

# Amendments to input methodologies for Gas Transmission Services

Amendments related to the 2026 Gas default price-quality path

Final decision reasons paper

26 May 2026



## Associated documents

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# Chapter 1 Gas transmission business input methodologies amendments

## Purpose of this paper

- 1.1 This paper sets out and explains our decisions on the following amendments to the gas transmission business (GTB) input methodologies (IMs):
  - 1.1.1 adjusting the limit on wash-up drawdown amounts to reduce volatility of the GTB revenue path; and
  - 1.1.2 correcting errors in the drafting for the GTB revenue wash-up account balances.
- 1.2 For each of the above matters, we describe:
  - 1.2.1 the current IM requirements;
  - 1.2.2 the IM amendments; and
  - 1.2.3 how the IM amendments are likely to promote the IM amendments framework outcomes, as defined in Chapter 2.
- 1.3 The IM amendments described in this paper are made in accordance with s 52X of the Commerce Act 1986 (the Act).
- 1.4 In accordance with s 52V of the Act, on 24 November 2025 we published a Notice of Intention relating to the proposed IM amendments which are now set out in this paper as final decisions.
- 1.5 The amendments have been assessed in accordance with our decision-making framework outlined in Chapter 2.
- 1.6 We consider that the IM amendments we are making in this default price-quality path (DPP) reset process are consistent with the framework for IM amendments outside of statutory review processes.
  - 1.6.1 We consider the amendments to the specification of wash-up drawdown amounts available in any given year reduce volatility in the GTB revenue path and thus support incremental improvements to price-quality paths.
  - 1.6.2 We also consider the amendments we are making to the GTB revenue wash-up provisions correct technical errors and give effect to the policy intent in the IM review 2023.<sup>1</sup>

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<sup>1</sup> As amended in the [Gas Transmission Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023 \[2023\] NZCC 36](#)

## Materials published alongside this paper

- 1.7 Alongside this paper we published the Gas Transmission Services IMs Amendment (No.1) Determination 2026.

## Reducing the volatility of the gas transmission business revenue path

- 1.8 The two-year lag between the accrual and drawdown of a wash-up balance can cause volatility in wash-up balances.<sup>2</sup> Wash-up balances can “swing” above and below zero as the GTB attempts to draw down its available balance as fast as possible.<sup>3</sup> This volatility may flow into prices, creating swings in the prices experienced by consumers.

### Current requirements

- 1.9 As currently specified in the IMs, due to the timing of when a wash-up amount accrues to the wash-up account balance (WAB) and when the subsequent wash-up drawdown amount is made for pricing purposes, there is an unavoidable two-year lag between the initial accrual and the ability for the GTB to draw down that balance into its pricing.
- 1.10 This two-year lag between the accrual and drawdown of a wash-up balance can cause volatility in wash-up balances. Wash-up balances can “swing” above and below zero as the GTB attempts to drawdown its available balance as fast as possible. This volatility can flow into prices, creating swings in the prices experienced by consumers.

### Our decision and implementation

- 1.11 Our decision is to change the specification for the wash-up drawdown amount available, in any given year, to remove the wash-up drawdown amount already drawn down in the prior year.<sup>4</sup>
- 1.12 As part of the implementation, we have implemented the following time value of money adjustments in respect of wash-up amounts:
- 1.12.1 Time value of money is added to the WAB as the balance is rolled forward from year to year from the point at which the wash-up amount is accrued and up to the point at which the balance is drawn down (ie, the two-year period).
- 1.12.2 The amount that may be drawn down in the wash-up drawdown amount in any year is calculated as the WAB from two years prior plus the time value of money for the two-year period.

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<sup>2</sup> The wash-up account balance represents the difference between the forecast revenue and actual revenue which is eligible to be recovered and the wash-up drawdown about is the amount recovered from the wash-up account balance in any given year.

<sup>3</sup> A wash-up balance may swing below zero in instances where over-recovery of revenue outweighs under-recovery.

<sup>4</sup> Note that we are not making any amendments to the timing of disclosures.

