



AUCKLAND ENERGY CONSUMER TRUST

**SUBMISSION TO THE
COMMERCE COMMISSION**

ON ITS

ISSUES PAPER

(ON THE FORM OF CONTROL)

FOR THE INITIAL DPP FOR GAS PIPELINE BUSINESSES

30 April 2010

AECT'S SUBMISSION TO THE COMMERCE COMMISSION ON THE FORM OF CONTROL FOR THE INITIAL PRICE PATH APPLYING TO GAS PIPELINES

Executive Summary

➤ *Introduction*

On 12 April 2010, the Commerce Commission published an *Issues Paper* setting out its preliminary views on how the Initial Default Price-quality Path (DPP) for Gas Pipeline Businesses (GPBs) should be determined.

For GPBs, the legislation requires an initial DPP to be set from 1 July 2010 (or as soon as practicable thereafter). The Commission's initial view is that 1 July 2012 is the appropriate date to commence the DPP for GPBs.

The Commission is seeking submissions from parties in response to the *Issues Paper*. In particular, the Commission has requested submissions in two parts – as follows:

- first, submissions on the form of control; and second,
- submissions on all other sections of the *Issues Paper*.

The Auckland Energy Consumer Trust welcomes the opportunity to participate in this process. AECT appreciates that the Commission has not reached any decisions on setting the initial DPP for GPBs. This submission provides the AECT's comments on the form of control for the initial DPP for GPBs.

AECT makes this submission to assist the Commission understand, from the perspective of the Trust (and more generally, from the perspective of a pure investor), the issues and concerns that arise from the Commission's form of control proposals set out in the *Issues Paper*. AECT will provide a separate submission on the other matters arising from the *Issues Paper*.

➤ *Key Issues and Recommendations*

In its *Issues Paper*, the Commission takes the view that it is appropriate to distinguish between GPBs on the basis of particular attributes (essentially distinguishing between gas transmission and gas distribution). For gas distribution, a weighted average price cap is the proposed form of control. However, for gas transmission, the Commission proposes a revenue cap.

AECT supports the Commission's proposal for a weighted average price cap for gas distribution. However, the AECT is concerned with the Commission's proposal to generically adopt a revenue cap control for gas transmission.

AECT believes that the Commission should revisit its stance – for the following two reasons:

i. Gas transmission is not a generic service to which a generic form of control should apply

Whether a price cap, or a revenue cap, is the most appropriate form of control rests with the nature of the transmission service (including carriage method and opportunities for connection growth), and not with any generic transmission versus distribution delineation. In order to advance the overall regulatory purpose, it is therefore important for the Commission to ensure any form of control complements the transmission service that it is to apply to.

The gas transmission services provided by Maui Development Limited and Vector Limited are not generic. AECT understands MDL's service to be characterised by common carriage, a largely fixed cost structure, and a volatile revenue driver. Vector's service is quite different – with a mix of contract and common carriage, a cost structure which is variable when ongoing investment in connections and capacity is considered, and a revenue driver that is manageable. Given these characteristics, a revenue cap is likely to be most appropriate for MDL, whilst a weighted average price cap is likely to be most appropriate for Vector.

ii. Compliance with regulatory objectives would tend to favour a price control over a revenue control

Concerns with revenue cap regulation are widely documented, and the AECT suggests that a weighted average price cap form of control would, *ceteris paribus*, be more consistent with the regulatory purpose statement set out in s52A of the Commerce Act 1986.

However, this ignores the different contractual commitments for Vector and MDL that arise from their respective commercial models for gas transmission carriage and their ongoing investment in new connections and capacity.

In revisiting its stance on the form of control for gas transmission, the AECT suggests the Commission adopt either of the following approaches:

- **Preferred Approach** – a revenue cap form of regulation for MDL's gas transmission services *together with* a weighted average price cap form of regulation for Vector's gas transmission services; or
- **Alternative Approach** – a weighted average price cap form of regulation for all gas transmission services.

AECT prefers the first approach, as this is most consistent with providing incentives for efficiency and investment (including the recovery of the fixed

costs of providing gas transmission services) in relation to the transmission services currently provided by Vector and MDL.

The alternative approach relies on price cap regulation being more consistent with key regulatory principles than, *ceteris paribus*, a revenue cap. For instance, a revenue cap tends to:

- inflate prices above marginal cost;
- shift risks to consumers;
- shift risks between consumers over time; and
- create barriers to investment and capacity growth.

