

8 December 2021

Notice of our draft decision to set a four-year regulatory period for our reset of price-quality paths for gas pipeline businesses

Introduction

1. The purpose of this notice is to advise stakeholders of our draft decision to set a four-year regulatory period for our reset of default price-quality paths (**DPPs**) for gas pipeline businesses (**GPBs**) that will apply from 1 October 2022.
2. We are giving notice of our draft decision on the length of the regulatory period ahead of our full draft decision at the request of some GPBs. In particular, those GPBs which intend to hedge their exposure to interest rate changes have sought early notice of our draft decision on this point. From their perspective, this is necessary as the window for estimating the risk-free rate, and in which they would enter hedges, will commence in December and the length of the regulatory period is a factor in their hedging strategies. However, as with all draft decisions, we retain an open mind on the length of the regulatory period and may reach a different view in our final decision in response to matters raised through the submission process. Our process for reaching a final decision is set out in paragraph 7.

A four-year regulatory period will better meet the purpose of Part 4 of the Commerce Act

3. Section 53M(5) of the Commerce Act (**Act**) allows us to set a shorter regulatory period than five years if we consider that it would better meet the purpose of Part 4 of the Act (but not shorter than four years).
4. We are resetting the DPPs for the GPBs at a time when the future direction of the gas sector is uncertain as New Zealand begins transitioning to a net-zero carbon economy. A number of climate change announcements are expected to be made by government in the coming years to support this transition, including an emissions reduction plan and national energy strategy to support the plan.
5. These announcements may have material implications for the gas sector which we are unable to predict at this time.
6. A four-year regulatory period will allow us to set new price-quality paths for GPBs that best promotes the Part 4 purpose in light of the government announcements and the evolving circumstances of the gas sector at the earliest feasible point. We consider that doing so would better meet the purposes of Part 4 than setting a five-year regulatory period.
7. We will seek submissions on our draft decision on the length of the regulatory period alongside the rest of our full draft decision, which will be published on 10 February 2022. If those submissions persuaded us, notwithstanding our draft decision to opt

for a four-year period, that a five-year period would better achieve the Part 4 purpose, we would set a five-year period for the final decision.

We propose making consequential amendments to the IMs to enable us to set a WACC consistent with a four-year regulatory period

8. The current cost of capital IMs for GPBs assumes the setting of a five-year regulatory period even though the Act allows for a shorter period of four years.
9. If we determine a regulatory period of four years, we will need to amend these IMs to enable the estimation of a weighted average cost of capital that reflects a regulatory period of four years.
10. We will issue a notice of intention under s 52V shortly that outlines the process to be followed and the proposed time frames for these amendments.