

## AMENDED NOTICE OF INTENTION

AT 7 AUGUST 2015

(Further amending the Notice of Intention dated 10 June 2015)

### Input Methodologies Review

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1. The purpose of this amended notice of intention is to advise:
  - 1.1. at 10 June 2015, that the Commerce Commission has begun work on a review of input methodologies in accordance with section 52Y(1) of the Commerce Act 1986 (the Act)<sup>1</sup>;
  - 1.2. at 3 July 2015, that the Commission has decided to fast track potential amendments to airport services input methodologies relating to land valuation in accordance with section 52Y(1) of the Act;
  - 1.3. at 21 July 2015,<sup>2</sup> that the Commission has decided to fast track specified potential amendments to the input methodologies for customised price-quality path (CPP) proposal requirements, and for determining CPPs, for electricity distribution services and gas pipeline services in accordance with section 52Y(1) of the Act; and
  - 1.4. at 21 July 2015,<sup>3</sup> that the Commission has decided to fast track consideration of, and potential amendments to, the input methodologies for electricity distribution services and gas pipeline services relating to the alignment of the weighted average cost of capital (WACC) for CPPs with the WACC for default price-quality paths (DPPs) in accordance with section 52Y(1) of the Act.
2. The input methodologies<sup>4</sup> that will be reviewed are:
  - 2.1 *Commerce Act (Specified Airport Services Input Methodologies) Determination 2010* (Commerce Commission Decision 709, 22 December 2010);
  - 2.2 *Transpower Input Methodologies Determination 2012* [2012] NZCC 17;

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<sup>1</sup> This notice of intention was reissued in amended form on 3 July 2015 in light of the Commission's decision to fast track potential amendments to airport services input methodologies for land valuation (within the review) on an earlier timeframe. It was further reissued in amended form on 7 August 2015 in light of the Commission's decision to fast track potential amendments to the input methodologies for CPP proposal requirements (and for determining CPPs) for electricity distribution services and gas pipeline services, and in relation to the alignment of the WACC for CPPs and DPPs (within the review) on an earlier timeframe. Substantive changes to the form of the original notice issued on 10 June 2015 are limited to paragraph 4 and the addition of new paragraphs 6, 7 and 8. This formalises the decision indicated in item two of the process timetable in paragraph 5.

<sup>2</sup> The Commission's decision to fast track potential amendments to input methodologies for CPP proposal requirements (and for determining CPPs) for electricity distribution services and gas pipeline services, and in relation to the alignment of the WACC for DPPs and CPPs, was confirmed to interested persons on 21 July 2015. This was so that they were aware of it in advance of the IM Forum (scheduled for 29 and 30 July 2015), and because the decision may be a factor that affects regulated suppliers' planning for potential CPP proposals in 2016.

<sup>3</sup> Ibid.

<sup>4</sup> Consolidated versions of the input methodologies (which include amendments made to the original input methodology determinations) are available on the Commerce Commission website. <http://www.comcom.govt.nz/>.

- 2.3 *Gas Distribution Services Input Methodologies Determination 2012* [2012] NZCC 27;
- 2.4 *Gas Transmission Services Input Methodologies Determination 2012* [2012] NZCC 28;
- 2.5 *Electricity Distribution Services Input Methodologies Determination 2012* [2012] NZCC 26 (with the exception described below in paragraph 3).

