

Draft Gas Transmission Services Default Price- Quality Path Determination 2017

The Commission: **Energy Division**
Sue Begg
Dr Mark Berry
Dr Stephen Gale
Dr Jill Walker

Date of determination: **XXXX**

Gas Transmission Services Default Price-Quality Path Determination 2017

Determination version history		
Determination date	Decision number	Determination name
xxx 2017	[2017] xxx	Gas Transmission Services Default Price-Quality Path Determination 2017.

CONTENTS

1. TITLE	4
2. COMMENCEMENT	4
3. APPLICATION.....	4
4. INTERPRETATION.....	4
5. DEFAULT PRICE-QUALITY PATH	7
6. APPLICABLE INPUT METHODOLOGIES.....	7
7. CPP PROPOSALS	8
8. PRICE PATH	8
9. QUALITY STANDARD.....	8
10. TRANSACTIONS	10
11. COMPLIANCE STATEMENTS.....	10
SCHEDULE 1: STARTING PRICES	14
SCHEDULE 2: RATE OF CHANGE	15
SCHEDULE 3: CALCULATION OF FORECAST REVENUE FROM PRICES	16
SCHEDULE 4: FORECAST NET ALLOWABLE REVENUE	17
SCHEDULE 5: CALCULATION OF FORECAST ALLOWABLE REVENUE	18
SCHEDULE 6: CALCULATION OF AVERAGE PRICE INCREASE.....	19
SCHEDULE 7: CALCULATION OF WASH-UP AMOUNT FOR THE FIRST ASSESSMENT PERIOD.....	21
SCHEDULE 8: CALCULATION OF WASH-UP AMOUNT FOR THE SECOND TO FIFTH ASSESSMENT PERIODS.....	23
SCHEDULE 9: CALCULATION OF OPENING WASH-UP ACCOUNT BALANCE	26
SCHEDULE 10: FORM OF DIRECTORS' CERTIFICATE FOR PRICE SETTING COMPLIANCE STATEMENT..	27
SCHEDULE 11: FORM OF DIRECTORS' CERTIFICATE FOR WASH-UP AMOUNT CALCULATION AND QUALITY STANDARDS COMPLIANCE STATEMENT	28
SCHEDULE 12: FORM OF AUDITOR'S REPORT FOR WASH-UP AMOUNT CALCULATION AND QUALITY STANDARDS 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 Transmission 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 GTBs and is made pursuant to section 55E(2) of the Act.

3.2 This determination applies to GTBs 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 in this determination 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 GTB, means a person who:

- (a) is qualified for appointment as Auditor of a company under the Companies Act 1993 or, where the GTB 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 GTB 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 for the purposes of completing the report required by clause 11.2(d); but
- (e) need not be the same person as the person who audits the GTB's accounts for any other purpose;

Average Price Increase means the amount calculated for the second to fifth Assessment Periods as specified in Schedule 6;

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

Compliance Statement means the relevant written statement made by a GTB under clause 11;

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

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;

Critical Contingency has the same meaning as in regulation 5 of the Gas Governance (Critical Contingency Management) Regulations 2008 or any successor regulations;

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

Emergency means an incident:

- (a) that has occurred on or in the near vicinity of a GTB's assets on the transmission network, including leaks, unplanned disruptions of supply, third party damage, near-miss incidents, equipment failure, overpressure, or ignitions; and
- (b) that should be responded to immediately by the GTB based on GIP;

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

Forecast Revenue From Prices means the amount calculated for each Assessment Period as specified in Schedule 5;

Forecast Allowable Revenue means the amount calculated for each Assessment Period as specified in Schedule 5;

Gas Transmission Services has the same meaning as in clause 1.1.4 of the IM Determination;

GIP means 'Good Industry Practice', where the GTB concerned exercised the degree of skill, diligence, prudence and foresight which would reasonably and ordinarily be expected from a skilled and experienced operator engaged in the same type of undertaking under the same or similar circumstances;

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

IM Determination means the Gas Transmission 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 Interruption means any declaration of a Critical Contingency caused or contributed to by an incident on the transmission system, which results in curtailment directions being issued in respect of any band beyond Band 1;

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 GTB directly or indirectly:

- (a) acquires ownership or Control of all or substantially all of the assets of another GTB; or
- (b) acquires ownership or Control, of another GTB through the acquisition of all of its share capital;

Pass-through Costs has the same meaning as in clause 1.1.4 of the IM Determination;

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

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

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

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

Wash-up Amount means the amount calculated for each Assessment Period as specified in Schedule 7 for the first Assessment Period and Schedule 8 for the second to fifth Assessment Periods; and

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

5. Default price-quality path

5.1 Every GTB 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 GTB 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 revenue, 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 Forecast Revenue From Prices of a GTB for each Assessment Period must not exceed the Forecast Allowable Revenue for the Assessment Period.

