

## **Gas Distribution Services Default Price-Quality Path Determination 2013**

**[2013] NZCC 4**

**The Commission:** S Begg  
Dr M Berry  
P Duignan  
Dr S Gale

**Date of determination:** 28 February 2013

Regulation Branch, Commerce Commission

Wellington, NEW ZEALAND

28 February 2013

ISBN: 978-1-869453-11-4

Gas Distribution Services Default Price-Quality Path Determination 2013

<b>Determination version history</b>		
<b>Determination date</b>	<b>Decision number</b>	<b>Determination name</b>
28 February 2013	[2013] NZCC 4	Gas Distribution Services Default Price-Quality Path Determination 2013.

## 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.....	7
8. PRICE PATH.....	7
9. QUALITY STANDARDS .....	9
10. TRANSACTIONS.....	10
11. COMPLIANCE STATEMENTS.....	11
SCHEDULE 1: STARTING PRICES.....	14
SCHEDULE 2: RATE OF CHANGE .....	15
SCHEDULE 3: ALLOWABLE NOTIONAL REVENUE FOR THE FIRST ASSESSMENT PERIOD.....	16
SCHEDULE 4: ALLOWABLE NOTIONAL REVENUE FOR ALL ASSESSMENT PERIODS OTHER THAN THE FIRST ASSESSMENT PERIOD .....	17
SCHEDULE 5: PROCESS FOR DETERMINING THE AMOUNT OF PASS-THROUGH COSTS AND RECOVERABLE COSTS .....	18
SCHEDULE 6: ADJUSTMENTS TO ALLOWABLE NOTIONAL REVENUE AND NOTIONAL REVENUE RESULTING FROM A TRANSACTION .....	21
SCHEDULE 7: FORM OF DIRECTORS' CERTIFICATE ON COMPLIANCE STATEMENT.....	23
SCHEDULE 8: FORM OF AUDITOR'S REPORT ON COMPLIANCE STATEMENT.....	24
EXPLANATORY NOTE.....	26

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 2013.

**2. Commencement**

2.1 This determination takes effect on 1 July 2013.

**3. Application**

3.1 This determination sets the default price-quality paths for GDBs and is made pursuant to s 55E(2) of the Act.

3.2 This determination applies to GDBs for 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; and
- (d) a word which denotes the singular also denotes the plural and vice versa.

4.2 In this determination, unless the context otherwise requires—

**Act** means the Commerce Act 1986;

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

**Assessment Period** means each of the following periods during the Regulatory Period for which compliance with the default price-quality path is to be assessed and demonstrated:

- (a) 1 July 2013 to 30 September 2014;
- (b) 1 October 2014 to 30 September 2015;
- (c) 1 October 2015 to 30 September 2016; and

- (d) 1 October 2016 to 30 September 2017;

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

**Authorisation** means for:

- (a) Powerco Limited, the Commerce Act (Powerco Natural Gas Services) Authorisation 2008; and
- (b) Vector Limited, the Commerce Act (Vector Natural Gas Services) Authorisation 2008;

**Authorisation Cost** means a pass-through cost as defined in clause 4.1 of an Authorisation;

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

**Compliance Statement** means the written statement made by a GDB under clause 11.2;

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

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

**CPP Proposal** has the same meaning as clause 1.1.4 of the IM Determination;

**Director** has the same meaning as 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); or

- (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 15 month period 1 July 2013 to 30 September 2014;

**Gas Distribution Services** has the same meaning as clause 1.1.4 of the IM Determination;

**GDB** has the same meaning as 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 s 52C of the Act;

**Merger or Acquisition** 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, whether itself or through a parent, subsidiary, or subsidiary of a parent, of another GDB;

**Pass-through Cost** has the same meaning as clause 1.1.4 of the IM Determination, and are determined in accordance with Schedule 5;

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

**Pricing Period** means a 12 month period commencing 1 October and ending on 30 September of the following year;

**Quantities** has the same meaning as clause 3.1.1(5) of the IM Determination;

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

**Regulatory Investment Value** means the value for 'regulatory investment value' determined in accordance with the information disclosure determination made under s 52P of the Act applicable for a period in which the transaction referred to in clause 10.4 occurs;

**Regulatory Period** means the period 1 July 2013 to 30 September 2017; and

**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.

## **5. Default price-quality path**

5.1 During the Regulatory Period every GDB subject to this determination must comply with the default price-quality path, which consists of both:

- (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;
- (i) Subpart 7 of Part 4 – availability of information; and
- (j) Subpart 8 of Part 4 – transitional provision for Powerco.