These features of a revenue cap are inconsistent with generally accepted regulatory principles, and the overall regulatory purpose set out in s52A.

Similarly, a revenue cap is potentially inconsistent with the low cost nature of a DPP. Firstly, significant costs may be incurred if a full 'Building Blocks' assessment is required to determine the revenue requirement for the revenue cap. Secondly, a revenue cap tends to deemphasise pricing to the extent that inefficient prices may occur. As a formal pricing methodology is not required under DPP regulation, inefficient prices could be sustained. However, under a price cap, inefficient prices are unlikely to be sustainable.

AECT does not consider it to be the role of the DPP to use the form of control to harbour inefficient pricing, or to mitigate commercial risks that may be avoided by alternative / more efficient pricing.

AECT considers that a weighted average price cap will ameliorate most of these concerns, and is therefore more consistent with the overall regulatory framework.

AECT recommends that the form of control for the initial DPP for GPBs should be as follows:

- a weighted average price cap in respect of gas distribution services;
- a total revenue cap in respect of gas transmission services where the cost structure (including investment) is largely fixed and the revenue driver is variable (as typically occurs with common carriage); and
- a weighted average price cap in respect of gas transmission services where the cost structure (including investment in connections and capacity) is variable and the revenue driver is manageable (as typically occurs with contract carriage).

As a less preferred alternative, the form of control for the initial DPP should be a weighted average price cap for all GPBs.

1 Introduction

- The requirement for a Default Price-quality Path (DPP) for both Electricity Distribution Businesses (EDBs), and Gas Pipeline Businesses (GPBs) was introduced by the Commerce Amendment Act 2008.
 - For EDBs, the legislation required an initial DPP to be set as at 1 April 2009, with a full reset from 1 April 2010. In late 2009, the Commerce Commission (Commission) issued its determination for the 1 April 2010 reset of the DPP – with the proviso that the determination will be amended to address ‘Input Methodology’ issues such as P_0 adjustments.
 - For GPBs, the legislation requires an initial DPP to be set from 1 July 2010 (or as soon as practicable thereafter). The Commission’s initial view is that 1 July 2012 is the appropriate date to commence the DPP for GPBs.
- On 12 April 2010, the Commission published an *Issues Paper*¹ setting out its preliminary views on how the Initial DPP for GPBs is to be determined.
- The Commission is seeking submissions from parties in response to the *Issues Paper*. In particular, the Commission has requested submissions in two parts – as follows:
 - first, submissions on the form of control; and second,
 - submissions on all other sections of the *Issues Paper*.
- The Auckland Energy Consumer Trust (AECT), as an owner of electricity and gas distribution assets, and gas transmission assets, is affected by the Commission’s proposals and welcomes the opportunity to participate in this process. AECT appreciates that the Commission has not reached any decisions on setting the initial DPP for GPBs. This submission provides the AECT’s comments on the form of control for the initial DPP for GPBs.
- AECT makes this submission to assist the Commission understand, from the perspective of the Trust (and more generally, from the perspective of a pure investor), the issues and concerns that arise from the Commission’s form of control proposals set out in the *Issues Paper*. AECT will provide a separate submission on the other matters arising from the *Issues Paper*.
- AECT requests that the Commission take account of the AECT’s concerns and recommendations on the form of control for the initial DPP. Without addressing the above concerns, there is a danger the new regulatory regime will not be effectively implemented (i.e. to ensure the intent of the Commerce Amendment Act 2008 is served).

¹ Commerce Commission; “Initial Default Price-Quality Path for Gas Pipeline Businesses – Issues Paper”; 12 April 2010

2 Appropriate Form of Control for the Initial DPP for Gas Pipeline Businesses

Introduction

- The form of control is a regulatory methodology that converts the revenue requirement, and quality standards, into constraints on pricing and service quality that the supplier must comply with.
- In its *Issues Paper*, the Commission takes the view that it is appropriate to distinguish between GPBs on the basis of particular attributes (essentially distinguishing between gas transmission and gas distribution). For gas distribution, a weighted average price cap is the proposed form of control. However, for gas transmission, the Commission proposes a total revenue cap.
- AECT contends that the form of control cannot be viewed in isolation. It is important to consider how the regulatory control mechanism for both gas distribution and gas transmission ties in with commercial models, regulatory objectives, and with broader energy policy (e.g. energy efficiency).
- This is why different jurisdictions have adopted different ‘forms of control’. It is important to consider this broader perspective in determining what approach to regulatory control is to be preferred for New Zealand. The AECT does not believe that the Commission has fully considered this broader perspective when making its proposals on the form of control for the gas transmission pipelines owned by Maui Development Limited (MDL) and Vector Limited (Vector).