8.4 The Average Price Increase between each Assessment Period must not exceed 10% plus ΔCPI , where ΔCPI must be calculated in accordance with the formula -

$$\Delta\text{CPI} = \frac{\text{CPI}_{\text{Dec},t-1} + \text{CPI}_{\text{Mar},t} + \text{CPI}_{\text{Jun},t} + \text{CPI}_{\text{Sep},t}}{\text{CPI}_{\text{Dec},t-2} + \text{CPI}_{\text{Mar},t-1} + \text{CPI}_{\text{Jun},t-1} + \text{CPI}_{\text{Sep},t-1}} - 1$$

where -

$\text{CPI}_{q,t-n}$ is the Forecast CPI for the quarter year ending q in the 12 month period n years prior to year t; and
 t is the year in which the Assessment Period ends.

Wash-up Amount calculation

8.5 The GTB must calculate the Wash-up Amount for each Assessment Period using the methodology specified in Schedule 7 for the first Assessment Period, and the methodology specified in Schedule 8 for the second to fifth Assessment Periods.

9. Quality standards

Compliance with quality standards

9.1 In respect of each Assessment Period:

- (a) A GTB's RTE values must be such that the RTE to any Emergency does not exceed 180 minutes; and
- (b) there is no Major Interruption.

Exclusion of certain Emergencies

- 9.2 If a GTB has a reasonable excuse for not responding to an Emergency within 180 minutes, the GTB 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 GTB's RTE was greater than 180 minutes.
- 9.4 A GTB may only treat an Emergency as if it was compliant with the quality standard where the Commission has determined in writing that the GTB can be treated as having complied with the quality standard for that Emergency.

Reporting and public disclosure of a Major Interruption

- 9.5 A GTB must notify the Commission in writing within 5 Working Days of any Major Interruption, and provide the Commission with the following information within 50 Working Days of the Major Interruption:
- (a) a description of the interruption (including the cause(s), location, assets involved);
 - (b) whether the risk of the interruption was identified in advance, and any steps the supplier took to reduce or mitigate that risk;
 - (c) the duration of the interruption;
 - (d) the GTB's best estimate of the quantities of services not delivered as a result of the interruption, and the revenues that would have been earned for any undelivered services, to the extent that it is possible to determine them;
 - (e) the direct cost of the interruption (including repair costs) to the supplier; and
 - (f) what actions (if any) the supplier intends to take to avoid similar interruptions in future.
- 9.6 The GTB must make the information required in clause 9.5(a) to (f) publicly available on its website within 5 Working Days after providing it to the Commission.
- 9.7 Where a GTB is not reasonably able to provide the Commission with some or all of the information required in clause 9.5(a) to (f) within the prescribed 50 Working Day period, it may apply to the Commission for an extension of time to provide it with such information.

10. Transactions

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

- 10.1 A GTB must notify the Commission in writing within 30 Working Days of any Amalgamation, Merger, Transfer or Major Transaction.

11. Compliance Statements

Compliance Statement in respect of Price setting

- 11.1 Every GTB must:

- (a) provide to the Commission a written Compliance Statement in respect of Price setting before the start of the Assessment Period;
- (b) make the Compliance Statement and the Director's certificate provided under clause 11.2(c) 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 forecast Quantities used in the calculation of Forecast Revenue From Prices, disclosed in an electronic format that is consistent with Microsoft Excel with the Compliance Statement.

- 11.2 The Compliance Statement must:

- (a) state whether or not the GTB has:
 - (i) complied with the price path in clauses 8.3 and 8.4 for the Assessment Period; and
 - (ii) created any new revenue classes, or whether any existing relevant revenue classes have ceased to apply in respect of the Assessment Period;
- (b) state the date on which the statement was prepared; and
- (c) include a certificate in the form set out in Schedule 10, signed by at least one Director of the GTB.

