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COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

Amendment to Gas Transmission Services DPP4 Default Price-Quality Path (Revenue Smoothing Limit Formula Correction)

Final decision reasons paper

15 September 2026

Associated documents

Publication date	Reference	Title
15 September 2026	ISSN: 1178-2560	Gas Transmission Services Default Price-Quality Path (Revenue Smoothing Limit Formula Correction) Amendment Determination 2026 [2026] NZCC 43
27 May 2026	ISBN: 978-1-997321-14-9	Gas DPP4 reset – Default price-quality paths for gas pipeline businesses from 1 October 2026 – Final decision reasons paper
27 May 2026	ISBN: 978-1-997321-15-6	Gas DPP4 reset – Default price-quality paths for gas pipeline businesses from 1 October 2026 – Final decision reasons paper Attachments A - H
27 May 2026	ISSN: 1178-2560	Gas Transmission Services Default Price-Quality Path Determination 2026 [2026] NZCC 20
26 May 2026	ISSN: 1178-2560	Gas Transmission Services Input Methodologies Amendment Determination (No.1) 2026 [2026] NZCC 18

Executive summary

1. We have identified a drafting error in the Gas Transmission Services Default Price-Quality Path Determination 2026 [2026] NZCC 20 (GTB DPP4). A “-1” term was inadvertently omitted from the definition of the CPI adjustment used in the revenue smoothing limit (RSL) in Schedule 3 of the GTB DPP4 determination.

2. This omission means the published formula does not give effect to the intended inflation adjustment in calculating the RSL. If left uncorrected, it could allow previously under-recovered revenue to be recovered more quickly than intended through the GTB wash-up mechanism. The error affects only the timing of revenue recovery and does not affect forecast allowable revenue, expenditure allowances, quality standards, or any other substantive element of GTB DPP4.

3. Our decision is to amend the GTB DPP4 determination by inserting the omitted “-1” term. This correction gives effect to the decision we intended to make and ensures the revenue smoothing limit operates correctly from the start of the regulatory period.

4. We consider this amendment to be non-material because it corrects a drafting error without altering the substantive regulatory settings established through GTB DPP4. We are satisfied that the determination may be amended without consultation under section 52Q of the Act.

The GTB revenue smoothing limit has a drafting error

Revenue smoothing limit

5. The formula error relates to the RSL. The RSL is intended to smooth year-on-year price increases faced by consumers by limiting the rate at which under-recovered allowable revenue may be recovered in future years. The RSL does not alter building blocks allowed revenue (BBAR) or the total amount of allowable revenue that may be recovered over time. Rather, it affects only the timing of recovery and operates on a net-present-value-neutral basis.

6. The RSL was introduced following the 2023 IM Review and was first implemented in the EDB DPP4 determination in 2025.[1] As part of the Gas DPP4 reset, we intended to adopt the same approach for gas transmission services. The Draft Decision Reasons Paper explained that the RSL was being ported across from the EDB regime and that the relevant implementation details would be copied from the EDB DPP determination:[2]

> This is a new feature that we are porting across from the EDB IMs as a result of the 2023 IM Review and we now need to copy the relevant implementation details into the DPP determination from the EDB DPP determination.

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1 *Electricity Distribution Services Default Price-Quality Path Determination 2025* [2024] NZCC 28.

2 Commerce Commission, Gas DPP4 reset – Default price-quality paths for gas pipeline businesses from 1 October 2026 – Draft decision reasons paper Attachments A – H, 20 Nov 2025, para A63, pg 15.

Description of the error

7. Schedule 3 of the GTB DPP4 determination is based on the corresponding specification of RSL for EDBs (Schedule 1.5 of the EDB DPP4 determination). In copying over that provision, we inadvertently omitted a "-1" term from the formula in clause 2 defining forecast CPI for revenue smoothing.

8. Schedule 3, clause 1 sets out the revenue smoothing limit as 10% above the sum of that year's forecast net allowed revenue ($FNAR_t$) and the CPI-adjusted forecast recoverable costs from the previous year (FRC_{t-1}):

$$(FNAR_t + FRC_{t-1} \times (1 + \Delta SFCPI)) \times 1.1$$

9. Here $\Delta SFCPI$ is "forecast CPI for revenue smoothing" and, from the equation above, is clearly intended to be a percentage change, so that the factor ($1 + \Delta SFCPI$) provides an inflation adjustment to the FRC_{t-1} term.

