

**Draft Gas Distribution Services Default Price-Quality Path
Determination 2017~~3~~**

[2013] NZCC-4

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DRAFTING NOTE:

1. This tracked-change version of the Draft Gas Distribution Services Default Price-Quality Path Determination 2017 is published solely to highlight content changes and differences from the Gas Distribution Services Default Price-Quality Path Determination 2013 for stakeholders. Accordingly, formatting and minor changes (such as numbering changes) have not been tracked.
2. In some instances schedules have also been amended in their entirety. The replacement wording for these schedules is included as tracked changes, but the original clauses are not reflected in this tracked-change version.

CONTENTS

1. TITLE	4
2. COMMENCEMENT	4
3. APPLICATION	4
4. INTERPRETATION	4
5. DEFAULT PRICE-QUALITY PATH	7
6. APPLICABLE INPUT METHODOLOGIES.....	8
7. CPP PROPOSALS.....	8
8. PRICE PATH.....	8
9. QUALITY STANDARDS	11
10. TRANSACTIONS.....	12
11. COMPLIANCE STATEMENTS.....	14
SCHEDULE 1: STARTING PRICES.....	17
SCHEDULE 2: RATE OF CHANGE	18
SCHEDULE 3: ALLOWABLE NOTIONAL REVENUE FOR THE FIRST ASSESSMENT PERIOD.....	19
SCHEDULE 4: ALLOWABLE NOTIONAL REVENUE FOR ALL ASSESSMENT PERIODS OTHER THAN THE FIRST ASSESSMENT PERIOD	21
SCHEDULE 5: PROCESS FOR DETERMINING THE AMOUNT OF PASS-THROUGH COSTS AND RECOVERABLE COSTS FOR AN ASSESSMENT PERIOD	22
SCHEDULE 6: RECALCULATION OF THE PRICE PATH FOLLOWING A TRANSFER	25
SCHEDULE 7: FORM OF DIRECTORS’ CERTIFICATE FOR COMPLIANCE STATEMENT	28
SCHEDULE 8: FORM OF AUDITOR’S REPORT ON COMPLIANCE STATEMENT.....	29
EXPLANATORY NOTE.....	30

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

1. Title

1.1 This determination is the Gas Distribution Services Default Price-Quality Path Determination 201~~7~~3.

2. Commencement

2.1 This determination takes effect on 1 ~~July 2013~~ October 2017.

3. Application

3.1 This determination sets the default price-quality paths for GDBs and is made pursuant to section 55E(2) of the Act.

3.2 This determination applies to GDBs in respect of ~~for~~ the Regulatory Period.

4. Interpretation

4.1 Unless the context otherwise requires—

- (a) terms used in this determination that are defined in the Act but not in this determination have the same meanings as in the Act;
- (b) terms used in this determination that are defined in the IM Determination but not in this determination have the same meanings as in the IM Determination;
- (c) words appearing in this determination with capitalised initial letters are defined terms and bear the meaning given to them in clause 4.2; ~~and~~
- (d) a word which denotes the singular also denotes the plural and vice versa; and;
- (e) any reference to a period of time is interpreted in accordance with section 35 of the Interpretation Act 1999.

4.2 In this determination, unless the context otherwise requires—

Act means the Commerce Act 1986;

Amalgamate has the same meaning as in clause 1.1.4 of the IM Determination;

Assessment Period means a 12 month period commencing 1 October and ending on 30 September of the following year ~~each of the following periods during the Regulatory Period for which compliance with the default price-quality path is to be assessed and demonstrated;~~

~~:1 July 2013 to 30 September 2014;~~

~~1 October 2014 to 30 September 2015;~~

~~1 October 2015 to 30 September 2016; and~~

~~1 October 2016 to 30 September 2017;~~

Auditor, in relation to a GDB, means a person who:

- (a) is qualified for appointment as auditor of a company under the Companies Act 1993 or, where the GDB is a public entity (as defined in section 4 of the Public Audit Act 2001), is the Auditor-General; ~~and~~
- (b) has no relationship with, or interest in, the GDB that is likely to involve the person in a conflict of interest; ~~and~~
- (c) has not assisted with the preparation of the Compliance Statement or provided advice or opinions (other than in relation to audit reports) on the methodologies or processes used in preparing the Compliance Statement; and
- (d) has the necessary expertise to properly undertake an audit required by clause 11.2(d); but
- (e) need not be the same person as the person who audits the GDB's accounts for any other purpose;

~~**Authorisation** means for:~~

~~(a) Powerco Limited, the Commerce Act (Powerco Natural Gas Services) Authorisation 2008; and~~

~~(b) Vector Limited, the Commerce Act (Vector Natural Gas Services) Authorisation 2008;~~

~~**Authorisation Cost** means a pass-through cost as defined in clause 4.1 of an Authorisation;~~

Commission means the Commerce Commission as defined in [section 5](#) 2 of the Act;

Compliance Statement means the written statement made by a GDB under clause 11.2;

Consumer has the same meaning as [in](#) clause 1.1.4 of the IM Determination;

Consumer Group means [the category of consumer used by a GDB for the setting of Prices;](#)

Control means [the acquisition of rights similar to ownership, such as a long-term lease;](#)

CPI has the same meaning as [in](#) clause 1.1.4 of the IM Determination;

