Orion

Financial and Modelling Information Report

Contents

1 Introduction

Key points

This document details how we derived our revenue requirement, from our starting position and expenditure forecasts, as outlined in the Proposal. Our revenue requirement is derived consistent with the Commerce Commission's regulatory requirements.

- The revenue requirement is for the regulatory years RY28-32. The proposal includes forecasts for the regulatory years RY26-32.
- Our proposal includes a financial model that substantiates how the revenue requirement is calculated (CPP Financial Model).

IM requirements

- CPP Financial Model - IM 5.4.7
- Forecast period - Determination of revenue requirement clauses 1.1.4(2) and 5.4.7(1)
- Modifications and exemptions - Section 53V(2)(c) of the Commerce Act 1986, IM 5.1.6-8

1.1 Purpose

This document outlines the revenue requirement we are proposing the Commerce Commission (Commission) approves, to allow us to recover the cost of our historical and forecast expenditure.

The revenue requirement has been determined in accordance with the Input Methodologies (IMs). This document provides an overview of the revenue requirement calculation and outlines:

- how the IMs have been applied to derive the revenue requirement
- how the expenditure forecasts are incorporated in deriving the revenue requirement
- how other forecast assumptions have been determined and incorporated.

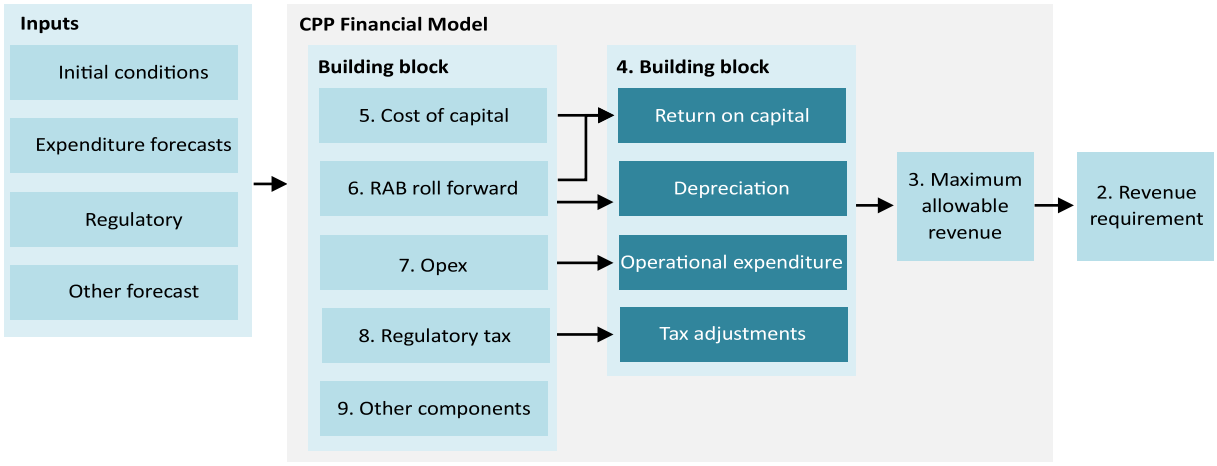
1.2 Structure

The structure of this document is based on the revenue requirement calculation. The document starts by presenting the revenue requirement (the outcome of the calculation) and then describes how that requirement is calculated (consistent with the IMs). The discussion is grouped around the key building blocks calculation and its components.

- We discuss the expenditure forecasts and other assumptions in the sections where they apply.
- An explanation for the expenditure forecast is detailed in the Proposal.
- The other forecast assumptions are described and explained in this document. These include assumptions related to depreciation profiles, conversion from real to nominal forecasts, allocation of shared costs, and the regulatory tax allowance.

The structure of this document is outlined in Figure 1 and Table 1.1.

Figure 1: Document structure



This document also outlines how we have presented comparable historical expenditure (Chapter 10) and our preliminary forecast of pass-through and recoverable costs (Chapter 11).

Table 1.1: Document structure

	Chapter	Description
1	Introduction	This chapter.
2	Revenue requirement overview	Summarises the outcome from the revenue requirement calculation.
3	Maximum allowable revenue	Outlines how revenues have been smoothed over the CPP period, how we have incorporated 'shifted revenue' from the DPP4 period, and how we have determined the initial revenue increase.
4	Building blocks allowable revenue	Outlines how allowable revenues have been determined based on the building block revenue calculation.
5	Cost of capital	Sets out the cost of capital value applied in the revenue calculation, and how it is determined.
6	Regulatory asset base	Describes how the regulatory asset base (RAB) value used in the building blocks calculation is determined, including the values for commissioned assets, deprecation, revaluations and disposals.
7	Operating expenditure	Describes how the forecast operating expenditure (opex), used in the building blocks calculation, is determined from the expenditure forecasts.
8	Regulatory tax allowance	Describes how the regulatory tax allowance, tax adjustments and deferred tax balance are determined.
9	Other components	Describes how the term credit spread differential (TCSD) and timing assumptions are determined.
10	Historical expenditure	Outlines the historical financial information presented in our Proposal.
11	Pass-through and recoverable costs	Outlines how we have forecast the past-through and recoverable costs which are required to be in our Proposal.

1.3 Input methodologies

The revenue requirement is derived consistent with the IMs.[1] The IMs are the methodologies, rules and processes, established by the Commission, that we are required to follow in deriving our proposed revenue requirement.

The Commission set the IMs on 22 December 2010 and most recently amended them in May 2026.

There are individual IMs for asset valuation, cost allocation, regulatory tax, cost of capital, regulatory rules and processes, and the determination of maximum allowable revenues (our revenue requirement) under a customised price-quality path (CPP).

The revenue requirement proposal and associated disclosures have been made consistent with the IMs, except for the modifications and exemptions as outlined in the table below.

These exemptions and modifications related to CPP disclosure requirements and no not affect the revenue requirement.

Table 1.2: Modifications and exemptions to the IMs

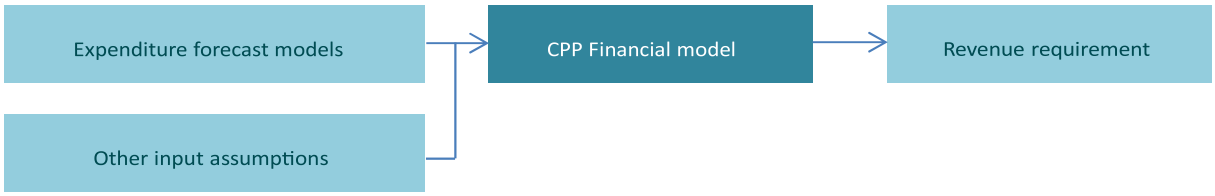
IM requirements modifications	Status	Reference
Definition of "current period" and "assessment period" – IM 1.1.4	Approved on 30 April 2026, subject to conditions	Section 1.5
Priority of proposals – IM 5.4.3	Approved on 30 April 2026	
Classification of expenditure for "non-network solutions provided by a related party or third party"	Approved on 30 April 2026, subject to conditions	Schedule E tables

1.4 CPP financial model

Our CPP Financial Model calculates a CPP price path consistent with the IMs and is based on the input assumptions as outlined in this document. The CPP Financial Model is part of our proposal.

In accordance with clause 5.4.7(4) of the IMs, the sections of this chapter reference the relevant CPP Financial Model calculations.

Figure 2: CPP Financial Model



Our CPP Financial Model design is based on the model used by the Commission to determine the final Aurora Energy CPP with minor amendments including IM changes since the Aurora Energy CPP Decision.

[1] Commerce Commission (13 December 2023), Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023, [2023] NZCC 35.
Commerce Commission (20 November 2024), Electricity Distribution Services Input Methodologies (Wash-up Amounts) Amendment Determination 2024, [2024] NZCC 27.
Commerce Commission (11 December 2024), Electricity Distribution Services Input Methodologies (treatment of insurance entitlements) Amendment Determination 2024, [2024] NZCC 36.
Commerce Commission (19 May 2026), Electricity Distribution Service Input Methodologies (Accounting for shifted revenue) Amendment Determination 2026, [2026] NZCC 15.

The expenditure models collate the forecast opex and capital expenditure (capex) outlined in the Proposal. The other forecast assumptions are discussed in this report.

1.5 Forecast period

Consistent with clauses 1.1.4(2) and 5.4.7(1) of the IMs, price path information is presented in this report and in the model for:

- the Assessment Period (comprising the two disclosure years prior to the CPP Period)
- the CPP Period (comprising the five disclosure years commencing on 1 April 2027)
- the Next Period (comprising the Assessment Period and the CPP Period).

References to the Current Period refer to the five disclosure years preceding the Next Period.

Historical information provided within the Current Period serves as the historical reference period used to provide actual data and benchmarks for assessing forecasts and allocations in the CPP proposal. This historical information is recorded in supporting models and includes expenditure, RAB and tax differences.

