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Gas Distribution Services Default Price-Quality Path Determination 2013

Technical consultation draft

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Regulation Branch, Commerce Commission

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Gas Distribution Services Default Price-Quality Path Determination 2013

Pursuant to Part 4 of the Commerce Act 1986, the Commerce Commission makes the following determination:

# Title

This determination is the Gas Distribution Services Default Price-Quality Path Determination 2013.

# Commencement

This determination takes effect on 1 July 2013.

# Application

* 1. This determination sets the default price-quality paths for **GDBs** and is made pursuant to s 55E(2) of the **Act**.
  2. This determination applies to **GDBs** for the **regulatory period**.

# Interpretation

* 1. Unless the context otherwise requires—
     1. terms used in this determination that are defined in the **Act** but not in this determination have the same meanings as in the **Act**;
     2. terms used in this determination that are defined in the **IM determination** but not in this determination have the same meanings as in the **IM determination**; and
     3. a word which denotes the singular also denotes the plural and vice versa.
  2. In this determination, unless the context otherwise requires—

**Act** means the Commerce Act 1986;

**amalgamation** has the same meaning as clause 1.1.4 of the **IM determination**;

**assessment period** means a period for which compliance with the default price-quality path is to be demonstrated, being:

* + - 1. 1 July 2013 to 30 September 2014;
      2. 1 October 2014 to 30 September 2015;
      3. 1 October 2015 to 30 September 2016; and
      4. 1 October 2016 to 30 September 2017;

**auditor**, in relation to a **GDB**, means a person who:

* 1. is qualified for appointment as auditor of a company under the Companies Act 1993; and
  2. has no relationship with, or interest in, the **GDB** that is likely to involve the person in a conflict of interest; and
  3. has not assisted with the preparation of the **compliance statement** or provided advice or opinions (other than in relation to audit reports) on the methodologies or processes used in preparing the **compliance statement**; and
  4. has the necessary expertise to properly undertake an audit required by clause 11.2.4; but
  5. need not be the same person as the person who audits the **GDB’s** accounts for any other purpose;

**Commission** means the Commerce Commission as defined in s 2 of the **Act**;

**compliance statement** means a written statement made by a **GDB** under clause 11;

**consumer** has the same meaning as defined in s 2(1) of the Gas Act 1992;

**CPI** has the same meaning as clause 1.1.4 of the **IM determination**;

**CPP proposal** has the same meaning as clause 1.1.4 of the **IM determination**;

**director** has the same meaning as clause 1.1.4 of the **IM determination**;

**emergency** means an unplanned interruption or disruption in the supply of gas arising from –

* + - 1. an unplanned escape or ignition of gas that requires the active involvement of any emergencies service (i.e., fire service, ambulance); or
      2. an unplanned disruption in the supply of gas that affects more than five installation control points (ICPs); or
      3. evacuating premises as the result of escape or ignition of gas;

**first assessment period** means the **assessment period** for the 15 month period 1 July 2013 to 30 September 2014;

**gas distribution services** has the same meaning as clause 1.1.4 of the **IM Determination**;

**GDB** has the same meaning as clause 1.1.4 of the **IM determination**;

**IM determination** means the Gas Distribution Services Input Methodologies Determination 2012;

**Input methodology** has the same meaning as in s 52C of the **Act**;

**merger or acquisition** means a transaction, other than an **amalgamation**, whereby a **GDB**, directly or indirectly:

1. combines the ownership of substantially all of its assets with, or acquires ownership or control of, substantially all of the assets of another **GDB**; or
2. combines its ownership with that of another **GDB**, or acquires ownership or control of a majority of the voting power of another **GDB**;

**pass-through costs** has the same meaning as clause 1.1.4 of the **IM determination**, and are determined in accordance with Schedule 5;

**prices** has the same meaning as clause 1.1.4 of the **IM determination**;

**pricing period** means a 12 month period commencing 1 October and ending on 30 September of the following year;

**quantities** has the same meaning as clause 3.1.1(5) of the **IM determination**;

**recoverable costs** has the same meaning as clause 1.1.4 of the **IM determination**, and are determined in accordance with Schedule 5;

**regulatory period** means the period 1 July 2013 to 30 September 2017; and

**RTE** means ‘response time to emergencies’, being the time elapsed from when an **emergency** is reported to a **GDB** representative until the **GDB’s** personnel arrives at the location of the **emergency**.

