

Gas Distribution Default Price-Quality Path Determination 2013

Consultation Draft

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Gas Distribution Default Price-Quality Path Determination 2013

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

1. Title

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

2. Commencement

This determination comes into force on 1 July 2013.

3. Application

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

3.2 This determination applies to **GDBs** in respect of the **regulatory period**.

4. Interpretation

4.1 Unless the context otherwise requires—

4.1.1 terms used in this determination that are defined in the **Act** but not in this determination have the same meanings in this determination as in the **Act**;

4.1.2 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**;

4.1.3 words appearing in this determination in bold type are defined terms and bear the meanings given to them in this clause 4; and

4.1.4 a word which denotes the singular also denotes the plural and vice versa.

4.2 In this determination, unless the context otherwise requires—

Act means the Commerce Act 1986;

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

annual compliance date means the date or dates specified in Schedule 1 relating to an **assessment period**;

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

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

- (a) 1 July 2013 to 30 September 2014;
- (b) 1 October 2014 to 30 September 2015;
- (c) 1 October 2015 to 30 September 2016; and
- (d) 1 October 2016 to 30 September 2017;

Auditor, in relation to a **GDB**, means a Person who:

- (a) is qualified for appointment as auditor of a company under the Companies Act 1993; and
- (b) has no relationship with, or interest in, the **GDB** that is likely to involve the Person in a conflict of interest; and
- (c) has not assisted with the preparation of the **annual compliance statement** or provided advice or opinions (other than in relation to audit reports) on the methodologies or processes used in preparing the **annual compliance statement**; and
- (d) has the necessary expertise to properly undertake an audit required by clause 11.4; but
- (e) 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 set out in s 2 of the **Act**;

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 unplanned interruption or disruption in the supply of gas arising from –

- (a) an unplanned escape and/or ignition of gas that requires the active involvement of any emergency service (i.e., fire service, ambulance); or
- (b) an unplanned disruption in the supply of gas that affects more than five ICPs; or
- (c) the need to evacuate 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 section 52C of the **Act**;

merger means a transaction whereby a **GDB** takes over, or otherwise merges with, another **GDB** other than by an amalgamation under Part 13 of the Companies Act 1993, which may include (without limitation):

- (a) the purchase of all the assets of another **GDB**;
- (b) the acquisition of sufficient shares in another **GDB** to have an interest in the other **GDB** sufficient to enable it, whether directly or indirectly, to exert a substantial degree of influence over the activities of the other **GDB**; or
- (c) a scheme of arrangement under Part 15 of the Companies Act 1993 having like effect;

pass-through costs has the same meaning as clause 1.1.4 of the **IM determination**, and are calculated in accordance with Schedule 6;

prices has the same meaning as clause 3.1.1(4) of the **IM determination**;

quantity means the unit of quantity (which may include, but is not limited to gigajoules, gigajoules.km and day) corresponding to a **price**;

recoverable costs has the same meaning as clause 1.1.4 of the **IM determination**, and are calculated in accordance with Schedule 6;

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 arrive at the location of the **emergency**.

5. Default price-quality path

5.1 During the **regulatory period** every **GDB** subject to this determination must comply with the default price-quality path, which consists of both:

5.1.1 the price path specified in clause 8; and

5.1.2 the quality standards specified in clause 9.

6. Applicable input methodologies

6.1 The **input methodologies** that are applied through this determination are the following parts of the **IM determination**:

- (a) Subpart 1 of Part 3 - specification of price;
- (b) Subpart 2 of Part 3 – amalgamations;
- (c) Subpart 1 of Part 4 – cost allocation;
- (d) Subpart 2 of Part 4 – asset valuation;
- (e) Subpart 3 of Part 4 – treatment of taxation;
- (f) Subpart 4 of Part 4 – cost of capital;
- (g) Subpart 5 of Part 4 – reconsideration of the default price-quality path;
- (h) Subpart 6 of Part 4 – treatment of periods that are not 12 month periods;
- (i) Subpart 7 of Part 4 – availability of information; and
- (j) Subpart 8 of Part 4 – transitional provision for PowerCo.