Form of Control – Gas Distribution

- AECT supports the Commission’s proposal for a weighted average price cap for gas distribution.
- This proposal is consistent with the Commission’s October 2008 decisions on the form of control for the gas distribution pipelines owned by Powerco Limited and Vector. In this regard the Commission stated:

“The Commission considers that a weighted average price cap is the appropriate form of control for gas distribution services. A weighted average price cap has a number of attractive qualities in comparison to other forms of control such as total revenue caps, particularly with regard to the promotion of efficiency. For example, a weighted average price cap:

- *provides strong incentives to price efficiently, subject to the overall*

revenue constraint being met, as the businesses can utilise their knowledge of customers' price responsiveness when pricing to maximise profits and manage output risk – potentially reducing allocative inefficiency;

- *removes the need to have correction mechanisms when demand (both for new connections and increased volume growth) is different from that forecast, thereby increasing the transparency and certainty of the control terms for both the businesses and their customers and reducing the costs of control;*
- *puts the output risk (i.e., the risk associated with actual demand being different to that forecast when setting the control terms) onto the businesses. The Commission considers this is appropriate as the businesses are better placed than customers to manage this risk;*
- *provides incentives to invest in new infrastructure and to connect new customers to the network, as it provides the businesses with additional revenue for new customers and new volume immediately;*
- *is suitable for the controlled gas distribution services, as the services supplied (both standard and non-standard) are relatively small in number and do not change regularly, which means the “tariff basket” of services is reasonably stable; and*
- *is straightforward to monitor and assess compliance with.”²*

Form of Control – Gas Transmission

- AECT is concerned with the Commission's proposal to generically adopt a revenue cap control for gas transmission. In this regard the Commission states:

“... the decision on the form of control for transmission services will apply to both parties.”³

- AECT believes that the Commission should revisit its stance – for the following reasons:

² Commerce Commission; “Authorisation for the Control of Supply of Natural Gas Distribution Services by Powerco Ltd and Vector Ltd – Decisions Paper”; 30 October 2008; para 1123 (p259)

³ Commerce Commission; “Initial Default Price-Quality Path for Gas Pipeline Businesses – Issues Paper”; 12 April 2010; para 4.22, p18

a. *Gas transmission is not a generic service to which a generic form of control should apply*

- The Commission’s proposals promote ‘alternative’ forms of control for ‘different services’ (i.e. gas transmission and gas distribution services). However, the AECT does not regard this to be an appropriate level of delineation for the form of control. Whilst the industry characteristics for gas distribution and gas transmission are sufficiently different to warrant separate price paths (i.e. different productivity, price and quality parameter settings), these differences have little bearing on the appropriate form of control.
- As the form of control is effectively a constraint on pricing, the important consideration in determining the appropriate form of control is the extent to which a particular form of control advances the regulatory purpose statement set out in s52A of the Commerce Act 1986 (the Act). AECT considers that, of the objectives set out in paragraphs (a) to (d) of s52A(1), the choice of either a revenue cap or a weighted average price cap will have most impact on incentives for investment and meeting quality expectations.
- AECT considers that the Commission’s high level delineation of distribution and transmission services has not appropriately identified the nature of transmission services to which a particular form of control (under the DPP) should apply. This is in spite of the Commission stating that it is “*mindful of differences between the current contractual arrangements of MDL and Vector*”.⁴
- Whether a price cap, or a revenue cap, is the most appropriate form of control rests with the nature of the transmission service (including carriage method and opportunities for connection growth), and not with any generic transmission versus distribution delineation.
- For instance, the gas transmission services provided by MDL and Vector are not generic. AECT understands MDL’s service to be characterised by common carriage, a largely fixed cost structure (including investment), and a volatile revenue driver (i.e. throughput). Vector’s service is quite different – with a mix of (mostly) contract carriage and (some) common carriage, a cost structure which is variable when ongoing investment in connections and capacity is considered, and a revenue driver that is manageable (and positively correlated with investment).
- Given these characteristics, a revenue cap is likely to be most appropriate for MDL, whilst a weighted average price cap is likely to be most appropriate for Vector.