# Default price-quality path

* 1. During the **regulatory period** every **GDB** subject to this determination must comply with the default price-quality path, which consists of both:
     1. the price path specified in clause 8; and
     2. the quality standards specified in clause 9.

# Applicable input methodologies

* 1. The **input methodologies** that are applied through this determination are the following parts of the **IM determination**:
     + 1. Subpart 1 of Part 3 - specification of price;
       2. Subpart 2 of Part 3 – amalgamations;
       3. Subpart 1 of Part 4 – cost allocation;
       4. Subpart 2 of Part 4 – asset valuation;
       5. Subpart 3 of Part 4 – treatment of taxation;
       6. Subpart 4 of Part 4 – cost of capital;
       7. Subpart 5 of Part 4 – reconsideration of the default price-quality path;
       8. Subpart 6 of Part 4 – treatment of periods that are not 12 month periods;
       9. Subpart 7 of Part 4 – availability of information; and
       10. Subpart 8 of Part 4 – transitional provision for Powerco.

# Customised price-quality path proposals

A **CPP proposal** may be submitted to the **Commission** at any time before 1 October 2016.

# Price path

### Starting prices

* 1. The starting prices that apply to the **regulatory period** are as set out in Schedule 1.

### Rate of change

* 1. The annual rate of change, relative to the **CPI**, that is allowed during the **regulatory period** is set out in Schedule 2.

### Allowable notional revenue

* 1. Allowable notional revenue determined under this clause specifies the maximum **prices** that may be charged during an **assessment period.**

### Compliance with the price path

* 1. The notional revenue of a **GDB** for the **assessment period** must not exceed the allowa**ble notional reven**uefor the **assessment period**, such that:
     1. for the **first assessment period** –



* + 1. for each **assessment period** after the **first assessment period** –

### 

* 1. For the purposes of calculating notional revenue and allowable notional revenue in clause 8.4:
     1. notional revenue for the **pricing period** ending in year t is NRt, where:



where:

|  |  |
| --- | --- |
| *t* | is the year in which the **pricing period** ends; |
| *i* | is each **price** relating to a **gas distribution service**; |
|  | is the ith **price** for any part of the **pricing period**; |
|  | is the **quantity** corresponding to the ith **price** during the **pricing period** ending in year t-2; |
| Kt | is the sum of all **pass-through costs** for the **pricing period**, determined in accordance with Schedule 5; |
| Vt | is the sum of all **recoverable costs** for the **pricing period**, determined in accordance with Schedule 5; and |

* + 1. allowable notional revenue for the **pricing period** ending in year t is ANRt, as specified in:
       1. Schedule 3 for the **first assessment period**; and
       2. Schedule 4 for all other **assessment periods.**

*Recovery of claw-back within the regulatory period*

* 1. A **GDB** listed in Schedule 6 must treat the claw-back amount calculated in accordance with that schedule as a **recoverable cost** when calculating their allowable notional revenue and notional revenue for each **assessment period**.

# Quality standards

*Compliance with annual quality assessment formula*

* 1. A **GDB’s RTE** values for an **assessment period** must be such that:
     1. ; and
     2. 
  2. For the purposes of calculating the **RTE** values in clause 9.1:

 is the total number of **emergencies** in the **assessment period**;

 is the total number of **emergencies** in the **assessment period** for which the **Commission** has granted an exemption;

 is the total number of **emergencies** in the **assessment period** where the **GDB’s** **RTE** for the **emergency** was less than or equal to 60 minutes; and

 is the total number of **emergencies** in the **assessment period** where the **GDB’s RTE** for the **emergency** was less than or equal to 180 minutes.

*Exclusion of approved emergencies*

* 1. If a **GDB** has reasonable grounds for not responding to an **emergency** within 180 minutes, a **GDB** may apply to the **Commission** to exclude the **emergency** from the total number of **emergencies** for the calculation required by clause 9.1.2.
  2. An exclusion request must–
     1. be submitted in writing to the **Commission** within 30 working days of the **emergency**; and
     2. include sufficient evidence demonstrating why it was reasonable that the **GDB’s RTE was greater than** 180 minutes.
  3. A **GDB** may exclude an **emergency** from the calculations of **RTE** values for the **GDB’s** **compliance statement** only where the **Commission** hasagreed to this in writing for that **emergency** by the time the **compliance statement** is provided to the **Commission**.