7. Customised price-quality path proposals

A **CPP proposal** may be submitted to the **Commission** at any time before 1 October 2016, in accordance with s 53Q of the **Act**.

8. Price path

Starting prices

8.1 The starting **prices** that apply to the **regulatory period** are as set out in Schedule 2.

Rate of change

8.2 The annual rate of change (i.e. X), relative to the **CPI**, that is allowed during the **regulatory period** is set out in Schedule 3.

Allowable notional revenue

8.3 Allowable notional revenue (ANR_t) specifies the maximum **prices** that may be charged during an **assessment period**.

Compliance with the price path

8.4 The notional revenue (NR_t) of a **GDB** at any time during the **assessment period** must not exceed the allowable notional revenue (ANR_t) for the **assessment period**, such that:

$$ANR_t \geq NR_t$$

except for:

- (a) the **first assessment period** for all **GDBs** which is calculated using Equation 1;

Equation 1

$$0.25 \times ANR_{2012/13} + ANR_{2013/14} \geq 0.25 \times NR_{2012/13} + NR_{2013/14}$$

where:

NR_t is the notional revenue for the **assessment period** t , being equal to:

$$NR_t = \sum_i P_{i,t} Q_{i,t-2} - (K_t + V_t)$$

where:

t denotes the year of the **assessment date** in the **assessment period**, for which compliance is being assessed;

i denotes each **price** relating to a **gas distribution service**;

$P_{i,t}$ is the i^{th} **price** during any part of the **assessment period** t ;

$Q_{i,t-2}$ is the **quantity** corresponding to the i^{th} **price** during the year $t-2$;

K_t is the sum of all **pass-through costs** during the **assessment period** t ;

V_t is the sum of all **recoverable costs** during the **assessment period** t ;

and:

ANR_t is the allowable notional revenue for each **assessment period** t , as specified in:

- (a) Schedule 4 for the **first assessment period**; and

- (b) Schedule 5 for all other **assessment periods**.

Changes to prices

- 8.5 If a **GDB** changes its **prices** during an **assessment period** from those specified in the **annual compliance statement** provided in that **assessment period** without restructuring its **prices**, it must:
- 8.5.1 determine the notional revenue resulting from the changes and calculate compliance with clause 8.4 as if the changed **prices** had been in effect throughout the **assessment period**; and
 - 8.5.2 demonstrate in the **annual compliance statement** that is due on the **annual compliance date** immediately after that **assessment period** that the requirements in clause 8.4 have been met.

Restructuring of prices

- 8.6 If a **GDB** restructures **prices** during an **assessment period**, the **GDB** must include in the **annual compliance statement** that is due on the **annual compliance date** immediately after that **assessment period** sufficient information to support:
- 8.6.1 whether the restructuring increased the **GDBs** allowable notional revenue for that **assessment period** above that which would have applied if the restructuring had not occurred; or
 - 8.6.2 where it is not possible to calculate the effects of the restructure on allowable notional revenue under clause 8.6.1, whether the restructuring increased its revenue for that **assessment period** above that which would have applied if the restructuring had not occurred; and, if the restructuring of itself—
 - 8.6.3 did not increase the **GDB's** allowable notional revenue (referred to in clause (8.6.1)) or revenue (referred to in clause (8.6.2)) for that **assessment period**, clause 8.4 will apply as if the new **price** structure applied on and from the beginning of that **assessment period**; or
 - 8.6.4 did increase the **GDB's** allowable notional revenue (referred to in clause (8.6.1)) or revenue (referred to in clause (8.6.2)) for that **assessment period**, the price path will not have been complied with.

