

Default price-quality paths for gas pipeline businesses from 1 October 2017 to 30 September 2022

Technical consultation companion paper

Date of publication: 13 April 2017



Associated documents

Publication date	Reference	Title
28 February 2013	ISBN 878-1-869452-20-9	Setting default price-quality paths for suppliers of gas pipeline services
28 February 2013	ISBN 978-1-869453-11-4	[2013] NZCC 4 Gas Distribution Services Default Price-Quality Path Determination 2013
27 March 2014	ISBN 978-1-869453-60-2	[2013] NZCC 5 Gas Transmission Services Default Price-Quality Path Determination 2013 (consolidating all amendments as of 26 March 2014)
29 February 2016	ISBN 978-1-869454-96-8	Default price-quality paths for gas pipeline services from 1 October 2017 - Process and issues paper
28 June 2016	ISBN 978-1-869455-07-1	Default price-quality paths for gas pipeline services from 1 October 2017 - Implementing matters arising from proposed input methodologies changes
1 July 2016	-	Default price-quality paths for gas pipeline services from 1 October 2017 - High level specification for the 2017 GPB reset financial model
1 July 2016	-	Default price-quality paths for gas pipeline services from 1 October 2017 - Model specification for the 2017 GPB reset financial model
30 August 2016	ISBN 978-1-869455-31-6	Default price-quality paths for gas pipeline services from 1 October 2017
20 December 2016	ISBN 978-1-869455-51-4	Policy for setting price-paths and quality standards Input methodologies review decisions – Report on the IM review
20 December 2016	ISSN 1178-2560	Input methodologies amendments determinations 2016
10 February 2017	ISBN 978-1-869455-60-6	Gas Transmission Services Default Price-Quality Path Draft Determination 2017
10 February 2017	ISBN 978-1-869455-59-0	Gas Distribution Services Default Price-Quality Path Draft Determination 2017
10 February 2017	ISBN 978-1-869455-58-3	Default price-quality paths for gas pipeline businesses from 1 October 2017 to 30 September 2022 - Draft Reasons Paper
13 April 2017	ISBN 978-1-869455-72-9	Gas Transmission Services Default Price-Quality Path Technical Consultation Draft Determination 2017
13 April 2017	ISBN 978-1-869455-73-6	Gas Distribution Services Default Price-Quality Path Technical Consultation Draft Determination 2017

Commerce Commission
Wellington, New Zealand

Contents

Chapter 1	Introduction	4
Chapter 2	Changes to determinations.....	8

Chapter 1 Introduction

Purpose of technical consultation

- 1.1 This paper invites submissions on the Gas Transmission Business (GTB) and Gas Distribution Business (GDB) default price-quality path (DPPs) determinations that will apply from 1 October 2017. We are seeking submissions on whether the determinations:
 - 1.1.1 accurately give effect to our February 2017 draft decisions, subject to the updated views explained in this paper; and
 - 1.1.2 will be workable in terms of their practical application and demonstrating and assessing compliance with the price-quality paths.
- 1.2 Chapter 2 of this paper sets out and briefly explains the drafting changes we have made since the draft determinations and decisions were published on 10 February 2017.
- 1.3 This paper does not discuss our previous draft policy decisions in any detail. These draft decisions can be found in our Draft Decision Reasons Paper. Of particular relevance are:¹
 - 1.3.1 Chapter 7, on quality of service;
 - 1.3.2 Chapter 8, on assessing compliance with the price-path; and
 - 1.3.3 Attachment F on the price-setting and revenue wash-up process for the pure revenue cap.

We have published updated draft determinations for technical consultation

- 1.4 We have published updated drafts of both DPP determinations. Revisions to these determinations include:
 - 1.4.1 drafting refinements to better give effect to our draft decisions;
 - 1.4.2 new drafting to give effect to areas where we have updated our views following submissions on our draft decisions; and
 - 1.4.3 formatting and minor error corrections.
- 1.5 The revised determinations do not contain mark-ups of changes made to the February 2017 draft determinations as we consider it important that stakeholders assess the determinations as a whole. However, we have published a table identifying all changes to the determinations excluding formatting and minor error

¹ Commerce Commission “Default price-quality paths for gas pipeline businesses from 1 October 2017 to 30 September 2022 - Draft Reasons Paper” (10 February 2017).

corrections. A ‘track-change’ comparison between our February 2017 draft determinations and the 2013 determinations is also available on our website.

- 1.6 We have not comprehensively cited submissions in this paper for the changes we have made in the revised draft determinations, but we have done so where we consider it useful in helping submitters understand the changes.
- 1.7 Further changes may be made to the updated determinations in light of this technical consultation and our further deliberations. The reasons for our final decisions will be explained when our final decisions are published.²

Reconsideration of the draft decision on the approach to valuing the former GasNet assets in First Gas’ RAB

- 1.8 We are reconsidering our position on the valuation of the Western Bay of Plenty assets purchased by First Gas from GasNet, prior to those assets being commissioned. Specifically, we are reconsidering how clause 2.2.1 of the GDB Input Methodologies (IMs) should be applied.
- 1.9 In our draft Reasons Paper, we indicated that the assets would enter First Gas’ regulatory asset base (RAB) at their sale price, and that we would include forecast capex to account for this.³ We reached our initial view as the assets were still works under construction at the time of the sale and had not yet been used by GasNet to provide any regulated services.
- 1.10 We are now aware that First Gas has purchased the assets at a price materially in excess of GasNet’s cost to construct them. The Major Gas Users Group also cited this concern in its submission on the draft DPP decision.⁴
- 1.11 We consider that our draft decision is not consistent with the policy intent of the IMs relating to asset sales and purchases between regulated suppliers:⁵

Where an EDB or GPB buys an asset from another regulated supplier, the asset base from which a return can be earned should not be affected by the sale price. Otherwise returns over the life of the asset could exceed the total cost of owning and operating the asset in the combined books of the vendor and purchaser. Such a result would not be consistent with limiting the ability of regulated suppliers to extract excessive profits. It could also provide suppliers with an incentive to trade assets unnecessarily in order to justify higher prices.

