

Input methodologies review

Process update paper

Date of publication: 29 February 2016

Associated documents

Publication date	Reference	Title
27 February 2015	Open letter	Open letter on our proposed scope, timing and focus for the review of input methodologies
27 February 2015	ISBN 978-1-869454-31-9	Further work on the cost of capital input methodologies for airports: Proposal to consider the WACC percentile for airports as part of the input methodologies review
9 June 2015	ISSN 1778-2560	Gas Pipeline Services (Incremental Rolling Incentive Scheme) Input Methodology Amendments Determination 2015 [2015] NZCC 15
10 June 2015	ISSN 1778-2560	Airport Services (Weighted Average Cost of Capital percentile) Input Methodology Amendments Determination 2015 [2015] NZCC 16
10 June 2015	Notice of intention	Notice of intention: Input methodologies review
16 June 2015	ISBN 978-1-869454-55-5	Input methodologies review: Invitation to contribute to problem definition
3 July 2015	Update paper	Input methodologies review process paper: Update on fast track amendments
3 July 2015	Notice of intention	Amended notice of intention: Input methodologies review
7 August 2015	Update paper	Input methodologies review process paper: Update on CPP fast track amendments
7 August 2015	Notice of intention	Amended notice of intention: Input methodologies review
7 September 2015	ISBN 978-1-869454-70-8	Proposed amendments to input methodologies for customised price-quality paths: Draft decision for Limb 1 of the CPP fast track
9 October 2015	Update paper	Input methodologies review process update paper: Second update on CPP fast track amendments
9 October 2015	Notice of intention	Amended notice of intention: Input methodologies review
30 October 2015	Update paper	Input methodologies review - Process update paper

10 November 2015	ISSN 1178-2560	Draft decision for fast track review of IMs for the application of airport land valuation methodology
12 November 2015	ISBN 978-1-869454-70-8	Final reasons paper for Limb 1 of the CPP fast track
12 November 2015	ISSN 1178-2560	Electricity and Gas Customised Paths Input Methodologies Amendments Determination 2015 [2015] NZCC 28
30 November 2015	ISBN 978-1-869454-82-1	Input methodologies review: Update paper on the cost of capital topic
30 November 2015	ISBN 978-1-869454-81-4	Input methodologies review: Emerging technology pre-workshop paper
2 December 2015	Notice of intention	Amended notice of intention: Input methodologies review
22 December 2015	Terms of reference	Input methodologies review: Terms of reference for expert advice on cost of capital topics
22 December 2015	Summary of views	Input methodologies review: Gas pipeline stakeholder meeting held 8 December 2015 – Summary of views
22 December 2015	Presentation	Input methodologies review: Gas pipeline stakeholder meeting held 8 December 2015 – Commission presentation
22 December 2015	Workshop transcript	Emerging technologies workshop transcript
12 February 2016	Determination	Consolidated input methodology determination for Transpower
19 February 2016	Expert advice	Professor George Yarrow’s expert advice on airports WACC percentile, the terms of reference for this work, and the Commission’s emerging views on the topic
24 February 2016	ISBN 978-1-869454-94-4	Airports fast track: Final decision and amendments

Commerce Commission
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Introduction

Purpose of this paper

1. The purpose of this paper is to update stakeholders about a number of process matters relating to the input methodologies review (**IM review**). More specifically, it provides:
 - 1.1 An update on the process and timelines for the review;
 - 1.2 Details of additional process steps between now and the draft decisions for selected topic areas;
 - 1.3 An update on the emerging technology topic, following the workshop and submissions;
 - 1.4 An explanation of the extent to which we intend to take specific topics forward as part of the IM review (and the extent to which specific topics may be progressed as separate pieces of work); and
 - 1.5 An overview of recent changes to the structure of the IM review page of the Commission's website.
2. Our draft decisions in June 2016 will be main point of consultation for all interested parties.