# Transactions

*Amalgamations*

* 1. A **GDB** that participates in an **amalgamation** with another **GDB** subject to a default price-quality path must, in complying with -
     1. the price path specified in clause 8, aggregate the notional revenue and allowable notional revenue specified in clause 8 with those of the other **GDB**; and
     2. the quality standards specified in clause 9, aggregate the total number of **emergencies** with those of the other **GDB** in calculating its **RTE** values;

with effect from the start of the **assessment period** immediately following the date of default price-quality path aggregation specified by clause 3.2.1 of the **IM determination**.

*Merger or acquisition*

* 1. A **GDB** participating in a **merger or acquisition** must comply with the price path and quality standards by treating the **merger or acquisition** as if it were an **amalgamation** for the purposes of the **IM determination** and clause 10.1.

*Transactions resulting in consumers being supplied by another GDB*

* 1. A **GDB** that commences or ceases to supply **gas pipeline services** to any **consumer** in an **assessment period** as a result of the **GDB** participating in a transaction involving a transfer of assets to or from another **GDB** (other than a transaction which is an **amalgamation** or a **merger or acquisition**), must increase or decrease the allowable notional revenue and notional revenue calculated for that **assessment period** as specified in Schedule 7.

*Transactions resulting in consumers being supplied by another GDB*

* 1. A **GDB** that commences or ceases to supply **gas pipeline services** to any **consumer**, shipper or welded party in an **assessment period** as a result of the **GDB** participating in a transaction involving a transfer of assets to or from another **GDB** (other than a transaction which is an **amalgamation** or a **merger or acquisition**), must increase or decrease the allowable notional revenue and notional revenue calculated for that **assessment period** as specified in Schedule 7.

*Alternative demonstration of compliance for amalgamation or merger or acquisition*

* 1. If a **GDB** participates in an **amalgamation** or **merger or acquisition** for which it does not aggregate its allowable notional revenue or notional revenue or total number of emergencies, the **GDB** must instead demonstrate to the satisfaction of the **Commission** that —
     1. the aggregation could not be performed due to a lack of information available which was beyond its control; and
     2. the **GDB** has complied with clauses 8 and 9 by reference to an alternative assessment approach that has a substantially equivalent effect.

*Alternative demonstration of compliance for transaction*

* 1. If an **GDB** participates in a transaction specified in clause 10.3 for which it does not calculate the required increase or decrease to the relevant allowable notional revenue or notional revenue, the **GDB** must instead demonstrate to the satisfaction of the **Commission** that —
     1. the calculation could not be performed due to a lack of information available which was beyond its control; and
     2. the **GDB** has complied with clauses 8 and 9 by reference to an alternative assessment approach that has a substantially equivalent effect.

*Requirement to notify the Commission of large transactions*

* 1. A **GDB** must notify the **Commission** in writing within 30 working days of any arrangement or transaction of the type set out in clauses 10.1 to 10.3 where:
     1. the total regulatory value of the **GDB’s** assets associated with the provision of **gas distribution services** is anticipated to increase or decrease by more than 10% as a result of the transaction; or
     2. the **GDB’s** total revenues recovered through **prices** from **consumers** for the supply of **gas distribution services** is anticipated to increase or decrease by more than 10% within an **assessment period** as a result of the transaction.

