

## **Input methodologies review**

**Process update paper**

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## Associated documents

Publication date	Reference	Title
14 September 2016	Notice of Intention	Amended Notice of Intention: Input methodologies review

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## CONTENTS

<b>INTRODUCTION .....</b>	<b>2</b>
PURPOSE OF THIS PAPER.....	2
BACKGROUND TO THIS PAPER .....	2
<b>UPDATE ON THE PROCESS STEPS AND TIMELINE FOR REACHING FINAL DECISIONS .....</b>	<b>3</b>
<b>UPDATE ON THE PROCESS FOR AREAS WHERE WE HAVE NOT YET REACHED DRAFT DECISIONS.....</b>	<b>5</b>
TRANSPower INCREMENTAL ROLLING INCENTIVE SCHEME .....	5
RELATED PARTY TRANSACTIONS PROVISIONS.....	6
CPP INFORMATION REQUIREMENTS FOR GAS PIPELINE BUSINESSES.....	6

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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 remainder of the review; and
  - 1.2 an update on our timing for our draft and final decisions on those areas of the IMs where we have not yet reached draft decisions.

### Background to this paper

2. Input methodologies (**IMs**) are the upfront rules, processes and requirements of regulation under Part 4 of the Commerce Act 1986 (the **Act**).
3. We commenced the current review of the IMs (except the Transpower Capex IM) on 10 June 2015 by issuing a notice of intention.<sup>1</sup> We must review all IMs within the scope of the notice of intention.
4. On 16 June 2016, we published our draft decisions on the IM review.<sup>2</sup> Our draft decisions package comprises a number of papers. There are broadly four elements to the package of papers for our draft decisions:
  - 4.1 the overarching papers, being the summary paper, the introduction and process paper, and the framework paper;
  - 4.2 topic papers which, for each of the key topics for the review, explain the problems we have identified and our proposed solutions for addressing those problems;
  - 4.3 the Report on the IM review, which presents our draft decisions on whether and how to change the IMs as a result of the IM review so far; and
  - 4.4 the draft amendments to the IM determinations and the airports ID determination.
5. We received a large number of submissions and cross submissions on our draft decisions package, which are available on our website.<sup>3</sup>

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<sup>1</sup> Commerce Commission “Notice of intention: Input methodologies review” (10 June 2015).

<sup>2</sup> With the exception of the Report on the IM review and the draft determinations, which we published on 22 June 2016.

<sup>3</sup> <http://www.comcom.govt.nz/input-methodologies-review/>

6. Thank you for your continued engagement in our process. We are continuing to consider your submissions and cross submissions, which will inform our final decisions on the IM review.

### Update on the process steps and timeline for reaching final decisions

7. A summary of the planned process steps between now and the final decisions is set out in Table 1.

**Table 1: Planned process steps through to final decisions**

Indicative process step	Indicative date
Further targeted consultation paper on cost allocation for electricity and gas businesses	19 – 23 September 2016
Submissions due on further consultation paper on cost allocation for electricity and gas businesses	10 – 14 October 2016
Technical consultation on updates to draft determinations (including airports ID determination)	13 October 2016
Cross submissions due on further consultation paper on cost allocation for electricity and gas businesses	20 – 25 October 2016
Submissions due on technical consultation (including airports ID determination)	3 November 2016
Final decisions on IM review (including airports ID determination)	15 December 2016
Draft decision on Transpower IRIS IM	Q1 2017
Draft decision on related party transactions provisions	Q2 2017
Final decision on Transpower IRIS IM	Q2 2017
Draft decision on CPP information requirements for gas pipeline businesses	Q3 2017
Final decision on related party transactions provisions	Q4 2017
Final decision on CPP information requirements for gas pipeline businesses	Q4 2017

8. At this stage, we do not consider that any engagement steps beyond those listed in Table 1 are required before we will be in a position to reach final decisions. However, we may add additional engagement steps if, as we continue with our process, we consider it necessary to do so. We will continue to keep stakeholders updated on our process.

*Cost of capital workshop*

9. On 7 September 2016 we held a workshop on selected cost of capital matters. Thank you to those that contributed.
10. We aim to publish the transcript from the workshop in the next few days.

*Further targeted consultation on cost allocation for electricity and gas businesses*

11. In light of submissions and cross submissions on our draft decisions, we have decided to hold targeted further consultation in relation to cost allocation for electricity and gas businesses. We expect to release a consultation paper in the week commencing 19 September 2016.
12. We intend to allow 3 weeks for consultation on that paper, with 1 week for cross submissions.

