

Process update – Default price-quality paths for electricity distribution and gas pipeline services

19 June 2012

Purpose

1. The purpose of this paper is to update you on our processes to:
 - consider whether to reset the default price-quality path for electricity distribution services under s 54K(3) of the Commerce Act 1986
 - set the initial default price-quality path for gas pipeline services.¹
2. We are not seeking submissions on this update.

We are updating our processes in light of the recent Court of Appeal judgment

3. This update follows the recent judgment from the Court of Appeal. The Court concluded that we are not required to determine a stand-alone starting price input methodology.²

Updated process for electricity distribution services

4. In order to be able to proceed with the potential reset of the default price-quality path for electricity distribution services under s 54K(3) we will:
 - 4.1 issue information gathering notices for any additional information we require to reset the default price-quality path if the test in s 54K(3) is met (refer to Table 1 for the type of information we require)
 - 4.2 make a draft decision on whether the test in s 54K(3) is met and, if so, make a draft decision on the amended default price-quality path
 - 4.3 provide an opportunity for interested parties to provide submissions and cross-submissions on our draft decision
 - 4.4 make a final decision on whether to reset the default price-quality path for electricity distribution services under s 54K(3). If that decision is to reset, we will also make a final decision on the amended default price-quality path.

¹ Both decisions will be made once we have specified how the input methodologies for the allocation of costs, valuation of assets, and treatment of taxation apply to default price-quality paths. We released our draft input methodologies for consultation on 15 June 2012. We will determine these input methodologies by 30 September 2012.

² *Commerce Commission v Vector Limited* [2012] NZCA 220, paragraph 59.

5. We have not included a round of technical consultation as we do not consider it to be required at this stage. We will reassess this view after considering submissions and cross-submissions on our draft decisions, and update parties at that time.
6. We expect to make a final decision for electricity distribution services by 30 November 2012. Our indicative timing is set out in Table 1 below.

Table 1: Process for potential reset of the default price-quality path for electricity distribution services

Process step	Indicative timing
Issue information gathering notice requiring information for: <ul style="list-style-type: none"> • operating expenditure forecasts • updated insurance information 	Week of 18 June 2012 Suppliers will have 4 weeks to provide this information
Responses to information gathering notices due	No later than 20 July 2012
Release draft decision on: <ul style="list-style-type: none"> • whether the test in s 54K(3) is met • if we consider the test in s54K(3) is met, the amended default price-quality path 	Week of 13 August 2012 If our draft decision is to amend the default price-quality path, then interested parties will have six weeks for submissions and two weeks for cross-submissions
Submissions on draft decision due	No later than 28 September 2012
Cross-submissions on draft decision due	No later than 12 October 2012
Final decision	30 November 2012

Update on regulatory asset base adjustments for electricity distribution businesses

7. Electricity distribution businesses have provided us with information for setting prices/revenues in response to information requests we issued last year.³ This information includes supplier initial regulatory asset base value information, including information on permitted asset value adjustments.
8. Where the supplied information on permitted asset value adjustments satisfies the requirements of the information requests, we expect to use this information for the potential reset. At this time, we have identified some outstanding queries that we need to discuss with OtagoNet, Vector and Wellington Electricity. We will be in contact with these electricity distribution businesses in the coming weeks.

³ We issued information gathering notices under s 53ZD on 16 March 2011, 15 June 2011, and 6 September 2011 to all non-exempt electricity distribution businesses (except Orion). We also sent a letter to these non-exempt electricity distribution businesses on 2 September 2011 requesting information about changes to insurance premiums in light of the Canterbury earthquakes.

9. We do not intend to provide individual electricity distribution businesses with further opportunities to revise or resubmit information on permitted asset value adjustments, unless:
 - 9.1 we request them to do so
 - 9.2 it would seriously disadvantage the individual electricity distribution business because existing assets would not be reflected in the regulatory asset base. If this applies to an electricity distribution business, and they can demonstrate this to be the case, they should contact us as soon as possible.

Updated process for gas pipeline services

10. We are required to set a default price-quality path for gas pipeline services under s 55E (the initial gas default price-quality paths).
11. To set the initial gas default price-quality paths we intend to:
 - 11.1 issue information gathering notices for any additional information we require to set these paths (refer to Table 2 for the type of information we will require)
 - 11.2 make a draft decision on the initial gas default price-quality paths and provide an opportunity for interested parties to provide submissions and cross-submissions
 - 11.3 make a final decision on the default price-quality path for gas pipeline services.
12. We have not included a round of technical consultation as we do not consider it to be required at this stage. We will reassess this view after considering submissions and cross-submissions on our draft decisions, and update parties at that time.
13. We expect to make a final decision for gas pipeline services in the week of 10 December 2012. Our indicative timing is set out in Table 2 below.

Table 2: Process for setting the initial default price-quality path for gas pipeline services

Process step	Indicative timing
Issue information gathering notice requiring information for: <ul style="list-style-type: none"> • updated financial information for the year ending 2011 • forecasts of aggregate commissioned assets, and operating expenditure • insurance information 	Week of 18 June 2012 Suppliers will have 6 weeks to provide this information
Responses to information gathering notices due	No later than 3 August 2012
Release draft decision on initial gas default price-quality paths	Week of 3 September 2012 Interested parties will have six weeks for submissions and two weeks for cross-submissions
Submissions on draft decision due	No later than 19 October 2012
Cross-submissions on draft decision due	No later than 2 November 2012
Final decision	Week of 10 December 2012

Update on regulatory asset base adjustments for gas pipeline business

14. Gas pipeline businesses have provided us with information for setting prices/revenues in response to information requests we issued last year.⁴ This information includes supplier initial regulatory asset base value information, including information on permitted asset value adjustments.
15. Where the supplied information on permitted asset value adjustments satisfies the requirements of the information requests, we expect to use this information for the potential reset. We have identified some outstanding queries that we need to discuss with GasNet, MDL, and Vector (transmission). We will be in contact with these gas pipeline businesses in the coming weeks.
16. We do not intend to provide individual gas pipeline businesses with further opportunities to revise or resubmit information on permitted asset value adjustments, unless:
 - 16.1 we request them to do so
 - 16.2 it would seriously disadvantage the individual gas pipeline business because existing assets would not be reflected in the regulatory asset base. If this

⁴ We issued information gathering notices under s 53ZD on 6 July 2011 to gas pipeline businesses.

applies to a gas pipeline business, and they can demonstrate this to be the case, they should contact us as soon as possible.

Disclosure year-end for gas pipeline businesses responding to information gathering notices

17. For the forthcoming information gathering notices, gas pipeline businesses will be required to provide financial information for the year ending 2011. The 2011 year-end date will be the same as what suppliers have already submitted under the Gas (Information Disclosure) Regulations 1997.⁵ Any information sought from suppliers will be consistent with this 2011 year-end date, irrespective of any potential changes to disclosure year-end dates for information disclosure.⁶

⁵ This year-end date is consistent with the relevant existing input methodologies.

⁶ On 11 May 2012, we published a draft amendment to the information disclosure input methodologies for gas pipeline services. The draft amendment proposed specifying a 30 September financial year-end for all gas pipeline businesses. A final decision on this amendment has not been made, and this decision will not affect the information asked for in the forthcoming information gathering notices. Refer: Commerce Commission, *Consultation on Electricity and Gas Input Methodology Determination Amendments 2012*, 11 May 2012.