

Input methodologies review draft decisions

Topic paper 2: CPP information requirements for gas pipeline businesses

Date of publication: 24 October 2017

Associated documents

Publication date	Reference	Title
20 December 2016	978-1-869455-44-6	Input methodologies review decisions: Introduction and process paper
20 December 2016	978-1-869455-53-8	Input methodologies review decisions: Framework for the IM review
20 December 2016	978-1-869455-46-0	Input methodologies review decisions: Topic paper 2 – CPP requirements
14 September 2016	978-1-869455-36-1	Input Methodologies review: Process update paper
14 September 2016	N/A	Amended notice of intention: input methodologies review
29 February 2016	978-1-869454-99-9	Input methodologies review: Process update paper

Commerce Commission
Wellington, New Zealand

CONTENTS

EXECUTIVE SUMMARY	2
PURPOSE OF THIS PAPER.....	2
OVERVIEW OF THE REVIEW OF THE CPP INFORMATION REQUIREMENTS FOR GPBS.....	2
SUMMARY OF OUR DRAFT DECISION	3
INVITATION TO MAKE SUBMISSIONS.....	3
CHAPTER 1: INTRODUCTION	4
PURPOSE OF THIS PAPER.....	4
INTRODUCTION TO THIS TOPIC.....	4
SCOPE OF THIS IM REVIEW.....	4
WHO DOES THIS PAPER APPLY TO?	5
INVITATION TO MAKE SUBMISSIONS.....	5
CHAPTER 2: CPP INFORMATION REQUIREMENTS FOR GPBS	6
PURPOSE OF THIS CHAPTER	6
PRELIMINARY FEEDBACK FROM STAKEHOLDERS.....	6
OUR DRAFT DECISION IS NOT TO AMEND THE GAS CPP INFORMATION REQUIREMENTS	7

[BLANK PAGE]

Executive Summary

Purpose of this paper

- X1. This paper sets out our draft decision on the review of the input methodologies (**IMs**) relating to the information requirements to be included in customised price-quality path (**CPP**) proposals for gas distribution businesses (**GDBs**) and the gas transmission business (**GTB**) (together, **GPBs**).

Overview of the review of the CPP information requirements for GPBs

- X2. On 20 December 2016 we published our final decisions on all areas of the IM review¹ except for three areas where we had not yet reached decisions. One of those areas was the input methodologies relating to CPP information requirements for GPBs, which is the focus of this paper.²
- X3. We are required to complete our review of the IMs relating to CPP information requirements for GPBs by 20 January 2018.³
- X4. As this work remains part of the IM review, we have applied our IM review framework for decision-making.⁴ In deciding whether to make changes to the IM provisions as a result of this review, we have been guided by the IM review framework.
- X5. Given the similarities in their businesses, in reviewing the gas CPP information requirements, we have considered the GTB and GDBs together.⁵
- X6. We contacted the GPBs and the Major Gas Users Group (**MGUG**) to seek their views on whether any amendments were necessary to the gas CPP information requirements. We have taken this feedback into consideration in conducting this review and reaching our draft decision.

¹ Contained in the Electricity Distribution Services Input Methodology Amendments Determination 2016 [2016] NZCC 24, Gas Distribution Services Input Methodologies Amendments Determination 2016 [2016] NZCC 25 and Gas Transmission Services Input Methodologies Amendments Determination 2016 [2016] NZCC 26.

² Others included Transpower Incremental Rolling Incentive Scheme input methodology and the related party transaction input methodologies.

³ Section 52Y of the Commerce Act 1986.

⁴ Commerce Commission "Input methodologies review decisions: Framework for the IM review" (20 December 2016).

⁵ When referring to the gas CPP information requirements in this paper, we are referring to the requirements for the GTB and GDBs.

Summary of our draft decision

- X7. Our draft decision is not to make amendments to the IMs as part of this review of the CPP information requirements for GPBs. This is because:
- X7.1 we have no reason to believe the existing gas CPP information requirements are not achieving the policy intent behind the requirements;
 - X7.2 given that we have never completed a CPP for a GPB, it is unclear whether the amendments proposed by some GPBs would significantly reduce the cost or complexity of a CPP proposal;
 - X7.3 First Gas Limited (**First Gas**) has indicated it is considering a CPP proposal, and we consider that delaying making any amendments to the gas CPP information requirements until we complete a CPP for a GPB will result in a more effective and complete review taking place, with improved outcomes for the GPBs; and
 - X7.4 in the meantime, the modifications and exemptions provisions provide for a flexible approach to information requirements. This flexibility is likely to reduce time and costs and make for a more cost-effective CPP process overall.
- X8. We consider our decision not to amend the CPP information requirements as part of this review meets our obligation to review the relevant IMs and is consistent with the decision-making framework for the overall IM review. We consider that it is appropriate to complete the review of the gas CPP information requirements with a decision to further assess them at a later date, once there is some experience with applying those requirements to a GPB.