2 Revenue requirement overview

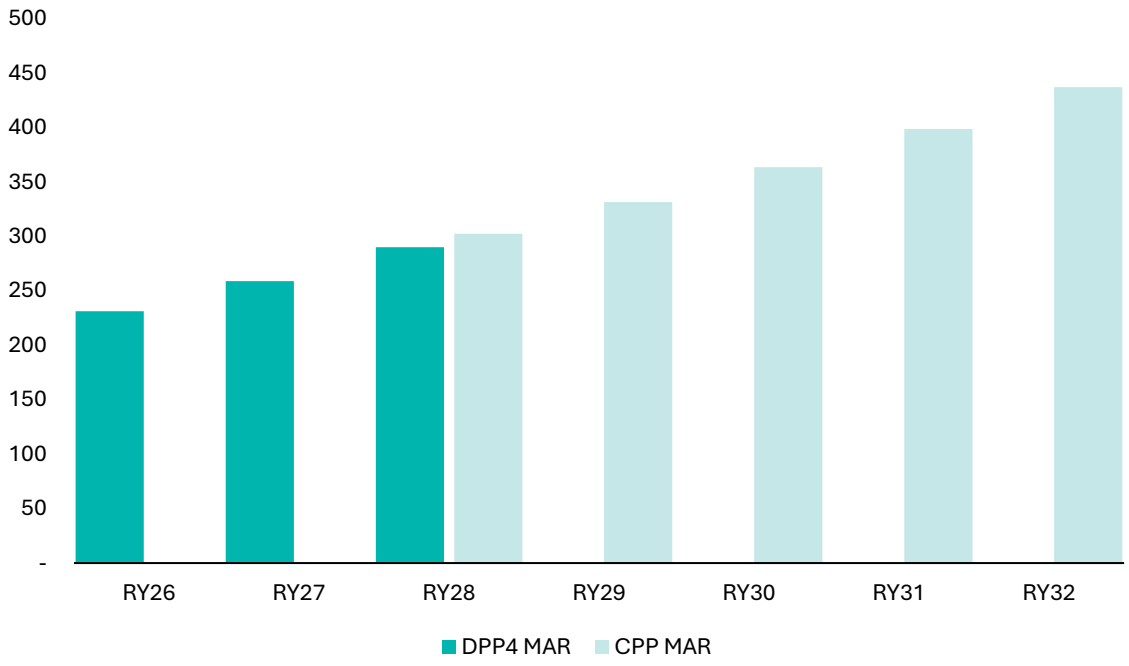
Key Points

- Our revenue requirement involves an increase of 16.8% at the start of the CPP period relative to the previous year. It then increases annually by 9.7% during the period (inflation plus a -7.5% X factor).

2.1 Revenue requirement

Our proposed revenue requirement is outlined in Figure 3 below.

Figure 2.1: CPP revenue requirement, and DPP4 allowable revenue



Our revenue requirement involves an increase of 16.8% at the start of the CPP period relative to the previous year. It then increases annually by 9.7% during the period. This assumes an X-factor of -7.5%.

The present value of our proposed revenue requirement for the five-year CPP period is $1,375.7m. This reflects the efficient costs of providing our distribution services and meeting the safety and service levels our customers expect and value.

The Commission will assess whether our proposed investments are prudent and efficient and will approve the amount of revenue we are allowed to recover.

The remainder of this document outlines how we have derived our revenue requirement based on our proposed investments and in accordance with the IMs.

3 Maximum allowable revenue

Key Points

- The revenue requirement is the maximum allowable revenue determined in accordance with the IMs.
- The maximum allowable revenue is the smoothed allowable revenue requirement. It has the same net present value as the building blocks allowable revenues (BBAR), after adjusting for shifted revenue, and has been determined after applying price smoothing assumptions.
- We propose a -7.5% X factor.

IM requirements

- Determination of revenue requirement- IM 5.3.4
- Disclosure - IM 5.4.8

Our revenue requirement is based on the maximum allowable revenues determined in accordance with the IMs.

Maximum allowable revenue (MAR) is the annual allowable revenue derived from the present value (PV) of the building blocks allowable revenue (BBAR), after applying price smoothing and discounting assumptions and adjusting for shifted revenue.

The PV of MAR after tax equals the PV of BBAR after tax, over the five-year CPP period, adjusted for shifted revenue. Shifted revenue represents the value of lost revenue, upon determination of a CPP, due to the smoothing of BBAR in the current DPP period.

- Chapter 4 sets out how BBAR after tax is determined.
- The value for shifted revenue is discussed later in this chapter.

MAR before and after tax, for each year of the CPP period, is presented below. MAR after tax is equal to MAR before tax less the regulatory tax allowance, which is the tax expense we are expected to incur on our regulated taxable profits.

Table 3.1: Maximum allowance revenue

$m	1-APR-27	RY28	RY29	RY30	RY31	RY32
MAR before tax		302.7	331.9	363.9	399.0	437.5
MAR after tax		271.0	298.5	328.6	361.6	398.0
PV of annual allowable revenues	1,375.7					

The below table outlines the assumptions used to determine the maximum allowable revenues. The rest of the chapter outlines the purpose and reasoning for each assumption.

Table 3.2: Maximum allowable revenue assumptions						
$m	**1-APR-27**	**RY28**	**RY29**	**RY30**	**RY31**	**RY32**
MAR before tax		302.7	331.9	363.9	399.0	437.5
Discounting assumption - Cost of capital		7.10%	7.10%	7.10%	7.10%	7.10%
PV of annual allowable revenues	1,375.7					
CPI			2.00%	2.00%	2.00%	2.00%
X factor			-7.50%	-7.50%	-7.50%	-7.50%
Increase in allowable revenue		16.8%				

3.1 Present value of annual allowable revenue

The PV of annual allowable revenues is the PV of BBAR after tax, as at the beginning of the CPP period (1 April 2027), when applying the cost of capital as the discount rate. It also includes an adjustment for shifted revenue. Chapter 4 outlines how the BBAR allowable revenues have been determined.

The PV of allowable revenues is used to determine the maximum allowable revenue for each year of the CPP period by factoring in the revenue smoothing and discount assumptions as outlined below.

3.1.1 Discount rate assumption

The cost of capital assumption is used extensively throughout the revenue requirement calculation. In this instance it is used to discount BBAR and to determine the MAR which has the same PV as the building blocks allowable revenue.

Table 3.3: Cost of capital					
	RY28	**RY29**	**RY30**	**RY31**	**RY32**
Cost of Capital	7.10%	7.10%	7.10%	7.10%	7.10%

An explanation of how the cost of capital assumption is determined is outlined in Chapter 5.

3.2 Revenue smoothing

The MAR is smoothed over the CPP period, to remove any fluctuations in revenue that might occur if our revenue requirement was based on BBAR.

Revenue smoothing also allows us to assess whether revenue increases are better reflected as a one-off increase at the beginning of the CPP period or as gradual increases during the period.

Our proposal is for an alternative X-factor of -7.5%. This has been determined in accordance with IM 5.4.8 (2)-(4).

We have smoothed our allowable revenue in accordance with IM clause 5.3.4. The remainder of this section outlines how we have done this.

3.2.1 Inflation assumption

The CPI inflation rate is used in determining the MAR to provide for increases in revenue during the CPP period that are consistent with forecast general increases in the prices of consumer goods and services.

Clause 5.3.4(9) of the IMs defines the inflation rate as the sum of forecast CPI for the four quarters of the disclosure year divided by the sum of forecast CPI for the four quarters of the preceding disclosure year, less one.

The CPP inflation rate used in the CPP price path is presented below. This is sourced from the February 2026 RBNZ Monetary Policy Statement (MPS) and is forecast out at the target mid-point.

Note that no CPI inflation rate is required for the first year of the CPP period, at least for determining the MAR path.

Table 3.4: CPI inflation rate

	RY28	RY29	RY30	RY31	RY32
CPP inflation rate		2.00%	2.00%	2.00%	2.00%

3.2.2 Initial increase in revenues and X factor

Clauses 5.4.8(3)-(4) if the IMs state that our CPP should use the same X factor which applies to our prevailing DPP Determination, or a different X factor provided that our CPP proposal explains why that would better meet the purpose of Part 4. Our current DPP X factor is -9.8%.

As noted in Table 3.2 above, we are proposing an X factor of -7.5%.

Our approach to proposing a more appropriate X factor for the CPP is to balance the step change into the CPP with an X factor that does not over-inflate revenue in the later years of the CPP. Our primary metric for this analysis is the change in monthly bills for consumers.

1. Protecting consumers from initial price shock

   The increase in monthly bills in the first year of the CPP must be managed to mitigate price shock to consumers.

   We are mindful of the average consumer bill impact that would have applied on the DPP. The DPP increase in RY28 would have been around 12.0% (9.8% plus inflation).

2. Protecting consumers over time from within-period equity issues

   The intention to mitigate the initial price shock from the CPP has to be balanced with the revenue profile over the CPP period.

   Minimising the initial step, by setting a relatively large X factor, can result in a material price decrease at the end of the CPP period (in RY33).

   In addition, we want to protect consumers from a within-period equity problem. Given that revenue is NPV neutral when the X factor is applied to MAR, consumers are in effect paying more in future years to compensate for Orion not recovering the revenue in early years. In the case of DPP3 to DPP4, controlling the large one-off price shock justifies this impact, but without the same level of step change into the CPP this extent of revenue transfer would overinflate the required increase in monthly bills paid by consumers in the later CPP years.

We considered applying the DPP4 X-factor for the CPP.