# Compliance statements

* 1. Every **GDB** must:
     1. provide to the **Commission** a written **compliance statement** within 50 working days following the end of each **assessment period**; and
     2. make its **compliance statement** publicly available on its website within 5 working days after providing it to the **Commission**.
  2. The **compliance statement** must:
     1. state whether or not the **GDB** has complied with:
        1. the price path in clause 8 for the **assessment period**; and
        2. the quality standards in clause 9 for the **assessment period**;
     2. state the date on which the statement was prepared;
     3. include a certificate in the form set out in Schedule 8, signed by at least one **director** of the **GDB**; and
     4. be accompanied by a report on the **compliance statement** that is signed by an **auditor** and is in the form set out in Schedule 9.
  3. The **compliance statement** must include any information reasonably necessary to demonstrate whether the **GDB** has complied with:
     1. clause 8, including but not limited to:
        1. the amount of allowable notional revenue, the amount of notional revenue, **prices**, **quantities**, units of measurement associated with all numeric data, and other relevant data, information, and calculations;
        2. the amounts of **pass-through costs** and **recoverable costs**, and other relevant data, information, and calculations; and
        3. if the **GDB** has not complied with the price path, the reasons for the non-compliance; and
     2. clause 9, including but not limited to:
        1. relevant incident data and calculations;
        2. a description of policies and procedures which the **GDB** has used for recording the **RTE** statistics for the **assessment period**;
        3. any exclusions that have been agreed to by the **Commission**, and any exemption requests that are pending a decision by the **Commission**, to exclude an **emergency** from the **RTE** values in the **assessment period**, and
        4. if the **GDB** has not complied with a quality standard:
           1. the reasons for not meeting the quality standard;
           2. the effect of specific incidents on meeting the quality standard;
           3. a description of the incidents, including their nature cause and location; and
           4. the number of **consumers** affected.
  4. If a **GDB** has restructured its **prices** during an **assessment period**, the **GDB** must state in the **compliance statement** that it has restructured its **prices** and provide sufficient information to demonstrate that the restructuring did not increase allowable notional revenue above that which would have applied if the restructuring had not occurred for the **assessment period** in which the restructured **prices** take effect, including but not limited to–
     1. the methodology used to determine the **quantities** that correspond to the restructured **prices**; and
     2. estimates of **quantities** for the **assessment period** and the two prior **pricing periods**.
  5. If a **GDB** cannot provide sufficient information in accordance with clause 11.4 to demonstrate that the restructuring did not increase allowable notional revenue, the **GDB** must instead provide information to the reasonable satisfaction of the **Commission** showing that:
     1. the restructuring did not increase the **GDB’s** revenue forecast by the **GDB** to be recovered through **prices** for that **assessment period** above that which would have applied if the restructuring had not occurred; or
     2. the **GDB** has substantively complied with clause 8 assessed using an alternative compliance assessment approach that has the equivalent effect.
  6. If a **GDB** participates in an arrangement or transaction of the type described in clauses 10.1 to 10.3 which requires an aggregation or adjustment for an **assessment period**, the **compliance statement** for that **assessment period** must-
     1. state whether the **GDB** has complied with all relevant parts of clause 10; and
     2. include any information or calculations that are reasonably required to assess compliance with that clause.

Dated at Wellington this [xxth day of Xxxxx] 2013.

Commerce Commission

## Schedule 1: Starting prices

The starting prices for each **GDB** for the **regulatory period** are set out in Table 1**.**

**Table 1: Starting prices for each GDB**

|  |  |
| --- | --- |
| GDB | MAR ($m) |
| GasNet Limited | [XX.XXX] |
| Powerco Limited | [XX.XXX] |
| Vector Limited | [XX.XXX] |

## Schedule 2: Rate of change

The annual rate of change is 0%, unless specified otherwise in Table 2.

**Table 2: Rates of change for specified GDBs**

|  |  |
| --- | --- |
| GDB | Rate of change for calculating allowable notional revenue in the 2013/14 and subsequent pricing periods (%) |
| [xxx] | [x] |

## Schedule 3: Allowable notional revenue for the first assessment period

Allowable notional revenue for the **first assessment period** must be calculated in accordance with Equation 2 and Equation 3 for all **GDBs**.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Equation 2**  The allowable notional revenue for the **pricing period** ending in 2013 is equal to:    where: | | | | | | | | |
|  | |  | | | is the starting price specified in Schedule 1. | | |
|  | |  | | | is the change in constant price revenue for the period 1 October 2011 to 30 September 2013, as specified in Table 3 for each **GDB**. | | |
|  | |  | | | is the sum of all **pass-through costs** and **recoverable costs** for the **pricing period** ending in 2013, determined in accordance with Schedule 5. | | |
| **Equation 3**  The allowable notional revenue for the **pricing period** ending in 2014 is equal to:    where: | | | | | | | | |
|  | |  | | allowable notional revenue for the **pricing period** ending in 2013, calculated using Equation 2. | | | |
|  | |  | | is the sum of all **pass-through costs** and **recoverable costs** for the **pricing period** ending in 2013**,** determined in accordance with Schedule 5. | | | |
|  | |  | | is the constant price revenue growth for the **pricing period** ending in 2012 as specified in Table 3 for each **GDB** | | | |
|  | |  | | is the difference between allowable notional revenue and notional revenue for the **pricing period** ending in 2013. | | | |
|  | |  | | is the rate of change as specified in Schedule 2*.* | | | |
|  | |  | | is the derived change in the **CPI** to be applied for the **pricing period** ending in 2014 being equal to:    where: | | | |
|  |  | | *CPIq,t* | | | is the **CPI** for the quarter ending *q* of year *t.* |