## **7. CPP Proposals**

7.1 A GDB may submit a CPP Proposal to the Commission at any time before 1 October 2016.

## **8. Price path**

8.1 Starting prices

The starting prices that apply to the Regulatory Period are as set out in Schedule 1.

8.2 Rate of change

The annual rate of change, relative to the CPI, that is allowed during the Regulatory Period is set out in Schedule 2.

### 8.3 Allowable notional revenue

Allowable notional revenue (ANR) determined under this clause 8 specifies the maximum Prices that may be charged during an Assessment Period.

### 8.4 Compliance with the price path

The notional revenue of a GDB for each Assessment Period must not exceed the allowable notional revenue for the Assessment Period, such that:

- (a) for the First Assessment Period –

$$0.25 \times ANR_{2013} + ANR_{2014} \geq 0.25 \times NR_{2013} + NR_{2014}$$

where:

$ANR_{2013}$  is the allowable notional revenue for the Pricing Period ending in 2013;

$ANR_{2014}$  is the allowable notional revenue for the Pricing Period ending in 2014;

$NR_{2013}$  is the notional revenue for the Pricing Period ending in 2013;

$NR_{2014}$  is the notional revenue for the Pricing Period ending in 2014;  
and

- (b) for each Assessment Period after the First Assessment Period –

$$ANR_t \geq NR_t$$

### 8.5 For the purposes of calculating notional revenue and allowable notional revenue in clause 8.4:

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

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



$K_t$  is nil for the Pricing Period ending in 2013, and for all other Pricing Periods is the sum of all Pass-through Costs for the Pricing Period ending in year  $t$ , determined in accordance with Schedule 5;

$V_t$  is nil for the Pricing Period ending in 2013, and for all other Pricing Periods is the sum of all Recoverable Costs for the Pricing Period ending in year  $t$ , determined in accordance with Schedule 5; and

(b) allowable notional revenue for the Pricing 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.

8.6 For the avoidance of doubt, the restructuring of Prices during a Pricing Period does not change the allowable notional revenue for that Pricing Period.

## 9. Quality standards

### 9.1 Compliance with annual quality assessment formula

(a) A GDB's RTE values for an Assessment Period must be such that:

(i)  $\frac{RTE_{60}}{RTE_t} \geq 0.80$ ; and

(ii)  $\frac{RTE_{180}}{(RTE_t - RTE_{excl})} = 1$

(b) For the purposes of calculating the RTE values in clause 9.1(a):

$RTE_t$  is the total number of Emergencies in the Assessment Period;

$RTE_{excl}$  is the total number of Emergencies in the Assessment Period for which the Commission has granted an exclusion in writing;

$RTE_{60}$  is the total number of Emergencies in the Assessment Period where the GDB's RTE was less than or equal to 60 minutes; and

$RTE_{180}$  is the total number of Emergencies in the Assessment Period where the GDB's RTE was less than or equal to 180 minutes.

## 9.2 Exclusion of certain Emergencies

- (a) 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 by having the Emergency excluded from the total number of Emergencies in clause 9.1(a)(ii).
- (b) An exclusion request must—
  - (i) be submitted to the Commission in writing within 30 working days of the Emergency; and
  - (ii) include sufficient evidence demonstrating why it was reasonable that the GDB's RTE was greater than 180 minutes.
- (c) A GDB may exclude an Emergency from the calculations of RTE values for the GDB's Compliance Statement only where the Commission has determined in writing that the Emergency may be excluded.

## 10. Transactions

### 10.1 Amalgamations and Mergers or Acquisitions

If a GDB completes an Amalgamation or a Merger or Acquisition during an Assessment Period with another GDB subject to a default price-quality path, then -

- (a) the notional revenue and allowable notional revenue of the GDB resulting from the Amalgamation or Merger or Acquisition 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 or Acquisition; and
- (b) the total number of Emergencies used to calculate the RTE values of the GDB resulting from the Amalgamation or Merger or Acquisition equals the sum of the total number of Emergencies of each of the GDBs that are the subject of the Amalgamation or Merger or Acquisition;

### 10.2 Transactions resulting in Consumers being supplied by another GDB

If a GDB acquires assets from, or disposes of assets to, another GDB during an Assessment Period (other than a transfer of assets which is part of an Amalgamation or a Merger or Acquisition with a GDB subject to a default or customised price-quality path) that results in a change in the number of Consumers or other parties supplied with Gas Distribution Services during that Assessment Period, the GDB must increase or decrease the allowable notional revenue and notional revenue for that Assessment Period as specified in Schedule 6.