- 11.3 The Compliance Statement must include the following information:

- (a) the GTB's calculation of its Forecast Revenue From Prices together with supporting information for all components of the calculation;
- (b) the GTB's calculation of its Forecast Allowable Revenue together with supporting information for all components of the calculation;

- (c) for all Assessment Periods, except the first Assessment Period, a calculation showing the Average Price Increase as between the preceding Assessment period and the Assessment Period being reported on in the Compliance Statement;
- (d) if the GTB has not complied with the price path, the reasons for the non-compliance; and
- (e) if the GTB has not complied with the price path, any actions taken to mitigate any non-compliance and to prevent similar non-compliance in future Assessment Periods.

Compliance Statement in respect of the Wash-up Amount calculation and quality standards

11.4 Every GTB must:

- (a) provide to the Commission a written Compliance Statement in respect of the Wash-up Amount calculation and Quality Standards within 50 Working Days following the end of each Assessment Period;
- (b) make the Compliance Statement, the Director's certificate provided under clause 11.5(c), and the assurance report provided under clause 11.5(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 actual Quantities used to calculate the Wash-up Amount, disclosed in an electronic format that is consistent with Microsoft Excel with the Compliance Statement.

11.5 The Compliance Statement must:

- (a) state whether or not the GTB has:
 - (i) complied with the requirement to calculate the Wash-up Amount in clause 8.5 for the Assessment Period; and
 - (ii) complied with the quality standards in clause 9 for the Assessment Period;
- (b) state the date on which the statement was prepared;
- (c) include a certificate in the form set out in Schedule 11, signed by at least one Director of the GTB; and
- (d) be accompanied by an assurance report meeting the requirements specified in Schedule 12, in respect of all information contained in the Compliance Statement.

11.6 The Compliance Statement must include any information reasonably necessary to demonstrate whether the GTB has complied with clause 8.5 and clause 9 including the following:

Wash-up Amount calculation

- (a) details of the *Wash-up Amount Calculation* as specified in clause 8.5, together with supporting information for all components of the calculation;

Emergencies

- (b) relevant incident data;
- (c) a description of policies and procedures which the GTB has used for recording the RTE statistics for the Assessment Period;
- (d) a list of all Emergencies where the Commission has determined that the GTB 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;
- (e) if the GTB has not complied with a quality standard the reasons for not meeting the quality standard;
- (f) if the GTB has not complied with a quality standard, the actions taken to mitigate any non-compliance and to prevent similar non-compliance in future Assessment Periods; and
- (g) where a quality standard has not been met, for each Emergency which exceeded the RTE for that quality standard, a description of the Emergency, including the nature, cause, and location;

Major Interruptions

- (h) if a Major Interruption has occurred state whether the GTB has complied with clauses 9.5, 9.6, and 9.7;
- (i) details of all Major Interruptions, including without limitation the following information, where such information has not already been disclosed under clause 9.6 and/or 9.7;
 - (i) details of the trigger event and contributory factors to the Major Interruption;
 - (ii) whether or not the triggers and contributory factors to the Major Interruption were within the GTB's control, including whether the Major Interruption was due to the GTB's own systems, or a third party event; and
 - (iii) whether the risk of the trigger event and contributory factors to the Major Interruption were identified and mitigated, including any steps the GTB took to avoid the Major Interruption or reduce its impact; and
- (j) if the GTB has stated that it has not complied with a quality standard:
 - (i) the reasons for not meeting the quality standard; and

- (ii) details of all actions taken to mitigate any non-compliance with the quality standards and to prevent similar non-compliance in future Assessment Periods.

Dated at Wellington this XXXX.

Commerce Commission

Schedule 1: Starting prices

The starting price for the Regulatory Period, specified as actual net allowable revenue is \$xxxm .

Schedule 2: Rate of change

The annual rate of change is 0%.

Schedule 3: Calculation of Forecast Revenue From Prices

1. When setting Prices for an Assessment Period the GTB must calculate the Forecast Revenue From Prices for the Assessment Period.
2. When calculating the Forecast Revenue From Prices the GTB must prepare a forecast of Quantities for the Assessment Period to which the Prices for the Assessment Period will apply.
3. The Forecast Revenue From Prices must be calculated as the sum of each Price multiplied by each corresponding forecast Quantity.
4. All forecast Quantities used to calculate the Forecast Revenue From Prices must be reasonable.