- 1.13 These adjustments mean that a time value of money adjustment based on the midpoint estimate of weighted average cost of capital (WACC) will apply each year to any amounts sitting in the WAB and the time value of money will accumulate and be available to be drawn down to the extent that the account balance is allowed to be drawn down each pricing year.

## Consultation with stakeholders

- 1.14 We consulted with stakeholders in November 2025 on our draft decision to amend the GTB IMs. Our consultation included the publication of our draft decision reasons paper and our draft GTB IM amendments determination.<sup>5,6</sup> Although we received a submission from Firstgas on our related DPP implementation draft decision on the ‘revenue smoothing limit’ which caps the forecast revenue from prices,<sup>7,8</sup> we received no specific submissions or cross-submissions on these current IM draft decisions on the WAB and the time value of money adjustments.

## Reasons for our decision

- 1.15 We consider the changes to the prior year’s drawdown term to more accurately reflect prior years’ balances and the application of the time value of money adjustments will reduce the volatility in the WAB by allowing for a more accurate representation of the amount available for the GTB to draw down to its pricing each year. This will better promote the IM amendments framework by reducing the volatility of the wash-up.
- 1.16 The GTB has more up-to-date knowledge about amounts drawn down than is currently acknowledged by the wash-up provisions in the IMs. By using this information, we can reduce over (or under) drawdown of the WAB, which will in turn help reduce price volatility.
- 1.17 With these changes in place, it will mean that only the wash-up accrual for the year prior will not be accounted for in the current year’s WAB. This outcome will be because the necessary information for that prior year will not be available when prices are set for the current pricing year. These changes will minimise as much as possible the ‘swinging’ effect in the WAB described above.

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<sup>5</sup> [Commerce Commission, “Proposed amendments to input methodologies for Gas Transmission Services – Amendments related to the 2026 Gas default price-quality path – Draft decision reasons paper” \(27 November 2025\)](#)

<sup>6</sup> [\[DRAFT\] Gas Transmission Services Input Methodologies Amendment Determination \(No.1\) 2026](#), (27 November 2025)

<sup>7</sup> [Gas Transmission Services Input Methodologies \(IM Review 2023\) Amendment Determination 2023 \(13 December 2023\)](#), ‘revenue smoothing limit’ in clauses 1.1.4(2) and 3.1.1(1)(b).

<sup>8</sup> [Commerce Commission “Gas DPP4 reset 2026 – Default price-quality paths for gas pipeline businesses from 1 October 2026 – Draft decision reasons paper – Attachments A - H” \(27 November 2025\)](#), Attachment A, para A61 to A73

## Correcting errors in the gas transmission business revenue wash-up

- 1.18 The transitional arrangements for the revenue wash-up provided in the GTB IMs do not function as intended.
- 1.19 As currently specified in clause 3.1.4 of the GTB IMs, there is no WAB 2025 term, only a WAB 2026 term.<sup>9</sup> This means that any wash-up accrual amount accrued in 2025 cannot be drawn down in 2027 as intended and instead would have to be drawn down in 2028 along with the 2026 WAB. This three-year lag between accrual and drawdown creates additional volatility with the revenue wash-up.
- 1.20 Additionally, the time value of money adjustments used to roll-forward the wash-up balance in present value terms between DPP periods were not clearly defined, leading to potential ambiguities in what the adjustments should be.

### Current requirements

- 1.21 During the 2023 IM Review we made changes to the way the GTB revenue wash-up operates.<sup>10</sup> The intent of these changes was to improve the function of the wash-up by providing “a one big bucket approach to all mechanisms that true-up for forecast versus actual differences” and “a wash-up account that tracks accruals, balances, time value of money and drawdowns”.<sup>11</sup>
- 1.22 To implement these changes, transitional arrangements were created, which were intended to provide the GTB with the ability to draw down balances accrued in third default price-quality path (DPP3) in the first two years of forth default price-quality path (DPP4). However, the transitional arrangements provided in the 2023 IM Review did not include a WAB 2025 term.
- 1.23 This means that, as specified, any wash-up accrual that occurs in pricing year 2025 (PY2025) does not get acknowledged by the wash-up mechanism until PY2026 when it is included in the WAB for 2026. As a consequence of this, the GTB is unable to draw down the WAB for 2025 in PY2027 as originally intended.

