

Input methodologies review decisions

Topic paper 2: CPP information requirements for gas pipeline businesses

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Associated documents

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Executive Summary

Purpose of this paper

- X1. This paper sets out our 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, gas pipeline businesses or **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. Prior to releasing our draft decision, 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 subsequently also received four submissions and one cross-submission on our draft decision. We have taken all of this feedback into consideration in conducting this review and reaching our final 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 decision

- X7. Our 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;⁶
 - X7.2 given that we have never undertaken 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 conducting multiple reviews of the gas CPP information requirements is not in the best interest of consumers as it is not cost efficient;
 - X7.4 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
 - X7.5 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 we have some experience with applying those requirements to a GPB.

⁶ The policy 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.

Chapter 1: Introduction

Purpose of this paper

1. This paper sets out our 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 seven years after its date of publication and, after that, at intervals of no more than seven 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.⁷
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.
6. We released our draft decision on 24 October 2017.

IM review framework

7. As this work remains part of the IM review, we have applied our IM review framework in deciding whether to make changes to the IM provisions as a result of this review.⁸
8. The IM review framework provides that:⁹
 - 8.1 we must review all IMs within the scope of the notice of intention; and
 - 8.2 we may decide to amend, replace, decide to amend or replace the IMs at a later point, or make no changes to the IMs we have reviewed.

⁷ Others included the Transpower Incremental Rolling Incentive Scheme input methodology and the related party transaction input methodologies.

⁸ Commerce Commission “Input methodologies review decisions: Framework for the IM review” (20 December 2016).

⁹ Commerce Commission “Input methodologies review decisions: Framework for the IM review” (20 December 2016), paragraph X8.

Scope of this IM review

9. 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.
10. 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.
11. We made several changes to the GPB CPP IMs as part of the rest of the IM review completed in 2016.¹⁰ These included:
 - 11.1 changes to the requirements relating to cost allocation in Schedules B and C of the IMs;
 - 11.2 improvements to the roles of the independent verifier and auditor; and
 - 11.3 clarifications to our consumer consultation expectations.
12. These changes were made because these aspects of the CPP process are equally applicable to EDBs and GPBs.¹¹
13. 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.
 - 13.1 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.
 - 13.2 Schedule E contains a set of tables for the quantitative presentation of historical and forecast capex and opex.

Who does this paper apply to?

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

¹⁰ Further details of all the changes made are described in Commerce Commission “Input methodologies review decisions: Topic paper 2: CPP requirements” (20 December 2016).

¹¹ 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 identified¹² with the information requirements for GPB CPP proposals, and our reasons for making no changes at this time.

Potential issues we have identified

17. When starting this review of the gas CPP information requirements, and prior to issuing our draft decision, we contacted the major GPBs and the Major Gas Users Group (**MGUG**) seeking their views on whether any amendments were necessary to the GPB 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. First Gas' view was that 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 it sought in its EDB CPP application be considered in this review.

Aligning the CPP information requirements with information disclosure

20. Following the preliminary feedback we received, we identified the following potential changes to the gas CPP information requirements:
- 20.1 Aligning Schedules D and E of the GPB IMs with the GPB information disclosure schedules;

¹² Including through our consideration of the preliminary stakeholder feedback and the submissions and cross-submission received on our draft decision.

- 20.2 Aligning terminology between the GPB CPP information requirements and the GPB 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.¹³ Our view is that the framework considerations for reaching our 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. 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 decision is not to amend the gas CPP information requirements

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

Undertaking a review following the completion of a GPB CPP will result in a more effective outcome

- 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. Despite amending Schedules D and E of the IMs for the EDBs, Powerco still required a number of modifications and exemptions in its recent CPP application.
- 27. We recognise that amending the CPP information requirements that allow GPBs to leverage existing information supplied to us would, to some extent, reduce both the cost and complexity of complying with the CPP information requirements. In addition, such amendments would be likely to reduce the actual or perceived barriers to a supplier making a CPP proposal. However, given that First Gas is

¹³ Commerce Commission "Input methodologies review decisions: Framework for the IM review" (20 December 2016).

considering making a CPP proposal under the current requirements, we consider it sensible to complete this review without making any amendments.