- The DDP4 X-factor of -9.8% reflects the somewhat unique transition from DPP3 to DPP4. In FY26 (year 1 of DPP4) higher regulatory revenue allowances would have seen a single year step change in revenues of between 50%-60% for most non-exempt EDBs if no X factor was applied. Understandably, the Commission wanted to lessen the price shock to customers by deferring some revenue recovery across DPP4 by applying a year 1 increase cap and a related X factor that recovered all revenue over the next 4 years.
- Applying a -9.8% X factor for the CPP would further reduce initial price shocks to customers. But that would come with a significant deferment of revenue to the last two years of the CPP. High level modelling

suggests that the steep revenue slope caused by an X factor of -9.8% would result in a high probability of revenue overextending in the later years of the CPP and then reducing in FY33 when Orion exited the CPP.

- As a result, we consider that a -9.8% X factor is not appropriate for the CPP. It does not provide an appropriate balance between mitigating initial price shocks and within-period equity issues.

We also considered an X factor of 0%. But this would involve a significant step-up in prices in the first year of the CPP period - much more than consumers would experience on the DPP. We consider that a 0% X factor is not appropriate for the CPP, because of the initial price shock.

An X-factor of -7.5% balances protecting consumers from an initial price shock and adverse price outcomes throughout the years impacted by the X factor. It has been set in a manner consistent with the Commission's approach to DPP4.

3.3 Shifted revenue

DPP revenues are smoothed over the five-year period, like CPP revenues. When a non-exempt EDB moves from a DPP to a CPP in the middle of a DPP period, it may have either over- or under-recovered its BBAR in the pre-CPP period, depending on the DPP X factor applied.

Shifted revenue accounts for this impact. The impact of the revenue smoothing prior to the CPP period is incorporated into the CPP MAR calculation, so that the business remains NPV-neutral and is able to recover its BBAR.

This element of the MAR calculation was the subject of an IM amendment finalised in May 2026.

For our CPP proposal, the value of shifted revenue is calculated as the PV of the difference between BBAR before tax and MAR before tax in RY26 and RY27. The amount of $54.2m is added to the PV of BBAR, to derive the required PV of the MAR series.

Table 3.5: Shifted revenue

$m		RY26	RY27	1-APR-27
BBAR before tax (DPP4)		263.1	277.5	
MAR before tax (DPP4)		231.4	259.2	
Difference		31.7	18.4	
Shifted revenue				54.2

4 Building block allowable revenues

Key points

- BBAR is based on return on investment, depreciation, revaluation, operating expenditure, tax and other allowances.
- The PV of allowable revenue is determined by the BBAR calculation included in the IMs.
- Timing assumptions are applied in the BBAR calculation to provide for when revenues and expenses are deemed to be incurred during the year. The timing assumptions are specified in the IMs and are based on the cost of capital value.

IM requirements

- Determination of revenue requirement - IM 5.3.2
- Disclosure requirement IM 5.4.7(1)-(2)

BBAR is the allowable revenue determined from the revenue calculation prior to revenue smoothing. The BBAR before and after tax for each year of the CPP Period is presented below.

Table 4.1: Building blocks allowable revenue

Table 4.1: Building blocks allowable revenue						
$m		**RY28**	**RY29**	**RY30**	**RY31**	**RY32**
BBAR before tax		313.4	334.2	351.5	372.2	389.4
Regulatory tax allowance		-31.7	-33.4	-35.3	-37.4	-39.5
BBAR after tax		281.7	300.8	316.1	334.8	349.9
PV of BBAR	1,321.6					

4.1 Building blocks allowances

BBAR is comprised of the five components outlined in the table below. This section discusses what each of the components provides for.

Table 4.2: Building blocks components					
$m	**RY28**	**RY29**	**RY30**	**RY31**	**RY32**
Return on capital	134.7	143.7	154.4	166.4	178.5
Depreciation	69.7	73.5	76.2	81.7	87.1
Revaluations	-37.7	-40.2	-43.2	-46.9	-50.6
Operating expenditure	115.1	124.0	129.0	134.0	135.2

	Building block allowable revenues				
Regulatory tax	31.5	33.1	35.0	37.1	39.2
BBAR before tax	313.4	334.2	351.5	372.2	389.4

- The return on capital provides us with the ability to earn a return on our investment in the regulated business. The regulatory regime also allows for a TCSD allowance to cover the estimated costs a regulated entity would incur if they have debt securities that are for longer terms than the period assumed in the cost of capital calculation. This is included in the return on capital building block.
- Depreciation provides for the return of our past expenditure on regulated assets.
- Revaluations reflect the annual CPI increase in the RAB value of assets, from which the regulated entity can earn a return on capital and depreciation in future years.
- The operating expenditure allowance provides for the return of opex incurred during the period – including the cost of operating and maintaining our assets, responding to emergencies, and administering and managing our business.
- The regulatory tax building block provides compensation for a notional tax allowance for the regulated business.

The formula for the building blocks calculation, as outlined in IM clause 5.3.2, is detailed below. The formula includes the five allowances described above. The formula is structured around the timing factors as discussed in section 9.2.

(regulatory investment value x cost of capital + total value of commissioned assets x (TF_{VCA} - 1)
+ TCSD x TF – total revaluation) ÷ (TF_{rev} – corporate tax rate x TF)

+ (total depreciation x (1 – corporate tax rate x TF)

+ forecast operating expenditure x TF x (1 – 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} – corporate tax rate x TF)

The remainder of this section discusses the regulatory investment value (RIV) and regulatory tax allowance terms, and other key assumptions.

4.1.1 Regulatory investment value

The RIV is a key input assumption in the return on investment component of the building blocks. It is defined as:

total opening RAB value + opening deferred tax

The RIV series included in the BBAR before tax calculation is shown below.

Table 4.3: Regulatory investment value

$m	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Opening RAB	1,693.3	1,823.7	1,940.0	2,072.7	2,225.0	2,413.9	2,603.1
Opening deferred tax	-88.1	-97.5	-108.8	-120.6	-134.6	-150.1	-166.4
RIV	1,605.2	1,726.2	1,831.2	1,952.1	2,090.4	2,263.8	2,436.7

How the RAB value is derived is outlined in chapter 5 and the deferred tax balance is discussed in section 8.6.

4.1.2 Regulatory tax allowance

The regulatory tax allowance is an allowance for the tax expense the regulated entity is expected to incur. It represents the tax expense a regulated entity would likely incur if it was a stand-alone business. Accordingly, it is determined based on the regulated profit and adjusted for permanent and timing differences as well as tax loses. Chapter 8 outlines how the regulatory tax allowance is determined.

4.1.3 Building block input assumptions

The BBAR calculation is made up of the input assumptions as outlined in Table 4.4, which have been grouped into the building blocks. The table also references where each of the input assumptions are discussed in this document.

Table 4.4 Building block input assumptions

$m		RY28	RY29	RY30	RY31	RY32
Return on investment						
Opening RAB		1,940.0	2,072.7	2,225.0	2,413.9	2,603.1
Opening deferred tax		108.8	120.6	134.6	150.1	166.4
Cost of capital (%)		7.10%	7.10%	7.10%	7.10%	7.10%
Commissioned assets		166.7	187.8	224.3	226.3	228.9
Revaluations		38.7	41.4	44.5	48.2	52.0
TCSD allowance		2.6	2.5	2.4	2.4	2.5
Depreciation						
Depreciation		71.6	75.6	78.4	84.0	89.6
Operating expenditure						
Operating expenditure		114.4	123.3	128.2	133.1	134.3
Regulatory tax						
Permanent differences		0.3	0.4	0.5	0.5	0.5
Regulatory tax adjustments		-14.4	-16.4	-19.1	-22.0	-24.9
Regulatory tax allowance		31.7	33.4	35.3	37.4	39.5

5 Cost of capital

Key points

- The cost of capital is a key assumption in the revenue requirement calculation.
- The current DPP WACC of 7.1% has been applied for the CPP period.

IM requirements

- Determination of revenue requirement - IM 5.3.22 and 5.6.6
- Disclosure requirement - IM 5.4.27

The cost of capital assumption is applied in our revenue requirement in deriving the:

- return on capital allowance in the building blocks calculation (section 4.1)
- NPV of MAR and BBAR (section 3.1)
- timing factors (section 9.2).

5.1 Cost of capital applied in our proposal

Consistent with clause 5.3.22(1) of the IMs, we have applied the current DPP cost of capital of 7.10% in our CPP revenue requirement calculations.

Table 5.1: Cost of capital applied in deriving the revenue requirement

	RY28	RY29	RY30	RY31	RY32
Cost of capital	7.10%	7.10%	7.10%	7.10%	7.10%

We expect that there will be a WACC change event, when the DPP is reset at the start of RY31, and that the DPP5 cost of capital will be incorporated into a reopener of our CPP. But such a change is not incorporated into our main CPP revenue requirement calculation, as set out in this document and the CPP Financial Model.

