COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

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Proposed amendments to input methodologies for Gas Distribution Services

Amendments related to the 2026 Gas default price-quality path

Draft decision reasons paper

2 April 2026

Associated documents

Publication date	Reference	Title
2 April 2026	ISBN 978-1-991414-91-5	[DRAFT – option 1] Gas Distribution Services Input Methodologies Amendment (No.1) Determination 2026 – hybrid mechanism (draft decision)
2 April 2026	ISBN 978-1-991414-92-2	[DRAFT – option 2] Gas Distribution Services Input Methodologies Amendment (No.1) Determination 2026 reopener (alternative option)
2 April 2026	ISBN 978-1-991414-96-0	Revised Draft GDB Default Price-Quality Path Determination Changes related to proposed amendments to input methodologies for gas distribution services – Draft decision reasons paper
2 April 2026	ISBN 978-1-991414-93-9	[DRAFT – option 1] Gas Distribution Services Default Price-Quality Path Determination 2026 – hybrid mechanism (draft decision)
2 April 2026	ISBN 978-1-991414-94-6	[DRAFT – option 2] Gas Distribution Services Default Price-Quality Path Determination 2026 – reopener (alternative option)
27 November 2025	ISBN 978-1-991414-36-6	Gas DPP4 - Default price-quality paths for gas pipeline businesses from 1 October 2026 - Draft decision reasons paper
28 September 2012	ISSN 1178-2560	Gas Distribution Services Input Methodologies Determination 2012 [2012] NZCC 27 ('GDB principal determination')

Contents

Chapter 1 Overview of this consultation

Purpose of this paper

1.1 This paper is part of an additional consultation on our gas default price-quality path (DPP) draft decision and sets out our draft decision to include a demand variation revenue adjustment mechanism for gas distribution businesses (GDBs).

1.2 This paper sets out proposed amendments to the gas distribution services input methodologies (IMs) related to introducing this mechanism. Our draft decision is that the technical specification of the mechanism be included in the GDB DPP determination. That requires a separate DPP draft decisions reasons paper, published alongside this paper.[1]

1.3 This paper sets out our draft decisions and reasons relating to:

1.3.1 the issue we are addressing;

1.3.2 the current IM requirements;

1.3.3 an assessment of options to address the issue; and

1.3.4 the proposed draft IM amendments.

1.4 We consider that the IM amendments in our draft decision are likely to better promote the Part 4 Purpose of the Commerce Act 1986 (the Act), being the long-term benefit of consumers set out in s 52A, and are consistent with our framework for IM amendments outside of statutory IM review processes.

This is an additional consultation as part of the gas DPP4 reset

1.5 This paper and the materials published with it constitute an additional consultation ahead of our gas DPP4 final decision in May 2026. This departure from the originally contemplated process follows submissions and cross-submissions received on our DPP4 draft decision (27 November 2025).

1.6 This consultation includes two reasons papers: this paper setting out our draft decisions on IMs amendments, and a separate paper setting out draft decisions to revise the GDB DPP4 draft determination.

1.7 In plain language, this consultation revises our DPP4 draft decision to include a price path mechanism for GDBs that is intended to mitigate risks to the long-term interests of consumers from an increased risk of large demand shocks in the DPP4 period.

[1] Revised Draft GDB Default Price-Quality Path Determination Changes related to proposed amendments to input methodologies for gas distribution services (2 April 2026)

1.8 This consultation does not include any proposed changes to the gas transmission services IMs or gas transmission services DPP4 draft determination.

Materials published alongside this paper

1.9 We have published as part of this consultation package the following documents:

1.9.1 Proposed amendments to input methodologies for Gas Distribution Services Amendments related to the 2026 Gas default price-quality path DPP4 - Draft decision reasons paper (this paper);

1.9.2 [DRAFT – option 1] Gas Distribution Services Input Methodologies Amendment (No.1) Determination 2026,[2] hybrid mechanism (draft decision);

1.9.3 [DRAFT – option 2] Gas Distribution Services Input Methodologies Amendment (No.1) Determination 2026,[3] reopener (alternative option);

1.9.4 Revised Draft GDB Default Price-Quality Path Determination Changes related to proposed amendments to input methodologies for gas distribution services – draft decision reasons paper;[4]

1.9.5 [DRAFT – option 1] Gas Distribution Services Default Price-Quality Path Determination 2026,[5] hybrid mechanism (draft decision); and

1.9.6 [DRAFT – option 2] Gas Distribution Services Default Price-Quality Path Determination 2026,[6] reopener (alternative option).