Background to this paper

3. On 27 February 2015, we issued an open letter seeking comment on the timing, approach and possible focus areas for the IM review.
4. Having reviewed your comments on that letter, we issued a notice of intention to commence the current IM review on 10 June 2015.
5. On 16 June 2015, we released an invitation to contribute to the problem definition for the IM review (problem definition paper). We held an industry forum on 29-30 July 2015 to give you an opportunity to develop and test your views on the problems for the review prior to making your formal written submissions.
6. Having analysed submissions on our problem definition paper we were able to further develop the process for the review. On 30 October 2015, we published a process update paper updating stakeholders about a number of process matters relating to the IM review (PUP 2015).
7. Since we issued the PUP 2015, we had further engagement with stakeholders on a number of the IM review topics. The process steps we have undertaken since releasing the PUP 2015, are listed in the table in attachment 1.

Update on the process steps and timeline up to the draft decisions

8. This section outlines the planned process steps and timelines between now and the draft decisions.

Summary of the process steps through until the draft decisions

9. A summary of the documents being published today along with this paper is set out in Table 1. A summary of the planned process steps between now and the draft decisions is set out in Table 2. The details of the steps listed in Table 1 and Table 2 are discussed further, by topic, below.

Table 1: Documents being published today alongside this paper

Indicative process step	Date/updated indicative timeframe
Consolidated input methodology determination for airports	29 February 2016
Emerging views paper on opportunities to improve the way default and customised price-quality paths work together	29 February 2016
Gas pipeline default price-quality path reset 2017: process and issues paper	29 February 2016
Emerging views on form of control	29 February 2016
Dr Lally's expert advice on asset beta adjustments and Black's simple discounting rule	29 February 2016

Table 2: Planned process steps through to draft decisions

Indicative process step	Date/updated indicative timeframe
Comments due on Professor Yarrow's report on airport WACC percentile and our emerging views paper	11 March 2016
Comments due on Emerging views paper on opportunities to improve the way default and customised price-quality paths work together	24 March 2016
Comments due on gas pipeline default price-quality path reset 2017: process and issues paper	24 March 2016 (IM related topics) 30 March 2016 (non IM related topics)
Comments due on emerging views on form of control paper	24 March 2016
Comments due on Dr Lally's expert advice on asset beta adjustments and Black's simple discounting rule	24 March 2016
Agenda and material for CPP requirements Working Group published	30 March 2016
CPP requirements: Working Group	Mid-April 2016
Airports profitability assessment: Workshop 2 Note: we are working with interested stakeholders to confirm a date for this workshop. We then aim to publish an agenda and associated papers at least a week before the workshop.	Late April 2016
Dr Lally's expert advice on cost of debt, RAB indexation and inflation risk	May 2016
Draft decisions and reasons published	Mid-June 2016

10. For other topic areas, at this stage, we have not identified further engagement steps that might be required before we are able to reach draft decisions. However, we are open to adding additional engagement steps if, as we continue with our analysis, we identify that there would be value in doing so.

Details of process steps between now and the draft decisions

11. The following sections describe the process steps outlined in Tables 1 and 2 by topic area.

Emerging views on opportunities to improve the way default and customised price-quality paths work together

12. Today, we published an emerging views paper on opportunities to improve the way default and customised price-quality paths work together. This paper picks up on topic 8 from the problem definition paper,¹ which was focused on exploring opportunities to reduce the cost involved in making and assessing a CPP application.
13. The paper:
- 13.1 Shares and explains our emerging views on opportunities to improve the way default and customised price-quality paths, including the change mechanisms within them (ie, pass-through costs, recoverable costs, and re-openers) work together to promote long-term benefit for consumers; and
 - 13.2 Provides stakeholders with the opportunity to comment on, and help shape emerging views in this area, prior to us reaching draft decisions.
14. Comments are due on this paper by 24 March 2016.