6 RAB roll-forward

Key points

- The closing RAB value for each year is determined by adding the value of commissioned assets and revaluations to the opening RAB value and deducting depreciation and disposals.
- Existing assets have been allocated during the forecast period using the RY25 asset allocation assumptions.
- Revaluations are calculated consistent with the IM requirements, and a CPI inflation forecast from the Reserve Bank of New Zealand.
- Depreciation is determined consistent with the IM requirements and relies on asset life assumptions specified in the IMs.
- The value of commissioned assets is determined from forecast capital expenditure after taking into account asset allocation, escalation and works under construction assumptions.
- Asset disposals have been forecast at an average disposal rate relative to the size of total RAB.

IM requirements

- RAB roll-forward – IM 5.3.6 and 5.4.11
- Asset allocation - IM 5.3.6 and 5.4.9
- Revaluations - IM 5.3.10 and 5.4.13
- Depreciation - clause 5.3.7 and 5.4.12
- Commissioned assets - IM 5.3.11, 5.3.12, 5.4.14, 5.4.16, D12
- Disposals – IM clause 5.3.6 and 5.4.15

The RAB roll forward and its components are key drivers in a number of areas in the BBAR calculation. The opening RAB value is used in the determination of return on capital, depreciation and revaluations.

6.1 RAB roll-forward

The forecast RAB and its roll-forward components for the Next Period are shown below.

Table 6.1: RAB roll-forward

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Opening RAB	1,693.3	1,823.7	1,940.0	2,072.7	2,225.0	2,414.0	2,603.1
Depreciation	-64.3	-68.2	-71.6	-75.6	-78.4	-84.0	-89.6
Revaluations	35.5	36.4	38.7	41.4	44.5	48.2	52.0
Value of commissioned assets	160.2	149.2	166.7	187.8	224.3	226.3	228.9
Disposals	-1.0	-1.1	-1.2	-1.2	-1.3	-1.5	-1.6
Closing RAB	1,823.7	1,940.0	2,072.7	2,225.0	2,414.0	2,603.1	2,792.9

Descriptions of each of the RAB components are included later in this chapter.

6.1.1 Asset allocation

The majority of assets in Orion's RAB are directly attributable to Orion's electricity distribution business. However, we have a small amount of assets which are not directly attributable, comprising land at our Waterloo Road site and electric vehicle chargers (non-network assets).

These 'shared assets' had a collective value of $12.4m at the end of RY25, of which $11.2m was allocated to electricity distribution and included in the RAB. That reflects about 0.6% of Orion's total RAB value.

We have not made any recent changes to how these assets are allocated, nor are we expecting to make any changes to their allocation during the Next Period.

None of the assets forecast to be commissioned during the Next Period are expected to be shared assets.

6.2 Revaluations

The RAB is revalued annually at CPI, consistent with clause 5.3.10 of the IMs. The table below outlines the revaluations applied for each year of the next period.

Table 6.2: Revaluations

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Revaluations	35.5	36.4	38.7	41.4	44.5	48.2	52.0

Clause 5.3.10 requires the opening RAB to be revalued each year by applying the CPP revaluation rate. Assets which have reached the end of their physical asset life, or are disposed of or lost, are not revalued.

The CPP revaluation rates for the forecast period are outlined in the table below.

Table 6.3: CPP revaluation rate

	RY26	RY27	RY28	RY29	RY30	RY31	RY32
CPP revaluation rate	2.10%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

The CPP revaluation rate is derived in accordance with the formula set out in clause 5.3.10(4) of the IMs. This is set out below, and in practice means that we apply the same revaluation rate as was applying to the DPP4 RAB calculations.

Clause 5.3.10(4) specifies the revaluation rate as:

(forecast CPI for the quarter at the end of the disclosure year / forecast CPI for the quarter at the end of the preceding disclosure year) -1.

Forecast CPI for CPP revaluation means:

a) In the CPP regulatory period and up to the end of the DPP regulatory period, the forecast CPI for DPP revaluation;

b) For each last 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 was determined. The CPI last applying under paragraph (a) extended by the forecast change; and

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 (b).

6.3 Depreciation

Depreciation is the sum of depreciation for existing CPP assets and additional CPP assets. Existing CPP assets are those assets included in the closing RAB at the end of the last year of the Current Period. Additional CPP assets are those assets forecast to be commissioned during the Next Period.

Forecast depreciation for the Next Period is shown below.

Table 6.4: Depreciation

$m	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Depreciation for existing CPP assets	64.3	63.7	63.2	62.4	60.3	60.1	59.7
Depreciation for additional CPP assets	-	4.5	8.5	13.2	18.1	23.9	29.9
Total depreciation	64.3	68.2	71.6	75.6	78.4	84.0	89.6

The standard depreciation method is applied to all assets.

6.3.1 Physical asset lives

The physical asset lives applied to commissioned assets are consistent with the asset lives for CPP commissioned assets in Schedule A Table A.2.

For existing CPP assets, the physical asset lives are consistent with those applied for information disclosure purposes in prior years, which are consistent with the standard physical asset lives required in Schedule A Table A.1.

6.3.2 Land and easements

In accordance with IM clause 5.3.7(3), no depreciation is calculated for land and easements. We have not forecast any expenditure on fixed life easements in our proposal.

6.3.3 Network spares

The network spares included in our opening RAB remain constant throughout the CPP period and are not depreciated.

6.4 Value of commissioned assets

The value of commissioned assets is the value of assets that have been added to the RAB during the forecast period. It is determined from the capital expenditure forecast[2], after factoring in cost escalations, costs of finance, and changes in the works under construction (WUC) balance.

The value of commissioned assets and its components for the Next Period is shown in Table 6.5.

[2] Capex forecasts include capitalisation of internal labour costs.

Table 6.5: Value of commissioned assets							
$m	**RY26**	**RY27**	**RY28**	**RY29**	**RY30**	**RY31**	**RY32**
Expenditure on assets (real 2026 $m)	177.4	163.2	180.6	202.2	213.6	213.2	196.5
Cost escalation	0.0	3.9	6.8	12.2	17.8	32.1	26.4
Expenditure on assets (nominal $m)	177.4	167.0	187.4	214.4	231.3	236.3	222.9
Interest during construction	4.8	3.9	4.6	5.1	5.2	4.8	4.2
Less: Capital contributions	-13.6	-13.4	-14.6	-15.5	-16.1	-16.6	-17.1
Less: Change in WUC (net of capital contributions)	-8.4	-8.3	-10.6	-16.3	3.8	1.8	18.9
Commissioned assets	160.2	149.2	166.7	187.8	224.3	226.3	228.9

We have prepared real capex forecasts by portfolio and asset type. These form the basis of the commissioned asset value derivation.

- These real forecasts are escalated into nominal terms using price escalators.
- Forecast capital contributions are deducted from the gross capex forecasts.
- Assumptions are made about the expected timing of the commissioning of the different types of capex, and how works under construction will change each year.
- Where capex is not immediately commissioned, an allowance for interest during the construction period is added.

Further details about each of these components of the commissioned asset derivation is provided below.

6.4.1 Right-of-use assets

We are forecasting to commission new right-of-use assets during RY28-29 for the head office building extension. There is $2.7m being commissioned over the two years.

6.4.2 Capital contributions

Our capex forecast includes assets that are partially funded by capital contributions. In the circumstances where such contributions are taken into account when applying Generally Accepted Accounting Practices (GAAP), the cost of the asset is determined by applying GAAP reduced by the amount of the capital contributions.

This treatment is consistent with clause 5.3.11(1)(h).

6.4.3 Asset allocation for commissioned assets

The capex forecast does not include any shared assets. Hence no allocation of new assets is required.

6.4.4 Cost escalation

Our capex forecasts are prepared in 2026 real dollars. For the CPP period, we escalate our forecasts into nominal dollars using escalators developed from forecast generic and specialised price indices. These indices have been independently provided to us by Sapere.

Our approach to price escalation is based on that adopted by other CPP applicants in their CPP proposals. Other applicants cited the approaches used by Ofwat (the regulator of water companies in England and Wales), Ofgem (the UK energy networks regulator), and the Australian Energy Regulator to support their approaches.

Independent forecasts

The following table outlines the Sapere forecasts that we have used to escalate capex in our proposal.

Table 6.9: Sapere index forecasts

Table 6.9: Sapere index forecasts						
Cost item for escalation	**Currency**	**RY28**	**RY29**	**RY30**	**RY31**	**RY32**
Aluminium	NZD	0.37%	1.59%	1.49%	1.49%	1.50%
Copper	NZD	-2.09%	2.43%	2.90%	2.90%	2.90%
Steel	NZD	-3.94%	-0.35%	0.00%	0.00%	0.00%
Other capital goods	NZD	2.73%	2.66%	2.61%	2.59%	2.59%
Engineers	NZD	2.09%	2.11%	2.11%	2.11%	2.11%
Professional	NZD	1.89%	1.92%	1.92%	1.92%	1.92%
Project managers	NZD	2.09%	2.11%	2.11%	2.11%	2.11%
IT labour costs	NZD	2.09%	2.11%	2.11%	2.11%	2.11%
Capex - labour	NZD	2.27%	2.30%	2.30%	2.30%	2.30%

Escalation method for the CPP period

Cost item indices have been used to derive a set of six capex escalators, shown in the table below. The cost escalator weightings are a management judgement derived from our review of our historical costs and cost escalator weightings applied by other industry participants, including those applied in other CPP applicants' proposals.