Schedule 4: Forecast Net Allowable Revenue

Assessment period ending	Forecast net allowable revenue (\$000)
30 September 2018	XXXX
30 September 2019	XXXX
30 September 2020	XXXX
30 September 2021	XXXX
30 September 2022	XXXX

Schedule 5: Calculation of Forecast Allowable Revenue

1. When setting Prices for an Assessment Period, the GTB must calculate the Forecast Allowable Revenue.
2. When calculating the Forecast Allowable Revenue the GTB must prepare a forecast of Pass-through Costs and a forecast of Recoverable Costs.
3. All forecasts of Pass-through Costs and Recoverable Costs used to calculate the Forecast Allowable Revenue must be reasonable.
4. The Forecast Allowable Revenue must be determined in accordance with the formula -
forecast net allowable revenue + forecast pass-through and recoverable costs + opening balance of the wash-up account.

where -

<i>forecast net allowable revenue</i>	is the amount as specified in Schedule 4;
<i>forecast pass-through and recoverable costs</i>	is the sum of all the forecast Pass-through Costs and forecast Recoverable Costs, excluding any Recoverable Cost that is a <i>revenue wash-up draw down amount</i> ; and
<i>opening wash-up account balance</i>	is the amount calculated as specified in Schedule 9.

5. All forecasts of Pass-through Costs and Recoverable Costs used to calculate the Forecast Allowable Revenue must be reasonable.
6. Unless expressly stated otherwise, all amounts referred to in this schedule are for the Assessment Period for which the relevant calculations are being performed.

Schedule 6: Calculation of Average Price Increase

1. When setting Prices for the second to fifth Assessment Periods, the GTB must calculate the Average Price Increase between Assessment Periods using forecast revenues and Quantities.
2. All forecast Quantities used to calculate the Average Price Increase must be reasonable.
3. *Revenue class* means a set of services provided by the GTB for which tariffs for each service in the class are set on the same type of Quantity, such as a charge per gigajoule of gas delivered.
4. The Average Price Increase for the second to fifth Assessment Periods must be determined with reference to *relevant revenue classes*.
5. *Relevant revenue class* means, for an Assessment Period, each of the N *revenue classes* that have the largest forecast revenues in the previous Assessment Period where N is defined below.
6. For the purpose of calculating the Average Price Increase for an Assessment Period, each *relevant revenue class* of the previous Assessment Period shall be a *relevant revenue class*.
7. The Average Price Increase between Assessment Periods shall be determined in accordance with the formula –

$$\text{Average Price Increase} = \sum_{i=1}^N \left(\frac{R_{i,t-1}}{R_{tot,t-1}} \times \frac{\left(\frac{R_{i,t}}{Q_{i,t}} \right)}{\left(\frac{R_{i,t-1}}{Q_{i,t-1}} \right)} \right) - 1$$

where -

- i* refers to the *relevant Revenue Class* number, and takes the values 1 to N;
- N* is the number of *relevant revenue classes*, and is the lesser of 4 and the number of *revenue classes* that exists in the t-1 Assessment Period;
- t* refers to the Assessment Period for which prices are being set;
- t-1* refers to the Assessment Period prior to the one for which prices are being set;
- R_{i,t}* is the revenue from the *i*th *revenue class* in Assessment Period t;
- R_{i,t-1}* is the revenue from the *i*th *revenue class* in Assessment Period t-1;
- Q_{i,t}* is the quantity for the *i*th *revenue class* in Assessment Period t; and
- Q_{i,t-1}* is the quantity for the *i*th *revenue class* in Assessment Period t-1; and
- R_{tot,t-1}* is the total revenue from prices for the *relevant revenue classes* in Assessment Period t-1.

8. If a *relevant revenue class* of the previous Assessment Period ceases to have Prices set for it in the Assessment Period for which the Average Price Increase is to be calculated, the value of $R_{i,t} / Q_{i,t}$ shall be set to zero for that revenue.

Schedule 7: Calculation of Wash-up Amount for the first Assessment Period

Definitions

1. For purposes of this schedule, the following terms have the following meanings:
 - 1.1 *Actual net allowable revenue* is the amount specified in Schedule 4 as the *forecast net allowable revenue* for the first Assessment Period;
 - 1.2 *Actual revenue from prices* must be calculated as the sum of each Price multiplied by each corresponding actual Quantity;
 - 1.3 *Discount rate* is 5.38%; and
 - 1.4 *Unrecovered pass-through costs* and *recoverable costs* means the sum of all Pass-through Costs and Recoverable Costs in the regulatory period ending 30 September 2017 under the Gas Transmission Services Default Price-Quality Path Determination 2013, that were not recovered during that regulatory period.
2. Unless expressly stated otherwise, all amounts referred to in this schedule are for the first Assessment Period.