### 10.3 Alternative demonstration of compliance for transaction

If a GDB participates in a transaction specified in clause 10.2 for which it cannot calculate the increase or decrease to allowable notional revenue or notional revenue, the GDB must provide to the Commission:

- (a) an explanation as to why the calculation could not be performed; and
- (b) a calculation of allowable notional revenue and notional revenue using an alternative approach that demonstrates compliance with clause 8, with all supporting data, information, and calculations.

### 10.4 Requirement to notify the Commission of large transactions

A GDB must notify the Commission in writing within 30 working days of any Amalgamation, Merger or Acquisition, or any transfer of assets governed by clause 10.2 where:

- (a) the Regulatory Investment Value of the GDB's assets associated with the provision of Gas Distribution Services is anticipated to increase or decrease by more than 10% as a result of the transaction; or
- (b) the GDB's total revenues recovered through Prices from Consumers for the supply of Gas Distribution Services is anticipated to increase or decrease by more than 10% within an Assessment Period as a result of the transaction.

## 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; and
- (b) make its Compliance Statement publicly available on its website within 5 working days after providing it to the Commission.

### 11.2 The Compliance Statement must:

- (a) state whether or not the GDB has complied with:
  - (i) the price path in clause 8 for the Assessment Period; and
  - (ii) 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 7, signed by at least one Director of the GDB; and

- (d) be accompanied by a report on the Compliance Statement that is signed by an Auditor and is in the form set out in Schedule 8.

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; and
  - (iii) if the GDB has not complied with the price path, the reasons for the non-compliance; and
- (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 that the Commission has determined may be excluded from the GDB's RTE values, and any exclusion requests 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) 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 during a Pricing Period, the Compliance Statement for the corresponding Assessment Period must:

- (a) state the applicable Pricing Period in which restructure of Prices occurred; and

- (b) if there is no Quantity for the Pricing Period ending two years prior that reasonably relates to a restructured Price, provide information demonstrating how the GDB has complied with the price path in clause 8, which must include:
    - (i) the methodology used to determine the Quantity that corresponds to each restructured Price for the Pricing Period ending two years prior; and
    - (ii) Quantity information corresponding to each restructured Price for the Pricing Period in which the restructure occurred, including a forecast of the Quantity for that period prepared by the GDB at the time it restructured its Prices, and the actual Quantity; and
    - (iii) an explanation of the reasons for any differences between the actual and forecasted Quantity for the Pricing Period in which the restructure occurred.
- 11.5 If a GDB participates in an Amalgamation, Merger or Acquisition, or transfer of assets under clause 10.2, the Compliance Statement for that Assessment Period must:
- (a) state whether the GDB has complied with clause 10; and
  - (b) include any information or calculations that are reasonably required to demonstrate compliance with that clause.

Dated at Wellington this 28th day of February 2013.  
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	4.578
Powerco Limited	48.620
Vector Limited	69.693

**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 and Equation 2 for all GDBs.

**Equation 1**

The allowable notional revenue for the Pricing Period ending in 2013 is equal to:

$$ANR_{2013} = \frac{MAR}{\Delta D}$$

where:

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

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

**Equation 2**

The allowable notional revenue for the Pricing Period ending in 2014 is equal to:

$$ANR_{2014} = (ANR_{2013} \times CPR_{2012})(1 + \Delta CPI_{2014})(1 - X)$$

where:

$ANR_{2013}$  allowable notional revenue for the Pricing Period ending in 2013, calculated using Equation 1;

$CPR_{2012}$  is the value specified in Table 2 for each GDB;

$X$  is the rate of change as specified in Schedule 2; and

$\Delta CPI_{2014}$  is the derived change in the CPI to be applied for the Pricing Period ending in 2014 being equal to:

$$\Delta CPI_{2014} = \frac{CPI_{Jun,2012} + CPI_{Sep,2012} + CPI_{Dec,2012} + CPI_{Mar,2013}}{CPI_{Jun,2011} + CPI_{Sep,2011} + CPI_{Dec,2011} + CPI_{Mar,2012}} - 1$$

where:

$CPI_q$  is the CPI for the quarter year ending q.

