



COMMERCE COMMISSION

5 December 2011

Catherine Marks  
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WELLINGTON

Dear Catherine

**Gas Pipeline Businesses Draft Reasons Paper**

1. Thank you for your letter dated 1 December 2011 seeking clarification of the Commission's conclusion in relation to CPI adjustments under paragraphs 7.15 and 7.16 of the Initial Default Price-Quality Paths for Gas Pipeline Businesses Draft Reasons Paper that was released for consultation on 21 November 2011. This letter responds to your request.

*Applicability of sections 53P(11) and 55F(2) to initial gas DPP*

2. As stated in the Draft Reasons Paper, the Commission's draft decision is that starting prices for gas pipeline services not subject to the gas authorisations will be those that applied at the end of the preceding regulatory period, in accordance with s 53P(3)(a) of the Commerce Act 1986. Under s 55F(1), the first DPP is to be set as if 30 June 2010 were the end of the previous regulatory period. We have interpreted this to mean, therefore, that the starting prices are those prices that applied at 30 June 2010.
3. The Commission considered whether the combined effect of ss 53P(11) and 55F(2) would allow any CPI adjustment to those 2010 prices. Our draft conclusion was that any CPI adjustment, whether inferred or not, cannot be included as stated in paragraph 7.16 of the Draft Reasons Paper because:
  - Section 53P(11) does not apply to the initial gas DPP. It refers to the starting prices, rates of change and quality standards at the end of the regulatory period to which they apply. For gas pipeline services not subject to the gas authorisations, starting prices, rates of change and quality standards have not been applied to any previous regulatory period: there is no s 52P determination in place.
  - Section 55F(2) does not apply to setting starting prices: it is a provision dealing with a unique type of claw-back only. Particularly s 55F(2) does not refer to rates of change, so we are not aware of any proper basis upon which the Commission can apply this subsection to adjust the s 55F(1) starting price.

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4. We trust this letter will assist Vector in making its submission. To the extent that Vector disagrees with the Commission's reasoning, we would appreciate receiving a full explanation of how Vector believes that the relevant provisions specifically allow the Commission to adjust the s 55F(1) starting price.

Yours sincerely

A handwritten signature in blue ink, consisting of a large, stylized 'A' followed by a long, horizontal stroke that tapers to a point.

Anthony Merritt

Manager  
Regulation Branch