Alternative compliance following restructuring of prices

- 8.7 If a **GDB** restructures its **prices** during an **assessment period**, the **GDB** will be deemed to have complied with the price path for that **assessment period** if the **GDB** in the **annual compliance statement** that is due on the **annual compliance date** immediately after that **assessment period** —

- 8.7.1 provides evidence to the reasonable satisfaction of the **Commission** that, because of a lack of information beyond the reasonable control of the **GDB**, it is not possible or practicable for the **GDB** to calculate the effect of the restructuring under clause 8.6; and
- 8.7.2 demonstrates compliance with the price path for that **assessment period** to the reasonable satisfaction of the **Commission** by use of an alternative approach that has the equivalent effect of clause 8.6.

Recovery of claw-back within the Regulatory Period

- 8.8 **GDB's** listed in Schedule 7 must include the claw-back amount calculated in accordance with that schedule, as **recoverable costs** for each **assessment period**.

9. Quality standards

- 9.1 A **GDB** must, in respect of each **assessment period**, comply with the annual quality assessment formula specified in clause 9.2 for that **assessment period**.

Annual quality assessment formula

- 9.2 A **GDB's RTE** values for an **assessment period** must be such that:

$$\frac{RTE60Minutes_t}{\Sigma RTE_t} \geq 0.80$$

and

$$\frac{RTE180Minutes_t}{\Sigma RTE_t} = 1$$

where:

$RTE60Minutes_t$ is the number of **emergencies** in **assessment period t** where the **GDB's RTE** was less than or equal to 60 minutes;

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

$RTE180Minutes_t$ is the number of **emergencies** in **assessment period t** where the **GDB's RTE** was less than or equal to 180 minutes.

Exemption for approved emergencies

- 9.3 If it was not practicable for a **GDB** to respond in the required timeframe to an **emergency** a **GDB** may apply to the **Commission** for an exemption from including this **emergency** in the annual quality assessment;
- 9.4 An exemption request, as provided for under clause 9.3, must include appropriate supporting evidence and be provided to the **Commission** within 30 days of the **emergency**;
- 9.5 An **emergency** may only be removed from the calculation of the annual quality assessment formulas for an **assessment period** where the **Commission** has granted an exemption.

10. Transactions

- 10.1 Where a **GDB** has completed an **amalgamation** in accordance with Part 13 of the Companies Act 1993, or otherwise carries out a **merger**, clause 3.2.1 of the **IM determination** applies.
- 10.2 Where a **GDB** has completed one or more transactions other than an **amalgamation** or a **merger** whereby:
 - 10.2.1 the **GDB's** value of assets associated with the provision of **gas distribution services** increases or decreases by 10% or more within an **assessment period**, as a result of one or more transactions; or
 - 10.2.2 the **GDB's** value of notional revenue associated with the provision of **gas distribution services** increases or decreases by 10% or more within an **assessment period**, as a result of one or more transactions:the **GDB** or, if the transactions are with another **GDB**, each of the **GDBs**, must comply with clause 8.4.
- 10.3 Where clause 10.2 applies, the **GDB** or **GDBs** must:
 - 10.3.1 notify the **Commission** within 30 days of the completion of the transaction as to the nature and effect of that transaction;
 - 10.3.2 state to the extent practicable in the **annual compliance statement** that is due on the **annual compliance date** immediately after that **assessment period** whether or not the **GDB** complied with the price path in clause 8 for that **assessment period**; and
 - 10.3.3 state to the extent practicable in the **annual compliance statement** that is due on the **annual compliance date** immediately after that **assessment period** whether or not the **GDB** complied with the quality standards in clause 9 for that **assessment period**.

