL is not seeking new pass-through costs. |
| 5.4.32 | <p><u>Information on proposed recoverable costs relating to costs of making CPP application</u></p> | Applied | | Regulatory compliance | Section 2.3.3 | WELL is applying to recover the costs of |

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| | <p>Where a CPP applicant seeks specification in the CPP determination of a recoverable cost to which clause 3.1.3(1)(j), 3.1.3(1)(k), or 3.1.3(1)(l) applies, it must provide, in relation to each auditor, verifier or engineer who was engaged to provide an opinion on some aspect of the CPP proposal in accordance with a requirement of this Part-</p> <p>(a) any document making a public or limited circulation request for proposals to carry out the work; (b) the terms of reference for the work; (c) invoices for services undertaken in respect of the work; and (d) receipts for payment by the CPP applicant.</p> | | | <p>schedules</p> <p>Deloitte audit terms of engagement</p> <p>Deloitte audit invoice</p> | <p>Supporting document: Deloitte's Terms of Engagement – December 2017</p> <p>Deloitte's Assurance Invoice – November 2017</p> | the audit. |
| 5.4.33 | <p>Demonstration that alternative methodologies have equivalent effect</p> <p>(1) Where a CPP applicant applies alternative methodologies in accordance with clause 5.3.26, it must provide:</p> <p>(a) a list and description of each alternative methodology applied; (b) an indication, at the relevant locations within the CPP application, as to where the alternative methodologies have been applied; (c) reasons why each of the alternative methodologies have been applied; and (d) evidence demonstrating that each alternative methodology complies with clause 5.3.26(3).</p> <p>(2) Paragraph (1)(d) may be satisfied by submitting a certificate signed by a senior manager of the CPP applicant setting out the factual basis on which he or she believes each alternative methodology complies with clause 5.3.26(3).</p> | Applied | | | | WELL has not applied any alternative methodologies in accordance with clause 5.3.26, and so does not include any of the specified information. |
| Part 5, Subpart 5 – Consumer consultation, verification, audit and certification | | | | | | |
| 5.5.1 | <p><u>Consumer consultation</u></p> <p>(1) By no later than 40 working days prior to submission of the CPP proposal, the CPP applicant must have adequately notified its consumers-</p> <p>(c) that it intends to make a CPP proposal; (d) of the expected effect on the revenue and quality of its electricity distribution services were the Commission to determine a CPP entirely in accordance with the intended CPP proposal; (e) of the price versus quality trade-offs made in the expenditure alternatives considered in the intended CPP proposal, where these are directly associated with the rationale for seeking the CPP proposal, which are required to be disclosed under clause 5.4.2; (f) if it intends to propose to include a quality standard variation under clause 5.4.5, why the proposed quality standard variation has been chosen over alternative quality standards; (g) where and how further information in respect of the intended CPP proposal may be obtained; (h) of the process for making submissions to the EDB in respect of the intended CPP proposal; and (i) of their opportunity to participate in the consultation process required of the Commission by s 53T of the Act after any CPP proposal is received and considered compliant by the Commission.</p> <p>(2) For the purpose of subclause (1)(e), where further information is available in hard copy only, the applicant must have ensured that any further information was readily available for inspection at the stated location.</p> | Modification | <p>Prior to submission of the CPP proposal, WELL must have adequately notified key stakeholders:</p> <ul style="list-style-type: none"> that it intends to make a CPP proposal of the expected effect on price of its electricity distribution services were the Commission to determine a CPP entirely in accordance with the intended CPP proposal if it intends to propose to include a quality standard variation under clause 5.4.5, why the proposed quality | <p>Main Proposal</p> <p>Addendum to main proposal</p> <p>Regulatory compliance schedules</p> <p>Stakeholder letters</p> | <p>Section 5.1</p> <p>Further Stakeholder Engagement Addendum - December 2017</p> <p>Section 2.3.1</p> <p>Supporting document: Stakeholder Engagement - December 2017</p> | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | <p>(3) For the purpose of subclause (1), the CPP applicant must-</p> <ul style="list-style-type: none"> (a) provide all relevant information; (b) provide information in a manner that promotes consumer engagement; (c) make