CPP application requirements

15. We are proposing to convene a working group in Wellington to discuss CPP information requirements in mid-April 2016. We deferred the originally proposed February date to allow time for consultation on our emerging views on the way DPPs and CPPs work together.
16. The working group will focus on Schedules D and E of the EDB input methodologies (IMs), in particular:
- 16.1 Qualitative information requirements for electricity distributors that set out the description, explanation and rationale for the expenditure information to be submitted with a CPP proposal (ie, Schedule D of the input methodologies for electricity distributors); and

¹ Commerce Commission “Input methodologies review: Invitation to contribute to problem definition” (16 June 2015).

- 16.2 Quantitative information framework for electricity distributors that sets out the forecast and historic expenditure information required to be submitted with a CPP proposal (ie, Schedule E of the input methodologies for electricity distributors).
- 17. At this stage, we also intend to discuss the potential introduction of flexibility to specific elements of the verification provisions.
- 18. Materials for the workshop will be made available on our website by 30 March 2016.

Form of control

- 19. We have published a paper with our emerging views on form of control today, alongside this Process Update Paper.
- 20. This paper sets out:
 - 20.1 Our emerging views on the appropriate forms of control for electricity distribution businesses (EDBs) and gas transmission businesses (GTBs);
 - 20.2 Our approach to gathering further information to help support a decision on form of control for gas distribution businesses (GDBs);
 - 20.3 Our reasons supporting our current views; and
 - 20.4 The particular areas that we would welcome stakeholders' comments on.
- 21. Comments are due on this paper by 24 March 2016.

Cost of capital

- 22. We released Professor Yarrow's expert advice on airports WACC percentile, alongside our emerging views paper, on 19 February 2016. Comments on both of these papers are due by 11 March 2016.
- 23. We have also published today Dr Lally's advice on asset beta adjustments and Black's simple discounting rule. This incorporates his advice on the submissions from the cost of capital update paper on these topics. Comments on these topics are due by 24 March 2016.
- 24. We intend to release the rest of Dr Lally's expert advice on the cost of debt, RAB indexation and inflation risk in May, and will seek stakeholder comments on these topics at the time of our draft decisions.

Gas pipeline default price-quality path reset 2017 – process and issues paper

- 25. Today we have published a gas pipeline default price-quality path reset 2017 – process and issues paper.
- 26. This paper seeks feedback on issues we think need to be addressed as part of resetting the default price-quality paths for gas transmission and gas distribution

businesses in 2017. This paper is part of the IM review to the extent that it relates to the IMs. We are seeking comments on the IM related matters in the paper by 24 March 2016.

27. The paper also sets out the process we intend to follow to reset the default paths, including indicative timeframes for all publications and events that are planned between now and our final decision being published in May 2017.
28. Submissions are due by Thursday 30 March 2016 and cross-submissions are due by Thursday 13 April 2016.
29. A question and answer session to help stakeholders prepare their submissions is being planned for 10 March 2016.
30. Consistent with what we have said in the Gas DPP paper issued today and previous Process Update Papers,² we consider that any submissions or material provided in relation to the DPP reset that are relevant to the IM review and received before the final IM review determination is made, will also form part of the IM review record.

Update on emerging technology topic, following workshop and submissions

31. As mentioned in our emerging technology pre-workshop paper,³ we are focusing on three areas:
 - 31.1 Efficient investment incentives;
 - 31.2 Risk of partial capital recovery; and
 - 31.3 Regulatory treatment of cashflows from emerging technologies.
32. Out of the three areas of focus, only the regulatory treatment of cashflows from emerging technologies needed further work on the problem definition and evidence gathering; that is why we held the workshop.
33. In relation to the risk of partial capital recovery area, we are still assessing whether any IM changes are the best way forward. A number of submissions have suggested that one possible way of mitigating the risk of asset stranding is by changing the time profile of capital recovery, possibly by reducing asset lives or remaining asset

² As we indicated in our 30 October 2015 Process Update Paper for the IM review: Any material provided in the course of the IM review (on any topic or sectoral issue), including in any engagement planned on any topic, will form part of the record for the IM review. The record will therefore include any material provided during Commission workshops or other engagements in the course of the IM review, including any material that may cover matters wider than the IMs.