- 1.12 Had GasNet commissioned these assets, the assets would have entered its RAB at the cost to construct plus any associated financing and commissioning costs up to

² We have not included starting prices or rates of change, as these numbers do not require technical consultation.

³ Commerce Commission “Default price-quality paths for gas pipeline businesses from 1 October 2017 to 30 September 2022 - Draft Reasons Paper” (10 February 2017) para 5.21.

⁴ MGUG “Submission on Gas DPP Draft Decision” (10 March 2017) paras 12 and 13.

⁵ Commerce Commission “EDB GPB Input Methodologies Reasons Paper” (December 2010) para E8.6.

the point of commissioning. Upon transfer to First Gas, they would transfer at their RAB value.

- 1.13 In light of the purpose of the rules for sales of assets between regulated suppliers, we are now considering whether to apply the same approach to the valuation of the assets that would have applied had they been commissioned at the time of their sale. Under this approach they would be valued at the cost to construct plus any associated financing and commissioning costs up to the point of commissioning and not at the sale price.
- 1.14 We are therefore providing a further opportunity to all stakeholders to provide any views on this issue.

Invitation to make submissions

Scope of submissions

Submissions on updated determinations

- 1.15 We are interested in your views on the determinations as a whole, not only in the changes made since the draft, specifically:
- 1.15.1 whether the determinations as revised accurately give effect to our draft decisions, subject to the updated decisions explained in this paper; and
- 1.15.2 whether the determinations will be workable in terms of their practical application and demonstrating and assessing compliance with the price quality paths.
- 1.16 Where you consider that the drafting in the updated draft determinations does not accurately give effect to our draft decisions, we would welcome suggested alternative drafting.
- 1.17 Submissions outside the scope of this technical consultation might not be considered in reaching our final decisions. Specifically, we are not consulting on updated starting prices or the expenditure and constant price revenue growth forecasts we use to set them. These matters will be addressed and any changes explained in our final decisions.

Submissions on treatment of Western Bay of Plenty assets

- 1.18 We are interested in your views on the appropriate way to interpret the IMs in this context, and how to give effect to the policy intent set out in paragraph 1.11.

Timeframes for submissions

- 1.19 We invite submissions on this paper by **5pm Thursday 27 April 2017**. To allow more time for primary submissions, we do not intend to invite cross submissions. Material provided outside of this timeframe is unlikely to be considered in reaching our final decisions.

1.20 Please address submissions to:

Tricia Jennings (Project Manager, Gas DPP reset 2017)
c/o regulation.branch@comcom.co.nz

Format for submissions

1.21 Please provide submissions in a file format suitable for word processing, as well as in the PDF file format.

Requests for confidentiality

1.22 We encourage full disclosure of submissions so that all information can be tested in an open and transparent manner. However, we offer the following guidance where you wish to provide information in confidence:

1.22.1 if you include confidential material in a submission, both confidential and public versions of the submissions should be provided; and

1.22.2 the responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.

Chapter 2 Changes to determinations

Purpose of this chapter

- 2.1 This chapter sets out and briefly explains the changes to the GTB and GDB DPP determinations excluding formatting and minor error corrections.

Table 2.1 Changes to the GTB determination

Change to determination	Clause/schedule affected	Reason for change
Removal of the method for calculating the average increase in price	Clause 4.2 – definition of average price increase (removed) Clause 8.4 (removed) Clause 11.2(a)(i) Clause 11.2(a)(ii) (removed) Clause 11(3)(c) (removed) Schedule 6 (removed) Schedule 10 (now Schedule 9)	Change to policy decision We agree with First Gas’ submission that the average price increase is not workable given proposed changes to the gas transmission access code. ⁶
Extend the reporting period for Major Interruptions from 50 Working Days after the interruption to 60 Working Days	Clause 9.5 and 9.7	Change to policy decision We agree with First Gas’ submission that, given the reporting obligations it already faces (including the CCM regulations and DPP obligations), more time to prepare the report is warranted. ⁷
Measure the reporting period from the termination of the Critical Contingency (as defined in Regulations 60 and 61 of the CCM regulations)	Clause 9.5	Change to policy decision During a Major Interruption the GTB’s focus will be on responding to the outage itself. As such, it is appropriate to ‘start the clock’ from the end of the outage. The termination of the Critical Contingency provides an unambiguous date for this to be measured from. ⁸

⁶ First Gas “Submission on Draft Gas DPP”, 10 March 2017, Section 5.

⁷ First Gas “Submission on Draft Gas DPP”, 10 March 2017, Section 4.1.2

⁸ Ibid.

Table 2.2 Changes to the GDB determination

Change to determination	Clause/schedule affected	Reason for change
Amendments to the formulae in Schedule 6	Schedule 6	<p>Clarification</p> <p>Minor drafting refinements to better give effect to our draft decisions relating to transfers</p> <p>Where a transfer involves a non-GDB party, the provisions in Schedule 6 only apply where the GDB is transferring assets/consumers and the non-GDB is acquiring them.⁹</p>

⁹ We note that Footnote 131 in Chapter 8 of the Draft reasons paper implied that the provisions also applied to the purchase of unregulated assets by a regulated supplier. Given that pipelines exempt under Schedule 6 of the Commerce Act will remain exempt even if they are acquired by a GDB, this was not our intention, and we will be revising the final reasons paper accordingly.