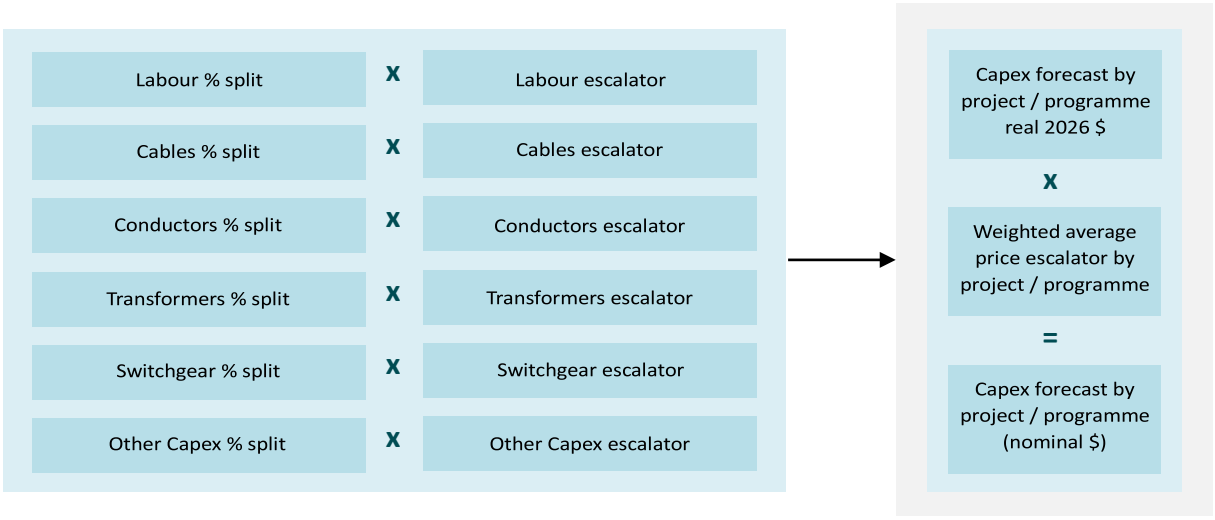
Table 6.11: Escalator class index compositions	
Escalator	**Cost item escalator weightings**
Labour	5% Engineers 5% Professionals 5% Project managers 5% IT labour cost 80% Capex Labour
Cables	90% Aluminium 5% Copper 5% Other Capital Goods
Conductors	95% Aluminium 5% Steel
Transformers	50% Copper 45% Steel 5% Other Capital Goods

Switchgear	5% Aluminium 70% Copper 20% Steel 5% Other Capital Goods
Other Capex	100% Other Capital Goods

These escalators were then further weighted to produce project or cost category specific escalation indices. Nominal expenditure forecasts were calculated by multiplying constant dollar costs in each year by the corresponding escalation index for the relevant cost category.

Our approach to escalating our forecast real costs is illustrated in the figure below.

Figure 4: Overview of Capex escalation method



6.4.5 Works under construction

Orion's capex forecast was categorised into two commissioning approaches, immediate or delayed.

- Delayed commissioned assets comprised relatively large multi-year projects. For these projects, the year of commissioning for the whole project was assumed to be the final year in which capex is forecast to be spent. Capex remained in works under construction until commissioned.
- Immediately commissioned assets comprised smaller projects and ongoing programmes of works. This capex is assumed to be commissioned on a rolling basis, either in the year of the expenditure or the following year. It was assumed that at the end of a given future year, 33% of that year's capex would remain in works under construction (WUC).

Table 6.12: Value of commissioned assets, by commissioning type

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Delayed commissioned assets	-	37.0	18.1	20.5	33.5	21.3	21.2
Immediately commissioned assets	160.2	112.3	146.6	166.5	190.8	205.0	207.7
ROU commissioned assets	-	-	2.0	0.7	-	-	-
Total commissioned assets	160.2	149.2	166.7	187.8	224.3	226.3	228.9

6.4.6 Delayed commissioning

For 'delayed commissioning', we have specified the dates on which those assets are forecast to become used and useful.

Table 6.13: Delayed commissioning works under construction

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Opening WUC	-	40.6	23.3	29.6	38.1	26.0	21.2
Capital expenditure	40.6	19.6	24.4	29.1	21.3	16.6	2.4
Commissioned assets	-	-37.0	-18.1	-20.5	-33.5	-21.3	-21.2
Closing WUC	40.6	23.3	29.6	38.1	26.0	21.2	2.4

For assets commissioned using our delayed commissioning method, the WUC balance builds up as capex is incurred in the early part of the CPP then decreases in the later part as most projects are completed. The WUC roll forward for assets commissioned using the delayed commissioning method is shown in the table above.

6.4.7 Immediate commissioning

For our immediate commissioning method, we have assumed that the closing balance of WUC will remain in proportion to the capex forecast for each year. As noted above, we have assumed that the commissioning of 'immediate commissioning' projects will take 4 months, and therefore the closing WUC balance will be 33% of that year's capex. The WUC roll forward for assets commissioned using the immediate commissioning method is shown below.

Table 6.14: Intermediate commissioning works under construction

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Opening WUC	52.6	20.3	46.0	50.3	58.1	66.4	69.3
Capital expenditure	127.9	138.0	151.0	174.2	199.1	207.9	207.6
Commissioned assets	-160.2	-112.3	-146.6	-166.5	-190.8	-205.0	-207.7
Closing WUC	20.3	46.0	50.3	58.1	66.4	69.3	69.2

6.4.8 Interest during construction

We apply an allowance for interest during construction, consistent with the extent to which our financing costs are capitalised under GAAP.

The cost of debt as disclosed in the most recently published ID prior to submitting the CPP proposal (RY25) has been used as a proxy for the interest rate used to calculate the interest during construction.

All capex commissioned in a subsequent year – whether as part of a delayed or immediate commissioning project – receives an amount of interest during construction.

6.4.9 Commissioned assets disclosure

IM clause 5.4.14 requires us to disaggregate our forecast value of commissioned assets by sources and types. We have summarised this information in the following table:

Table 6.15: Value of commissioned assets disclosure							
$M	**RY26**	**RY27**	**RY28**	**RY29**	**RY30**	**RY31**	**RY32**
All other commissioned assets	160.2	149.2	166.7	187.8	224.3	226.3	228.9
Total forecast commissioned assets	160.2	149.2	166.7	187.8	224.3	226.3	228.9

Our forecast value of commissioned assets does not include any of the following:

- Assets acquired from a related party;
- Assets transferred from unregulated services;
- Assets acquired from another regulated supplier; or
- Assets transferred from other regulated services.

6.4.10 Related party transactions

Connetics, our wholly owned subsidiary, undertakes much of our field work. In RY25 it undertook $57.5m of capex work for us (around 48% of our total capex), as well as $22.4m of opex work.

Orion established Connetics as a standalone company in 1996 in order to introduce competition to maintenance and construction works.

We procure services from Connetics as part of our standard tendering processes, which includes both Connetics and other unrelated service delivery partners. Transactions are on an arms-length basis, and tenders are typically undertaken on a 'lowest conforming cost' basis.

Historically, Connetics and our other service providers have been awarded much of their work on a lowest price conforming tender basis – for virtually all works above $20,000. As a result of COVID, we moved from a multi-party competitive tendering model to a sole-source tendering model on a "yours-to-lose" basis with our service providers – to ensure the viability and resilience of our service providers.

From FY26 Orion brought procurement back in house and "yours to lose" is being phased out in preference of competitive tendering. During the "yours to lose" period, work allocated to our service providers was on the basis of their work levels using a rolling average over the three prior years. We consider that this move incentivised quality, safety and capability development. We also received regulatory advice from PwC and legal advice as part of this change in procurement practice.

At the end of the FY22 financial year, we had PwC review all of our procurement with Connetics. As there has been no material change in the Orion - Connetics relationship since then, we consider those processes remain appropriate. In addition to the tendered works above, Orion has negotiated certain contracts with Connetics which cover circumstances where the tender approach does not work satisfactorily. We had PwC review each of these contracts in FY22 to ensure that these contracts operate on an arms-length basis.

During the last year of the current period (FY25), and the first year of the assessment period (FY26), services were procured from Connetics using the following methods:

- Competitive tender
- Yours to lose
- Collaborative tender
- Time and materials
- Material purchase

It is anticipated that the same procurement methods will be used for the remainder of the assessment period, with a reduction in the use of the 'yours to lose' method in accordance with the phase-out discussed above.

In certain circumstances, we also receive capex work from Christchurch City Council, Christchurch City Holdings Limited, Selwyn District Council and Corde. But this is very small in nature – less than 0.1% of our capex in RY25.

It is not possible for us to forecast with any accuracy the amount of future capex which will be undertaken by Connetics. We expect that it will feature heavily in our future work programme, but the extent of its work – and hence, the proportion of our capex which will be delivered by related parties – will depend on Connetics' strike rate against unrelated parties as part of our tender process.

We do not anticipate that any additional services will be provided by Connetics beyond those services provided historically and those services necessary to deliver the CPP work programme.