**Table 2: Allowable notional revenue inputs for the First Assessment Period**

GDB	$\Delta D$	$CPR_{2012}$
GasNet Limited	0.989	0.995
Powerco Limited	1.002	1.001
Vector Limited	1.011	1.005



#### 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 3.

##### Equation 3

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

where:

- t is the year in which the Pricing 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 Pricing Period ending the year prior to year t;
- $Q_{i,t-2}$  is the Quantity corresponding to the *i*th Price for the Pricing 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 Pricing 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 Pricing 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 Pricing 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:

$CPI_q$  is the CPI for the quarter year ending q.

## **Schedule 5: Process for determining the amount of Pass-through Costs and Recoverable Costs for a Pricing Period**

1. The amount of each Pass-through Cost or Recoverable Cost that is used to calculate allowable notional revenue or notional revenue for a Pricing Period must:
  - (a) be ascertainable at the time the GDB sets its Prices for that Pricing Period;
  - (b) not have already been passed through to, or recovered from, Consumers or other parties by the GDB in a previous Pricing Period;
  - (c) not be able to be otherwise recovered from Consumers or other parties, other than through Prices; and
  - (d) not relate to costs that were incurred by the GDB prior to the Regulatory Period, except as provided under paragraph (2).
2. A GDB may include as a Pass-through Cost any Authorisation Cost, where:
  - (a) the Authorisation Cost is for Gas Distribution Services controlled under an Authorisation; and
  - (b) the Authorisation Cost has not already been passed-through to Consumers or other parties in the period starting from the commencement of the Authorisation to 30 June 2013.
3. For the purposes of paragraph 2, amounts that are carried over must be calculated:
  - (a) using the equation in clause 6.2.2 of an Authorisation as if-
    - (i) the Authorisation continued to apply until 30 June 2013; and
    - (ii) the forecast Authorisation Cost values for 2013 are the same as specified for 2012 in Schedule 1 of the Authorisation; or
  - (b) using an alternative method that has the equivalent outcome to that specified in paragraph 3(a).
4. The GDB must provide information in the Compliance Statement for the First Assessment Period clearly demonstrating how any Authorisation Cost amounts that are carried over under paragraph 2 have been calculated.
5. Any Authorisation Cost amounts that are carried over under paragraph 2 must be included as a Pass-through Cost to calculate notional revenue in the Pricing Period ending in 2014, unless this would result in price shocks to Consumers in which case the amounts may be smoothed over the remainder of the Regulatory Period.

6. Any amount of Pass-through Cost or Recoverable Cost that relates to the period 1 July 2013 to 30 September 2013:
  - (a) cannot be included as a Pass-through Cost or Recoverable Cost to calculate notional revenue prior to the Pricing Period ending in 2014; and
  - (b) must be apportioned to that 3 month period, if the cost relates to a longer period.
7. A GDB may adjust the amount of any Pass-through Cost or Recoverable Cost for the time value of money in accordance with paragraph 9.
8. 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 Pricing Period.
9. For the purposes of calculating time value of adjustments under paragraph 7, the GDB must either:
  - (a) calculate the amounts in accordance with Equation 4:

**Equation 4**

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

where:

- |       |   |
|-------|---|
| t     | is the year in which the Pricing Period ends;   |
| $K_t$ | is the sum of all Pass-through Costs claimed during the Pricing Period ending in year t;                                |
| $V_t$ | is the sum of all Recoverable Costs claimed during the Pricing Period ending in year t;                                 |
| n     | is the year the Pricing 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 5.38%; or   |

- (b) calculate the amounts in accordance with Equation 4, except where the term 't-n' is the difference expressed in years between:
  - (i) the date that each Pass-through Cost or Recoverable Cost amount was paid or will be paid; and
  - (ii) the date 148 days prior to the end of Pricing Period ending in year t.

## Schedule 6: Adjustments to allowable notional revenue and notional revenue resulting from a transaction

Where a GDB completes a transaction referred to in clause 10.3, the adjustment for the Assessment Period is to:

- (a) include allowable notional revenue and notional revenue amounts that are associated with the provision of any additional Gas Distribution Services the GDB supplies as a result of the transaction; or
- (b) remove allowable notional revenue and notional revenue amounts that are associated with the Gas Distribution Services the GDB no longer supplies as a result of the transaction,

such that allowable notional revenue is adjusted by the amount calculated using Equation 5, and the corresponding adjustment to notional revenue uses the Quantities as used in Equation 5.