### Our decision and implementation

- 1.24 Our decision is to amend clause 3.1.4 of the GTB IMs to include the WAB 2025 term. Including this term allows the GTB to draw down its accrued DPP3 wash-up balance in PY2027 as intended.

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<sup>9</sup> Gas Transmission Services Input Methodologies Determination 2012 [2012] NZCC 28.

<sup>10</sup> [Commerce Commission "Input methodologies review 2023 - Final decision - Financing and incentivising efficient expenditure during the energy transition topic paper" \(13 December 2023\)](#), Attachment D.

<sup>11</sup> [Ibid](#), paragraph D87.

- 1.25 Alongside these changes and as part of the implementation of our decision, we are adding additional subclauses in clause 3.1.4 of the GTB IMs consolidating and explicitly stating which cost of capital estimates apply when making time value of money adjustments.

## Consultation with stakeholders

- 1.26 We consulted with stakeholders in November 2025 on our proposed changes. Our consultation included the publication of our draft decision reasons paper and our draft GTB IM amendments determination.<sup>12,13</sup> We received no submissions or cross-submissions on our draft decision.

## Reasons for our decision

- 1.27 When specifying the transitional arrangements in the 2023 IM Review, our intent was to provide the GTB with the ability to draw down wash-up balances accrued in PY2025 and PY2026 with a two-year lag.
- 1.28 As noted, the lack of a WAB 2025 term in the provisions prevents the GTB drawing down any wash-up balance accrued in 2025 until PY2028, rather than PY2027 as intended. This change will promote the IM amendments framework outcomes (particularly the s 52A purpose) by correcting this error and restoring the original policy intent for the timing of the wash-up drawdown amount.
- 1.29 Our decision to add a clause specifying the cost of capital estimate to be used in making the time value of money adjustment will promote the IM amendments framework outcomes (particularly the s 52R IM purpose) by improving certainty.

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<sup>12</sup> [Commerce Commission, “Proposed amendments to input methodologies for Gas Transmission Services – Amendments related to the 2026 Gas default price-quality path – Draft decision reasons paper” \(27 November 2025\).](#)

<sup>13</sup> [\[DRAFT\] Gas Transmission Services Input Methodologies Amendment Determination \(No.1\) 2026, \(27 November 2025\).](#)

## Chapter 2 Decision-making framework

### Purpose and structure of this chapter

- 2.1 This chapter sets out the framework we have applied in reaching our GTB IM amendment decisions. In doing so, it explains:
  - 2.1.1 our framework for considering potential IM amendments, which is relevant in considering what IMs may be appropriate to amend outside of the statutory IM review cycle under s 52Y of the Act; and
  - 2.1.2 the decision-making framework we have applied in making the IM amendments.

### Framework for considering the scope of the input methodologies amendments

- 2.2 Our framework considers:
  - 2.2.1 the statutory context;
  - 2.2.2 our specific powers to amend IMs; and
  - 2.2.3 what we must take account of when amending IMs outside of the statutory IM review cycle under s 52Y of the Act.

### Statutory context

- 2.3 When considering amendments to IMs, we must consider the purpose of IMs and the purpose of Part 4 of the Act. This section discusses the tensions between making changes to improve the regime and the certainty intended by the IMs.
- 2.4 The purpose of IMs, set out in s 52R of the Act, is to promote certainty for suppliers and consumers in relation to the rules, requirements and processes applying to the regulation, or proposed regulation of goods or services under Part 4. To that end, section 52T(2)(a) requires all IMs, as far as is reasonably practicable, to set out relevant matters in sufficient detail so that each affected supplier is reasonably able to estimate the material effects of the methodology on the supplier. In that way, the IMs constrain our evaluative judgements in subsequent regulatory decisions and increase predictability.<sup>14</sup>

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<sup>14</sup> *Wellington International Airport Ltd & others v Commerce Commission* [2013] NZHC 3289 at [213].