**Table 3: Allowable notional revenue inputs for the first assessment period for each GDB**

|  |  |  |
| --- | --- | --- |
| GDB | ∆D | CPR2012 |
| GasNet Limited | [X.XX] | [X.XX] |
| Powerco Limited | [X.XX] | [X.XX] |
| Vector Limited | [X.XX] | [X.XX] |

## Schedule 4: Allowable notional revenue for all assessment periods other than the first assessment period

Allowable notional revenue for all **assessment periods** other than the first **assessment period** must be calculated in accordance with Equation 4.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Equation 4**    where: | | | | |
|  | *t* | is the year in which the **pricing period** ends; | | |
|  | *i* | is each **price** relating to a **gas distribution service;** | | |
|  |  | is the ith **price** for any part of the **pricing period** ending in year t*-*1; | | |
|  |  | is the **quantity** corresponding to the ith **price** for the **pricing period** ending in year t-2; | | |
|  |  | is the sum of all **pass-through costs** and **recoverable costs** for the **pricing period** ending in year t*-*1, calculated in accordance with Schedule 5; | | |
|  |  | is the difference between allowable notional revenue and notional revenue for the **pricing period** ending in year t*-*1; | | |
|  |  | is the rate of change, as specified in Schedule 2*.* | | |
|  |  | is the derived change in the **CPI** to be applied for the **pricing period***,* being equal to: | | |
|  |  | where: | | |
|  |  | *CPIq,t* |  | is the **CPI** for the quarter ending *q* of year *t.* |

## Schedule 5: Process for determining the amount of pass-through costs and recoverable costs

* + 1. The individual **pass-through cost** or **recoverable cost** amounts that are used to calculate allowable notional revenue and notional revenue for a **pricing period** must:
       1. be known, and not forecast, when the **GDB** sets its **prices** for the **pricing period**;
       2. not have already been passed through to, or recovered from, **consumers** by the **GDB**; and
       3. not relate to costs that were incurred by the **GDB** prior to the **regulatory period**, except as provided under item (2) below.
    2. [Insert clause concerning recovery of certain pass-through and recoverable costs that were incurred prior to regulatory period – for further information, see Chapter 3 of the 8 February 2013 consultation paper].
    3. **Pass-through costs** and **recoverable costs** that are claimed in a **pricing period** may be adjusted for the time value of money using Equation 5:

**Equation 5**

where

t denotes the year in which the **pricing period** ends;

is the sum of all **pass-through costs** claimed during the **pricing period;**

is the sum of all **recoverable costs** claimed during the **pricing period;**

n denotes the year that actual **pass-through costs** and **recoverable costs** were paid or payable;

is the sum of all **pass-through costs** paid or payable in year n;

is the sum of all **recoverable costs** paid or payable in year n;

r discount rate for time-value-of-money adjustments, and is [x]%.

## Schedule 6: Claw-back

* + 1. A **GDB** listed below must include claw-back amounts, which are calculated using the process set out in this schedule, as a **recoverable cost** for each **assessment period**:

[XXX].

* + 1. For the avoidance of doubt, claw-back amounts must be treated as a negative **recoverable cost**.

**Step 1**

* + 1. The claw-back required for each of the periods (a) to (e) below, is calculated using Equation 6:
       1. 1 Oct 2008 – 30 Sep 2009, where t = 2009;
       2. 1 Oct 2009 – 30 Sep 2010, where t = 2010;
       3. 1 Oct 2010 – 30 Sep 2011, where t = 2011;
       4. 1 Oct 2011 – 30 Sep 2012, where t = 2012; and
       5. 1 Oct 2012 – 28 Feb 2013, where t = 2013 (this period is 5 months).