CPP Proposal has the same meaning as [in](#) clause 1.1.4 of the IM Determination;

Director has the same meaning as [in](#) clause 1.1.4 of the IM Determination;

Emergency means:

- (a) an unplanned escape or ignition of gas that requires the active involvement of any emergency service (eg, fire service, ambulance); ~~or~~
- (b) an unplanned disruption in the supply of gas that affects more than five installation control points (ICPs); or
- (c) an evacuation of a premises as the result of escape or ignition of gas;

First Assessment Period means the Assessment Period for the ~~12~~15 month period 1 ~~July 2013~~[October 2017](#) to 30 September ~~2018~~2014;

Gas Distribution Services has the same meaning as [in](#) clause 1.1.4 of the IM Determination;

GDB has the same meaning as [in](#) clause 1.1.4 of the IM Determination;

IM Determination means the Gas Distribution Services Input Methodologies Determination 2012;

Input Methodology has the same meaning as in s 52C of the Act;

[Interconnected Body Corporate](#) means any two or more bodies corporate are to be treated as interconnected if one of them is a body corporate of which the other is a subsidiary (within the meaning of section 5 of the Companies Act 1993), or if both of them are subsidiaries (within the meaning of that section) of one and the same body corporate;

[Major Transaction](#) has the same meaning as in clause 1.1.4 of the IM Determination;

Merger ~~or Acquisition~~ means a transaction, other than an Amalgamation, whereby a GDB directly or indirectly:

- (a) acquires ownership or ~~e~~[Control](#) of all or substantially all of the assets of another GDB; or
- (b) acquires ownership or ~~e~~[Control](#), ~~whether itself or through a parent, subsidiary, or subsidiary of a parent,~~ of another GDB [through the acquisition of all of its share capital](#);

Pass-through Cost has the same meaning as [in](#) clause 1.1.4 of the IM Determination, and are determined in accordance with Schedule 5;

Person has the same meaning as in clause 1.1.4 of the IM Determination;

Prices has the same meaning as in clause 1.1.4 of the IM Determination;

~~**Pricing Period** means a 12-month period commencing 1 October and ending on 30 September of the following year;~~

Quantities has the same meaning as in clause ~~1.1.4 3.1.1(5)~~ of the IM Determination;

Recoverable Costs has the same meaning as in clause 1.1.4 of the IM Determination, and are determined in accordance with Schedule 5;

~~**Regulatory Investment Value** means the value for 'regulatory investment value' determined in accordance with the information disclosure determination made under s 52P of the Act applicable for a period in which the transaction referred to in clause 10.4 occurs;~~

Regulatory Period means the period 1 ~~October 2017~~ July 2013 to 30 September ~~2022~~ 2017; ~~and~~

Restructure of Prices includes any change in the allocation of connections to Consumer Groups by a GDB, the introduction of a new Consumer Group, or any change in Prices, but excludes:

- (a) a change to the value of a Price applicable to an existing Consumer Group; or
- (b) the movement of connections between existing Consumer Groups at the request of the Consumer or retailer;

RTE means 'response time to emergencies', being the time elapsed from when an Emergency is reported to a GDB representative until the GDB's personnel arrives at the location of the Emergency;:-

Transfer means a transaction other than an Amalgamation or Merger whereby a GDB directly or indirectly transfers assets to another Person and Consumers are acquired by or no longer supplied by the GDB as a result of the asset transfer;

Working Day has the same meaning as in clause 1.1.4 of the IM Determination.

5. Default price-quality path

5.1 ~~During the Regulatory Period e~~Every GDB ~~subject to this determination~~ must comply with the default price-quality path, which consists of ~~both~~:

- (a) the price path specified in clause 8; and
- (b) the ~~Quality~~ quality standards specified in clause 9.

6. Applicable Input Methodologies

6.1 The Input Methodologies that are applied through this determination are the following parts of the IM Determination:

- (a) Subpart 1 of Part 3 – specification of price;
- (b) Subpart 2 of Part 3 – amalgamations;
- (c) Subpart 1 of Part 4 – cost allocation;
- (d) Subpart 2 of Part 4 – asset valuation;
- (e) Subpart 3 of Part 4 – treatment of taxation;
- (f) Subpart 4 of Part 4 – cost of capital;
- (g) Subpart 5 of Part 4 – reconsideration of the default price-quality path;
- (h) Subpart 6 of Part 4 – treatment of periods that are not 12 month periods;
[and](#)
- (i) Subpart 7 of Part 4 – availability of information;
~~and~~
- ~~(j) Subpart 8 of Part 4 – transitional provision for Powerco.~~

7. CPP Proposals

7.1 A GDB may submit a CPP Proposal to the Commission at any time before 1 October ~~2021~~[16](#).

8. Price path

Starting prices

8.1 The starting prices that apply to the Regulatory Period are as set out in Schedule 1.

Rate of change

8.2 The annual rate of change [in prices](#), relative to the CPI, that is allowed during the Regulatory Period is set out in Schedule 2.