11. Annual compliance statement

- 11.1 Every **GDB** must provide to the **Commission** an **annual compliance statement** on or before each **annual compliance date**.
- 11.2 Where applicable, an **annual compliance statement** must include:
- 11.2.1 a written statement that the **GDB** has complied with the price path in clause 8 in respect of the **assessment period** in which the **annual compliance date** falls or, if it has not complied, the reasons for the non-compliance (if known), and any mitigating reasons for the non-compliance;
- 11.2.2 sufficient information to support the statement required by clause 11.2.1, including:
- (a) 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; and
- (b) the amounts of **pass-through costs** and **recoverable costs**;
- 11.2.3 a written statement that the **GDB** complied with the price path in clause 8 in respect of the **assessment period** prior to the **annual compliance date** or, if it has not complied, the reasons for the non-compliance (if known), and any mitigating reasons for the non-compliance;
- 11.2.4 in respect of clauses 8.5, 8.6 and 8.7:
- (a) a written statement that states whether or not clauses 8.5, 8.6 or 8.7 applies in respect of the **assessment period** prior to the **annual compliance date**; and
- (b) if clauses 8.5, 8.6 or 8.7 applies, a written statement that states whether or not the **GDB** has complied with those clauses in respect of the **assessment period** prior to the **annual compliance date**;
- 11.2.5 if the **GDB** restructured its **prices** as referred to in clause 8.6 in respect of the **assessment period** prior to the **annual compliance date**, information of the kind set out in clause 11.2.2 that demonstrates:
- (a) if clause 8.6.1 applies, whether or not the restructuring has of itself increased the **GDB's** allowable notional revenue above that which would have applied if the restructuring had not occurred, using both the previous and restructured **prices** and **quantities**;

- (b) if clause 8.6.2 applies, whether or not the restructuring has of itself increased the **GDB's** revenue above that which would have applied if the restructuring had not occurred, using both the previous and restructured **prices** and **quantities**, and reasoning why it is not practicable for the **GDB** to demonstrate the effects of the restructuring on allowable notional revenue; and
- (c) if clause 8.7 applies, why it is not practicable for the **GDB** to demonstrate the effects of the restructuring on allowable notional revenue or revenue;

11.2.6 in respect of clause 10.3:

- (a) a written statement that states whether or not clause 10.3 applied in respect of the **assessment period** prior to the **annual compliance date**; and
- (b) if clause 10.3 applied a written statement that states whether or not the **GDB** has complied with that clauses in respect of the **assessment period** prior to the **annual compliance date**;

11.2.7 sufficient information to support the statement required by clause 11.2.6 including relevant data and calculations;

11.2.8 a written statement that states whether or not the **GDB** has complied with the quality standards in clause 9 in respect of the **assessment period** prior to the **annual compliance date**;

11.2.9 sufficient information to support the statement required by clause 11.2.8, including relevant data and calculations;

11.2.10 In any circumstance where a **GDB** is unable to meet the quality standard in clause 9, the **GDB** must provide further information explaining:

- (a) their reasons for not meeting the standard;
- (b) the effect of specific incidents on meeting the quality standard;
- (c) a description of the incidents, including their nature cause and location; and
- (d) the number of **consumers** affected;

11.2.11 the date on which the statement was prepared; and

- 11.2.12 a certificate in the form set out in Schedule 8, signed by at least one **director** of the **GDB**.
- 11.3 Each **GDB** should publish its **annual compliance statement** on its website within one week after submitting it to the **Commission**.
- 11.4 An **annual compliance statement** referred to in clause 11.1 must be accompanied by a report on the **annual compliance statement** that is signed by an **auditor** and is in the form set out in Schedule 9.
- 11.5 An **auditor's** report given for the purposes of clause 11.4:
 - 11.5.1 may be qualified only if the **auditor** considers that the **annual compliance statement** concerned has not been prepared, in all material respects, in accordance with this determination, and the report explains with full reasons the respects in which the statement so fails; and
 - 11.5.2 where this determination requires the **Commission** to be satisfied in relation to a matter, need not express a view in relation to the **Commission's** satisfaction.

12. Reconsideration of the price-quality path

- 12.1 The circumstances in which the default price-quality path may be reconsidered are set out in Subpart 5 of Part 4 of the **IM determination** and s 55I of the **Act**.