Formula for Wash-up Amount

3. The Wash-up Amount must be calculated in accordance with the formula –
actual allowable revenue – actual revenue – revenue foregone
4. The components of the formula to calculate the Wash-up Amount must be calculated as set out below in paragraphs 5 to 8.

Actual allowable revenue

5. Actual allowable revenue must be calculated in accordance with the formula –
actual net allowable revenue + actual pass through costs and recoverable costs

where –

actual net allowable revenue is the amount as specified in paragraph 1.1 above; and

actual pass through costs and recoverable costs is the sum of all Pass-through Costs and Recoverable Costs that were incurred in the Assessment Period + the *unrecovered pass-through costs and recoverable costs* multiplied by $(1 + \textit{discount rate})$.

Actual revenue

6. *Actual revenue* must be calculated in accordance with the formula –

actual revenue from prices + other regulated Income

where –

actual revenue from prices is the amount calculated as specified in paragraph 1.2 above; and

other regulated income has the same meaning as in clause 1.1.4 of the IM Determination.

Revenue foregone

7. If the *revenue reduction percentage* is greater than 20%, the *revenue foregone* must be calculated in accordance with the formula –

actual net allowable revenue × (revenue reduction percentage – 20%)

where –

actual net allowable revenue is the amount as specified in paragraph 1.2 above; and

revenue reduction percentage is $1 - (\text{actual revenue from prices} \div \text{forecast revenue from prices})$.

and where –

actual revenue from prices is the amount as specified in paragraph 1.2 above; and

Forecast Revenue From Prices is the amount calculated as specified in Schedule 3.

8. If the *revenue reduction percentage* as calculated in paragraph 7 is not greater than 20%, the *revenue foregone* is nil.

Schedule 8: Calculation of Wash-up Amount for the second to fifth Assessment Periods

Definitions

1. For purposes of this schedule, the following terms have the following meanings:
 - 1.1 *Actual revenue from prices* must be calculated as the sum of each Price multiplied by each corresponding actual Quantity.
2. Unless expressly stated otherwise, all amounts referred to in this schedule are for the Assessment Period for which the relevant calculations are being performed.

Formula for Wash-up Amount calculation

3. The Wash-up Amount must be calculated in accordance with the formula – *actual allowable revenue – actual revenue – revenue foregone*
4. The components of the Wash-up Amount calculation formula must be calculated as set out below in paragraphs 5 to 8.

Actual allowable revenue

5. Actual allowable revenue must be calculated in accordance with the formula – *actual net allowable revenue + actual pass-through costs and recoverable costs + revenue wash-up draw down amount*

where –

actual net allowable revenue is the amount calculated using the following formula –

$$\text{actual net allowable revenue of the previous Assessment Period} \times (1 + \Delta\text{CPI}_t) \times (1 - X)$$

and where -

ΔCPI is the derived change in the CPI to be applied for the Assessment Period, calculated in accordance with the formula -

$$\Delta\text{CPI} = \frac{\text{CPI}_{Dec,t-1} + \text{CPI}_{Mar,t} + \text{CPI}_{Jun,t} + \text{CPI}_{Sep,t}}{\text{CPI}_{Dec,t-2} + \text{CPI}_{Mar,t-1} + \text{CPI}_{Jun,t-1} + \text{CPI}_{Sep,t-1}} - 1$$

and where -

- $\text{CPI}_{q,t-n}$ is the CPI for the quarter year ending q in the 12 month period n years prior to year t;
- t is the year in which the Assessment Period ends;
- X is the annual rate of change, as specified in Schedule 2.

<i>actual-pass through costs and recoverable costs</i>	is the sum of all Pass-through Costs and Recoverable Costs that were incurred in the Assessment Period, excluding any Recoverable Cost that is a <i>revenue wash-up draw down amount</i> ;
<i>revenue wash-up draw down amount for the second Assessment Period</i>	is nil; and
<i>revenue wash-up draw down amount for the third to fifth Assessment Period</i>	is the <i>opening wash-up account balance</i> calculated in accordance with Schedule 9.