~~8.3 Allowable notional revenue~~

~~Allowable notional revenue (ANR) determined under this clause 8 specifies the maximum Prices that may be charged during an Assessment Period.~~

Compliance with the Price Path

~~8.4~~[8.3](#) The notional revenue of a GDB in an Assessment Period must not exceed the allowable notional revenue for the Assessment Period, such that:

~~(a) for the First Assessment Period~~

$$0.25 \times ANR_{2013} + ANR_{2014} \geq 0.25 \times NR_{2013} + NR_{2014}$$

where: ~~ANR_{2013}~~ is the allowable notional revenue for the pricing period ending in 2013;

~~ANR_{2014}~~ 8.5 is the allowable notional revenue for the Pricing Period ending in 2014;

~~NR_{2013}~~ 8.6 is the notional revenue for the Pricing Period ending in 2013;

~~NR_{2014}~~ 8.7 is the notional revenue for the Pricing Period ending in 2014; and

$$\cancel{ANR_t} \geq \cancel{NR_t} \quad \underline{NR \leq ANR}$$

where-

NR is the notional revenue for the Assessment Period, calculated in accordance with clause 8.4(a); and

ANR is the allowable notional revenue for the Assessment Period, calculated in accordance with clause 8.4(b).

~~for each Assessment Period after the First Assessment Period~~

How to calculate notional revenue and allowable notional revenue

~~8.8.4~~ For the purposes of calculating notional revenue and allowable notional revenue in clause 8.34:

(a) notional revenue for an Assessment Pricing Period is NR_t , where:

$$NR_t = \sum_i P_{i,t} Q_{i,t-2} - (K_t + V_t)$$

where:

t is the year in which the Assessment Pricing Period ends;

i is each Price relating to a Gas Distribution Service;

- $P_{i,t}$ is the i th Price for any part of the Assessment Pricing Period ending in year t ;
- $Q_{i,t-2}$ is the Quantity corresponding to the i th Price during the Assessment Pricing Period ending two years prior to year t ;
- K_t ~~is nil for the Pricing Period ending in 2013, and for all other Pricing Periods~~ is the sum of all Pass-through Costs for the Assessment Pricing Period ending in year t , determined in accordance with Schedule 5;
- V_t ~~is nil for the Pricing Period ending in 2013, and for all other Pricing Periods~~ is the sum of all Recoverable Costs for the Assessment Pricing Period ending in year t , determined in accordance with Schedule 5; and
- (b) allowable notional revenue for the Assessment Pricing Period ending in year t is ANR t , as specified in:
- (i) Schedule 3 for the First Assessment Period; and
- (ii) Schedule 4 for all other Assessment Periods.

Restructure of Prices

8.5 For the avoidance of doubt, the restructuring of Prices during an Assessment Pricing Period does not change the allowable notional revenue for that Assessment Pricing Period.

8.6 For purposes of calculating notional revenue and allowable notional revenue in clause 8.3, where a GDB undertakes a Restructure of Prices, the GDB must:-

- (a) for the Assessment Period during which a Restructure of Prices first applies, calculate notional revenue for that Assessment Period using the Quantities determined in accordance with clause 8.7 and/or clause 8.8, as applicable;
- (b) for the Assessment Period immediately following the Assessment Period to which a Restructure of Prices first applies, calculate notional revenue and allowable notional revenue using the Quantities determined in accordance with clause 8.7 and/or clause 8.8, as applicable.

8.7 Where a Restructure of Prices:

- (a) combines two or more Consumer Groups into one Consumer Group, the Quantities corresponding to the Prices in the combined Consumer Group must be the sum of the Quantities corresponding to each of the Prices that applied to the previous Consumer Groups; and

(b) separates a Consumer Group into two or more new Consumer Groups, the Quantities corresponding to the Prices in each new Consumer Group must be based on the Quantities corresponding to the Prices that applied to the original Consumer Group, and the sum of the Quantities corresponding to each new Consumer Group must equal the Quantities corresponding to the original Consumer Group.

8.8 Where, as a result of a Restructure of Prices there are no Quantities for the Assessment Period two years prior that reasonably practicably correspond to the restructured Prices, the GDB must derive demonstrably reasonable Quantities in place of actual Quantities. In deriving the demonstrably reasonable Quantities the GDB:

- (a) may not use forecast Quantities;
- (b) must use any relevant Quantity information from the Assessment Period two years prior;
- (c) must consider any other relevant information that is reasonably available; and
- (d) must use a substantially similar methodology for determining the Quantities in each Assessment Period for which Quantities are determined under this clause.

9. Quality standards

Compliance with ~~annual Quality~~quality standards~~assessment formula~~

9.1 A GDB's RTE values for an Assessment Period must be such that:

(a) $\frac{RTE_{60}}{RTE_t} \geq 0.80$ of the total of all RTE's, the percentage greater than 60 minutes does not exceed 20%; and

(b) $\frac{RTE_{180}}{(RTE_t - RTE_{excl})} - 1$ the RTE to any Emergency does not exceed 180 minutes.

(a) For the purposes of calculating the RTE values in clause 9.1(a):

~~RTE_t~~ is the total number of Emergencies in the Assessment Period;

~~RTE_{excl}~~ is the total number of Emergencies in the Assessment Period for which the Commission has granted an exclusion in writing;

~~RTE60~~ is the total number of Emergencies in the Assessment Period where the GDB's RTE was less than or equal to 60 minutes; and

~~RTE180~~ is the total number of Emergencies in the Assessment Period where the GDB's RTE was less than or equal to 180 minutes.

