

NOTICE OF INTENTION

4 FEBRUARY 2022

Potential Amendments to the Input Methodologies for Gas Pipeline Services

1. The purpose of this notice of intention is to advise that we are considering potential amendments to targeted aspects of the *Gas Transmission Services Input Methodologies Determination 2012* and the *Gas Distribution Services Input Methodologies Determination 2012* (together the '**Gas IMs**').
2. In accordance with section 52V of the Commerce Act 1986 (**Act**), this notice outlines the scope of the potential amendments under consideration, and the proposed process and indicative time frames for considering and consulting on the potential amendments to the Gas IMs.

Scope of potential amendments under consideration

3. We are currently in the process of resetting the default price-quality paths (**DPPs**) for gas pipeline businesses under s 53P of the Act.
4. In the course of that process, we have identified amendments to the Gas IMs that would better promote the outcomes in s 52A, promote the certainty purpose in s 52R more effectively, or reduce compliance or other regulatory costs or complexity. We have also identified an error in the cost of capital IMs which currently only provides for the estimation of a weighted average cost of capital (**WACC**) reflecting a five-year regulatory period when the underlying IM policy decision was that the WACC should align with the term of the regulatory period.
5. The amendments we are considering are:
 - a. amending elements of the asset valuation IMs to provide for a mechanism to adjust assets lives for existing and new assets;
 - b. amending elements of the asset valuation and treatment of taxation IMs to better align the treatment of capitalised 'right of use' assets with accounting standard NZ IFRS 16;
 - c. amending the IMs providing for the reconsideration of a default price-quality path IMs during a regulatory period, by adding further reopeners identifying when we may consider approving additional capital expenditure;
 - d. amending elements of the cost of capital IMs to:
 - i. enable the estimation of a WACC that reflects the duration of the regulatory period; and
 - ii. increase the value of the Tax Adjusted Market Risk Premium parameter from 7 percent to 7.5 percent; and

- e. amending elements of the general provisions in Part 1 of the IMs to provide greater clarity on when different parts of the IMs apply to DPPs.
6. As part of our process, we will also consider a small number of drafting refinements and/or improvements to the IMs clauses that are related to the IM amendments under consideration.
 7. We are considering making these amendments to the IMs for DPPs, customised price-quality paths and information disclosure as appropriate.
 8. As the Gas IMs require us to estimate the WACC for DPP3 by the end of March 2022, the Cost of Capital IM amendments are on a faster track than the other IM amendments.

Proposed process and indicative time frames for potential Gas IM amendments

Process steps		Indicative time frame
1.	Draft decision by the Commission	10 February 2022
2.	Submissions due on draft decision on Cost of Capital IM amendments	24 February 2022
3.	Cross-submissions due on draft decision on Cost of Capital IM amendments	4 March 2022
4.	Submissions due on draft decision on remaining IM amendments	10 March 2022
5.	Final decision by the Commission on Cost of Capital IM amendments Publication of the reasons for the final decision and the IM amendment determinations	25 March 2022
6.	Cross-submissions due on draft decision on remaining IM amendments	25 March 2022
7.	Final decision by the Commission on remaining IM amendments Publication of the reasons for the final decision and the IM amendment determinations	12 May 2022

9. Updates and any refinements to our process steps and timelines will be published on the Commission's website at: <https://comcom.govt.nz/regulated-industries/gas-pipelines/gas-pipelines-price-quality-paths/gas-pipelines-default-price-quality-path/2022-2027-gas-default-price-quality-path>