- 2.5 However, some uncertainty remains inevitable.<sup>15</sup> As the Court of Appeal observed (in relation to a judicial review against decisions made in the IMs under Part 4) “certainty is a relative rather than an absolute value”,<sup>16</sup> and “there is a continuum between complete certainty at one end and complete flexibility at the other”.<sup>17</sup>
- 2.6 The s 52R purpose is primarily promoted by having the rules, processes and requirements set upfront prior to being applied by regulated suppliers or us.
- 2.7 However, as recognised in ss 52X and 52Y, these rules, processes and requirements may change over time.
- 2.8 The power to amend an IM must be used to promote the policy and objectives of Part 4 of the Act as ascertained by reading it as a whole. It is clear that Parliament saw the promotion of certainty as being important to the achievement of the purposes of price-quality regulation. While this is to an extent implicitly inherent in s 52A (for example, providing suppliers with incentives to invest in accordance with s 52A(1)(a)), it is also expressed in s 52R in relation to the purpose of IMs, but also in other aspects of the regime, such as the restrictions on reopening DPPs during their regulatory periods.<sup>18</sup>
- 2.9 When considering IM amendments, we must therefore be mindful that this may have a detrimental effect on:
- 2.9.1 the role that predictability plays in providing suppliers with incentives to invest in accordance with s 52A(1)(a); and
- 2.9.2 the role that the IMs play in promoting certainty for suppliers and consumers in relation to the rules, requirements, and processes in advance of being applied by us and suppliers in setting the DPP or customised price-quality path (CPP), as applicable.
- 2.10 At times there will be tension between making changes to improve the regime and better promote the s 52A purpose on the one hand, and certainty on the other.
- 2.11 While we will have regard to the s 52R purpose (and the other indications of the importance of promoting certainty), ultimately, we must nevertheless make decisions that we consider promote the s 52A purpose.
- 2.12 Section 52A governs all of our decision-making processes under Part 4, including our IM decisions. The other purpose statements within Part 4 are relevant matters, but they should be applied consistently with s 52A.<sup>19</sup>

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<sup>15</sup> *Wellington International Airport Ltd & others v Commerce Commission* [2013] NZHC 3289 at [214].

<sup>16</sup> *Commerce Commission v Vector Ltd* [2012] NZCA 220 [2012] 2 NZLR 525 at [34].

<sup>17</sup> *Ibid* at [60].

<sup>18</sup> For further discussion see *Wellington International Airport Ltd & others v Commerce Commission* [2013] NZHC 3289 at [213]-[221].

<sup>19</sup> We note that the High Court, in *Wellington International Airport Ltd & Ors v Commerce Commission* considered that the purpose of IMs, set out in s 52R, is “conceptually subordinate” to the purpose of Part 4 as set out in s 52A when applying the “materially better” test. See *Wellington International Airport Ltd & others v Commerce Commission* [2013] NZHC 3289 at [165].

- 2.13 When making our decisions we must only give effect to these other purposes to the extent that doing so does not detract from our overriding obligation to promote the purpose set out in s 52A.
- 2.14 Therefore, where the promotion of s 52A requires amendment to an IM, s 52R does not prevent us from making a change that is consistent with s 52A.

## **Amendments inside and outside of the input methodologies statutory review cycle**

- 2.15 This section considers the circumstances in which IMs may be amended and what must be taken into account when making amendments to IMs outside the statutory review cycle.
- 2.16 All IMs must be reviewed at least once every seven years, as mandated by s 52Y.<sup>20</sup> This process is key to delivering on the s 52R certainty purpose of IMs, while at the same time allowing the regime to mature and evolve in response to changing circumstances.
- 2.17 Given the certainty purpose of the IMs and the scheme set out in the Act to promote this purpose, we must carefully assess what amendments are appropriate to consider outside the statutory IM review cycle. As noted previously, the predictability the IMs provide is key to promoting the s 52A purpose and, in particular, incentives to invest as required under s 52A(1)(a).
- 2.18 On the other hand, it is important that the IMs are fit-for-purpose going into a price-quality path reset, particularly as under s 53ZB(1) IM amendments made after a price-quality path is determined (other than in limited circumstances) will not affect the price-quality path until the next reset.<sup>21</sup>
- 2.19 Leading up to a price-quality path reset, we may therefore need to consider which topics are appropriate to consult on as potential s 52X amendments in order to identify changes to the IMs that are necessary to ensure that the DPPs are workable and effective in promoting the outcomes in s 52A.