Exclusion of certain Emergencies

9.2 If a GDB has a reasonable excuse for not responding to an Emergency within 180 minutes, the GDB may apply to the Commission to be treated as having complied with the quality standard for that Emergency ~~by having the Emergency excluded from the total number of Emergencies in clause 9.1(a)(ii).~~

9.3 An ~~exclusion~~ request under clause 9.2 must—

- (a) be submitted to the Commission in writing within ~~45~~ 30 Working Days of the Emergency; and
- (b) include sufficient evidence demonstrating why it was reasonable that the GDB's RTE was greater than 180 minutes.

9.4 ~~9.4~~—A GDB may ~~exclude an Emergency from the calculations of RTE values for the GDB's Compliance Statement~~ only treat an Emergency as if it was compliant with the quality standard where the Commission has determined in writing that the GDB can be treated as having complied with the quality standard for that ~~the~~ Emergency ~~may be excluded~~.

10. Transactions

Transactions resulting in an Amalgamation ~~and~~ Mergers ~~or~~ Acquisitions

10.1 ~~10.1~~—If a GDB completes an Amalgamation or a Merger ~~or Acquisition~~ during an Assessment Period with another GDB subject to a default price-quality path, then:—

- (a) for purposes of calculating notional revenue and allowable notional revenue in clause 8.3, the notional revenue and allowable notional revenue of the GDB resulting from the Amalgamation or Merger ~~or Acquisition~~ for the Assessment Period equals the sum of notional revenues and the sum of allowable notional revenues, respectively, of the GDBs that are the subject of the Amalgamation or Merger ~~or Acquisition~~; and
- (b) for purposes of clause 9, the total number of Emergencies used to calculate the RTE values of the GDB resulting from the Amalgamation or Merger ~~or Acquisition~~ equals the sum of the total number of Emergencies of each of the GDBs that are the subject of the Amalgamation or Merger ~~or Acquisition~~;

Transactions resulting in a Transfer ~~Consumers being supplied by another GDB~~

- 10.2 ~~10.2~~ For purposes of calculating notional revenue and allowable notional revenue in clause 8.34, if a GDB acquires assets from, or disposes of assets to, another GDB during an Assessment Period (other than a transfer of assets which is part of an Amalgamation or a Merger or completes a Transfer Acquisition with a GDB subject to a default or customised price quality path during an Assessment Period) that results in a change in the number of Consumers or other parties supplied with Gas Distribution Services during that Assessment Period, the GDB must increase or decrease the allowable notional revenue and notional revenue for that Assessment Period as specified in Schedule 6.

Alternative demonstration of compliance for transaction

~~If a GDB participates in a transaction specified in clause 10.2 for which it cannot calculate the increase or decrease to allowable notional revenue or notional revenue, the GDB must provide to the Commission:~~

~~an explanation as to why the calculation could not be performed; and~~

~~a calculation of allowable notional revenue and notional revenue using an alternative approach that demonstrates compliance with clause 8, with all supporting data, information, and calculations.~~

Requirement to notify the Commission of large transactions ~~Amalgamations, Mergers, Transfers and Major Transactions~~

- 10.3 A GDB must notify the Commission in writing within 30 ~~W~~working Days of any ~~Amalgamation, Merger or Acquisition, or any transfer of assets governed by clause 10.2 where: any Amalgamation, Merger, Transfer or Major Transaction.~~
- ~~10.4 the Regulatory Investment Value of the GDB's assets associated with the provision of Gas Distribution Services is anticipated to increase or decrease by more than 10% as a result of the transaction; or~~
- ~~10.5 the GDB's total revenues recovered through Prices from Consumers for the supply of Gas Distribution Services is anticipated to increase or decrease by more than 10% within an Assessment Period as a result of the transaction~~

10.4 Any notice of a Transfer under clause 10.3 must include, to the extent practically available at the time of the notice:

- (a) the GDBs allowable notional revenue for the Assessment Period in which the Transfer occurs, as adjusted in accordance with Schedule 6,
- (b) the amount of allowable notional revenue attributable to the Transfer; and
- (c) the basis on which allowable notional revenue was allocated between the parties in accordance with Schedule 6.

10.5 Any information not practically available under clause 10.4 at the time of the notice must be provided as soon as practicable after it becomes available.

11. Compliance Statements

11.1 Every GDB must:

- (a) provide to the Commission a written Compliance Statement within 50 Wworking Days following the end of each Assessment Period; ~~and~~
- (b) make its Compliance Statement, the Director's certificate provided under clause 11.2(c), and the assurance report provided under clause 11.2(d) publicly available on its website within 5 Wworking Days after providing it to the Commission; and
- ~~(b)(c)~~ provide to the Commission schedules reflecting the Prices and Quantities disclosed in an electronic format that is compatible with Microsoft Excel with their Annual Compliance Statement.

11.2 The Compliance Statement must:

- (a) state whether or not the GDB has ~~complied with~~:
 - (i) complied with the price path in clause 8 for the Assessment Period; ~~and~~
 - (ii) complied with the quality standards in clause 9 for the Assessment Period; and
 - (iii) undertaken a Restructure of Prices during the Assessment Period;
- (b) state the date on which the statement was prepared;
- (c) include a certificate in the form set out in Schedule 7, signed by at least one Director of the GDB; and
- (d) be accompanied by an assurance report meeting the requirements specified on the Compliance Statement that is signed by an Auditor and is in the form set out in Schedule 8, in respect of all information contained in the Compliance Statement.