best endeavours to express information clearly, including by use of plain language and the avoidance of jargon; and (d) provide consumers with (or notified them where to obtain) the information through a medium or media appropriate to the natures of the consumer base. <p><i>Examples:</i></p> <ul style="list-style-type: none"> (i) by placing the information on the EDB's website; (ii) by providing the information to groups or organisations that represent the consumers' relevant interests; (iii) by including the information in consumers' or electricity retailers' bills; and/or (iv) by placing advertisements in local newspapers. | | <p>standard variation has been chosen over alternative quality standards</p> <ul style="list-style-type: none"> • where and how further information in respect of the intended CPP proposal may be obtained; • of their opportunity to participate in the consultation process required of the Commission by s 53T of the Act after any CPP proposal is received and considered compliant by the Commission. <p>For the purpose of the above requirement, WELL will:</p> <ul style="list-style-type: none"> • provide all relevant information; • provide information in a manner that promotes consumer engagement; • make best endeavours to express information clearly, including by use of plain language and the avoidance of jargon; and • provide consumers with (or notified them where to obtain) the information through a medium or media appropriate to the nature of the consumer base.. | | | |
| 5.5.2 | <p><u>Verification</u></p> <ul style="list-style-type: none"> (1) A CPP proposal must be verified by a verifier. (2) The verifier must be engaged in accordance with Schedule F. (3) The CPP applicant must provide the verifier with- <ul style="list-style-type: none"> (a) the materials- <ul style="list-style-type: none"> (iii) required by the verifier to verify the CPP proposal in accordance with the terms of his, her or its engagement and Schedule G; and (iv) that it intends to submit to the Commission as a CPP proposal; (b) subject to paragraph (c), the materials referred to in paragraph (a) prior to the verifier | Exemption | <p>The Commission will receive, as part of WELL's CPP application, an independent engineering review report.</p> <p>The scope of work for Jacobs Engineering includes:</p> <ul style="list-style-type: none"> • reviewing the engineering options analysis and selection process used by | <p>Main Proposal</p> <p>Regulatory compliance schedules</p> <p>Independent engineering review report</p> | <p>Section 4</p> <p>Section 2.3.2</p> <p>Supporting document: Jacobs Letter WE Earthquake Readiness Indep</p> | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
|-----------|--|--|--|---------------|---|----------|
| | <p>commencing verification in accordance with Schedule G;</p> <p>(c) upon the verifier's request, the information described in clause D10 pertaining to identified programmes after the verifier has notified the CPP applicant of its selection of identified programmes;</p> <p>(d) any information requested by the verifier pursuant to the verifier's right to ask for such information pursuant to his, her or its deed of engagement, as specified in clause F6(2)(d); and</p> <p>(e) in advance of the verifier's selection of identified programmes, summary information on the forecast projects and programmes, in the format specified in Table 1: Projects and programmes of the regulatory templates.</p> | | <p>WELL</p> <ul style="list-style-type: none"> • commenting on the prudence of the preferred options • review of project costings for the preferred option • a detailed review of WELL's approach and the costs associated with its seismic reinforcement programme. | | Review 27 Oct 2017 | |
| 5.5.3 | <p><u>Audit and assurance</u></p> <p>(1) A CPP application must include a report by an auditor that states whether or not:</p> <p>(a) as far as appears from an examination of them, proper records to enable the compilation of information required by Subpart 4 have been kept by the CPP applicant;</p> <p>(b) in the case of actual financial information relating to the current period, that information has been prepared in all material respects in accordance with the input methodologies set out in this determination, and that it has been audited in accordance with applicable auditing standards issued by the External Reporting Board in accordance with its functions under the Financial Reporting Act 2013 or any equivalent standards that replace these standards;</p> <p>(c) in the case of forecast financial information relating to the next period, that information has been compiled in all material respects in accordance with the input methodologies set out in this determination, and that it has been examined in accordance with applicable assurance engagement standards issued by the External Reporting Board in accordance with its functions under the Financial Reporting Act 2013 or any equivalent standards that replace these standards or other appropriate standards;</p> <p>(d) in the case of quantitative historical information provided in spreadsheets, the information is properly compiled on the basis of the relevant underlying source information; and</p> <p>(e) in the case of quantitative forecast information provided in spreadsheets, the information is properly compiled on the basis of relevant and reasonable disclosed assumptions.