*Technical consultation on updates to draft determinations*

13. We anticipate publishing revised draft determinations for technical consultation in mid-October 2016.<sup>4</sup> We expect that the focus of the technical consultation will be on ensuring the revised draft determinations accurately give effect to our draft decisions and any updated views.
14. We expect to provide 3 weeks for submissions on the technical consultation round. We do not expect to provide for cross submissions.
15. The technical consultation is expected to be the final consultative step before we reach final decisions on the IM review in December 2016.<sup>5</sup>

*Gas default price-quality path reset*

16. The process to reset the gas default price-quality path (**Gas DPP**) has been running alongside the IM review. In June 2016, we published a paper regarding the implementation of IM-related matters. On 30 August 2016, we released a policy paper relating to non-IM related matters, and we are currently awaiting submissions on that paper. We are holding a question and answer session for stakeholders on the latter paper on 14 September 2016.
17. We expect to publish our draft decision on the Gas DPP reset in February 2017, with our final decision expected to be released in May 2017. The February draft decision on the Gas DPP will apply the IMs as amended by our December 2016 IM review decisions.

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<sup>4</sup> These will be revised versions of the draft IM determinations and the draft airports ID determinations published on 22 June 2016.

<sup>5</sup> With the exception of those areas where we have not yet reached draft decisions (ie, the related party transaction provisions, the Transpower IRIS IM, the CPP information requirements for gas).

## Update on the process for areas where we have not yet reached draft decisions

18. This section provides an update on three areas of the IMs where we have not yet reached draft decisions.
19. Our draft decisions package presented draft decisions on all IMs within the scope of the review except the IMs for:
  - 19.1 the Transpower Incremental Rolling Incentive Scheme (**IRIS**);<sup>6</sup>
  - 19.2 the CPP information requirements for gas;<sup>7</sup> and
  - 19.3 the related party transactions provisions.<sup>8</sup>
20. While these areas are still within the scope of the IM review, we have not yet reached draft decisions on them.
21. Below we set out our anticipated dates for reaching draft and final decisions on these areas. These dates are also reflected in an updated notice of intention for the IM review, which we have published alongside this paper.<sup>9</sup> Extending the dates for these areas of the IM review beyond December 2016 will not impact on our intention to make any amendments relevant to the 2017 Gas DPP reset or the 2017 airports price-setting events in time for those events.

### Transpower Incremental Rolling Incentive Scheme

22. Having done further analysis, we expect that our review of the Transpower IRIS IM will run beyond December 2016. In respect of the Transpower IRIS IM, we expect to publish our:
  - 22.1 draft decisions in Q1 2017; and
  - 22.2 final decisions in Q2 2017.

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<sup>6</sup> As discussed in Commerce Commission “Input methodologies review: Report on the IM review” (22 June 2016).

<sup>7</sup> As discussed in Commerce Commission “Input methodologies review draft decisions: Topic paper 2 – CPP requirements” (16 June 2016).

<sup>8</sup> As discussed in Commerce Commission “Input methodologies review draft decisions: Topic paper 7 – Related party transactions” (16 June 2016).

<sup>9</sup> Commerce Commission “Amended Notice of Intention: Input methodologies review” (14 September 2016).

### **Related party transactions provisions**

23. In respect of the related party transactions provisions, we expect to publish:
- 23.1 our draft decision in Q2 2017; and
  - 23.2 our final decision in Q4 2017.<sup>10</sup>
24. We have commenced the first phase of our related party transactions work, which is aimed at assessing whether the issues identified in our Related Party Transactions Topic Paper amount to a broader problem with the related party transactions regime.<sup>11</sup> Until we have a clear problem definition, we will not be in a position to make a draft decision as to whether changes are required to the related party transactions IMs or information disclosure requirements.
25. Our work on problem definition is likely to involve discussions with interested parties in order to better understand how well the related party rules are currently operating. We will update parties on any opportunities to contribute to this work.

### **CPP information requirements for gas pipeline businesses**

26. 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.
27. In June 2016, we proposed changes to the CPP information requirements for EDBs as part of the IM review draft decisions, but did not propose any changes to the CPP information requirements for GPBs.
28. While we consider that there are areas of the CPP information requirements for GPBs 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 by 31 May 2017. We also consider parties will be better placed to engage with the process to improve the CPP information requirements for GPBs after recent transactions in the sector.
29. As such, in respect of the CPP information requirements for gas, we expect to publish our:
- 29.1 draft decisions in Q3 2017; and
  - 29.2 final decisions in Q4 2017.

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<sup>10</sup> We are aiming to ensure that any IM or ID amendments are published with sufficient time for regulated suppliers to implement any system or process changes for 2018/19 disclosure year data, which will be used in the next EDB price-quality path reset.

<sup>11</sup> Commerce Commission "Input methodologies review draft decisions: Topic paper 7 – Related party transactions" (16 June 2016).

*Selected areas of the CPP requirement IMs for gas pipeline services are still being progressed on a December 2016 timeline*

30. We are still considering changes to improve the roles of the independent verifier and auditor, and to clarify our consumer consultation expectations, on the same timeline as the rest of the IM review. We consider 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 by December 2016.