Invitation to make submissions

- X9. We invite submissions on this paper by **5pm, 7 November 2017**. We will then invite cross-submissions by **5pm, 14 November 2017**.

Chapter 1: Introduction

Purpose of this paper

1. This paper sets out our draft decision on our review of the input methodologies (**IMs**) relating to the information requirements to be included in customised price-quality path (**CPP**) proposals for gas pipeline businesses (**GPBs**).

Introduction to this topic

2. Section 52Y of the Commerce Act 1986 (**Act**) requires us to review each IM no later than 7 years after its date of publication and, after that, at intervals of no more than 7 years. We determined the original IMs, including for GPBs, on 22 December 2010 and they were published on 20 January 2011.
3. On 20 December 2016 we published our final decisions on all areas of the IM review except for three areas where we had not yet reached decisions. One of those areas was the IMs relating to CPP information requirements for GPBs.⁶
4. We are therefore required to complete our review of the IMs relating to CPP information requirements for GPBs by 20 January 2018.
5. This review is in accordance with the timeline set out in the Amended Notice of Intention dated 14 September 2016.

Scope of this IM review

6. The scope of this review is focused on the IMs relating to the CPP information requirements for GPBs. The relevant IMs are contained in Part 5, Subpart 5 of the GTB and GDB IMs.
7. The information requirements to be included in a CPP proposal are intended to provide the necessary information to allow us to test whether the CPP application meets the evaluation criteria and to determine a CPP.
8. We made several other changes to the GPB CPP IMs as part of the rest of the IM review completed in 2016.⁷ The changes included:
 - 8.1 changes to the requirements relating to cost allocation in Schedules B and C of the IMs;
 - 8.2 improvements to the roles of the independent verifier and auditor; and
 - 8.3 clarifications to our consumer consultation expectations.

⁶ Others included the Transpower Incremental Rolling Incentive Scheme input methodology and the related party transaction input methodologies.

⁷ Further details of all the changes made are described in Commerce Commission "Input methodologies review decisions: Topic paper 2: CPP requirements" (20 December 2016).

9. These changes were made because these aspects of the CPP process are equally applicable to EDBs and GPBs.⁸
10. Accordingly the scope of this review relates to the other areas of the CPP information requirements. Specifically to Schedules D and E, and the relevant provisions of subpart 5 of part 5, of the GTB and GDB IMs.
 - 10.1 Schedule D sets out the requirements for the qualitative information to support the expenditure forecasts and proposal. Qualitative information allows the supplier to provide context, reasoning and justification for the quantitative data used in its proposal.
 - 10.2 Schedule E contains a set of tables for the quantitative presentation of historical and forecast capex and opex.

Who does this paper apply to?

11. This paper will be of interest to GDBs and the GTB.
12. This paper may also be of interest to consumers of gas pipeline services and EDBs.

Invitation to make submissions

13. We invite submissions on this paper by **5pm, 7 November 2017**. We will then invite cross-submissions by **5pm, 14 November 2017**.
14. In preparing this paper we had discussions with a number of GPBs to better understand what if any comments they have on the CPP information requirements (see Chapter 2).
15. Please address submissions to:

Matthew Clark
 Senior Analyst
 Regulation Branch
regulation.branch@comcom.govt.nz

⁸ Commerce Commission “Input methodologies review decisions: Summary paper” (20 December 2016), paragraph 49.

Chapter 2: CPP information requirements for GPBs

Purpose of this chapter

16. This chapter explains the potential issues we have identified with the information requirements for GPB CPP proposals, and our proposed solution to these issues.