For instance, the airports profitability topic may also consider changes to the airports ID determination, and the gas pipeline issues topic may cover preparations for the 2017 gas DPP resets.

³ Commerce Commission "Input methodologies review - Emerging technology pre-workshop paper" (30 November 2015) para 11-12.

lifetimes.⁴ While we have not formed any final view at this stage as to whether shortening (or increasing) asset lifetimes would promote the section 52A purpose more effectively, we may approach selected stakeholders directly to test any practical/technical implementation details (eg impact of changing asset lives on asset registers) of some of the potential options.

34. We thank stakeholders for their participation at the workshop in December 2015 and their subsequent submissions on emerging technologies. We consider that we do not need any further information on the three areas to allow us to reach draft decisions. We intend that the next opportunity for stakeholders to engage in emerging technologies will be after the draft decisions.

Update on how we intend to take specific topics forward as part of the IM review

35. This section explains differences in the key topics for the review since the PUP 2015. In particular, the extent to which we intend to take the topics of related party transactions and gas pipeline issues forward as part of the IM review.

Related party transactions

36. In the PUP 2015, we noted that related party transactions could be a separate topic for the review. This section explains how we plan to progress this topic.

Proposed approach

37. Our proposed approach for completing the current IM review in respect of the related party IMs is therefore to:
- 37.1 Address the CPP related party information requirements in our draft IM decisions; and
 - 37.2 In our IM draft decisions, include a problem definition for the related party provisions. At this stage, we consider that this problem is best addressed following the IM review as a broader piece of related party provisions work undertaken separately from the IM review.

Current provisions

38. Related party transaction valuation provisions for capital expenditure were originally included in the IMs in 2010 because the value at which an asset is transferred from a related party to a regulated supplier is potentially open to manipulation.⁵

⁴ ENA's submission on the problem definition paper "Response to the Commerce Commission's Input methodologies review paper" (21 August 2015), p.25.

⁵ *Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010*, decision number 710 (22 December 2010), clauses 2.2.11(1)(g) and 5.3.11(1)(g), *Commerce Act (Gas Distribution Services Input Methodologies) Determination 2010*, decision number 711 (22 December 2010), clauses 2.2.11(1)(g) and 5.3.11(1)(g), *Commerce Act (Gas Transmission Services Input Methodologies)*

39. The intention is to ensure that suppliers cannot recover more from consumers of regulated suppliers than would be recovered on an arm's length basis.⁶ To meet this intent, the rules require suppliers to include values only where they are objectively justifiable and reasonable such as where the costs are no more than would be incurred on an arm's length basis.
40. In 2012 we included more options for suppliers to use when determining the cost of a commissioned asset acquired from a related party.⁷ We also clarified that where the cost could not be justified under the options available, the value had to be treated as nil.
41. Rules on related party transactions for operating expenditure are included in the information disclosure (ID) determinations.⁸ These rules are substantively similar to those that apply for capital expenditure.
42. The related party transaction aspects of the CPP information requirements were included in the IMs in 2010.⁹ The CPP information requirements relate to both capital expenditure and operating expenditure information.¹⁰

The issues

43. Having reviewed the related party IM provisions as part of this IM review, including considering submissions on the related party IM provisions, we consider that the policy intent,¹¹ behind the related party IM provisions remains appropriate.

Determination 2010, decision number 712 (22 December 2010), clauses 2.2.11(1)(g) and 5.3.11(1)(g), and *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010*, decision number 709(22 December 2010), clause 3.9(1)(e).

⁶ Commerce Commission "Input Methodologies (Electricity Distribution and Gas Pipeline Services): Reasons Paper" (December 2010), para E8.8.