We have a small number of contracts for periodic services with Connetics:

- General and Emergency Works (expires 31/03/27)
- Network Stores Management (expires 28/2/28)
- Design consultancy agreement (expires 31/03/27)

6.5 Asset disposals

Disposed assets are assets which are sold or transferred, and accordingly their asset values are removed from the RAB. The forecast value of asset disposals during the next period is outlined in the table below.

Table 6.16: Asset disposals

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Asset disposals	1.0	1.1	1.2	1.2	1.3	1.5	1.6

Our modelling has assumed that assets continue to be disposed at the same rate as they have been in the past. Therefore, they are forecast as a ratio relative to the growing value of the forecast opening RAB balance. This ratio is calculated as the average ratio of disposals and opening balance over the last five historical years.

7 Operating expenditure

Key points

- The operating expenditure allowance is based on our forecast opex as outlined in the Proposal.

IM requirements

- Opex – IM 5.3.2(6) and 5.4.7(2)(c)
- Cost allocation – IM 5.3.5 and 5.4.9

Forecast operating expenditure reflects our opex forecast for the Next Period in accordance with clause 5.3.2(6)(a) of the IMs. This has not yet been assessed by the Commission against the expenditure objectives, as described in clause 5.3.2(6)(b) of the IMs.

The forecast operating expenditure for the CPP period is shown below.

Table 7.1 Forecast operating expenditure

	RY28	RY29	RY30	RY31	RY32
Operating expenditure (Real 2026 $m)	109.3	115.2	117.2	119.0	117.5
Cost escalation	5.1	8.1	11.0	14.1	16.9
Operating expenditure (Nominal $m)	114.4	123.3	128.2	133.1	134.3

Further description of the forecast opex in real 2026$ is included in the Proposal.

The remainder of this chapter outlines how the cost allocators have been applied to the expenditure forecasts and how the real 2026$ forecast expenditure has been escalated to nominal dollars.

7.1 Cost escalation

We escalate our forecasts of opex from 2026 real dollars into nominal dollars.

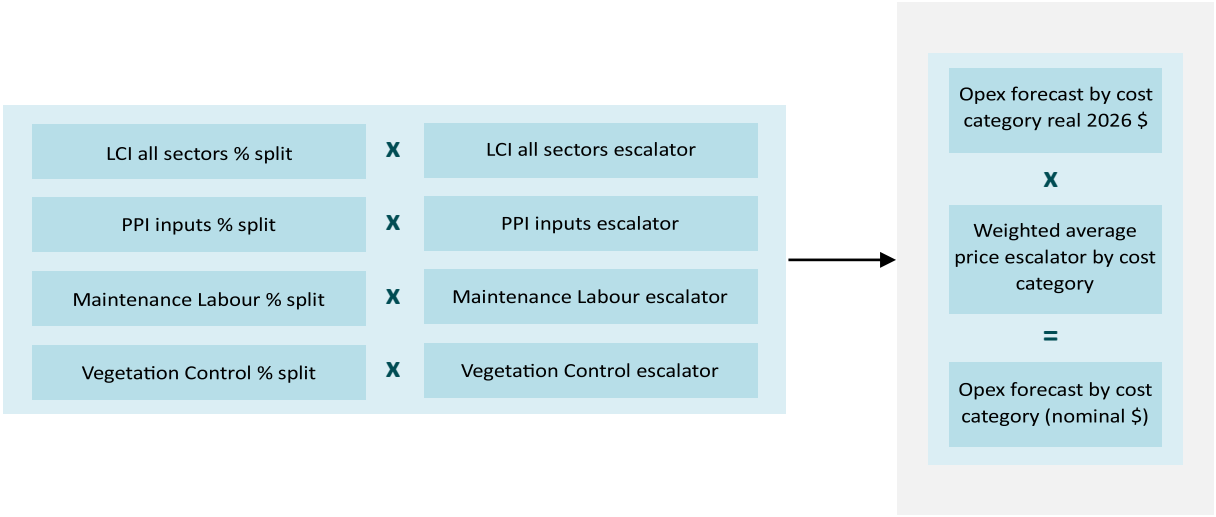
Sapere has provided Orion a forecast for four different opex related indices, “LCI - All sectors”, “PPI - Inputs”, “Maintenance Labour” and “Vegetation Control”. For each of Orion’s seven regulatory opex categories, Orion then assigned a relative percentage weighting of each index’s relevance for that opex category. This allows the estimation of a unique cost escalation forecast for each opex category, which was applied to the 2026 real dollar forecasts.

Table 7.2: Sapere opex escalators

	RY28	RY29	RY30	RY31	RY32
LCI - All sectors	2.04%	2.07%	2.07%	2.07%	2.07%
PPI - Inputs	2.47%	2.39%	2.33%	2.31%	2.32%
Maintenance Labour	2.40%	2.43%	2.43%	2.43%	2.43%
Vegetation Control	2.43%	2.41%	2.38%	2.37%	2.37%

Table 7.3: Escalators class index compositions	
Escalator	**Cost item escalator weightings**
LCI – All Sectors	100% LCI – All Sectors
PPI – Inputs	100% PPI – Inputs
Maintenance Labour	100% Maintenance Labour
Vegetation Control	100% Vegetation Control

Figure 5: Overview of opex escalation method



7.2 Cost allocation opex

The opex forecast does not include any shared opex. Hence no allocation of opex is required.

8 Regulatory tax allowance

Key points

- The regulatory tax allowance is an allowance for the tax expense we are expected to incur.
- It is calculated based on a formula prescribed in the IM requirements. The main driver being forecast regulated profit/(loss) derived from forecast revenues and expenses as outlined earlier in this document.
- The regulatory tax calculation also requires forecasts for temporary and permanent differences in taxable income.

IM requirements

- Regulatory tax allowance – IM 5.3.13 and 5.4.19
- Permanent differences - IM 5.3.15 and 5.4.21
- Regulatory tax adjustment - IM 5.3.16 - 5.3.18 and 5.4.22 - 5.4.23
- Deferred tax - IM 5.3.19 - 5.3.21 and 5.4.24 - 5.4.25
- Regulatory tax asset values - IM 5.3.21 and 5.4.26

The regulatory tax allowance is the tax expense the regulated entity is expected to incur if it was a standalone business. Accordingly, it is determined based on the regulated profit/(loss) and adjusted for permanent and timing tax differences.

The below table outlines the regulatory tax allowance calculation and includes references to where each part of the calculation is discussed in the chapter.

Table 8.1: Regulatory tax allowance calculation

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32	Section Reference
Regulatory profit/(loss) before tax	111.4	120.4	127.4	135.3	144.8	155.2	165.5	8.1
Permanent differences	0.3	0.3	0.3	0.4	0.5	0.5	0.5	8.2
Regulatory tax adjustments	-11.2	-12.8	-14.4	-16.4	-19.1	-22.0	-24.9	8.3
Regulatory taxable income	**100.5**	**107.9**	**113.2**	**119.3**	**126.2**	**133.6**	**141.1**	
Utilised tax losses	-	-	-	-	-	-	-	8.4
Regulatory net taxable income	**100.5**	**107.9**	**113.2**	**119.3**	**126.2**	**133.6**	**141.1**	
Corporate tax rate	28%	28%	28%	28%	28%	28%	28%	8.5
Regulatory tax allowance	**28.1**	**30.2**	**31.7**	**33.4**	**35.3**	**37.4**	**39.5**	

Regulatory taxable income is defined in IM clause 5.3.13(3) as:

Regulatory profit / (loss) before tax + permanent differences + regulatory tax adjustments

Regulatory net taxable income is defined in IM clause 5.3.13(2) as:

> Regulatory taxable income - utilised tax losses.

Regulatory tax allowance is defined in IM clause 5.3.13(1) as:

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

Section 8.6 of this chapter also discusses the deferred tax balance, which is included in the RIV and forms part of the return on allowance calculation.

8.1 Regulatory profit/(loss) before tax

The regulated profit/ (loss) is determined from the forecast revenue and expenses as outlined earlier in this document. The table below outlines the regulatory profit/ (loss) calculation and references where each of the components are discussed in the document.

Table 8.2: Regulatory profit/loss before tax

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32	Reference
BBAR before tax	266.0	291.0	313.4	334.2	351.5	372.2	389.4	Chapter 4
Operating expenditure	-90.3	-102.4	-114.4	-123.3	-128.2	-133.1	-134.3	Chapter 7
Total depreciation	-64.3	-68.2	-71.6	-75.6	-78.4	-84.0	-89.6	Section 0
Regulatory profit/(loss) before tax	111.4	120.4	127.4	135.3	144.8	155.2	165.5	

8.2 Permanent differences

Permanent differences accounts for differences between regulatory profit and regulatory taxable income that are not timing differences.

Forecast permanent differences for the next period are presented below.

Table 8.3: Permanent differences

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Income not included in regulatory profit/(loss) before tax but taxable	-	-	-	-	-	-	-
Expenditure or loss in regulatory profit/(loss) before tax but not deductible	0.4	0.4	0.4	0.5	0.5	0.5	0.6
Positive permanent differences	0.4	0.4	0.4	0.5	0.5	0.5	0.6
Income included in regulatory profit/(loss) before tax but not taxable	-	-	-	-	-	-	-

	Regulatory tax allowance						
Expenditure or loss deductible but not in regulatory profit/(loss) before tax	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Negative permanent differences	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Permanent differences	**0.3**	**0.3**	**0.3**	**0.4**	**0.5**	**0.5**	**0.5**

We have forecast Orion's positive and negative permanent tax differences using three approaches.