28. We will assess whether changes are necessary once we have completed a CPP determination for a GPB. This is likely to result in a more effective and complete assessment taking place, with improved outcomes for the GPBs. Furthermore, it will remove the uncertainty that might be created by undertaking multiple reviews of the information requirements in the near term.
29. 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.
30. Further, we have had no indication from any GDB that they wish to make a CPP application.

The modifications and exemptions provisions provide flexibility to the existing CPP information requirements

31. The modifications and exemptions provisions allow a CPP applicant to provide information that is more closely aligned to its 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

32. We consider that it will be more efficient and effective to conduct a complete assessment of the gas CPP information requirements once we have completed a CPP determination for a GPB.
33. The feedback and suggestions made by Powerco and Vector regarding our draft decision will 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.

Summary of submissions and cross-submissions on our draft decision

34. We received submissions from First Gas, Vector, Powerco and Major Electricity Users Group (**MEUG**). We received a cross-submission from First Gas only.
35. MEUG confirmed that it had no view on possible improvements to Schedules D and E and the relevant provisions of subpart 5 of Part 5 of the GPB IMs. MEUG provided

some comments on consumer consultation requirements; however this issue lies outside the scope of this IM review.¹⁴

36. Overall the main issues raised by the other submitters were as follows:
- 36.1 Aligning the CPP information requirements with the information disclosure requirements;
 - 36.2 Aligning the GPB CPP information requirements with the EDB CPP information requirements, where possible; and
 - 36.3 The timing for making any necessary amendments.
37. Powerco and Vector disagreed with our proposal not to make amendments to the information requirements now.
38. Powerco and Vector both supported amending the GPB CPP information requirements now to align with the information disclosure requirements, consistent with the changes that were made last year to the EDB CPP information requirements.
39. In Vector's view:¹⁵
- Requiring a CPP application to use similar terms for categorising and defining expenditures as used in the AMP and annual information disclosure filings can only help with the Commission's assessment of the application and the public's understanding of the changes being sought by the CPP.
40. Similarly, Powerco submitted:¹⁶
- The current disconnection between and within Determinations creates confusion in interpreting and applying the CPP IM requirements. Greater alignment would enhance to [sic] CPP application process by helping GPBs to better interpret and apply the CPP requirements.
41. While First Gas generally agreed with our approach,¹⁷ it supported Vector's and Powerco's suggested amendments, where those changes were "relatively minor and

¹⁴ Consumer consultation is contained in Part 5, subpart 6 of the GPB IMs. The scope of this IM review is Part 5, subpart 5 of the GPB IMs. The IMs relating to consumer consultation have already been reviewed as part of the 2016 IM review. They may be further reassessed at the completion of the Powerco CPP determination as part of the "lessons learned" process.

¹⁵ Vector "Input Methodologies review – CPP information requirements for GPBs" (7 November 2017), page 1.

¹⁶ Powerco "CPP information requirements for gas pipeline businesses" (7 November 2017), page 2.

¹⁷ First Gas "Cross-submission on draft decision on CPP information requirements for gas pipeline businesses" (14 November 2017), page 1.

technical in nature, with limited impact on GPBs currently considering a CPP application.”¹⁸

Our response to the issues raised in the submissions and cross-submission

42. We acknowledge that aligning the CPP information requirements with the information disclosure requirements and the EDB CPP information requirements would reduce the cost and/or complexity of a CPP application.

43. However, despite the changes already made to the EDB CPP information requirements in 2016, Powerco still required a number of modifications and exemptions in its recent CPP application and noted in its submission that:¹⁹

Modification and exemption requests introduce a significant amount of complexity, time and cost to the CPP process.

44. We recognise Powerco’s view that the modifications and exemptions process introduces complexity, time and cost to the CPP process. However, we do not believe that amending the requirements now would remove the need for modifications and exemptions. This is because the intent behind the CPP information requirements is to ensure an applicant provides sufficient information to allow us to test whether the application meets the evaluation criteria. Therefore the information requirements must account for a wide scope of information. On the other hand, the modifications and exemptions process allows a supplier to tailor a CPP application in a way that we are unlikely to be able to reflect by amending the information requirements themselves.

45. Furthermore, the Powerco CPP process is not yet complete, and not all GPBs have been involved in that process or had the opportunity to comment on the application of the modifications and exemptions provisions. We therefore consider that a more appropriate time to consider the effectiveness of the information requirements provisions is once this CPP process has been completed.