⁷ Commerce Commission "Electricity and Gas Input Methodology Determination Amendments (No 1) 2012: Reasons paper" (29 June 2012), p. 4-9.

⁸ *Electricity Distribution Information Disclosure Determination 2012* [2012] NZCC 22, *Gas Distribution Information Disclosure Determination 2012* [2012] NZCC 23, *Gas Transmission Information Disclosure Determination 2012* [2012] NZCC 24, and *Airports Information Disclosure Determination 2010* (Commerce Commission Decision 715, 22 December 2010) and *Transpower Information Disclosure Determination 2014* [2014] NZCC 5.

⁹ *Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010*, decision number 710 (22 December 2010), Schedule D17, *Commerce Act (Gas Distribution Services Input Methodologies) Determination 2010*, decision number 711(22 December 2010), Schedule D17 and *Commerce Act (Gas Transmission Services Input Methodologies) Determination 2010*, decision number 712 (22 December 2010), Schedule D17.

¹⁰ *Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010*, decision number 710 (22 December 2010), Schedule D, *Commerce Act (Gas Distribution Services Input Methodologies) Determination 2010*, decision number 711(22 December 2010), Schedule D and *Commerce Act (Gas Transmission Services Input Methodologies) Determination 2010*, decision number 712(22 December 2010), Schedule D.

¹¹ As described in paragraphs 38 and 39 of this paper.

44. However, we have identified a number of issues with the related party transaction valuation provisions as they are applied in practice:
- 44.1 There appear to be interpretation and implementation issues with the related party options across both the ID and IM determinations;¹² and
 - 44.2 The requirements for CPP related party information are viewed by some as onerous and these requirements may not be able to be applied in practice.¹³
45. We have also identified that:
- 45.1 There may be opportunities to better align the related party rules between operating expenditure (in ID) and capital expenditure (in the IMs).¹⁴ Suppliers have stated that the related party provisions are inconsistent across the various determinations;¹⁵
 - 45.2 Related party transaction values are now a significant and increasing aspect of some regulated suppliers' expenditures. We are curious as to why this is, and would like to understand this better; and
 - 45.3 Some regulated suppliers may not fully understand the related party provisions, which could potentially lead to compliance issues.
46. We have only heard from a small number of parties on the related party issues, and given the increasing importance of the related costs involved in the setting of price-quality paths, we would like to engage with a broader range of stakeholders about the related party transaction valuation rules.
47. We consider it appropriate for us to proceed now with amendments to the CPP information requirements in Schedule D17 of the EDB and GPB IM determinations, as they:
- 47.1 Are sufficiently separate from the related party clauses that further broad amendments in the foreseeable future are unlikely; and

¹² For example, the interpretation of 'directly attributable costs' (both ID and IM), the appropriateness of director certification as an option (both ID and IM) and the interpretation and application of the 17.2% margin (in ID) are identified issues.

¹³ PwC "Submission to the Commerce Commission on Input methodologies review: Invitation to contribute to problem definition", (21 August 2015), p. 28. For example, we require suppliers to identify and describe all related parties project costs over a 12 year period when undertaking a CPP proposal (Schedule E, Table 4-5).

¹⁴ For example, the EDB, GDB, and GTB ID requirements allow the cost of a commissioned asset acquired from a related party to be determined for contracting services, used to maintain or develop the network, at the directly attributable cost incurred by the related party, plus a mark-up not exceeding 17.2%.

¹⁵ PwC "Submission to the Commerce Commission on Input methodologies review: Invitation to contribute to problem definition", (21 August 2015), p. 26-27.