- 3. The input methodologies in the *Electricity Distribution Services Input Methodologies Determination 2012* relating to the application of the incremental rolling incentive scheme (the EDB IRIS) to default/customised price-quality regulation are currently in the process of potential amendment under section 52X of the Act. The process for considering these amendments was commenced by notice of intention dated 30 April 2013 and the Commission intends to complete that process by August 2015. The EDB IRIS is therefore excluded from this review pending completion of the amendment process. The Commission intends to issue another notice of intention to add the review of the EDB IRIS to this review of the electricity distribution services input methodologies following the final determination of the current section 52X amendment process.
- 4. The Commission has considered whether this review should include potential amendments to specified aspects of particular input methodologies on an earlier 'fast tracked' timeframe. Any fast tracked amendments are to be completed in advance of the draft decision(s) on the input methodologies review, allowing the potential fast track amendments to be included within the overall review.
  - 4.1. At 3 July 2015, the Commission decided to fast track potential amendments to the requirements for undertaking the valuation of airport land in accordance with a market value alternative use (MVAU) methodology in the *Commerce Act (Specified Airport Services Input Methodologies) Determination* following the process set out in paragraph 6. The purpose of these amendments is to consider the application of the airport land MVAU valuation methodology including narrowing the potential range of airport land values derived under the requirements and updating requirements to align them with current valuation standards and practices.
  - 4.2. At 21 July 2015, the Commission decided to fast track potential amendments to the input methodologies for CPP proposal requirements, and for determining CPPs, in the *Electricity Distribution Services Input Methodologies Determination* (EDB IMs), *Gas Distribution Services Input Methodologies Determination* (GDB IMs), and *Gas Transmission Services Input Methodologies Determination* (GTB IMs) following the process set out in paragraph 7. The purpose of these amendments is to consider:
    - 4.2.1. The modification or exemption of requirements relating to the process for preparing, and content of, CPP proposals in order to introduce flexibility for suppliers, and the criteria that must be met in order for the modifications or exemptions to apply. The requirements relating to the process for preparing, and content of, CPP proposals are specified in Part 5 Subparts 1, 4 and 5, and related schedules, of the EDB IMs, Part 5 Subparts 1, 5 and 6, and related schedules, of the GDB IMs, and Part 5 Subparts 1, 5, and 6, and related

schedules, of the GTB IMs. Potential amendments to give effect to this will also consider:

4.2.1.1. the specification of the information required to be provided by a supplier to meet any set criteria for application of a modification or exemption.

4.2.1.2. a process to allow for the modification or exemption.

4.2.2. The modification of some or all of the other relevant input methodologies that apply to CPP proposals to allow the use of alternative methodologies with an equivalent effect (or materially equivalent effect) in order to introduce flexibility for suppliers, and the criteria that must be met in order for the modifications or exemptions to apply. The input methodologies are contained in Part 5 Subpart 3 of the EDB IMs, Part 5 Subparts 3 and 4 of the GDB IMs, and Part 5 Subparts 3 and 4 of the GTB IMs. Potential amendments to give effect to this will also consider:

4.2.2.1. the specification of the information required to be provided by a supplier to meet any set criteria for application of the modification and demonstrating equivalent effect.

4.2.2.2. a process to allow for the modification.

4.2.3. Whether the input methodologies should be amended to allow the acceptance by the Commission of CPP proposals as complying with the input methodologies relating to the requirements for the process for preparing, and content of, CPP proposals, if the CPP proposal complies with those requirements in all material respects.

4.2.4. Whether the input methodologies should be amended to clarify whether the input methodologies in force at the time a CPP proposal is received by the Commission under s 53Q are the input methodologies that apply to the assessment, consideration and determination of a CPP by the Commission.

4.3. At 21 July 2015, the Commission decided to fast track potential amendments to the input methodologies in the EDB IMs, GDB IMs, and GTB IMs that relate to setting the WACC for CPPs following the process set out in paragraph 8. The purpose of these amendments is to consider whether to align the WACC for CPPs with the WACC for DPPs (and any consequential amendments related to considering this issue).

5. In accordance with sections 52Y(3) and 52V(1) of the Act, this notice outlines below the process that we are following and the indicative timeframes for the review of the input methodologies set out in paragraph 2 (with the exceptions in paragraph 3).