⁴ Commerce Commission; “Initial Default Price-Quality Path for Gas Pipeline Businesses – Issues Paper”; 12 April 2010; para 4.19, p17

- It is therefore incumbent on the Commission to ensure any form of control complements the transmission service that it is to apply to – in order to advance the overall regulatory purpose.

b. Compliance with regulatory objectives would tend to favour a price control over a revenue control

- Concerns with revenue cap regulation are widely documented. Some of these concerns are set out in this submission (below). In light of these concerns, the AECT suggests that a weighted average price cap form of control would, *ceteris paribus*, be more consistent with the regulatory purpose statement set out in s52A of the Act and with generally accepted regulatory principles.
 - This ignores pre-existing contractual arrangements. AECT is aware that Vector and MDL have different contractual commitments that arise from their respective commercial models for gas transmission carriage. It is not the AECT’s intention to comment on MDL’s commercial arrangements, nor the form of control that is most appropriate for MDL. Instead, the AECT’s comments – that relate form of control with particular regulatory objectives – are intended to demonstrate that:
 - a revenue control is often sub-optimal; and
 - a revenue control will (in the case of Vector) fail to achieve the outcomes intended by Part 4 of the Act.
- In revisiting its stance on the form of control for gas transmission, the AECT suggests the Commission adopt either of the following two approaches:
- **Preferred Approach** – a revenue cap form of regulation for MDL’s gas transmission services *together with* a weighted average price cap form of regulation for Vector’s gas transmission services; or
 - **Alternative Approach** – a weighted average price cap form of regulation for all gas transmission services.
- AECT prefers the first approach, as this is most consistent with providing incentives for efficiency and investment (including the recovery of the fixed costs of providing gas transmission services). Another reason for the AECT to favour this approach is that the commercial model for gas carriage is fluid, and the DPP should retain flexibility to accommodate other regulatory developments in the gas industry in the future. For instance, carriage arrangements are being considered by the Gas Industry Company (GIC) and

there is a possibility of a stronger emphasis on common carriage in the future.⁵

- The first approach is also consistent with the Commission’s stated view that:

*“The Commission considers it important to have regard to the characteristics of both networks [Vector and MDL] when assessing the impact of the different forms of control and in making a decision on what form may be appropriate for both Vector and MDL.”*⁶

- Under this approach, the revenue cap would likely apply to MDL, and the weighted average price cap would likely apply to Vector. The commercial drivers for this have been explained previously (including at the recent Workshop on Emerging Views for Input Methodologies)⁷. AECT does not expand on these commercial drivers in this submission – but would be happy to do so if this is required by the Commission.
- In the case of Vector, the key regulatory principles favouring the use of a weighted average price cap are set out below (in the discussion on the second approach).
- The second approach relies on price cap regulation being more consistent with key regulatory principles than, *ceteris paribus*, a revenue cap. AECT’s concerns, both in general, and in particular from Vector’s perspective, with the proposed revenue cap form of control are as follows:

a. Inconsistency with the Overall Regulatory Purpose

- The Part 4 purpose statement (s52A of the Act) requires, *inter alia*, outcomes consistent with workable competition, incentives for investment/innovation, and incentives to improve efficiency.
- In the Gas Authorisation applying to Powerco and Vector, the Commission expressed the view that:

⁵ Although, without knowing all the facts, it would be pure speculation to suggest that a stronger emphasis on common carriage would cause Vector to prefer a revenue cap. If investment and customer connection considerations outweigh common carriage considerations (e.g. implications for revenue), Vector may still prefer a weighted average price cap.

⁶ Commerce Commission; “Initial Default Price-Quality Path for Gas Pipeline Businesses – Issues Paper”; 12 April 2010; para 4.19, p17

⁷ Commerce Commission Transcript; “Input Methodologies – Electricity Distribution and Gas Pipelines Workshop”; 24 February 2010; pp 83-95. For MDL, the commercial drivers included the largely fixed cost nature of the business – coupled with the requirement to recover these costs on a throughput basis. For Vector, new connection growth is a relevant consideration. Amongst other things, connection costs and investment in capacity mean that the cost structure for Vector’s transmission business has greater variability. Vector’s contracts also enable fixed costs to be recovered through capacity based pricing.