**Equation 6**

CRt = (NetRevt – RRt)(1 + r)n

where:

NetRevt is the net revenue being:

* + - * 1. for **pricing periods** t=2008 to 2012, the actual revenue relating to **gas distribution services** less actual **pass-through costs** and **recoverable costs** less other regulated income;
        2. for the 5 month period t = 2013, the actual revenue in 1 Oct 2012 – 28 Feb 2013 relating to **gas distribution services** less actual **pass-through costs** and **recoverable costs** less other regulated income.

r is the discount rate of [y]%

n for the period (a) n = 5; (b) n = 4; (c) n = 3; (d) n = 2; (e) n = 1

RRt is the regulated revenue for **pricing periods** t = 2008 to 2013, which is calculated using Equation 7 for t = 2008, Equation 8 for t = 2009 to 2012, and Equation 9 for t = 2013

**Equation 7**

RR2008 = NetRev2008

**Equation 8**

RRt = RRt-1(1 + ΔCPIt)(1 + ΔCPRt)

**Equation 9**

RR2013 = (5/12) \* RR2012(1 + ΔCPI2013)(1 + ΔCPR2013)

where:

ΔCPRt is the constant price revenue growth, which is:

* + - * 1. for **pricing periods** t=2009 to 2012, calculated using Equation 10:

**Equation 10**



where

|  |  |
| --- | --- |
| *t* | is the year in which the **pricing period** ends; |
| *i* | is each **price** relating to a **gas distribution service;** |
|  | is the ith **price** for any part of the **pricing period** ending in year t*-*1; |
|  | is the **quantity** corresponding to the ith **price** for the **pricing period**; |
|  | is the **quantity** corresponding to the ith **price** for the **pricing period** ending in year t-1. |

* + - * 1. for the 5 month period t = 2013, either:

the forecast value of constant price revenue growth as used in the **Commission’s** financial model for calculating the starting prices as specified in Schedule 1; or

the actual constant price revenue growth relating to the period, as determined using Equation 10.

ΔCPIt is the **CPI** for periods t = 2009 to 2013, calculated using Equation 11:

**Equation 11**



The CPISep, 2013 value shall be the Reserve Bank forecast contained in the data for the March 2013 Monetary Policy Statement.

**Step 2**

The total claw-back required (TCR) is the sum of the claw-back required for each of the periods (a) to (d) (t = 2009 to 2012 inclusive) if the calculation produces a positive value, or . nil if the calculation produces a negative value.

**Step 3**

The claw-back amounts that are allocated against each of the **assessment periods** in the **regulatory period** are set out in Table 4.

The discount rate (r) in Table 4 is [y]%.

**Table 4 Claw-back amounts to be recovered in each assessment period**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  | | --- | --- | | **Assessment period** | **Claw-back to be recovered during the assessment period** | | **First assessment period**: 1 Jul 2013 – 30 Sep 2014 | (TCR/4.25)\*1.25 | | Second **assessment period**: 1 Oct 2014 – 30 Sep 2015 | ((TCR/4.25) + (CR2013/3))\*(1+r) | | Third **assessment period**: 1 Oct 2015 – 30 Sep 2016 | ((TCR/4.25) + (CR2013/3))\*(1+r)2 | | Fourth **assessment period**: 1 Oct 2016 – 30 Sep 2017 | ((TCR/4.25) + (CR2013/3))\*(1+r)3 | |

## Schedule 7: Adjustments to allowable notional revenue and notional revenue resulting from a transaction

Where a **GDB** completes a transaction referred to in clause 10.3, the adjustment for the **assessment period** is to:

* + - 1. include allowable notional revenue and notional revenue amounts that are associated with the provision of any additional **gas distribution services** the **GDB** supplies as a result of the transaction; or
      2. remove allowable notional revenue and notional revenue amounts that are associated with the **gas distribution services** the **GDB** no longer supplies as a result of the transaction,

such that allowable notional revenue is adjusted by the amount calculated using Equation 12, and the corresponding adjustment to notional revenue uses the **quantities** as used in Equation 12.

Equation 12



|  |  |
| --- | --- |
| where: |  |
| *t* | is the year in which the **pricing period** ends; | |
|  | is the amount that allowable notional revenue for the **pricing period** is adjusted for as a result of the additional or excluded services; |
| *i* | is each **price** relating to the additional or excluded services; |
|  | is the **i**th **price** charged by the supplier of the services in the **pricing period** ending in year t-1; |
|  | is the **quantity** corresponding to the **i**th **price** in the **pricing period** ending in year t-2; |
|  | is the derived change in the **CPI** to be applied for the **pricing period**, being equal to:    where:  CPIq, t is the **CPI** for the quarter ending *q* of year *t* |

## Schedule 8: Form of directors’ certificate on compliance statement

I/We, [*insert full name/s*], being director/s of [*insert name of GDB*] certify that, having made all reasonable enquiry, to the best of my/our knowledge and belief, the attached compliance statementof [*name of GDB*], and related information, prepared for the purposes of the *Gas Distribution Services Default Price-Quality Path Determination 2013* has been prepared in accordance with all the relevant requirements\*[*except in the following respects*].

