

## **[Revised draft] Gas Distribution Services Default Price- Quality Path Determination 2017**

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Gas Distribution Services Default Price-Quality Path Determination 2017

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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 2017.

**2. Commencement**

2.1 This determination takes effect on 1 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 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;
- (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;

**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;
- (b) has no relationship with, or interest in, the GDB that is likely to involve the person in a conflict of interest;
- (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;

**Commission** means the Commerce Commission as defined in section 2 of the Act;

**Compliance Statement** means the written statement made by a GDB under clause 11;

**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);
- (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 month period 1 October 2017 to 30 September 2018;

**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 section 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** means a transaction, other than an Amalgamation, whereby a GDB directly or indirectly:

- (a) acquires ownership or Control of all or substantially all of the assets of another GDB; or
- (b) acquires ownership or Control 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 is 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;

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

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

**Regulatory Period** means the period 1 October 2017 to 30 September 2022;

**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 Every GDB must comply with the default price-quality path, which consists of:

- (a) the price path specified in clause 8; and
- (b) the 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.

## **7. CPP Proposals**

7.1 A GDB may submit a CPP Proposal to the Commission at any time before 1 October 2021.

## 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.

### *Compliance with the Price Path*

- 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:

$$NR \leq ANR$$

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).

### *How to calculate notional revenue and allowable notional revenue*

- 8.4 For the purposes of calculating notional revenue and allowable notional revenue in clause 8.3:

- (a) notional revenue for an Assessment 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 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 Period ending in year *t*;

$Q_{i,t-2}$  is the Quantity corresponding to the *i*th Price during the Assessment Period ending two years prior to year *t*;

$K_t$  is the sum of all Pass-through Costs for the Assessment Period ending in year *t*, determined in accordance with Schedule 5;

- $V_t$  is the sum of all Recoverable Costs for the Assessment Period ending in year  $t$ , determined in accordance with Schedule 5; and
- (b) allowable notional revenue for the Assessment 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 Period does not change the allowable notional revenue for that Assessment 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 quality standards*

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

- (a) of the total of all RTEs, the percentage greater than 60 minutes does not exceed 20%; and
- (b) the RTE to any Emergency does not exceed 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.

9.3 A request under clause 9.2 must—

- (a) be submitted to the Commission in writing within 45 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 A GDB may 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 Emergency.

## **10. Transactions**

### *Transactions resulting in an Amalgamation or Merger*

10.1 If a GDB completes an Amalgamation or a Merger 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 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; 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 equals the sum of the total number of Emergencies of each of the GDBs that are the subject of the Amalgamation or Merger.

*Transactions resulting in a Transfer*

- 10.2 For purposes of calculating allowable notional revenue in clause 8.3, if a GDB completes a Transfer during an Assessment Period, the GDB must increase or decrease the allowable notional revenue for that Assessment Period as specified in Schedule 6.

*Requirement to notify the Commission of Amalgamations, Mergers, Transfers and Major Transactions*

- 10.3 A GDB must notify the Commission in writing within 30 Working Days of any Amalgamation, Merger, Transfer or Major 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 GDB's 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 Working Days following the end of each Assessment Period;
  - (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 Working Days after providing it to the Commission; and

- (c) provide to the Commission schedules reflecting the Prices and Quantities disclosed in an electronic format that is compatible with Microsoft Excel with its Annual Compliance Statement.

11.2 The Compliance Statement must:

- (a) state whether or not the GDB has:
  - (i) complied with the price path in clause 8 for the Assessment Period;
  - (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 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;
  - (iii) if the GDB has not complied with the price path, the reasons for the non-compliance; and
  - (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 the Commission has determined that the GDB can be treated as having complied with the quality standard for that Emergency, and any requests under clause 9.2 that are pending a decision by the Commission for the Assessment Period;
- (iv) if the GDB has not complied with a quality standard, the reasons for not meeting the quality standard;
- (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
- (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:

- (a) the Compliance Statement must state the nature of the Restructure of Prices and identify the Consumer Groups impacted by the Restructure of Prices; 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 must include:
  - (i) the methodology used to derive the Quantities in place of actual Quantities that corresponds to each restructured Price;
  - (ii) the derived Quantities corresponding to each restructured Price determined by the GDB for that Assessment Period, and the actual Quantities; and
  - (iii) an explanation for any differences between the actual Quantities and the derived Quantities.