“A weighted average price cap has a number of attractive qualities in comparison to other forms of control such as total revenue caps, particularly with regard to the promotion of efficiency.”⁸

The ‘attractive qualities’ of a weighted average price cap identified by the Commission have been listed previously, and are not repeated here.

- In contrast, a revenue cap is widely acknowledged to have the following drawbacks⁹:
 - inflating prices above marginal cost ...
(i.e. when throughput falls, a revenue cap permits suppliers to increase price even though the marginal cost falls or stays constant)
 - shifting risks to consumers ...
(i.e. unlike competitive markets, a revenue cap allows throughput risks to be transferred to consumers via higher prices)
 - shifting risks between consumers over time (i.e. with an ex post volume adjustment mechanism) ...
(i.e. adjustments to a subsequent year’s prices – when the current year’s actual throughput differs from that expected – may be borne by parties that were not responsible for the throughput differential)
 - avoiding capacity growth ...
(i.e. additional throughput / capacity utilisation under a revenue cap tends to increase total costs whilst revenue is fixed. This provides a perverse incentive to limit, or reduce, growth)
 - avoiding investment ...
(i.e. efficient investment may reduce the marginal cost or improve the quality of services supplied – however, by increasing the total cost they reduce profitability. Further, whilst competitive sector firms invest in service quality to avoid customer attrition, there may be a perverse incentive under a revenue cap to let quality and customers decline as the consequential reduction in output costs would improve profitability).
- These drawbacks are inconsistent with generally accepted regulatory principles, including the overall regulatory purpose set out in s52A.
- AECT also notes that the more commonly cited advantages of a revenue cap have also been questioned – particularly:
 - its use in promoting energy efficiency; and

⁸ Commerce Commission: “Authorisation for the Control of Supply of Natural Gas Distribution Services by Powerco Ltd and Vector Ltd – Decisions Paper”; 30 October 2008; para 1123 (p259)

⁹ Costello, K.W.; “Revenue Caps or Price Caps? Robust Competition Later Means Healthy Choices Now”; Public Utility Reports; May 1996

- strong incentives for improvement in cost efficiency to increase profitability.
- For instance, it has been suggested that the potentially negative impact on supplier revenues arising from energy efficiency initiatives can be addressed through a revenue cap. However, revenue caps may in fact promote a reduction in throughput that is allocatively inefficient – and therefore carries a societal cost to the economy as a whole.
- Similarly, it has been suggested that profit motivated suppliers will be spurred by a revenue cap to achieve lower costs for the benefit of consumers and suppliers¹⁰. However, this too is not as straightforward as it first appears. AECT notes that revenue caps tend to motivate a reduction in total costs and not unit costs. This undermines incentives to innovate and improve capacity utilisation as, whilst they cause average costs to fall (which is in the interests of consumers), overall costs increase (which adversely affects a revenue capped supplier’s profitability).
- AECT considers that a weighted average price cap will ameliorate most of these concerns, and is therefore more consistent with the overall regulatory framework. In reaching this view the AECT has considered other forms of control (including an average revenue cap, and hybrids), and is able to conclude that the weighted average price cap is the most appropriate form of control.

b. Inconsistency with the DPP Purpose

- The purpose of the DPP is to provide low-cost regulation without the requirement for a formal pricing methodology. Nonetheless, pricing remains important for promoting efficiency. The Commission observes:

*“Simply because prices result in regulated revenues that provide close to a normal return over time does not mean that they will minimise the allocative inefficiencies caused by departing from marginal cost-based prices. Allocative efficiency is more dependant on individual price levels and structure than on overall revenue – consumers respond to the prices they face, rather than to the revenues that firms make.”*¹¹
- The Commission’s choice of a revenue cap for gas transmission would appear inconsistent with these sentiments. As noted

¹⁰ Profit motivated suppliers under a price cap may have weaker incentives to achieve lower costs – as they can also improve profitability by growth in throughput.

¹¹ Commerce Commission; “Reset of Default Price-Quality Path for Electricity Distribution Businesses – Discussion Paper”; 19 June 2009; para 47 (p13)

previously, a revenue cap (with an *ex post* volume adjustment mechanism) tends to deemphasise pricing.