Table 8.4: Methods for forecasting permanent tax differences

Approach	Difference items applied to
Internal forecast developed by Orion	• accounting loss on land disposal • tax capital contributions offset against capital WIP • tax loss on building disposal not deductible • capital tax gain on insurance proceed
Average of recent historical values, extrapolated at CPI	• accounting depreciation on land – Revaluation • non-deductible legal • Orion group R45 costs • ENT expenses • GST on entertainment • Grants • legal and survey re easements capitalised – land
Calculation based on other modelled values	• depreciation net of revaluations of ROU assets

8.3 Regulatory tax adjustments

Regulatory tax adjustments are defined in IM clause 5.3.16 as:

> Amortisation of initial differences in asset values + amortisation of revaluations notional deductible interest

Each of the regulatory tax adjustment components are discussed below.

8.3.1 Amortisation of initial differences in asset values

This regulatory tax adjustment adjusts the regulatory tax expense for the effect of initial differences between the sum of the initial RAB values and the sum of the regulatory tax asset values at 1 April 2009.

Forecast amortisation of initial differences in asset values for the CPP period is presented below.

Table 8.5: Amortisation of initial differences in asset values							
$M	**RY26**	**RY27**	**RY28**	**RY29**	**RY30**	**RY31**	**RY32**
Amortisation of initial differences in asset values	15.1	15.1	15.1	15.1	15.1	15.1	15.1

These values are determined in accordance with the calculation prescribed in clause 5.3.17 of the IMs. The main inputs assumptions are the amortised opening initial difference and weighted average remaining life of relevant assets.

- The opening initial difference was set on 1 April 2009. The unamortised value at the start of RY26 is $264.7m.
- The opening weighted average remaining life at the start of RY26 is 17.48 years. This value was originally determined at 1 April 2009 and reduces by 1 each year.
- This generates an annual amortisation value of $15.1m.
- The amortised roll-forward also includes a minor adjustment for the effect of asset disposals. This is forecast consistent with the disposals forecast (section 6.5).

8.3.2 Amortisation of revaluations

Forecast amortisation of revaluations for the CPP period is presented below.

Table 8.6 Amortisation of revelations							
$M	**RY26**	**RY27**	**RY28**	**RY29**	**RY30**	**RY31**	**RY32**
Total depreciation	64.3	68.2	71.6	75.6	78.4	84.0	89.6
Adjusted depreciation	49.3	52.3	54.8	57.9	59.9	64.3	68.8
Amortisation of revaluations	14.9	15.9	16.8	17.7	18.5	19.6	20.8

Amortisation of revaluations reflects the difference between RAB depreciation and adjusted depreciation. Adjusted depreciation is defined as total depreciation for all assets, calculated as if no amount of revaluation is included in the calculation of any opening RAB value following the determination of the initial RAB.

RAB depreciation is described in section 6.3 of this report. Adjusted depreciation is calculated on the same basis but with no revaluations included in the asset value.

8.3.3 Notional deductible interest

Notional deductible interest adjusts regulated profit/(loss) before tax for deductible interest we are assumed to incur and therefore would get a tax deduction for.

Notional deductible interest is defined in IM clause 5.3.16(2) as:

> (((regulatory investment value + RAB proportionate investment) x leverage x cost of debt) + TCSD) / $\sqrt{}$(1 + cost of debt)

The table below shows notional deductible interest for the CPP period.

Table 8.7: National deductible interest

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32	REFERENCE
Regulatory investment value	1,605.2	1,726.2	1,831.2	1,952.1	2,090.4	2,263.8	2,436.7	Section 0
RAB proportionate investment[3]	79.8	74.3	83.0	93.5	111.8	112.7	114.0	CPP financial model 1.0TAXx row 80
Leverage	41.00%	41.00%	41.00%	41.00%	41.00%	41.00%	41.00%	Refer below
Cost of debt	5.74%	5.74%	5.74%	5.74%	5.74%	5.74%	5.74%	Refer below
TCSD allowance	2.8	2.8	2.6	2.5	2.4	2.4	2.5	Section 9.1
Notional deductible interest	41.3	43.9	46.4	49.3	52.8	56.8	60.8	

We have used leverage of 41% in our notional deductible interest calculation consistent with clause 2.4.2(1).

We have used 5.74% for the cost of debt, which is consistent with the cost of debt used in the DPP determination for the RY26-30 period (and internally consistent with the WACC).

8.4 Tax losses

There are no opening or current period tax losses. We have not forecasted any tax losses during the next period.

8.5 Corporate tax rate

The calculation uses a corporate tax rate of 28% for the entire next period consistent with the definition of corporate tax rate as specified in IM clause 1.1.4.

8.6 Deferred tax

Deferred tax accounts for the value of timing differences in regulatory profits compared to regulatory tax income. The deferred tax balance is part of RIV (section 4.1.1).

Consistent with IM clause 5.3.19(2) the deferred tax roll-forward for each year of the next period is shown below.

Table 8.8: Deferred tax roll forward

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Opening deferred tax	-88.1	-97.5	-108.8	-120.6	-134.6	-150.1	-166.4
less: tax effect of amortisation of initial difference in asset values	4.2	4.2	4.2	4.2	4.2	4.2	4.2
less: deferred tax balance relating to asset disposed	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
add: tax effect of depreciation temporary differences	-5.8	-8.1	-9.4	-11.3	-13.3	-14.7	-16.2

[3] RAB proportionate investment is the net of assets commissioned and disposed during the year proportionate to when the assets were commissioning or disposal during the year.

	Regulatory tax allowance						
add: tax effect of positive temporary differences	3.4	3.6	4.3	4.2	4.4	4.8	5.3
less: tax effect of negative temporary differences	-2.8	-2.1	-2.2	-2.8	-2.5	-2.3	-2.3
Closing deferred tax	-97.5	-108.3	-120.4	-134.6	-150.1	166.4	183.9

The table below outlines where each of the components of the deferred tax roll-forward are discussed in this chapter.

Table 8.9: References to deferred tax roll forward components

Deferred tax roll-forward component	Reference
Tax effect of amortisation of initial difference in asset values	Section 8.3.1
Deferred tax balance relating to assets disposed	Section 8.6.2
Tax effect of depreciation temporary differences	Section 8.6.3
Tax effect of positive temporary differences	Section 8.6.1
Tax effect of negative temporary differences	Section 8.6.1

8.6.1 Temporary differences

Forecast temporary differences for the CPP period and their tax effect are presented in Table 8.10.

Table 8.10: Temporary differences

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Adjusted depreciation	49.3	52.3	54.8	57.9	59.9	64.3	68.8
Tax depreciation	70.1	81.1	88.5	98.2	107.3	116.7	126.7
Depreciation temporary differences	-20.8	-28.8	-33.7	-40.3	-47.5	-52.4	-57.9
Income not included in regulatory profit/(loss) before tax but taxable	7.3	7.7	8.1	9.1	10.4	11.8	13.2
Expenditure or loss in regulatory profit/(loss) before tax but not deductible	4.9	5.1	7.1	6.0	5.4	5.5	5.6
Positive temporary differences	12.3	12.8	15.2	15.1	15.7	17.3	18.8
Income included in regulatory profit/(loss) before tax but not taxable	2.4	2.5	2.5	2.6	2.6	2.7	2.7

	Regulatory tax allowance						
Expenditure or loss deductible but not in regulatory profit/(loss) before tax	7.7	5.1	5.2	7.3	6.2	5.6	5.7
Negative temporary differences	**10.1**	**7.6**	**7.7**	**9.8**	**8.8**	**8.2**	**8.4**
Temporary differences	**-18.7**	**-23.6**	**-26.3**	**-35.1**	**-40.5**	**-43.3**	**-47.5**
Tax effect of temporary differences	**-5.2**	**-6.6**	**-7.4**	**-9.8**	**-11.3**	**-12.1**	**-13.3**

We have forecast Orion's positive and negative temporary tax differences using four approaches.

Table 8.11: Methods for forecasting temporary tax differences

Approach	Difference items applied to
Internal forecast developed by Orion	• Insurance proceed re substation repairs over and under $20 • gain on insurance proceeds re substation repairs over $20k • network maintenance to be capitalised in 2022 (x FY20 WIP) • network maintenance to be capitalised in 2022 (x FY21 WIP) • network maintenance to be capitalised in 2025 (x FY24 WIP) • software and hardware expensed, property costs capital, accrual – Norwood 2025 • deduction for forestry expenses incurred FY23 • network WIP capital for accounting claimed for tax • network maintenance to be capitalised in 2021 (x FY20) • network maintenance to be capitalised in 2022 (x FY20) • maintenance costs covered by revenue in FY19 • maintenance costs covered by revenue in FY23 • substation repairs under $20k overspent • software development expensed in FY22 - part of capex project • forestry expenses incurred FY25
Average of recent historical values, extrapolated at CPI	• Capital contribution insurance re temp overhead line • capital contribution insurance re reconfigure 11kv network • capital contribution insurance re Lancaster temp sub • capital contribution insurance re general increased costs • tax gain on disposals • finance lease accounting interest not deductible for tax • holiday pay accrual in current year • long service leave accrual in current year • doubtful debts provision in current year • general provisions B500590 in current year • ACC accrual on current year liability • network WIP capital for accounting claimed for tax • unexpired expenditure accrual (locks) • network maintenance to be capitalised • comms & replacement tools to be cap • internal profits total • accounting gain on disposals • network capitalised for accounting claimed for tax • claim lease payments on operating leases • annual claim of prepaid operating lease liability.