11.3 The Compliance Statement must include any information reasonably necessary to demonstrate whether the GDB has complied with:

- (a) clause 8, including but not limited to:
 - (i) the amount of allowable notional revenue, the amount of notional revenue, Prices, Quantities, units of measurement associated with all numeric data, and other relevant data, information, and calculations;

- (ii) the amounts of Pass-through Costs and Recoverable Costs that were used to calculate allowable notional revenue and notional revenue, and supporting data, information, and calculations used to determine those amounts, including when each Pass-through Cost and Recoverable Cost amount was paid and the period to which those costs relate; ~~and~~
- ~~(iii)~~ (iii) if the GDB has not complied with the price path, the reasons for the non-compliance; and
- ~~(iii)~~(iv) if the GDB has not complied with the price path, actions taken to mitigate any non-compliance and to prevent similar non-compliance in future Assessment Periods;
- (b) clause 9, including but not limited to:
 - (i) relevant incident data and calculations;
 - (ii) a description of policies and procedures which the GDB has used for recording the RTE statistics for the Assessment Period;
 - (iii) a list of all Emergencies where that the Commission has determined that the GDB can be treated as having complied with the quality standard for that Emergency~~may be excluded from the GDB's RTE values~~, and any ~~exclusion~~ requests under clause 9.2 that are pending a decision by the Commission for the Assessment Period;
 - ~~(iv)~~ (iv) if the GDB has not complied with a quality standard, the reasons for not meeting the quality standard;
 - ~~(iv)~~(v) if the GDB has not complied with a quality standard, actions taken to mitigate any non-compliance and to prevent similar non-compliance in future Assessment Periods; and
 - ~~(v)~~(vi) where a quality standard has not been met, for each Emergency which exceeded the RTE for that quality standard;
 - (a) a description of the Emergency, including the nature, cause, and location; and
 - (b) the number of Consumers affected by the Emergency.

11.4 If a GDB has restructured its Prices that first applied during the current or preceding Assessment Period~~during a Pricing Period, the Compliance Statement for the corresponding Assessment Period must:~~

- (a) the Compliance Statement must state the nature of the Restructure of Prices and identify the Consumer Groups impacted by the Restructure of Prices~~state the applicable Pricing Period in which restructure of Prices occurred;~~ and

- (b) ~~if the GDB has derived Quantities under clause 8.8 for the purposes of calculating notional revenue and/or allowable notional revenue the Compliance Statement if there is no Quantity for the Pricing Period ending two years prior that reasonably relates to a restructured Price, provide information demonstrating how the GDB has complied with the price path in clause 8, which~~ must include:
- (i) the methodology used to ~~derive~~^{reivetermine} the Quantities in place of actual Quantities-Quantity that corresponds to each restructured Price ~~for the Pricing Period ending two years prior; and~~
 - (ii) the derived Quantities corresponding to each restructured Price determined by the GDB for that Assessment Period, and the actual Quantities-Quantity information corresponding to each restructured Price for the Pricing Period in which the restructure occurred, including a forecast of the Quantity for that period prepared by the GDB at the time it restructured its Prices, and the actual Quantity;
and
 - (iii) an explanation ~~of the reasons~~ for any differences between the actual Quantities and the derived Quantitiesforecasted Quantity for the Pricing Period in which the restructure occurred.

11.5 If a GDB participates in an Amalgamation, Merger, ~~or Transfer or Acquisition, or transfer of assets under clause 10.2~~, the Compliance Statement for that Assessment Period must:

- (a) state whether the GDB has complied with clauses ~~10.3, 10.4 and 10.5;~~^{10.3, 10.4 and 10.5;}
- ~~(b)~~ include any information or calculations that are reasonably required to demonstrate compliance with ~~that~~ clauses 1.1, 10.4 and 10.5; and
- ~~(b)~~^(c) if the GDB has not complied with clause 1.1, 10.4 or 10.5 in any respects, identify how it has failed to comply and state the reasons for the non-compliance.

Dated at Wellington this ~~XXXX~~²⁸th day of February 2013.

Commerce Commission

Schedule 1: Starting prices

The starting prices for each GDB for the Regulatory Period, specified as maximum allowable revenue, are set out in Table 1.

Table 1: Starting prices for each GDB

GDB	MAR (\$m)
GasNet Limited	XXXX 4.578
Powerco Limited	XXXX 48.620
Vector Limited	XXXX69.693
First Gas Limited	XXXX

Schedule 2: Rate of change

The annual rate of change is 0%.

Schedule 3: Allowable notional revenue for the First Assessment Period

Allowable notional revenue for the First Assessment Period must be calculated in accordance with Equation 1 ~~and Equation 2 for all GDBs.~~

Equation 1

~~The allowable notional revenue for the Pricing Period ending in 2013 is equal to:~~

$$ANR_{2018} = \frac{MAR}{\Delta D}$$

where:

MAR is the starting price specified in Schedule 1; and

ΔD is the value specified in Table 2 for each GDB.