Process		Indicative time frame
1.	<b>Paper issued - Input Methodology Review: Invitation to contribute to problem definition (invitation paper)</b>  This paper will be issued by the Commission to provide an overview of some issues for consideration in reviewing the input methodologies and to inform discussion at the Forum in late July 2015.	15 June 2015
2.	<b>Decision by Commission on whether to conduct fast tracked amendments<sup>5</sup> for specified airports and EDB CPP input methodologies and the process for fast track amendments</b>	3 July 2015
3.	<b>Forum with interested persons on the invitation paper</b>	29 - 30 July 2015
4.	<b>Submissions from interested persons on the invitation paper</b>	21 August 2015
5.	<b>Cross-submissions from interested persons on the invitation paper</b>	4 September 2015
6.	<b>Draft decision(s) on input methodologies review published for comment</b>  Publication of draft reasons paper(s) and any draft input methodology amendments	Mid Quarter 2 2016
7.	<b>Submissions from interested persons on the draft decision(s)</b>	Late Quarter 2 2016
8.	<b>Technical consultation on input methodology amendments</b>	Quarter 3 2016
9.	<b>Final decision(s) on input methodologies review</b>  Publication of final reasons paper(s) and any input methodology amendments	December 2016

6. In accordance with sections 52Y(3) and 52V(1) of the Act, this notice outlines below the process that will be followed and the indicative timeframes for the fast track amendment of the airport services land valuation input methodologies as set out in paragraph 4.1.

	Process	Indicative time frame
1.	<b>Publication of material for workshop</b>	Early September 2015
2.	<b>Workshop to discuss airport fast tracked matters, including framework for applying the MVAU valuation approach</b>	Late September 2015
3.	<b>Draft decision and draft input methodology amendments</b>	Early November 2015

<sup>5</sup> It is noted that the date for a decision by the Commission on whether to fast track amendments, other than for specified airports input methodologies, was made on 21 July 2015 (rather than 3 July 2015 as originally indicated).

	<b>Process</b>	<b>Indicative time frame</b>
4.	<b>Submissions on our draft decision and draft input methodology amendments</b>	Early December 2015
5.	<b>Cross-submissions on our draft decision and draft input methodology amendments</b>	Mid December 2015
6.	<b>Final decision and input methodology amendments</b>	Late February 2016

7. In accordance with sections 52Y(3) and 52V(1) of the Act, this notice outlines below the process that will be followed and the indicative timeframes for the fast track of specified potential amendments to the input methodologies for CPP proposal requirements, and for determining CPPs, as set out in paragraph 4.2.

	<b>Process</b>	<b>Indicative time frame</b>
1.	<b>Draft decision and draft input methodology amendments</b>	7 September 2015
2.	<b>Submissions on our draft decision and draft input methodology amendments</b>	25 September 2015
3.	<b>Cross-submissions on our draft decision and draft input methodology amendments</b>	2 October 2015
4.	<b>Final decision and input methodology amendments</b>	9 November 2015

8. In accordance with sections 52Y(3) and 52V(1) of the Act, this notice outlines below the process that will be followed and the indicative timeframes for the fast track consideration of whether to align the WACC for CPPs with the WACC for DPPs as set out in paragraph 4.3.

	<b>Process</b>	<b>Indicative time frame</b>
1.	<b>Submissions on CPP/DPP WACC alignment</b>	21 August 2015
2.	<b>Cross-submissions on CPP/DPP WACC alignment</b>	4 September 2015
3.	<b>Draft decision and draft input methodology amendments</b>	2 November 2015

	<b>Process</b>	<b>Indicative time frame</b>
4.	<b>Submissions on our draft decision and draft input methodology amendments</b>	27 November 2015
5.	<b>Cross-submissions on our draft decision and draft input methodology amendments</b>	11 December 2015
6.	<b>Final decision and input methodology amendments</b>	29 February 2016

Further detail on the Commission's process for the review is provided in the cover letter to this notice. Regular updates on the process, including process refinements will also be published on the Commerce Commission's website <http://www.comcom.govt.nz>.