Previous year's positive temporary difference	• Holiday pay accrual in previous year • long service leave accrual in previous year • doubtful debts provision in previous year • general provisions B500590 in previous year • ACC accrual on previous year liability • unexpired expenditure accruals (locks) in previous year • the difference between RAB and RTAV additions in previous year
Calculation based on other modelled values	• deferred tax impact of CIW income • differences between RAB and RTAV additions.

8.6.2 Regulatory tax asset values

The primary purpose of the regulatory tax asset value forecast is to determine tax depreciation which is applied in the roll-forward of the deferred tax balance.

The regulatory tax asset values roll-forward for the next period are presented below.

Table 8.12: Regulatory tax asset values roll-forward

$M	RY26	RY27	RY28	RY29	RY30	RY31	RY32
Opening regulatory tax asset value	698.8	786.7	852.8	926.9	1,013.5	1,128.3	1,235.6
less: Regulatory tax value of disposals	0.1	0.0	0.0	0.0	0.0	0.0	0.0
add: Regulatory tax value of commissioned assets	158.2	147.2	162.7	184.9	222.1	224.1	226.6
less: Tax depreciation	70.1	81.1	88.5	98.2	107.3	116.7	126.7
add: Change in cost allocation	-	-	-	-	-	-	-
Closing regulatory tax asset value	786.7	852.8	926.9	1,013.5	1,128.3	1,235.6	1,335.6

Tax disposals of existing RTAV assets are assumed to stay proportional relative to the existing opening RTAV balance. We forecast this by grouping existing assets based on their remaining lives and then calculating the ratio between the historical RTAV disposals and the opening RTAV balance in RY25 for each remaining life group. This ratio is then applied to that group's existing opening RTAV balance for each year of the forecast.

Forecast RTAV commissioned assets are equal to the commissioned assets forecast excluding any capital contributions and adjusted for assets outside the tax asset register.

Tax depreciation for existing assets was forecast using the same remaining life groupings as were used when forecasting disposals, and the same remaining lives used for information disclosure purposes. Depreciation was calculated by dividing each group's opening balance, after removing disposals, by that asset group's remaining life.

Tax depreciation for RTAV commissioned assets assumed 50% of a year's depreciation in the year that new RTAV was commissioned. In every year thereafter, the approach to depreciation matched that of the existing assets.

Consistent with the requirements of clause 5.3.6, we have assumed no change in cost allocation for existing assets during the next period.

8.6.3 Tax effect of depreciation temporary differences

The tax effect of depreciation temporary differences is the tax effect of the difference between the adjusted depreciation (regulatory depreciation excluding revaluations) and tax depreciation.

9 Other components

Key points

- We are forecasting a TCSD allowance which increases over time, aligned to our forecast increase in debt to finance our capital expenditure and RAB increase.

IM requirements

- TCSD - IM 5.3.23, 5.4.7(2)(d) and 5.4.27(3)
- Timing factors – IM clause 5.3.2(4) and 5.4.7(2)(b)

This chapter discusses the TCSD allowance included in the building blocks allowance calculation and timing factors applied in that calculation.

9.1 TCSD allowance

The TCSD is an allowance in the BBAR calculation to cover the estimated costs a regulated entity would incur if it has debt securities that have a longer term than the five years assumed in the cost of capital calculation.

IM clause 5.3.23 defines how the TCSD is determined. The table below includes the key input assumptions. The calculation is included in the 'Other' worksheet of the 'Supporting Model – Other' workbook which supports the CPP Financial Model.

Table 9.1: TCSD and input assumptions

$m	RY28	RY29	RY30	RY31	RY32
Opening RAB	1,940.0	2,072.7	2,225.0	2,414.0	2,603.1
Closing RAB	2,072.2	2,225.0	2,413.9	2,603.1	2,792.9
Average RAB	2,006.4	2,148.8	2,319.4	2,508.5	2,698.0
Total book value of interest bearing debt	905.9	1,023.7	1,139.1	1,231.1	1,301.1
Input methodology leverage	41%	41%	41%	41%	41%
Gross TCSD	3.6	3.6	3.6	3.6	3.6
TCSD allowance	2.6	2.5	2.4	2.4	2.5

In forecasting the TCSD we have assumed:

- IM defined inputs of a 0.085% spread, 5-year term, 41% leverage rate, and inputs related to the calculation of debt-issuance cost re-adjustments.
- Orion's forecast of qualifying debt, including its tenor, book value and expiration date
- Orion's forecast of total interest-bearing debt.

Orion is expecting to increase its amount of qualifying debt over the CPP Period, consistent with the forecast increase in RAB.

9.2 Timing factors

Timing factors are applied within the BBAR calculation to reflect when, on average, the cash flows are deemed to be incurred during the year.

The BBAR formula incorporates the following cash flow timing assumptions:

- TF_{VCA} which is applied to the total value of commissioned assets, and which also incorporates the PV_{VCA} term;
- TFrev which is applied to the total revaluation building block; and
- TF which is applied to the remaining BBAR building blocks.

The table below summarises the timing factors included in the BBAR before tax series.

Table 9.2: Timing factors

	RY28	*RY29*	*RY30*	*RY31*	*RY32*
TF_{VCA}	1.04	1.04	1.04	1.04	1.04
TF	1.04	1.04	1.04	1.04	1.04
TFrev	1.03	1.03	1.03	1.03	1.03

9.2.1 TF_{VCA} and PV_{VCA}

TF_{VCA} is the timing factor adjustment term which adjusts the value of commissioned assets to year-end terms. Its value depends on the commissioning dates of the new assets added to the RAB each year.

TF_{VCA} is defined as PV_{VCA} x (1 + cost of capital) / total value of commissioned assets. PV_{VCA} is the total value of commissioned assets in year-start terms.

9.2.2 TF_{REV}

TF_{REV} is the timing factor adjustment term which adjusts revenue to year-end terms. It is defined as (1 + cost of capital)$^{148/365}$.

9.2.3 TF

TF is the timing factor adjustment term for all other building block components and converts them to year-end terms. It applies to the TCSD allowance, forecast operating expenditure and regulatory tax building blocks. TF is defined as (1 + cost of capital)$^{182/365}$.

10 Historical expenditure

Historical opex and capex values, for the Current Period, are shown in our Proposal and accompanying Schedule E tables. This historical expenditure information has been presented consistently with how we have prepared our forecasts.

Our historical expenditure information is consistent with our Information Disclosures. We have re-classified the historical expenditure information into the same project and programme structure that our forecasts have been prepared in.

In order to present the historical expenditure information in both real and nominal terms, we have inflated the historical nominal values to real 2026 dollars. We have used actual CPI values for this purpose.

11 Pass through and recoverable costs

Key points

- We have incurred recoverable costs associated with the CPP proposal process.

IM requirements

- IM 5.4.31-32

Pass-through and recoverable costs is a regulatory mechanism that allows us to recover costs that are outside our control and are uncertain in terms of the amount.

- Pass-through costs are those costs that are outside the control of the supplier and can be passed through to consumers without the Commission needing to undertake any assessment of these costs.
- Recoverable costs are not completely outside the control of the supplier and there may be judgement involved as to how much should be passed through. Recoverable costs include such things as regulatory incentives, wash-ups and cost incurred in the development of a CPP proposal.

The regulatory mechanism allows these costs to be added to our revenue requirement.

11.1 How do pass-through and recoverable cost affect prices

Values for pass through and recoverable costs are determined separately from allowable distribution revenue (i.e. the revenue requirement set out in Chapter 2).

Pass-through and recoverable costs are added to allowable distribution revenue, to derive total allowable line charge revenue.

11.2 Pass-through and recoverable costs disclosure

11.2.1 Pass-through costs

IM clause 5.4.31 requires information on proposed new pass-through costs to be disclosed. We do not propose any new pass-through costs in our CPP.

11.2.2 Recoverable costs

IM clause 5.4.32 requires the disclosure of information of proposed recoverable costs defined in 3.1.3(1)(f) verifier fees, 3.1.3(1)(g) auditor's costs and 3.1.3(1)(l) fees payable to an engineer.

We have not incurred any fees payable to an engineer for the purpose of meeting a requirement of clause 5.4.12(4)(b).

The recoverable costs we propose for CPP audit and verifier fees are summarised in the following table:

Table 11.1: Proposed recoverable costs

Type of recoverable cost	Recoverable cost amount ($)	IM clause
Verifier fee for CPP proposal	625,000	3.1.3(1)(f)
Auditor fee for CPP proposal	400,000	3.1.3(1)(g)
Application fee for CPP proposal	20,000	3.1.3(1)(d)
Evaluation fee for CPP proposal (estimated)	1,625,000	3.1.3(1)(e)
Total	**2,670,000**	