Process and how to make a submission

1.10 We are proposing the draft amendments to the GDB IMs described in this paper in accordance with s 52X of the Act.

1.11 In accordance with s 52V of the Act, we published an updated Notice of Intention on 31 March 2026, relating to the proposed IM amendments set out in this paper.

[2] [DRAFT – option 1] Gas Distribution Services Input Methodologies Amendment (No.1) Determination 2026 – hybrid mechanism (draft decision) (2 April 2026)
[3] [DRAFT – option 2] Gas Distribution Services Input Methodologies Amendment (No.1) Determination 2026 reopener (alternative option) (2 April 2026)
[4] Revised Draft GDB Default Price-Quality Path Determination Changes related to proposed amendments to input methodologies for gas distribution services (2 April 2026)
[5] [DRAFT – option 1] Gas Distribution Services Default Price-Quality Path Determination 2026 – hybrid mechanism (draft decision) (2 April 2026)
[6] [DRAFT – option 2] Gas Distribution Services Default Price-Quality Path Determination 2026 – reopener (alternative option) (2 April 2026)

How you can provide your views

1.12 We welcome your views on the draft decisions set out in this paper and in the accompanying revised DPP4 determination paper. A single submission may address both papers.

1.13 Please send a submission and/or cross-submission in MS Word or pdf document format with your views to:

1.13.1 Matthew Clark, Transpower and Gas Manager c/o infrastructure.regulation@comcom.govt.nz

1.14 Please include "Gas DPP4 2026 – Hybrid mechanism and IM amendments" in the subject line of your email.

1.14.1 Submissions are due by **5pm Tuesday 21 April 2026**. We will publish them on our website shortly after.

1.14.2 Cross-submissions will be due by **5pm Wednesday 29 April 2026**.

1.15 We prefer submissions and cross-submissions to be sent to us in both a format suitable for word processing (such as a Microsoft Word document) as well as a 'locked' format (such as a PDF) for publication on our website.

1.16 If it is necessary to include confidential material in a submission, the information should be clearly marked, with reasons why the information is confidential. We request that you provide multiple versions of your submission if it contains confidential information or if you wish for the published electronic copies to be 'locked'. This is because we intend to publish all submissions on our website. Where relevant, please provide both an 'unlocked' electronic copy of your submission, and a clearly labelled 'public' version. The responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.

Chapter 2 Our draft decision

Summary of the issue and our draft decision

2.1 Our draft decision is to introduce a demand variation revenue adjustment mechanism, also referred to as a hybrid mechanism, through targeted out of cycle amendments to the gas distribution services input methodologies (IMs), with its technical specification set out in a revised GDB DPP4 draft determination.

2.2 While our long-term outlook for the gas sector remains one of gradual decline, we consider that short-term uncertainty and the likelihood of abrupt supply or demand changes within the DPP4 period have increased relative to previous resets.

2.3 Under the current IMs, GDBs are subject to a weighted average price cap (WAPC) under which they bear all in-period demand-variation risk. This allocation remains appropriate for normal forecasting error and moderate demand fluctuations. However, large and unforeseen demand shocks could exceed what either GDBs or consumers are reasonably able to manage under existing arrangements, and give rise to consumer harm.[7] Such harms include risks to the continued provision of safe and reliable services during and beyond the DPP4 regulatory period, weakened incentives to invest or maintain assets, and exposure to larger price corrections at subsequent resets.

2.4 We have assessed whether existing tools are sufficient to address these risks. GDBs have the ability to respond to demand risk through expenditure management, pricing, commercial arrangements, and the option to apply for a customised price-quality path (CPP). These tools have limits in their ability to address large, sudden demand shocks in-period, or in the case of a CPP, are a costly means of addressing volume shocks.

2.5 Against this background, we assessed three options: maintaining the status quo, which includes the option to apply for a CPP; introducing a revenue-shock reopener; and introducing a hybrid demand variation revenue adjustment mechanism (hybrid mechanism). Each option involves trade-offs between risk allocation, certainty, regulatory burden, costs and consumer outcomes.

[7] Demand shock here refers to a sudden change in conveyed volumes and/or numbers of consumer connections. This could be positive or negative, and could result from changes in supply or underlying intrinsic demand.

2.6 On balance, we consider that the hybrid mechanism provides the most proportionate and targeted response. It preserves the core features and incentives of the WAPC for normal and moderate demand variations, while providing limited, predefined in-period risk sharing between GDBs and consumers for large, unforeseen shocks. This reduces the risk of service degradation and sharp price adjustments, while maintaining incentives for efficient operation and investment. It would also, to a degree, increase certainty for consumers and suppliers about how volume risks are allocated. There is uncertainty for consumers under the status quo. For a volume shock under the current IMs, the consumer impact could be no price change under a WAPC if a GDB does not seek a CPP, or the bringing forward of up to the full price impact under a CPP (including the cost of the CPP).