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

Commerce Commission

Schedule 1: Compliance reporting dates for GDBs

The **annual compliance dates** for each **GDB** for the **regulatory period** are set out in Table 1.

Table 1: Annual compliance dates

	Assessment period	Assessment date (price path)	Assessment date (re-assessed price path)	Assessment date (quality standards)
		Clause 8.4	Clause 11.2.3	Clause 9.2
First	1 July 2013 to 30 September 2014	30 November 2013	30 November 2014	30 November 2014
Second	1 October 2014 to 30 September 2015	30 November 2014	30 November 2015	30 November 2015
Third	1 October 2015 to 30 September 2016	30 November 2015	30 November 2016	30 November 2016
Fourth	1 October 2016 to 30 September 2017	30 November 2016	30 November 2017	30 November 2017

Schedule 2: Starting Prices

The starting prices for each **GDB** for the **regulatory period**, specified as maximum allowable revenue, are set out in Table 2.

Table 2: Starting prices for each GDB

GDB	MAR (\$m)
GasNet Limited	4.4
Powerco Limited	48.9
Vector Limited	70.7

Schedule 3: Rate of change

The annual rate of change (i.e. X) is 0%.

Schedule 4: Allowable notional revenue for the first assessment period

Allowable notional revenue (*ANR*) for the first **assessment period** as specified in clause 8.4 is calculated using Equation 2 and Equation 3 for all **GDBs**.

Equation 2

Is the allowable notional revenue for 2012/13 being equal to:

$$ANR_{2012/13} = \frac{MAR + (K_{2012/13} + V_{2012/13})}{\Delta D} - (K_{2012/13} + V_{2012/13})$$

where:

- MAR* is the maximum allowable revenue as specified in Schedule 2.
- ΔD is the change in constant price revenue for the period 1 October 2011 to 30 September 2013, as specified in Table 3.
- $K_{2012/13} + V_{2012/13}$ is the sum of all **pass-through costs** and **recoverable costs** for 2012/13.

Equation 3

Is the allowable notional revenue for 2013/14 being equal to:

$$ANR_{2013/14} = \left(\sum_i P_{i,2012/13} Q_{i,2011/12} - (K_{2012/13} + V_{2012/13}) + 0.25(ANR_{2012/13} - NR_{2012/13}) \right) (1 + \Delta CPI)(1 - X)$$

where:

- $P_{i,2012/13}$ is the *i*th **price** for 2012/13.
- $Q_{i,2011/12}$ is the **quantity** corresponding to the *i*th **price** during 2011/12.
- $K_{2012/13} + V_{2012/13}$ is the sum of all **pass-through costs** and **recoverable costs** for 2012/13.
- $ANR_{2012/13} - NR_{2012/13}$ is the difference between allowable notional revenue and notional revenue for 2012/13.
- ΔCPI is the derived change in the **CPI** to be applied for 2013/14 being equal to:

$$\Delta CPI_t = \frac{CPI_{Jun,t-2} + CPI_{Sep,t-2} + CPI_{Dec,t-1} + CPI_{Mar,t-1}}{CPI_{Jun,t-3} + CPI_{Sep,t-3} + CPI_{Dec,t-2} + CPI_{Mar,t-2}} - 1$$

where:

$CPI_{i,t}$ is the **CPI** for the quarter i of pricing year t

X is the rate of change as specified in Schedule 3.

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

GDB	ΔD
GasNet Limited	1.009
Powerco Limited	1.010
Vector Limited	1.013

Schedule 5: Allowable notional revenue for all assessment periods other than the first assessment period

Allowable notional revenue (ANR_t) for all **assessment periods** other than the first **assessment period** is calculated using Equation 4.

