

20 December 2022

Dear stakeholder

## **IM Review 2023 - Options to maintain investment incentives in the context of declining demand**

### **Purpose of this letter**

1. The purpose of this letter is to invite submissions on the paper *Options to maintain investment incentives in the context of declining demand*, published as part of the 2023 input methodologies Review.

### **Context**

2. The input methodologies (IMs) are the rules, requirements and processes the Commission sets for services that are regulated under Part 4 of the Commerce Act – electricity networks, gas networks and airports. The IMs specify how other Part 4 regulations, like price-quality regulation, apply. IMs are integral to the regulatory regime in Aotearoa New Zealand and play a key role in providing for stable and predictable regulation and providing regulated industries with certainty.
3. We are required to review the IMs at least every seven years and the current IM Review began in February 2022. The IM Review offers an important opportunity to work with industry, consumers, and other government agencies to identify issues, risks and opportunities in the energy and airports sectors and to understand the role that our regulatory settings can play in helping regulated entities deliver the right outcomes for Aotearoa New Zealand.

### **Specific matters we would like your views on**

4. This paper describes options for how we might continue to implement the principle of ex-ante financial capital maintenance (**FCM**) through a building block model (**BBM**) in the context of declining or expected declines in consumer demand. While the paper focuses on gas pipelines, the potential issues and broad options discussed are more widely applicable to other regulated sectors facing the prospect of declining demand.
5. For the purposes of exploring and comparing the options for IM changes, this paper only presents options which would support continued application of the ex-ante FCM principle and its implementation through the BBM at a future price reset. As we

outline below, the options discussed are not exhaustive, and we welcome feedback from stakeholders on how well these options would in work in practice, possible timing of implementation, and additional suggestions of practical alternatives.

6. Similar to other IM changes, if any of these options were implemented, the changes would not affect consumer prices until the IMs were applied in a subsequent price reset.<sup>1</sup> At a future price reset when the IMs are applied, we would assess and address asset stranding risk consistent with the evolution of the relevant industry at that time.
7. We have not yet reached a view on the best option or options. As such, this paper does not indicate our position on the above matters in the IM Review or otherwise. Nor does it cover interrelated IM policy areas such as the appropriate form of control for GPBs, whether we continue to apply CPI indexation of the RAB, or the parameters for estimating the cost of capital for gas pipeline services. We are considering the interaction between the IMs relating to asset stranding risk and those other IM policy areas in the IM Review. Our position on these matters will be reflected in our draft decision on all IMs next year.
8. Our analysis follows from the Default Price Path 3 (DDP3) [final decision for gas pipeline services](#), and the IM Review [Process & Issues \(P&I\) paper](#)<sup>2</sup>. We thank stakeholders for their ongoing input into this important discussion.

### Providing your submission

9. We welcome submissions by **5pm on Friday 10 February 2023**.
10. In inviting submissions, we draw attention to our decision-making framework for the review. We will consider your views through the lens of the decision-making framework and evaluate them against the decision criteria.<sup>3</sup>
11. Responses should be emailed to [im.review@comcom.govt.nz](mailto:im.review@comcom.govt.nz), with “Options to maintain investment incentives in the context of declining demand – [your submitter name]” in the subject line of your email.
12. Attach both a format suitable for word processing (such as a Microsoft Word document), as well as a ‘locked’ format (such as a PDF) for publication on our website.

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<sup>1</sup> DPP4 for Gas Pipeline Businesses commences in 2026.

<sup>2</sup> [Commerce Commission “Part 4 Input Methodologies Review 2023 – Process and Issues Paper”](#) (20 May 2022), chapter 5. In this paper, we asked stakeholders for their views on how to best manage longer-term demand risk. For this paper, we chose to refer to the more specific term of ‘asset stranding risk’. We consider that this term better characterises the policy problem and the regulatory options.

<sup>3</sup> Commerce Commission [“Part 4 Input Methodologies Review 2023: Framework paper”](#) (13 October 2022).

**Confidentiality**

9. When including commercially sensitive or confidential information in your submission:
  - 9.1 please provide a clearly labelled confidential version and public version. We intend to publish all public versions on our website; and
  - 9.2 the responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.
10. Please also note that all submissions we receive, including any parts that we do not publish, can be requested under the Official Information Act 1982. This means we would be required to release material that we do not publish unless good reason existed under the Official Information Act 1982 to withhold it. We would normally consult with the party that provided the information before any disclosure is made.

Yours sincerely

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