</p> <p>(2) For the avoidance of doubt, the auditor must provide an opinion as to whether-</p> <p>(a) in respect of operating costs not directly attributable, the opex forecast was provided by the CPP applicant as specified in clause 5.3.5; and</p> <p>(b) in respect of regulated service asset values not directly attributable, the forecast value of commissioned assets were provided by the CPP applicant in accordance with clause 5.3.6(3)(b) and as specified in clause 5.3.11(2)(b).</p> | Modification | <p>WELL will engage an auditor to undertake a confined scope audit of the CPP financial model in accordance with the terms of engagement agreed with the Commission.</p> <p>The purpose of the audit is to test and comment on:</p> <ul style="list-style-type: none"> • the application of the methodology for the streamlined CPP revenue path modelling approach • the use of the existing, Commission-published, DPP price path model, and the Commission's Orion CPP price path model, including any combining of those models and/or any modifications made to them, as being in accordance with the proposed revenue path methodology • the application of any stated assumptions in respect of the proposed revenue path for the CPP period; • whether quantitative data used in the models referred to in clause 5.5.3(2) (a),(b) and (c) is properly compiled on the basis of the relevant underlying source | Audit opinion | Supporting document: - Deloitte's Assurance Report– December 2017 | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
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| | | | <ul style="list-style-type: none"> information <ul style="list-style-type: none"> whether quantitative forecast information used in the models referred to in clauses 5.5.3(2) (a), (b) and (c) is properly compiled on the basis of relevant and reasonably disclosed assumptions. | | | |
| 5.5.4 | <p><u>Certification</u></p> <p>(1) In the case of all information of a quantitative nature, other than forecast information, provided in accordance with this Part, no fewer than 2 directors of the CPP applicant must certify in writing his or her belief that-</p> <p>(a) the information was derived and is provided in accordance with the relevant requirements; and</p> <p>(b) it properly represents the results of financial or non-financial operations as the case may be.</p> <p>(2) In the case of all information of a qualitative nature, other than forecast information, provided in accordance with this Part, no fewer than 2 directors of the CPP applicant must certify in writing his or her belief that-</p> <p>(a) the information is provided in accordance with the relevant requirements; and</p> <p>(b) it properly represents the events that occurred during the current period.</p> <p>(3) In the case of all forecast information provided in accordance with this Part, no fewer than 2 directors of the CPP applicant must certify in writing his or her belief that-</p> <p>(a) the information was derived and is provided in accordance with the relevant requirements; and</p> <p>(b) the assumptions made are reasonable.</p> <p>(4) No fewer than 2 directors of the CPP applicant must certify in writing-</p> <p>(a) that, to the best of his or her knowledge, the verifier was engaged by the CPP applicant in accordance with Schedule F;</p> <p>(b) that, to the best of his or her knowledge, the CPP applicant provided the verifier with all the information specified in Part 5, including its schedules, relevant to Schedule F;</p> <p>(c) that, to the best of his or her knowledge, the information described in clause 5.5.2(3)(e) was provided to the verifier in advance of the verifier's selection of identified programmes;</p> <p>(d) a description of any information not provided to the verifier following the verifier's request;</p> <p>(e) reasons, which, in his or her opinion, justified any non-provision of such information;</p> <p>(f) that, to the best of his or her knowledge, the-</p> <p>(i) matters the auditor was engaged to audit included the matters specified in clause 5.5.3; and</p> <p>(ii) auditor was instructed to report on at least the matters described in clause 5.1.4; and</p> <p>(g) that the-</p> <p>(i) audit report provided pursuant to clause 5.1.4;</p> <p>(ii) verification report; and</p> <p>(iii) other certifications required by this clause, all relate to the same CPP proposal.</p> <p>(5) Where-</p> <p>(a) a director has certified a matter of opinion in accordance with this clause; and</p> | Modification | Director certification required, modified to exclude independent verification, as agreed per the modification to clause 5.5.2. | Directors certification | Supporting document: Directors Certification WE-December 2017 | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