10. However, Schedule 3 clause 2 defines $\Delta SFCPI$ as:

$$\frac{FCPI_{Dec,t-1} + FCPI_{Mar,t} + FCPI_{Jun,t} + FCPI_{Sep,t}}{FCPI_{Dec,t-2} + FCPI_{Mar,t-1} + FCPI_{Jun,t-1} + FCPI_{Sep,t-1}}$$

11. Here $FCPI_{q,t}$ is the forecast CPI for the quarter year ending '*q*' and '*t*' is the year in which the pricing year ends. This formula omits a "-1" term required to convert this ratio of summed forecast CPI values to a percentage change. As a result, $\Delta SFCPI$ is incorrectly defined.

12. This omission is inconsistent with the policy intent underlying the RSL. In the Final decision reasons paper, we explained that the RSL would be set at 10% above the CPI-X rate of change and would include adjustments for CPI to preserve the intended revenue path:[3]

> Our decision is to set a 'revenue smoothing limit' at 10% above the CPI-X rate of change for the GTB and specify the revenue smoothing limit with reference to the forecast net allowable revenue for the current year and forecast recoverable costs for the previous year, with adjustments to preserve the revenue path for forecast net allowable revenue and for CPI.

13. The error is also apparent from comparison with the corresponding RSL provision in the EDB DPP4 determination from which the GTB RSL was adapted. The EDB DPP4 determination correctly defines $\Delta SFCPI$ as a percentage change by including the "−1" term omitted from the GTB DPP4 determination.[4]

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[3] Commerce Commission, Gas DPP4 reset – Default price-quality paths for gas pipeline businesses from 1 October 2026 – Final decision reasons paper Attachments A – H, 27 May 2026, para A100 pg 25.

[4] Schedule 1.5 of the *Electricity Distribution Services Default Price-Quality Path Determination 2025 (Consolidated 26 August 2026)*, pg 53.

Impact of the error

14. This drafting error affects only the operation of the RSL. It does not affect any other aspect of GTB DPP4.

15. Uncorrected, the published formula would result in a higher than intended RSL during the GTB's annual price setting for years 2 to 5 of the regulatory period. The effect is equivalent to adding an additional 1.1 x FRC_{t-1} to the RSL, increasing the limit and making it less likely to constrain pricing. This would allow a greater than intended proportion of the forecast recoverable costs balance to be recovered in earlier years, rather than being deferred for recovery in later years as intended.

16. Neither the error nor its correction affects total building blocks allowable revenue (BBAR), the GTB's starting price (ie, FNAR in year 1) or the total amount of revenue that may ultimately be recovered under the DPP. The effect is limited to the timing of recovery of the forecast recoverable costs balance. Consequently, the error and its correction affect only the profile of revenue recovery across years and are net-present-value neutral.[5]

Our decision is to correct the error

17. Our decision is to amend the GTB DPP4 determination under section 52Q of the Act to correct the error in determining DPP4 by inserting the omitted "-1" term in the formula for *ΔSFCPI* in clause 2 of Schedule 3. This amendment involves no other changes to the GTB DPP4 determination.

Reasons to make the correction

18. The amendment corrects a clear drafting error. The published formula is not consistent with our decision to introduce a 10% RSL and differs from the corresponding provision in the EDB DPP4 determination.

19. If not corrected, the published formula would apply an incorrect inflation adjustment when calculating the RSL. This could permit faster recovery of the wash-up balance of under-recovered allowable revenue than was intended under GTB DPP4.

20. Correcting the error before GTB DPP4 takes effect promotes regulatory certainty by ensuring the RSL operates as intended from the start of the regulatory period. This is consistent with section 52A(1)(a) because it preserves the investment incentives reflected in the GTB DPP4 decision while avoiding unintended revenue volatility.

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[5] Consider FNAR of $200 m, FRC of $5 m, and a CPI increase of 3%. The published formula results in the previous year's forecast recoverable costs being multiplied by a factor of (1+*ΔSFCPI*) = 2.03 rather than the intended factor of 1.03. This would increase the RSL by $5 m x 1.1 = $5.5 m. In this example, the effect is equivalent to increasing the revenue smoothing limit from 10% to about 12.7% of the sum of FNAR and CPI-adjusted FRC. If the RSL bound, this would permit up to an additional $5.5 m to be recovered in that year rather than being added to the wash-up balance for later recovery.

Legal basis for the decision and non-materiality

21. The GTB DPP4 determination was made under section 52P of the Act. Section 52Q provides that a section 52P determination may be amended and requires consultation only where the amendment is material.

22. We consider this amendment to be non-material. It consists solely of inserting a missing "-1" term into a formula to correct a drafting error. The correction gives effect to our expressed intention regarding the timing of wash-up balance recovery. It does not alter forecast allowable revenue, expenditure allowances, quality standards, or any other substantive element of GTB DPP4. Nor does it involve any reconsideration of the policy settings established through the GTB DPP4 reset.

23. Accordingly, we are satisfied that this amendment is non-material and may be made without consultation under section 52Q of the Act.