~~2. Equation 2~~

~~3. The allowable notional revenue for the Pricing Period ending in 2014 is equal to:~~

~~$$ANR_{2014} = (ANR_{2013} \times CPR_{2012})(1 + \Delta CPI_{2014})(1 - X)$$~~

~~5. where:~~

~~6. ANR_{2013} allowable notional revenue for the Pricing Period ending in 2013, calculated using Equation 1;~~

~~8. CPR_{2012} is the value specified in Table 2 for each GDB;~~

~~10. X is the rate of change as specified in Schedule 2; and~~

~~12. ΔCPI_{2014} is the derived change in the CPI to be applied for the Pricing Period ending in 2014 being equal to:~~

~~$$\Delta CPI_{2014} = \frac{CPI_{Jun,2012} + CPI_{Sep,2012} + CPI_{Dec,2012} + CPI_{Mar,2013}}{CPI_{Jun,2011} + CPI_{Sep,2011} + CPI_{Dec,2011} + CPI_{Mar,2012}} - 1$$~~

~~14.~~

~~15. where:~~

~~16. CPI_q is the CPI for the quarter year ending q.~~

Table 2: ΔD for the First Assessment Period

GDB	ΔD	CPR_{2012}
GasNet Limited	0.989	0.995
Powerco Limited	1.002	1.001
Vector Limited	1.011	1.005

<u>GDB</u>	<u>ΔD</u>
<u>GasNet Limited</u>	<u>XXXX</u>
<u>Powerco Limited</u>	<u>XXXX</u>
<u>Vector Limited</u>	<u>XXXX</u>
<u>First Gas Limited</u>	<u>XXXX</u>

Schedule 4: Allowable notional revenue for all Assessment Periods other than the First Assessment Period

Allowable notional revenue for all Assessment Periods other than the First Assessment Period must be calculated in accordance with Equation [23](#).

Equation [23](#)

$$ANR_t = \left(\sum_i P_{i,t-1} Q_{i,t-2} - (K_{t-1} + V_{t-1}) + (ANR_{t-1} - NR_{t-1}) \right) (1 + \Delta CPI_t) (1 - X)$$

where:

- t is the year in which the [Assessment Pricing](#) Period ends;
- i is each Price relating to a Gas Distribution Service;
- $P_{i,t-1}$ is the *i*th Price for any part of the [Assessment Pricing](#) Period ending the year prior to year t;
- $Q_{i,t-2}$ is the Quantity corresponding to the *i*th Price for the [Assessment Pricing](#) Period ending two years prior to year t;
- $K_{t-1} + V_{t-1}$ is the sum of all Pass-through Costs and Recoverable Costs for the [Assessment Pricing](#) Period ending the year prior to year t, calculated in accordance with Schedule 5;
- $ANR_{t-1} - NR_{t-1}$ is the difference between allowable notional revenue and notional revenue for the [Assessment Pricing](#) Period ending the year prior to year t;
- X is the rate of change, as specified in Schedule 2.
- ΔCPI_t is the derived change in the CPI to be applied for the [Assessment Pricing](#) Period ending in year t, being equal to:

$$\Delta CPI_t = \frac{CPI_{Jun,t-2} + CPI_{Sep,t-2} + CPI_{Dec,t-2} + CPI_{Mar,t-1}}{CPI_{Jun,t-3} + CPI_{Sep,t-3} + CPI_{Dec,t-3} + CPI_{Mar,t-2}} - 1$$

where:

$CPI_{q,t-n}$ is the CPI for the quarter year ending q [in the 12 month period n years prior to year t](#).

Schedule 5: Process for determining the amount of Pass-through Costs and Recoverable Costs for an Assessment Pricing Period

1. The amount of each Pass-through Cost or Recoverable Cost that is used to calculate allowable notional revenue or notional revenue for an Assessment Pricing Period must:
 - 1.1 be ascertainable at the time the GDB sets its Prices for that Assessment Pricing Period;
 - 1.2 not have already been passed through to, or recovered from, Consumers or other parties by the GDB in a previous Assessment Pricing Period; and
 - 1.3 not be able to be otherwise recovered from Consumers or other parties, other than through Prices.
 - ~~(b) — not relate to costs that were incurred by the GDB prior to the Regulatory Period, except as provided under paragraph (2).~~
- ~~2. A GDB may include as a Pass-through Cost any Authorisation Cost, where:~~
 - ~~(a) — the Authorisation Cost is for Gas Distribution Services controlled under an Authorisation; and~~
 - ~~(b) — the Authorisation Cost has not already been passed through to Consumers or other parties in the period starting from the commencement of the Authorisation to 30 June 2013.~~
- ~~3. For the purposes of paragraph 2, amounts that are carried over must be calculated:~~
 - ~~(a) — using the equation in clause 6.2.2 of an Authorisation as if:
 - ~~(i) — the Authorisation continued to apply until 30 June 2013; and~~
 - ~~(ii) — the forecast Authorisation Cost values for 2013 are the same as specified for 2012 in Schedule 1 of the Authorisation; or~~~~
 - ~~(c) — using an alternative method that has the equivalent outcome to that specified in paragraph 3(a).~~
- ~~4. The GDB must provide information in the Compliance Statement for the First Assessment Period clearly demonstrating how any Authorisation Cost amounts that are carried over under paragraph 2 have been calculated.~~
- ~~5. Any Authorisation Cost amounts that are carried over under paragraph 2 must be included as a Pass-through Cost to calculate notional revenue in the Pricing Period ending in 2014, unless this would result in price shocks to Consumers in which case the amounts may be smoothed over the remainder of the Regulatory Period.~~

~~6. Any amount of Pass-through Cost or Recoverable Cost that relates to the period 1 July 2013 to 30 September 2013:~~

- ~~(a) cannot be included as a Pass-through Cost or Recoverable Cost to calculate notional revenue prior to the Pricing Period ending in 2014; and~~
- ~~(d) must be apportioned to that 3 month period, if the cost relates to a longer period.~~

~~7.2.~~ A GDB may adjust the amount of any Pass-through Cost or Recoverable Cost for the time value of money in accordance with paragraph [49](#).