2.7 As detailed in the section, '*The hybrid mechanism better promotes the s 52A purpose*' below, we consider that the hybrid mechanism better promotes the Part 4 purpose in s 52A than the alternatives. In particular, it supports the continued provision of safe and reliable services under s 52A(1)(b), promotes efficient investment and expenditure in the long-term interests of consumers under s 52A(1)(a) and (c), and limits the potential for excessive profitability in the event of large positive demand shocks under s 52A(1)(d).

Current regulatory requirements

2.8 Under the current IMs, the form of control for GDBs is a WAPC and the form of control for the GTB is a revenue cap. We reviewed the form of control for GDBs in the 2023 IM Review.[8] We are not proposing to revisit this now.

2.9 Ahead of each pricing year, GDBs set their prices to comply with the WAPC, which requires the notional revenue not to exceed an allowed notional revenue. The notional revenue is calculated from the prices the supplier has set for that year, and the quantities from two years prior to the pricing year (which are the latest available actual quantities). The allowed notional revenue each year is adjusted for CPI outturn and accounts for recoverable costs and pass through charges.

2.10 Under this approach, GDBs are exposed to demand risk and upside. If actual demand falls below the demand forecasts used to set the price path, the GDBs will not be able to recover the maximum revenues expected when the price path was set. Conversely, if demand is above forecast, the GDBs stand to benefit.

2.11 In the 2023 IM Review, we considered whether a WAPC remained the appropriate form of control in the context of the expected decline in demand for gas in the longer term.

2.12 Our 2023 IM decision was to retain the WAPC form of control for GDBs:[9]

[8] IM Review Risks and Incentives topic paper (13 December 2023), Ch. 3, paras 3.448 to 3.517.
[9] IM Review Risks and Incentives topic paper(13 December 2023), pg. 13

Compared to the alternative of a revenue cap form of control, a WAPC better promotes s 52A(1)(a) and (b) by providing suppliers with a stronger incentive to tailor expenditure to changes in demand, such that consumers that value gas supply enough can continue to benefit from it.

2.13 In our 2023 IM Review we considered that our risk allocation principle was relevant, under which we ideally allocate risks to suppliers or consumers depending on who is best placed to manage them. We considered that there was not a risk of GDBs not investing in the network as a result of our choice of form of control.[10]

Draft decision and implementation

2.14 Our draft decision is to introduce a demand variation revenue adjustment mechanism, referred to by some submitters as a hybrid price path mechanism or simply 'hybrid mechanism' and to amend the IM definition of 'recoverable cost' to include amounts arising from its application.

2.15 We have published for consultation draft IM amendments and a revised draft GDB DPP4 determination setting out our draft decision on the specification of this mechanism. In order to be open to submissions on an alternative option, we have also published versions of these documents for a revenue shock reopener, discussed below.

2.16 The key features of the hybrid mechanism we propose are:

2.16.1 GDBs would continue to be subject to the current WAPC;

2.16.2 GDBs would continue to bear all demand risk for variations in actual revenue within +/- 15% of CPI-adjusted forecast revenue, assessed on an annual basis; and

2.16.3 the revenue impact of revenue shocks exceeding this threshold, in either a positive or negative sense, would be shared equally between GDBs and consumers.

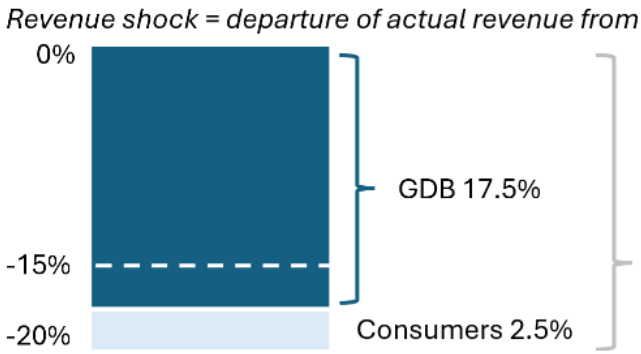
2.17 Our full proposed specification of this mechanism is set out in the accompanying GDB DPP4 draft determination and discussed in the accompanying DPP reasons paper.

2.18 The consumer share of any revenue impact beyond the threshold in either direction would be treated as a recoverable cost and would be incorporated in the next price setting process. It would then flow into consumer prices in the following pricing year, ie, two years after the assessment period in which the revenue shock occurred.

[10] IM Review Risks and Incentives topic paper (13 December 2023), Ch. 3, para. 3.469.