## **Amendments outside of the statutory input methodologies review cycle**

- 2.20 We generally focus on two types of amendments outside of the statutory IM review cycle:
- 2.20.1 those that support incremental improvements to price-quality paths; and

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<sup>20</sup> The next statutory Part 4 IM review is due to be completed by 2030.

<sup>21</sup> Under s 53ZB(2) a price-quality path must be reset by us with a new price-quality path made by amending the price-quality path determination if: an IM changes as a result of an appeal under s 52Z; and that changed IM would have resulted in a materially different price-quality path being set had the changed IM applied at the time the price-quality path was set.

- 2.20.2 those that enhance certainty about – or correct technical errors in – the existing IMs.
- 2.21 We do not generally consider it appropriate to consider 'fundamental' changes outside of the statutory IM review cycle. Fundamental IMs are generally those that define the fundamental building blocks used to set price-quality paths (listed in s 52T(1)(a)), and that are central to defining the balance of risk and benefits between suppliers and consumers.
- 2.22 However, we can and will reconsider fundamental building blocks IMs where there is a compelling and urgent rationale for doing so.<sup>22</sup>
- 2.23 In this case, we consider the amendments to the GTB IMs relate to incremental improvements to the GTB price-quality path and improve certainty or correct errors in the existing IMs.

## **The decision-making framework we have applied**

- 2.24 In deciding whether to make IM amendments as part of the Gas DPP 2026 price-quality path setting processes, we used a decision-making framework that we have developed over time to support our decision-making under Part 4 of the Act.<sup>23</sup> This has been consulted on and used as part of prior processes, and it helps provide consistency and transparency in our decision-making.
- 2.25 Specifically, in respect of each IM amendment we considered whether it would:
- 2.25.1 promote the Part 4 purpose in s 52A of the Act more effectively;
  - 2.25.2 promote the IMs purpose in s 52R of the Act more effectively (without detrimentally affecting the promotion of the s 52A purpose); and/or
  - 2.25.3 significantly reduce compliance costs, other regulatory costs, or complexity (without detrimentally affecting the promotion of the s 52A purpose).
- 2.26 We also took into account the following where they were relevant and where taking them into account did not compromise our achievement of the s 52A purpose of Part 4:
- 2.26.1 whether there were alternative ways to address the identified issues without changing the IMs;

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<sup>22</sup> An example of this was the reconsideration of the Part 4 WACC percentile decision in 2014. The compelling reason was criticism by the High Court of this decision in the IM merits appeal process, and the urgency was due to the upcoming default price-quality path and individual price-quality resets for electricity distribution businesses and Transpower New Zealand Limited.

<sup>23</sup> See [Commerce Commission "Part 4 Input Methodologies Review 2023 Framework paper" \(13 October 2022\)](#), para X20-X21

2.26.2 the permissive considerations under s 5ZN of the Climate Change Response Act 2002;<sup>24</sup> and

2.26.3 other Part 4 provisions, namely:

2.26.3.1 the purpose of information disclosure (s 53A); and

2.26.3.2 the purpose of default/customised price-quality regulation (DPP/CPP regulation) (s 53K).

2.27 We refer to the outcomes specified in paragraph 2.24 as the ‘IM amendments framework outcomes’ in this paper.

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<sup>24</sup> [Commerce Commission, “Default price-quality paths for gas pipeline businesses from 1 October 2022 – Final reasons paper” \(31 May 2022\)](#) (Gas DPP3 final decision), at paras 2.24-2.25; [Note of clarification – our Part 4 Input Methodologies Review 2023 Framework paper \(21 December 2022\)](#).