Preliminary feedback from stakeholders

17. When starting this review of the gas CPP information requirements, we contacted the major GPBs and the Major Gas Users Group (**MGUG**) seeking their views on whether any amendments were necessary to the gas CPP information requirements.
18. First Gas, which is currently considering making a CPP application, noted that it would be difficult to amend one area of the information requirements without adjusting others. In First Gas' view, the existing CPP information requirements are comprehensive in what they request.
19. Two GDBs, Powerco Limited (**Powerco**) and Vector Limited (**Vector**), both suggested amending the gas CPP information requirements in line with the amendments we made to the CPP information requirements for EDBs as part of the 2016 IM review.
 - 19.1 Vector stated that we should have a similar focus on aligning the gas CPP information requirements with the GDB information disclosure requirements.
 - 19.2 Powerco supported the use of an "AMP-plus" approach, where:
 - 19.2.1 the information disclosure requirements and the CPP information requirements complement each other, reducing duplication;
 - 19.2.2 ambiguity is eliminated; and
 - 19.2.3 consistent definitions are used in both the information disclosure requirements and the CPP information requirements.
 - 19.3 Powerco also suggested the modifications, exemptions and clarifications they sought in its EDB CPP application be considered in this review.

Aligning the CPP information requirements with information disclosure

20. Following the feedback we received, we have identified the following potential issues in relation to amending the gas CPP information requirements:
 - 20.1 Aligning Schedules D and E of the GPB IMs with the GPB information disclosure schedules;
 - 20.2 Aligning terminology between the gas CPP information requirements and the gas information disclosure requirements; and
 - 20.3 Reducing the level of disaggregation of information.

IM review framework

21. In considering whether to amend the gas CPP information requirements we have used the framework set out in last year's IM review.⁹ Our view is that the framework considerations for reaching our draft decision for each issue identified above are the same. We have therefore considered the issues identified collectively.
22. In particular we have considered whether amending the CPP information requirements will reduce the cost and complexity of a CPP proposal. This is because we consider that the policy intent behind the CPP information requirements remains relevant. The intent behind the CPP information requirements is that the applicant will provide the necessary information which will allow us to test whether the CPP application meets the evaluation criteria and to determine a CPP.

Our draft decision is not to amend the gas CPP information requirements

23. Our draft decision is not to make any amendments to the CPP information requirements for GPBs as part of this review. We explain further how we have reached our draft decision below.

We are uncertain whether the amendments will significantly reduce the cost or complexity of a CPP proposal

24. We have never undertaken a CPP process for a GPB. As a result, we are uncertain how much of a reduction in the costs or complexity of preparing a CPP proposal could be achieved by amending the gas CPP information requirements.
25. While amendments were made to the EDB CPP information requirements, there are significant differences between EDBs, GDBs and GTBs. The information required to assess a proposal will differ depending on the service. This means it is unlikely that the previous EDB amendments will be suitable for replication in the gas IMs – without redesigning them to reflect the unique features of the gas sector.
26. We recognise that amending the CPP information requirements that allow GPBs to leverage existing information supplied to us will, to some extent, reduce both the cost and complexity of complying with the CPP information requirements. In addition, the amendments are likely to reduce the actual or perceived barriers to a supplier making a CPP proposal. However, given that First Gas is considering making a CPP proposal under the current requirements, we consider it sensible to complete this review without making any amendments, and will assess whether changes are necessary once we have completed a CPP proposal from a GPB. This is likely to result in a more effective and complete assessment taking place, with improved outcomes for the GPBs.

⁹ Commerce Commission "Input methodologies review decisions: Framework for the IM review" (20 December 2016).

27. We consider that a further assessment of the CPP requirements would be required in any event following the completion of the prospective First Gas CPP. For example, the amendments made to the EDB CPP information requirements last year were largely based on lessons from the Orion CPP. Therefore, we are likely to identify further improvements to the CPP information requirements following completion of a GPB CPP.
28. Despite amending Schedules D and E of the IMs for the EDBs, Powerco still required a number of modifications and exemptions in their recent CPP application.
29. Further, we have had no indication from any GDB that they wish to make a CPP application.

The modification and exemptions provisions allow flexibility to the existing CPP information requirements

30. The modification and exemptions provisions allow an applicant to provide information that is more closely aligned to a CPP applicant's business information practices and accounting practices. This flexibility is likely to reduce time and costs and make for a more cost-effective CPP process overall.

We will reassess once we have considered a GPB CPP proposal

31. We consider that it might be more efficient and effective to conduct a complete assessment of the gas CPP information requirements once we have completed a CPP proposal from a GPB.
32. The feedback and suggestions made by Powerco and Vector should be reconsidered at the time of this assessment, together with any amendments that may be required following our experience with determining a CPP application from a GPB.