- 47.2 Do not have broad consequences for the related party provisions. They relate to the information a supplier must disclose when applying for a CPP, rather than the method used to determine the value of a commissioned asset or service acquired from a related party.
48. In the IM review draft decisions, we will include a problem definition for the broader piece of work, and stakeholders will have the opportunity to make submissions on the problem definition. At this stage, we consider that the best solution to this problem is likely to be addressed following the IM review as a broader piece of related party provisions work undertaken separately from the IM review. We propose this because:
- 48.1 The associated interpretation and implementation issues within the related party provisions cross over the ID determinations and the IM determinations;
- 48.2 It would be useful to obtain additional information and explanations in order to understand the implementation and compliance issues, the reasons why suppliers use certain related party options, suppliers' ownership structures, and to better understand the reasons for the growing value of related party transactions that are being disclosed;
- 48.3 A broader piece of work may provide opportunities for further guidance and education of stakeholders about the purpose and meaning of the related party options and how to comply with them;
- 48.4 Amending the IM determinations may not be the best way to address the implementation and interpretation issues with the related party IM provisions. For example, if we improve stakeholder's understanding of the related party options through a broader piece of work, future amendments to the IM and ID related party provisions may not be required; and
- 48.5 We want to give greater opportunity for further input from stakeholders to develop and test possible solutions.
49. We will undertake the broader piece of work because we would like to:
- 49.1 Look at a wider context than the IM determinations and therefore consider the provisions holistically across the IMs and ID;
- 49.2 Undertake summary and analysis on data on the potential problems (including the ID determinations and our compliance concerns), which will take additional time; and

- 49.3 Engage further industry involvement. For example, it will enable us to consider related party issues in the emerging technology context, as Unison has submitted.¹⁶
50. This further work, which will be separate to the IM review and under its own timeframes, may lead to amendments to how the related party valuation option provisions are structured in the IM and ID determinations. It could also possibly include additional guidance or clarifications to parties on complying with the related party rules.
51. As outlined above, we will address the related party transaction aspects of the CPP information requirements in the EDB and GPB IM determinations as part of the IM review. However, our broader piece of work would include analysis of the CPP related party option provisions.¹⁷
52. At this stage we expect further work on the related party provisions could be completed in 2017. This would mean any resulting changes to the related party provisions would be in place in time to allow for preparations for the EDB DPP reset in 2019.
53. To improve our understanding of the related party provisions, we are intending to approach some stakeholders for their views on the provisions. If you would like to provide your view, please contact Brett Woods at Brett.Woods@comcom.govt.nz, or (04) 924 3776 to arrange a time for discussion.

Gas pipeline issues

54. In our PUP 2015, we raised the possibility of an additional topic within the IM review, focused on issues specific to the gas pipeline sector. This section explains how we anticipate those issues will be dealt with either through the rest of the IM review or the gas DPP reset process.
55. Matters related specifically to the gas pipeline default price-quality path reset, including the process we intend to follow for consultation on the reset, are discussed in a separate process and issues paper, which is available on our website.¹⁸

¹⁶ Unison "Submission on the Input Methodologies: Treatment of Emerging Technologies" (4 February 2016), p. 3-4, 10-11.

¹⁷ *Commerce Act (Electricity Distribution Services Input Methodologies) Determination 2010*, decision number 710 (22 December 2010), clause 5.3.11(6), *Commerce Act (Gas Distribution Services Input Methodologies) Determination 2010*, decision number 711 (22 December 2010), clause 5.3.11(6) and *Commerce Act (Gas Transmission Services Input Methodologies) Determination 2010*, decision number 712 (22 December 2010), clause 5.3.11(6).

¹⁸ Commerce Commission "Default price quality paths for gas transmission and distribution businesses from 1 October 2017 - Process and issues paper" (29 February 2016). For our view on the Gas DPP and the IM review record, see para 2.7.

Process since PUP 2015

56. We proposed the possibility of an additional topic within the IM review focused on issues specific to the gas pipeline sector as an efficient way of addressing IM issues specific to the gas DPP resets,¹⁹ and to ensure the general consistency of the gas pipeline IMs with other sectors.
57. To help us assess the scope of issues in the gas pipeline sector, we held a workshop for stakeholders in the sector on 8 December 2015.²⁰ The discussions at that workshop, along with the submissions we received following it, identified a number of issues for us to consider.