Equation 4

$$ANR_t = \left(\sum_i P_{i,t-1} Q_{i,t-2} - (K_{t-1} + V_{t-1}) + (ANR_{t-1} - NR_{t-1}) \right) (1 + \Delta CPI)(1 - X)$$

where:

t denotes the period to which a variable relates, and is the year in which the period ends;

i denotes each component of **price** relating to a **gas distribution service**;

$P_{i,t-1}$ is the i th **price** for year $t-1$;

$Q_{i,t-2}$ is the **quantity** corresponding to the i th **price** during year $t-2$;

$K_{t-1} + V_{t-1}$ is the sum of all **pass-through costs** and **recoverable costs** for year $t-1$, calculated in accordance with Schedule 6;

$ANR_{t-1} - NR_{t-1}$ is the difference between allowable notional revenue and notional revenue for year $t-1$;

ΔCPI is the derived change in the **CPI** to be applied during the **assessment period** t , being equal to:

$$\Delta CPI_t = \frac{CPI_{Jun,t-2} + CPI_{Sep,t-2} + CPI_{Dec,t-1} + CPI_{Mar,t-1}}{CPI_{Jun,t-3} + CPI_{Sep,t-3} + CPI_{Dec,t-2} + CPI_{Mar,t-2}} - 1$$

where:

$CPI_{i,t}$ is the **CPI** for the quarter i of pricing year t

X is the rate of change, as specified in Schedule 3.

Schedule 6: Process for determining the amount of pass-through costs and recoverable costs

1. This schedule sets out how the amounts of **pass-through costs** (K_t) and **recoverable costs** (V_t), referred to in Schedules 4 and 5, are to be determined.
2. The variables K_t and V_t are used in determining notional revenue and allowable notional revenue for the period ending 30 September of year t .
3. The individual **pass-through cost** or **recoverable cost** amounts that are included in K_t and V_t are the most recent annual costs that are known when the **GDB** sets its **prices** for the **assessment period**.
4. Where it is necessary to use lagged **pass-through cost** and/or **recoverable cost** amounts because relevant information is not available, the extent of the lag should be as short as possible and consistent for each **assessment period**. It is not necessary for each type of cost to have the same lag (ie, be incurred in the same 12 month period);
5. **Pass-through** or **recoverable costs** must correspond to the same length of time as the **assessment period**; eg, if the **assessment period** is 12 months in duration, the **pass-through costs** or **recoverable costs** will be for a 12 month period.
6. The individual **pass-through** or **recoverable costs** must not have already been passed through to, or recovered from, **consumers** by the supplier. Therefore, **GDBs** are allowed to pass-through or recover costs that were incurred prior to the **regulatory period** to the extent that the costs have not already been passed through to, or recovered from, **consumers**.

Schedule 7: Claw-back

[Refer to discussion in Attachment L of the Commerce Commission, *Revised Draft Decision on the Initial Default Price-Quality Paths for Gas Pipeline Services*, 25 October 2012.]

Schedule 8: Form of directors' certificate on annual 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 annual compliance statement of *[name of GDB]*, and related information, prepared for the purposes of the *Gas Distribution Default Price-Quality Path Determination 2013* are true and accurate **[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 annual compliance statement

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

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

Directors' responsibilities

The directors of [*insert name of GDB*] are responsible for the preparation of the annual compliance statement in accordance with the Determination and for such internal control as the directors determine is necessary to enable the preparation of an annual 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 the Gas Distribution Default Price-Quality Path Determination 2013.

Auditor's responsibilities

My/Our responsibility is to express an opinion on the annual 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 annual compliance statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual compliance statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual 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 annual 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 annual 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 annual 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 annual 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 annual 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 annual compliance statement of *[insert name of GDB]* for the assessment period ended on *[insert assessment 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 annual 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 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”) an annual 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 annual compliance statement is to be accompanied by both an auditor’s report and a director’s certificate. Each GDB should publish its annual compliance statement on its website within one week after submitting it to the Commission.

The Commission has 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.