46. Powerco has also submitted that during its recent CPP application process, it discovered there were a number of provisions in the IMs that were not practical when applied, despite us having just completed a review of the relevant provisions.²⁰ Accordingly we do not consider it efficient to simply replicate the approach adopted by the EDB CPP information requirements.

47. We have recently indicated our commitment to undertake a ‘lessons learned’ process at the end of each CPP process.²¹ Following the completion of the Powerco CPP, we intend to consider the issues raised by Powerco as part of the ‘lessons

¹⁸ Ibid.

¹⁹ Powerco “CPP information requirements for gas pipeline businesses” (7 November 2017), page 1.

²⁰ Ibid.

²¹ Commerce Commission open letter “Our priorities for the electricity distribution sector for 2017/18 and beyond” (9 November 2017).

learned’ process. As part of that process, we will consider whether there are improvements that need to be made to the EDB CPP regime including the CPP information requirements.

48. Given the strong support by submitters to align the CPP information requirements between the GPBs and the EDBs, we considered bringing the timing of reassessing the gas CPP information requirements forward to coincide with the completion of the Powerco CPP. This way we would have the benefit of the lessons learned from the Powerco CPP and could consider possible changes across both the gas and electricity sectors concurrently.
49. However, First Gas has confirmed in its cross-submission:²²

...we are currently exploring the CPP option for completing the realignment of gas transmission pipelines at White Cliffs....If such changes are more substantive, then we consider they would best be dealt with as part of a future review.

50. Given the scope of the CPP information requirements, a full consultation process to make amendments would likely be required, including a draft determination and workshop. We are therefore concerned that undertaking an amendment process now, or at the completion of the Powerco CPP, may result in a level of uncertainty that increases the complexity for those GPBs that are considering a CPP application.
51. Therefore, our view remains that a review following the completion of a CPP for a GPB will provide the greatest level of certainty for GPBs.²³ As indicated in our review of the EDB CPP information requirements last year, we support the use of an ‘AMP-plus’ approach to CPP applications.²⁴ Therefore, in the interim, we intend to work with any GPBs applying for a CPP to ensure an application aligns with our ‘AMP-plus’ principle, using modification and exemptions where necessary.
52. In its submission, Vector noted:²⁵

The Commission indicated it would consider changes to the CPP IMs for GPBs following its completion of its review of a CPP anticipated to be lodged by First Gas Ltd for its GTB. We do not support this suggested approach. If there are improvements that can be made, then Commission should implement such changes.

We do have some concern where the IMs are treated with a mindset of learning from past actions. We recognise there are instances where application of IMs can illuminate better approaches. However, consumers and suppliers always expect rigour with the IMs. Therefore any review of IMs should undertake the inquiry as to whether the existing IMs are delivering

²² First Gas “Input methodologies review: CPP information requirements for gas” (14 November 2017), page 1.

²³ We will have the benefit of the “lessons learned” from the completed Powerco CPP at this time.

²⁴ Commerce Commission “Input methodologies review decisions: Topic paper 2: CPP requirements” 20 December 2016, paragraph 246.

²⁵ Vector “Input Methodologies review – CPP information requirements for GPBs” (7 November 2017), page 1.

to the Part 4 purpose and providing certainty for suppliers and consumers or whether there are improvements that can be made to the existing IMs.

53. Vector's submission did not nominate any specific improvements that could be made to the existing IMs.
54. As noted above, we recognise that there may be improvements that could be made to the gas CPP information requirements and we are committed to assessing this matter at the completion of a GPB CPP determination. In the meantime, the existing CPP information requirements continue to require an applicant to provide the necessary information which will allow us to test whether a CPP application meets the evaluation criteria and to determine a CPP that is in the long-term benefit of consumers.
55. We consider it would be more efficient and therefore in the best interests of consumers to conduct a single review of the gas CPP information requirements following a CPP application by a GPB.
56. Finally, Powerco has highlighted a particular issue relating to the definition of "current period".²⁶ We are mindful that this issue has arisen from its recent EDB CPP proposal. In our view, this is best addressed as part of a 'lessons learned' process following the completion of the Powerco CPP.

²⁶ Powerco "CPP information requirements for gas pipeline businesses" (7 November 2017), page 2.