|------------------|---|--|---|--|---|----------|
| | <p>(b) his or her opinion has changed before the Commission's determination of the CPP in question, that director must notify the Commission as soon as reasonably practicable.</p> <p>(6) Where-</p> <p>(c) (a) a director has certified a matter of fact in accordance with this clause; and</p> <p>(d) (b) before the Commission's determination of the CPP in question he or she-</p> <p>(i) becomes aware that the fact is untrue; or</p> <p>(ii) has significant cause to doubt the accuracy of that fact,</p> <p>that director must notify the Commission as soon as reasonably practicable.</p> <p>(7) For the avoidance of doubt, the certifications required by the different subclauses of this clause may be made by the same or different directors.</p> | | | | | |
| Schedules | | | | | | |
| B | Cost allocation information | Exemption | CPP proposal will include a financial model, with quantitative information on the price path and how it is calculated. | CPP financial model | Supporting document: CPP Financial Model supporting information alongside calculations | |
| C | Cost allocation information | Exemption | | CPP forecast expenditure model | Supporting Model – CPP readiness capex and opex | |
| D | Capital and operating expenditure information | Modification | CPP application will include: | Main Proposal | Section 3, 4 | |
| E | Capital and operating expenditure – regulatory templates | Modification | <ul style="list-style-type: none"> WELL's 2017 Asset Management Plan The detailed Business Case for the earthquake readiness expenditure, including quantitative information on the readiness spend and analysis of different options considered to address identified earthquake risks Independent review of that expenditure, to be carried out by Jacobs Engineering A CPP financial model, including quantitative information on the proposed RY 2021 business as usual operating and capital expenditure | 2017 Asset Management Plan Earthquake readiness business case Independent engineering review letter CPP financial | Supporting document: 2017 Asset Management Plan Supporting document: Earthquake Readiness Business Case - December 2017 Supporting document: Jacobs Letter WE Earthquake Readiness Indep Review 27 Oct 2017 Supporting document: CPP | |

| IM clause | Requirement | Modification, exemption, variation, or applied | Conditions of approved modification or exemption, and explanation of proposed variation | Addressed by | Reference | Comments |
|-----------|--|--|---|--|---|----------|
| | | | <ul style="list-style-type: none"> Commentary on any material differences in RY2021 business as usual operating expenditure and capital expenditure as between WELL's 2017 and expected 2018 Asset Management Plans, and as against historical spend. | <p>model</p> <p>CPP forecast expenditure model</p> | <p>Financial Model supporting information alongside calculations</p> <p>Supporting Model – CPP readiness capex and opex</p> | |
| F G | Engagement of a verifier Terms of reference for verifiers | Exemption Exemption | <p>The Commission will receive, as part of WELL's CPP application, an independent engineering review report.</p> <p>The scope of work for Jacobs includes:</p> <ul style="list-style-type: none"> reviewing the engineering options analysis and selection process used by WELL commenting on the prudence of the preferred options review of project costings for the preferred option a detailed review of WELL's approach and the costs associated with its seismic reinforcement programme. | Main Proposal Independent engineering review letter | Section 5 Supporting document: Jacobs Letter WE Earthquake Readiness Indep Review 27 Oct 2017 | |

Table 3 – Compliance Checklist

2.6 ATTACHMENTS

Attached to this document are:

- Commission’s letter approving WELL’s requested modifications and exemptions;
- Directors’ certificate executed in accordance with the requirements of clauses 5.1.5 and 5.5.4;
- Deloitte’s audit terms of engagement;
- Deloitte’s assurance report; and,
- Deloitte’s assurance invoice.