\*[*insert description of non-compliance*]

[*Signatures of directors*]

[*Date*]

\*Delete if inapplicable.

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding $10,000 in the case of an individual or $30,000 in the case of a body corporate.

## Schedule 9: Form of auditor’s report on compliance statement

To the readers of the compliance statement of [*insert name of GDB*] for the assessment period ended on [*insert date*]:

I/We have audited the attached statement, which is a compliance statement in respect of the default price-quality path prepared by [*insert name of GDB*] for the assessment period ended on [*insert date*] and dated [*insert date*] for the purposes of clause 11 of the *Gas Distribution Services Default Price-Quality Path Determination 2013* (“the Determination”).

**Directors’ responsibilities**

The directors of *[insert name of GDB]* are responsible for the preparation of the compliance statement in accordance with the Determination and for such internal control as the directors determine is necessary to enable the preparation of a compliance statement that is free from material misstatement, whether due to fraud or error.

**Auditor’s qualifications**

We are qualified as an auditor as defined in theDetermination.

**Auditor’s responsibilities**

My/Our responsibility is to express an opinion on the compliance statement based on my/our audit. I/We conducted my/our audit in accordance with Standard on Assurance Engagements 3100 – Compliance Engagements (SAE 3100) and International Standard on Assurance Engagements 3000 (ISAE (NZ) 3000) [*or their successor standards*].

Those standards require that I/we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compliance statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the compliance statement. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the compliance statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the compliance statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the compliance statement.

In relation to the price path set out in clause 8 of the Determination, my/our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [*insert page references*] of the compliance statement.

In relation to the quality standard set out in clause 9 of the Determination, my/our audit included examination, on a test basis, of evidence relevant to the amounts and disclosures contained on pages [*insert page references*] of the compliance statement.

My/Our audit also included assessment of the significant estimates and judgments, if any, made by [*insert name of GDB*] in the preparation of the compliance statement and assessment of whether the basis of preparation has been adequately disclosed.

I/We believe that the audit evidence I/we have obtained is sufficient and appropriate to provide a basis for my/our audit opinion.

**Independence**

I/we have no relationship with, or interests in *[insert name of GDB]* other than *[insert relationship and/or interests including a statement verifying that no conflict of interest exists].*

**Opinion**

In my/our opinion, the compliance statement of [*insert name of GDB*] for the assessment period ended on [*insert date*], has been prepared, in all material respects, in accordance with the Determination.

\*[Qualification on opinion]

\*[My/Our opinion is qualified as follows:]

\*[*Insert the nature of and reason(s) for the qualification together with the impact on the compliance statement*].

My/Our audit was completed on [*insert date*] and my/our opinion is expressed as at that date.

[*Signature of auditor*]

[*Name of auditing firm*]

[*Address of auditing firm*]

[*Date*]

\*Delete if inapplicable.

Note: Section 103(2) of the Commerce Act 1986 provides that no person shall attempt to deceive or knowingly mislead the Commission in relation to any matter before it. It is an offence to contravene section 103(2) and any person who does so is liable on summary conviction to a fine not exceeding $10,000 in the case of an individual or $30,000 in the case of a body corporate.

## Explanatory note

The purpose of the *Gas Distribution Services Default Price-Quality Path Determination 2013* (“the Determination”) is to set a default price-quality path for gas distribution businesses (“GDBs”) for the four years and three months beginning 1 July 2013 and ending 30 September 2017, pursuant to Part 4 of the Commerce Act 1986 (“the Act”).

Pursuant to section 53N of the Act, each GDB is required to provide to the Commerce Commission (“the Commission”) a compliance statement stating whether or not it has complied with the default price-quality path set out in the Determination together with supporting evidence. The compliance statement is to be accompanied by both an auditor’s report and a director’s certificate. Each GDB must publish its compliance statement on its website within five working days after submitting it to the Commission.

The Commission conducted a comprehensive process of consultation before making the Determination. A reasons paper providing detailed background to, and analysis of, the Determination can be found at:

<http://www.comcom.govt.nz/initial-default-price-quality-path/>

Copies of this determination are available for inspection free of charge at the Commission (during ordinary office hours), on the Commission’s website at the above link, or for purchase at a reasonable price at the Commission.