How we are dealing with gas pipeline specific issues

58. We will consider the gas specific issues that stakeholders have identified, as follows:
- 58.1 Gas pipeline issues relating to **form of control** will be considered under the form of control topic within the IM review. Our emerging views on this topic are covered in a separate paper being published today.²¹
- 58.2 Consistent with our emerging view that an **Incremental Rolling Incentive Scheme (IRIS)** for gas pipelines services is not warranted at this time, we propose not to consider this issue further.²²
- 58.3 As there is no IM for quality of service, consultation on quality requirements for gas pipeline businesses will be carried out as part of our consultation on the gas DPP reset. For discussion of these issues, please see the process and issues paper for the gas DPP reset.²³
- 58.4 Treatment of **major capex** principally relates to either the work to improve CPP application requirements, in which case it will be dealt with under the CPP requirements topic in the IM review, or to the setting of the DPP, in which case it will be dealt with as part of the consultation on the gas DPP reset.²⁴

¹⁹ See Commerce Commission "Input methodologies review: Process update paper" (30 October 2015), para 14-16.

²⁰ A summary of the matters discussed can be found [here](#).

²¹ Commerce Commission "Emerging views on form of control" (29 February 2016).

²² Commerce Commission "Default price quality paths for gas transmission and distribution businesses from 1 October 2017 - Process and issues paper" (29 February 2016) Chapter 6.

²³ Commerce Commission "Default price quality paths for gas transmission and distribution businesses from 1 October 2017 - Process and issues paper" (29 February 2016) Chapter 5.

²⁴ See Commerce Commission "Default price-quality path for gas pipeline businesses from 1 October 2016 – Process and Issues paper (29 February 2016).

Our intention to defer amendments to the CPP information requirements for gas at this time

59. This section outlines the reasons for our current intention to defer potential amendments to the CPP information requirements for gas distribution and transmission services, which we have identified as part of the IM review.

Opportunities to improve the CPP information requirements

60. As part of our review of the IMs, we are exploring opportunities to reduce the cost and complexity involved in making and assessing a CPP application. The CPP information requirements have been identified as an area which could be better designed to make the CPP application process simpler and more cost-effective.
61. Feedback on setting the Orion CPP has helped us to identify areas for improvement to the CPP information requirements for EDBs – for example, by better aligning the requirements with businesses existing information practices and reducing duplication. We have considered this feedback and have begun to develop proposed amendments for EDBs. We are also planning to hold a working group meeting in April to gain technical input into these proposed changes from EDBs.
62. However, we recognise that there are significant differences between electricity distribution, gas distribution, and gas transmission businesses. The information required to assess a proposal will differ depending on the service. This means it is unlikely that amendments to improve the CPP information requirements for electricity distribution services will be suitable for replication in the gas IMs – without redesigning them to reflect the unique features of the gas sectors.
63. While we consider that there are also areas of the CPP information requirements for gas suppliers that could be improved, at this stage, we consider that we will be in a better position to determine specific amendments after we have set the DPP for gas pipeline services.
64. We consider that this is the best approach due to a number of factors:
- 64.1 *There are no GDBs contemplating a CPP application in the near future* – we have spoken to all GDBs and they have informed us that they have no plans to make a CPP application in the near future. This decreases the urgency for us to consider whether any amendments to the GDB CPP information requirements are necessary at this time. Further, we have not received any detailed feedback on improvements we could make to the CPP information requirements for GDBs. This means that any changes made at this time would be based on what we have seen in the electricity arena. We consider that deferring till a later date when gas distributors are more engaged with the CPP option, will produce a better end product.
- 64.2 *The GTB will be in a better position to engage following merger* – We received a submission from Maui which made comments on the information requirements. However, the GTB ownership is currently undergoing changes.

We consider that there is benefit in deferring consideration of the GTB information requirements until after the changes have been completed, and the GTB will be in a better position to substantively engage with the requirements.