Actual revenue

6. *Actual revenue* must be calculated in accordance with the formula –

actual revenue from prices + other regulated Income

where –

<i>actual revenue from prices</i>	is the amount calculated as specified in paragraph 1.1 above; and
<i>other regulated income</i>	has the same meaning as in clause 1.1.4 of the IM Determination

Revenue foregone

7. If the revenue reduction percentage is greater than 20%, the revenue foregone must be calculated in accordance with the formula –

actual net allowable revenue × (revenue reduction percentage – 20%);

where –

<i>actual net allowable revenue</i>	is the amount calculated using the formula, <i>actual net allowable revenue</i> of the previous Assessment Period × (1+ ΔCPI) × (1 – X), as set out in paragraph 5 above; and
<i>revenue reduction percentage</i>	is 1 – (<i>actual revenue from prices</i> ÷ <i>forecast revenue from prices</i>)

and where –

<i>actual revenue from prices</i>	is the amount as specified in paragraph 1.1 above; and
-----------------------------------	--------------------------------------------------------

Forecast Revenue From Prices is the amount calculated as specified in Schedule 3.

8. If the revenue reduction percentage as calculated in paragraph 7 is not greater than 20%, the revenue foregone is nil.

Schedule 9: Calculation of Opening Wash-up Account Balance

1. For purposes of this schedule, the following terms have the following meanings:
67th percentile estimate of post-tax WACC is [5.67% for draft decision, to be updated for the final decision].
2. The *closing wash-up account balance* for the first Assessment Period is nil, and for subsequent Assessment Periods must be calculated in accordance with the formula –
$$\text{Wash-up Amount for the previous Assessment Period} \times (1 + 67\text{th percentile estimate of post-tax WACC})^2$$
3. The *opening wash-up account balance* for the first Assessment Period is nil, and for subsequent Assessment Periods must be the closing wash-up account balance of the previous Assessment Period.

Schedule 10: Form of Directors' certificate for Price setting Compliance statement

I/We, [*insert full name/s*], being Director/s of [*insert name of GTB*] certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached Compliance Statement of [*name of GTB*], and related information, prepared for the purposes of the *Gas Transmission Services Default Price-Quality Path Determination 2017* has been prepared in accordance with all the relevant requirements, and all forecasts used in the calculations of Forecast Revenue from Prices, Forecast Allowable Revenue and the Average Price Increase are reasonable* [*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 11: Form of Directors' certificate for Wash-up Amount calculation and Quality Standards Compliance Statement

I/We, *[insert full name/s]*, being Director/s of *[insert name of GTB]* certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached Compliance Statement of *[name of GTB]*, and related information, prepared for the purposes of the *Gas Transmission 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 12: Form of Auditor's report For Wash-up Amount Calculation and Quality Standards Compliance Statement

1. Each GTB must procure an assurance report by an Auditor in respect of the Wash-up Amount Calculation and Quality Standards 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 GTB and to the Commission as the intended users of the assurance report;
 - 1.2 states–
 - (i) 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;
 - (ii) the work done by the Auditor;
 - (iii) the scope and limitations of the assurance engagement;
 - (iv) the existence of any relationship (other than that of auditor) which the Auditor has with, or any interests which the Auditor has in, the GTB or any of its Interconnected Bodies Corporate;
 - (v) 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
 - (vi) 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 GTB'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 GTB has complied, in all material respects, with the *Gas Transmission Services Default Price-Quality Path Determination 2017* in preparing the Compliance Statement.

Explanatory note

1. The purpose of the *Gas Transmission Services Default Price-Quality Path Determination 2017* (“the Determination”) is to set default price-quality paths for gas transmission businesses (“GTBs”) 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 GTB is required to provide to the Commerce Commission (“the Commission”), separate Compliance Statements relating to Price setting, and their Wash-up Account calculation and quality standards. Each GTB must state whether or not it has complied with the default price-quality path set out in the Determination, provide their Wash-up Amount calculation, and supporting evidence. The two Compliance Statements must both be accompanied by a director’s certificate. The Compliance Statement for the Wash-up Amount Calculation and Quality Standards must also be accompanied by an auditor’s report. Each GTB must publish its Compliance Statements 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:

<http://www.comcom.govt.nz/regulated-industries/gas-pipelines/gas-default-price-quality-path/2017-2022-gas-dpp>
4. 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.