~~8.3.~~ If a GDB adjusts the amount of any Pass-through Cost or Recoverable Cost for the time value of money, the GDB must use the same approach for calculating all Pass-through Costs or Recoverable Costs for each [PricingAssessment](#) Period.

~~9.4.~~ For the purposes of calculating time value of adjustments under paragraph [27](#), the GDB must either:

~~9.14.1~~ calculate the amounts in accordance with Equation [34](#):

Equation [34](#)

$$K_t + V_t = \sum_n (K_n + V_n)(1+r)^{t-n}$$

where:

- t is the year in which the [AssessmentPricing](#) Period ends;
- K_t is the sum of all Pass-through Costs claimed during the [AssessmentPricing](#) Period ending in year t;
- V_t is the sum of all Recoverable Costs claimed during the [AssessmentPricing](#) Period ending in year t;
- n is the year the [AssessmentPricing](#) Period ends in which actual Pass-through Costs and Recoverable Costs were paid or will be paid;
- K_n is the sum of all Pass-through Costs that have been paid or will be paid in year n;
- V_n is the sum of all Recoverable Costs that have been paid or will be paid in year n;
- r is the discount rate of [\[value to be inserted once WACC determination is made, being the cost of debt\]5.38%](#); or

9.24.2 calculate the amounts in accordance with Equation 34, except where the term 't-n' is the difference expressed in years between:

- (a) the date that each Pass-through Cost or Recoverable Cost amount was paid or will be paid; and
- (b) the date 148 days prior to the end of ~~Assessment~~Pricing Period ending in year t.

Schedule 6: Recalculation of the price path following a Transfer

Where a GDB is party to a Transfer it must adjust its allowable notional revenue as set out below:

By agreement on an allocation with another GDB

1. Where a GDB is party to a Transfer with another GDB, it should attempt to agree with the other GDB, a demonstrably reasonable allocation of the allowable notional revenue attributable to the Consumers transferred as a result of the transaction.
2. A GDB transferring Consumers must reduce its allowable notional revenue by the amount determined in accordance with paragraph 1.
3. A GDB receiving a transfer of Consumers must increase its allowable notional revenue by the amount determined in accordance with paragraph 1.

Applying a formula to determine an allocation

4. Where a GDB acquiring Consumers is unable to agree on a demonstrably reasonable allocation of the allowable notional revenue with the other Person party to the Transfer, as set out in paragraphs 1 to 3 above, it must recalculate its allowable notional revenue in accordance with the formula –

$$\left(\sum_i P_{i,t-1} Q_{i,t-2} - K_{proportion,t-1} - V_{proportion,t-1} \right) (1 + \Delta CPI_t) \times \text{Part-year Factor}$$

where-

- t is the year in which the Assessment Period ends;
- i denotes each Price;
- $P_{i,t-1}$ is the i^{th} Price of the Person during any part of the Assessment Period prior to year t ;
- $Q_{i,t-2}$ is the Quantity attributable to the Consumers/CPs transferred to the Person for the Assessment Period ending 2 years prior to year t corresponding to the i^{th} Price;
- $K_{proportion,t-1}$ is the proportion of all Pass-through Costs of the Person recognised in the Assessment Period prior to year t , being equal to:

$$\text{Transaction Factor} \times K_{t-1}$$

where-

- K_{t-1} is the sum of all Pass-through Costs of the Person recognised in the Assessment Period prior to year t
- $V_{proportion,t-1}$ is the proportion of all Recoverable Costs of the Person recognised in the Assessment Period prior to year t , being equal to:

$$\text{Transaction Factor} \times V_{t-1}$$

where-

V_{t-1} is the sum of all Recoverable Costs of the Person recognised in the Assessment Period prior to year t ; and

ΔCPI_t is the derived change in the CPI to be applied for the Assessment Period ending in year t , being equal to:

$$\frac{CPI_{Jun,t-2} + CPI_{Sep,t-2} + CPI_{Dec,t-2} + CPI_{Mar,t-1}}{CPI_{Jun,t-3} + CPI_{Sep,t-3} + CPI_{Dec,t-3} + CPI_{Mar,t-2}} - 1$$

where-

$CPI_{g,t-n}$ is the CPI for the quarter year ending g in the 12 month period n years prior to year t .

5. Where a GDB transferring Consumers is unable to agree on a demonstrably reasonable allocation of the allowable notional revenue with the other Person party to the Transfer, as set out in paragraphs 1 to 3 above, it must recalculate its allowable notional revenue in accordance with the formula --

$$ANR = ANR_p - (ANR_p \times Transaction\ Factor \times Part\text{-}year\ Factor)$$

where-

ANR_p is the allowable notional revenue, calculated in accordance with Schedule 3 or 4, that would have applied for the Assessment Period absent the transaction.