- 64.3 *Modification and exemptions allow flexibility if needed* – in the interim, the modification and exemption provisions allow us some flexibility to modify the CPP information requirements if an unexpected application was received – for example, due to a catastrophic event.
65. We have contacted affected suppliers to inform them of our thinking and they are comfortable with this intention to defer amending the information requirements, although stakeholders will have a further opportunity to comment on our intention in making submissions on the IM review draft decisions.

Potential changes to the CPP requirement IMs for gas pipeline services that are still being progressed

66. We are still considering changes to improve the roles of the independent verifier and auditor, and clarify our consumer consultation expectations. We think that only changes to these aspects of the CPP process will be equally applicable to electricity distribution and gas pipeline businesses. As such, it is likely that any changes made to the EDB IMs in these areas will also be made to the gas IMs as part of the IM review.

Overview of recent changes to the structure of the IM review page of our website

67. This section outlines the updates that we have made to the website structure with the aim of making the IM review content on the website more accessible to stakeholders.

New topic pages created

68. In order to reduce the size of the main IM review page we have moved topic-specific content to new subpages, dedicated to those individual topics. This means that the project timeline information and any papers or submissions published relating to the cost of capital topic, for example, will now be found on the cost of capital subpage instead (the same principle applies for other topics).

Main IM review page

69. Two new documents lists have been added to the main IM review page: “Key information” and “Process updates”. These sections bring key documents and publications (such as the Open Letter, Invitation to Contribute to Problem Definition, Amended Notice of Intention, and Process Update Papers) together in one place and make them easier to find.
70. Please note that these documents have not been moved from their original places further down the page but are now available in two places.

71. The “Key information” and “Process Updates” sections will remain near the top of the web page (under the project timeline) even as new content is added.

Attachment 1: Process steps to date since PUP 2015

Table 3: Process steps to date since PUP 2015

Process step	Date
Airports profitability assessment: Confirm venue for workshop 1 and publish agenda and associated papers	6 November 2015
Airports fast track: Draft decision and amendments	10 November 2015
CPP fast track: Final decision and input methodology amendments	12 November 2015
Emerging technology: Publication of material for workshop	30 November 2015
Cost of capital issues: Publish a cost of capital update paper	30 November 2015
Airports profitability assessment: Workshop 1	1 December 2015
Amended notice of intention ²⁵	2 December 2015
Gas pipeline issues: Publication of the agenda for the meeting	3 December 2015
Airports fast track: Submissions on our draft decision and amendments due	8 December 2015
Gas pipeline issues: Meeting held	8 December 2015
Emerging technology: Workshop	14 December 2015
Airports fast track: Cross-submissions on our draft decision and amendments due	18 December 2015
Gas pipeline issues: Written comments from stakeholders due	28 January 2016
Consolidated input methodology determinations for EDBs, GDBs and GTBs published	3 February 2016
Emerging technology pre-workshop paper submissions due	4 February 2016
Cost of capital issues: Submissions on cost of capital update paper due	5 February 2016
CPP requirements: Update on the details of the planned workshop	11 February 2016
Consolidated input methodology determination for Transpower	12 February 2016
Professor George Yarrow's expert advice on airports WACC percentile, the terms of reference for this work, and the Commission's emerging views on the topic	19 February 2016
Airports fast track: Final decision and amendments	24 February 2016

72. In addition to the process steps outlined in Table 3 above, since PUP 2015 we have also:

72.1 Published submissions on our draft decisions on airports fast track amendments; our gas pipeline sector stakeholder meeting; our emerging technology pre-workshop paper; and our cost of capital update paper, which are all available on our website; and

²⁵ The revision brings the incremental rolling incentives scheme (IRIS) for electricity distribution services into the review. The new notice of intention can be found [here](#).

- 72.2 Published a process update email in advance of this paper, on 11 February 2016, to provide an initial update on material we had already published in February and intended to publish by the week commencing 29 February 2016.