### Equation 5

$$\pm ANR_t^{adj} = \left( \sum_i P_{i,t-1} Q_{i,t-2} \right) (1 + \Delta CPI_t)$$

where:

- t is the year in which the Pricing Period ends;
- $ANR_t^{adj}$  is the amount that allowable notional revenue for the Pricing Period ending in year t is adjusted as a result of the additional or excluded services;
- i is each Price relating to the additional or excluded services;
- $P_{i,t-1}$  is the  $i^{th}$  Price charged by the supplier of the services in the Pricing Period ending the year prior to year t;
- $Q_{i,t-2}$  is the Quantity corresponding to the  $i^{th}$  Price in the Pricing Period ending two years prior to year t;
- $\Delta CPI_t$  is the derived change in the CPI to be applied for the Pricing 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:

$CPI_q$  is the CPI for the quarter year ending q.

For the avoidance of doubt,  $ANR_t^{adj}$  is:

- (a) a positive value where the GDB acquires assets from another supplier and as a result supplies additional services; and
- (b) a negative value where the GDB disposes of assets to another supplier and as a result supplies less services.

**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 2013* 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**

To the readers of the compliance statement of [*insert name of GDB*] for the assessment period ended on [*insert date*]:

I/We have audited the attached statement, which is a compliance statement in respect of the default price-quality path prepared by [*insert name of GDB*] for the assessment period ended on [*insert date*] and dated [*insert date*] for the purposes of clause 11 of the *Gas Distribution Services Default Price-Quality Path Determination 2013* ("the Determination").

### **Directors' responsibilities**

The Directors of [*insert name of GDB*] are responsible for the preparation of the compliance statement in accordance with the Determination and for such internal control as the Directors determine is necessary to enable the preparation of a compliance statement that is free from material misstatement, whether due to fraud or error.

### **Auditor's qualifications**

We are qualified as an auditor as defined in the Determination.

### **Auditor's responsibilities**

My/Our responsibility is to express an opinion on the compliance statement based on my/our audit. I/We conducted my/our audit in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements 3000 (ISAE (NZ) 3000) [*or their successor standards*]. Those standards require that I/we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compliance statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the compliance statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the compliance statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the compliance statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the compliance statement.

In relation to the price path set out in clause 8 of the Determination, my/our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [*insert page references*] of the compliance statement.

In relation to the quality standard set out in clause 9 of the Determination, my/our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [*insert page references*] of the compliance statement.



My/Our audit also included assessment of the significant estimates and judgments, if any, made by *[insert name of GDB]* in the preparation of the compliance statement and assessment of whether the basis of preparation has been adequately disclosed.

I/We believe that the audit evidence I/we have obtained is sufficient and appropriate to provide a basis for my/our audit opinion.

### **Independence**

I/we have no relationship with, or interests in *[insert name of GDB]* other than *[insert relationship and/or interests including a statement verifying that no conflict of interest exists]*.

### **Opinion**

In my/our opinion, the compliance statement of *[insert name of GDB]* for the assessment period ended on *[insert date]*, has been prepared, in all material respects, in accordance with the Determination.

#### **\*[Qualification on opinion]**

*\*[My/Our opinion is qualified as follows:]*

*\*[Insert the nature of and reason(s) for the qualification together with the impact on the compliance statement].*

My/Our audit was completed on *[insert date]* and my/our opinion is expressed as at that date.

*[Signature of auditor]*

*[Name of auditing firm]*

*[Address of auditing firm]*

*[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.

## **Explanatory note**

The purpose of the *Gas Distribution Services Default Price-Quality Path Determination 2013* (“the Determination”) is to set a default price-quality path for gas distribution businesses (“GDBs”) for the four years and three months beginning 1 July 2013 and ending 30 September 2017, pursuant to Part 4 of the Commerce Act 1986 (“the Act”).

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.

The Commission conducted a comprehensive process of consultation before making the Determination. A reasons paper providing detailed background to, and analysis of, the Determination can be found at:

<http://www.comcom.govt.nz/initial-default-price-quality-path/>

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.