- It is the AECT’s view that the DPP should enable pricing flexibility, which in conjunction with Information Disclosure should provide incentives for more efficient pricing. AECT continues to support the Commission’s position that compliance with a formal pricing methodology is not required under the DPP.
- A DPP served by way of weighted average price cap, will tend to provide incentives for efficient pricing – without formally requiring compliance with a particular pricing methodology. For instance, a weighted average price cap enables and incentivises suppliers to respond to actual market conditions (including consumer demand and elasticity) with cost reflective pricing and investment. With flexibility in pricing, suppliers can restructure existing prices and introduce new ones. This, as noted by the QCA¹², improves a supplier’s ability to provide services that consumers find attractive, and to match prices to marginal costs – which potentially increases both consumer surplus and producer surplus.
- In particular, it is ‘price’ rather than ‘total bill’ that most directly correlates with consumer benefit. Without understanding the interplay of demand and quality with the total bill, it is a misnomer to suggest that consumers are better off following a reduction in their bill as a consequence of a revenue cap. Under a revenue cap form of control, the possibility exists that inefficient pricing outcomes will be promoted and sustained. For example:

*“... revenue caps tend to produce higher prices than price caps or RoR regulation. Price-sensitive customers suffer because utilities become reluctant to offer discounted rates. As additional consumption increases total costs by more than total revenues, utilities find little incentive to offer prices that reflect actual market conditions.”*¹³
- AECT fully supports the Commission’s emerging view that enables non-specific pricing approaches to be accommodated under a DPP¹⁴. However, the AECT does not consider it to be the role of the DPP to use the form of control to harbour inefficient pricing, or to mitigate commercial risks that may be avoided by alternative / more efficient pricing. Further, the AECT notes that a Customised Price-quality

¹² Queensland Competition Authority; “Review of the Form of Regulation of Electricity Distribution – Discussion Paper”; October 2002; p12

¹³ Costello, K.W.; “Revenue Caps or Price Caps? Robust Competition Later Means Healthy Choices Now”; Public Utility Reports; May 1996

¹⁴ Commerce Commission; “Input Methodologies (Gas Pipeline Services) Emerging Views Paper”; 23 December 2009; p54

Path (CPP) is available to suppliers where, due to their particular circumstances, the DPP (with a price cap form of control) may not be appropriate.

- Another reason for a revenue cap to be potentially inconsistent with the DPP is that the DPP is intended to be a ‘low cost’ regulatory instrument. AECT notes that, contrary to this intent, significant costs may be incurred if a full ‘Building Blocks’ assessment is required to determine the revenue requirement for the revenue cap.
 - For gas transmission services, AECT believes that a weighted average price cap (rather than a revenue cap) is more consistent with the DPP and the associated need for suppliers to have (voluntary) regard to appropriate pricing principles. AECT also notes that consistency with the DPP is also important in achieving outcomes intended by the regulatory framework. For instance, the Commission takes the view that regulatory instruments (such as DPP regulation and Information Disclosure) should, in aggregate, lead to the regulatory objectives set out in s52A(1) (a) to (d) of the Act being achieved¹⁵.
- In summary, the AECT believes that the Commission has formed its initial views on the form of control for gas transmission after taking into account the specific commercial circumstances (particularly risks) of gas transmission when revenue is volatile and costs are fixed. AECT consider that the Commission should have first identified whether these commercial risks are universal, or whether they can be mitigated through a more efficient means (including an alternative pricing arrangement). If this is the case, then the choice as to the form of control should be unequivocal – the form of control that best achieves/incentivises the regulatory objectives. The AECT is firmly of the view that this is the weighted average price cap.

¹⁵ Commerce Commission; “Input Methodologies (Gas Pipeline Services) Emerging Views Paper”; 23 December 2009; para 22 (p9)

AECT Recommendation:

- **That the form of control for the initial DPP for GPBs should be as follows:**
- **a weighted average price cap in respect of gas distribution services;**
 - **a total revenue cap in respect of gas transmission services where the cost structure (including investment) is largely fixed and the revenue driver is variable (as typically occurs with common carriage); and**
 - **a weighted average price cap in respect of gas transmission services where the cost structure (including investment in connections and capacity) is variable and the revenue driver is manageable (as typically occurs with contract carriage).**

As a less preferred alternative, the form of control for the initial DPP should be a weighted average price cap for all GPBs.