6. For the purposes of paragraphs 4 and 5-

6.1 the 'Transaction Factor' is calculated in accordance with the formula-

$$\frac{\sum P_{i,t-1} Q_{lost,i,t-2}}{\sum P_{i,t-1} Q_{i,t-2}}$$

where-

t is the year in which the Assessment Period ends;

i denotes each Price of the Person transferring Consumers ;

$P_{i,t-1}$ is the i^{th} Price of the Person transferring Consumers during any part of the Assessment Period prior to year t ;

$Q_{i,t-2}$ is the Quantity for the Assessment Period ending 2 years prior to year t of the Person transferring Consumers corresponding to the i^{th} Price; and

$Q_{lost,t,t-2}$ is the Quantity for the Assessment Period ending 2 years prior to year t of the Person transferring Consumers attributable to the Consumers transferred and corresponding to the i^{th} Price; and

6.2 the 'Part-year Factor' is calculated in accordance with the formula-

$$\frac{n}{d}$$

where-

n is the number of days between the date on which Consumers are first transferred and the last day of the Assessment Period in which the Consumers are transferred; and

d is the number of days in the Assessment Period in question.

Alternative methodology approved by the Commission

7. Where a GDB:

7.1 is unable to agree on a demonstrably reasonable allocation of the allowable notional revenue with the other GDB party to the Transfer, as set out in paragraphs 1 to 3 above; or

7.2 is unable to reasonably apply the formula set out in paragraphs 4 to 6 above, or the GDB considers that the application of the formula set out in paragraphs 4 to 6 above would not be consistent with the purpose of Schedule 6,

the GDB may apply an alternative approach to determining the allowable notional revenue attributable to a transfer of Consumers as a result of a Transfer using an alternative methodology approved by the Commission.

Schedule 7: Form of Directors' certificate for Compliance Statement

I/We, *[insert full name/s]*, being Director/s of *[insert name of GDB]* certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached compliance statement of *[name of GDB]*, and related information, prepared for the purposes of the *Gas Distribution Services Default Price-Quality Path Determination ~~2013~~2017* has been prepared in accordance with all the relevant requirements**[except in the following respects]*.

**[insert description of non-compliance]*

[Signatures of Directors]

[Date]

*Delete if inapplicable.

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding \$10,000 in the case of an individual or \$30,000 in the case of a body corporate.

Schedule 8: Form of Auditor's report on Compliance Statement

8. Each GDB must procure an assurance report by an Auditor in respect of the Compliance Statement that is prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000) or their successor standards, signed by the Auditor (either in his or her own name or that of his or her firm), and that-

8.1 is addressed to the Directors of the GDB and to the Commission as the intended users of the assurance report;

8.2 states–

(a) that it has been prepared in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements (New Zealand) 3000 (ISAE (NZ) 3000) or their successor standards;

(b) the work done by the Auditor;

(c) the scope and limitations of the assurance engagement;

(d) the existence of any relationship (other than that of auditor) which the Auditor has with, or any interests which the Auditor has in, the GDB or any of its Interconnected Bodies Corporate;

(e) whether the Auditor has obtained sufficient recorded evidence and explanations that he or she required and, if not, the information and explanations not obtained; and

(f) whether, in the Auditor's opinion, as far as appears from an examination, the information used in the preparation of the Compliance Statement has been properly extracted from the GDB's accounting and other records, sourced from its financial and non-financial systems; and

8.3 states whether (and, if not, the respects in which it has not), in the Auditor's opinion, the GDB has complied, in all material respects, with the *Gas Distribution Services Default Price-Quality Path Determination 2017* in preparing the Compliance Statement.

Explanatory note

1. The purpose of the *Gas Distribution Services Default Price-Quality Path Determination 2017*~~3~~ (“the Determination”) is to set a default price-quality path for gas distribution businesses (“GDBs”) for the ~~four~~five years ~~and three months~~ beginning 1 ~~October 2017~~July 2017 and ending 30 September 2022~~17~~, pursuant to Part 4 of the Commerce Act 1986 (“the Act”).
2. Pursuant to section 53N of the Act, each GDB is required to provide to the Commerce Commission (“the Commission”) a compliance statement stating whether or not it has complied with the default price-quality path set out in the Determination together with supporting evidence. The compliance statement is to be accompanied by both an auditor’s report and a director’s certificate. Each GDB must publish its compliance statement on its website within five ~~W~~working ~~D~~days after submitting it to the Commission.
3. ~~The Commission conducted a comprehensive process of consultation before making the Determination.~~ A reasons paper providing detailed background to, and analysis of, the Determination can be found at:
 - 3.1 ~~<http://www.comcom.govt.nz/initial-default-price-quality-path/>~~<http://www.comcom.govt.nz/regulated-industries/gas-pipelines/gas-default-price-quality-path/2017-2022-gas-dpp/>
 - 3.2 Copies of this Determination are available for inspection free of charge at the Commission (during ordinary office hours), on the Commission’s website at the above link, or for purchase at a reasonable price at the Commission.