11.5 If a GDB participates in an Amalgamation, Merger, or Transfer, the Compliance Statement for that Assessment Period must:

- (a) state whether the GDB has complied with clauses 10.3, 10.4, and 10.5;

- (b) include any information or calculations that are reasonably required to demonstrate compliance with clauses 10.3, 10.4, and 10.5; and
- (c) if the GDB has not complied with clauses 10.3, 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.  
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

<b>GDB</b>	<b>MAR (\$m)</b>
GasNet Limited	XXXX
Powerco Limited	XXXX
Vector Limited	XXXX
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.

**Equation 1**

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

where:

*MAR* is the starting price specified in Schedule 1; and

$\Delta D$  is the value specified in Table 2 for each GDB.

Table 2:  $\Delta D$  for the First Assessment Period

<b>GDB</b>	<b><math>\Delta D</math></b>
GasNet Limited	XXXX
Powerco Limited	XXXX
Vector Limited	XXXX
First Gas Limited	XXXX

**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 2.

**Equation 2**

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

where:

- t is the year in which the Assessment 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 Period ending the year prior to year t;
- $Q_{i,t-2}$  is the Quantity corresponding to the  $i^{th}$  Price for the Assessment 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 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 Period ending the year prior to year t;
- X is the rate of change, as specified in Schedule 2.
- $\Delta CPI_t$  is the derived change in the CPI to be applied for the Assessment 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 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 Period must:
  - 1.1 be ascertainable at the time the GDB sets its Prices for that Assessment Period;
  - 1.2 not have already been passed through to, or recovered from, Consumers or other parties by the GDB in a previous Assessment Period; and
  - 1.3 not be able to be otherwise recovered from Consumers or other parties, other than through Prices.
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 4.
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 Assessment Period.
4. For the purposes of calculating time value of adjustments under paragraph 2, the GDB must either:
  - 4.1 calculate the amounts in accordance with Equation 3:

**Equation 3**

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

where:

- t is the year in which the Assessment Period ends;
- $K_t$  is the sum of all Pass-through Costs claimed during the Assessment Period ending in year t;
- $V_t$  is the sum of all Recoverable Costs claimed during the Assessment Period ending in year t;
- n is the year the Assessment 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]%; or

4.2 calculate the amounts in accordance with Equation 3, 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 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 GDB 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  $i^{\text{th}}$  Price of the other GDB during any part of the Assessment Period prior to year  $t$ ;
- $Q_{i,t-2}$  is the Quantity attributable to the Consumers transferred by the other GDB for the Assessment Period ending 2 years prior to year  $t$  corresponding to the  $i^{\text{th}}$  Price;
- $K_{proportion,t-1}$  is the proportion of all Pass-through Costs of the other GDB 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 other GDB recognised in the Assessment Period prior to year  $t$
- $V_{proportion,t-1}$  is the proportion of all Recoverable Costs of the other GDB 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 other GDB recognised in the Assessment Period prior to year  $t$ ; and

$\Delta CPI_t$  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-

$CPI_{q,t-n}$  is the CPI for the quarter year ending  $q$  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 GDB party to the Transfer as set out in paragraphs 1 to 3 above, or the other party to the Transfer is not a GDB, 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 GDB 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 GDB 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 GDB 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 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

1. 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-
  - 1.1 is addressed to the Directors of the GDB and to the Commission as the intended users of the assurance report;
  - 1.2 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
  - 1.3 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* (“the Determination”) is to set a default price-quality path for gas distribution businesses (“GDBs”) for the five years beginning 1 October 2017 and ending 30 September 2022, 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 Working Days after submitting it to the Commission.
3. A reasons paper providing detailed background to, and analysis of, the Determination can be found at:
  - 3.1 <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.