2.19 Figure 2.1 illustrates in a simple way the example of a 20% revenue shock, and the shared impact of 15%, 20% and 25% shocks. The GDB bears all of the risk up until the 15% threshold, and the GDB and consumers equally share the incremental impact above the threshold. The consumer impact of a negative revenue shock of 20% in year 't' would result in a recoverable cost leading to a 2.5% increase in revenue in year 't+2'. If year 't+2' fell outside the DPP4 period, the recoverable cost would be incorporated in the price-quality path that applied at that point.

Figure 2.1 Key features of demand variation revenue adjustment mechanism in our draft decision, with 15% threshold and 50/50 sharing fraction above this.



Revenue Shock	GDB Share (t)	Consumer share (t+2)
15%	15%	-
20%	17.5%	2.5%
25%	20%	5%

Reasons for our draft decision

2.20 Our draft decision has been made in accordance with the decision making framework set out in Chapter 3. We have considered submissions and cross-submissions on the DPP4 draft decision, the broader context of increased sector uncertainty outlined in our DPP4 draft decision reasons paper as well as subsequent developments in sector outlook.

2.21 Our long-term outlook for the gas sector is a long-term decline in supply, volumes conveyed and the number of gas consumers. Within this view we expect ongoing demand through the next 20 or more years from residential consumers, who in aggregate represent less than 5% of current demand by volume, but 90% by number.

2.22 The trajectory of this overall decline is unlikely to be smooth and may include large and/or sudden changes in supply and demand within the DPP4 period. Additional and complex uncertainties on the outlook for demand and supply on the distribution networks (both positive and negative) also arise around the Government's decisions on liquefied natural gas (LNG), and impacts of the Middle East conflict. As such, our draft decision is that the long-term interests of consumers are better served by the addition of a risk sharing mechanism for qualifying shocks, for which the only mechanism currently available to address such shocks is a supplier-driven CPP.

2.23 Our draft decision is based on the view that there is an increased likelihood within the DPP4 period of large variations (ie, beyond normal forecast error) in the quantities used in setting the price path due to shocks in supply and/or demand. This risk has increased sufficiently so that it is prudent to put in place a mechanism for DPP4 to mitigate the potentially harmful impacts of this risk on consumers.

2.24 Under the current settings, the impacts on the long-term interests of consumers of a large negative revenue shock to GDBs include the potential direct effects if an event occurred as well as the indirect effects of leaving the risks to GDBs unmitigated.

2.25 If a large negative revenue shock event did occur, the risks to consumers include:

2.25.1 underservicing of remaining customers, for example through lower service levels or potential network re-sizing, as GDBs respond to manage expenditure; and

2.25.2 a risk of exposure to large price shocks when demand is corrected for at the next price-quality path reset, being either the next DPP reset or a CPP.

2.26 In addition, suppliers retain the ability to apply for a CPP in response to an adverse volume shock. This would provide the opportunity for the GDBs to seek an adjustment for up to 100% of the volume reduction. CPPs are relatively costly undertakings, and the IMs provide that the costs of preparing and processing a CPP can be recovered through consumer prices as a recoverable cost.

2.27 For very large volume shocks, the impacts might not be well managed by one party and we would expect suppliers to apply for a CPP as we would expect significant adjustments to their business models and plans. For more moderate volume shocks, a GDB may still be incentivised to apply for a CPP to share the impacts with consumers, with the costs recovered from consumers.

2.28 The hybrid mechanism we propose here is intended to better address this type of circumstance, where it may be more appropriate to share the impacts of a volume shock rather than them potentially falling entirely on consumers (by the GDB seeking a CPP), or on a supplier (from not seeking a CPP).

2.29 We consider a large positive revenue shock to be less likely in DPP4, but if one did occur then consumers would not currently share the upside, with the risk that the GDB would not be appropriately limited in its ability to earn excessive profit, per s 52A(1)(d). If this occurred, consumers may face prices that do not reflect the benefits of higher volumes.

2.30 Even without an event occurring, the unmitigated risk of full exposure to a revenue shock event occurring could increase GDB and investor risk assessments. This could potentially lower incentives to invest to provide an ongoing service at the level that consumers demand per s 52A(1)(b). In the long-term, this could harm consumers through a loss of service or lowering of service levels.

2.31 Our draft decision to introduce a demand variation revenue adjustment mechanism:

2.31.1 better promotes the s 52A purpose by addressing these risks better than the status quo, or the alternative we considered of a revenue shock reopener;

2.31.2 would be incorporated directly into existing compliance processes, without additional requirements on GDBs of a CPP under the status quo, or a reopener;

2.31.3 appropriately balances the risks above to consumers' long-term interest from not mitigating the risks above, with the potential impact on consumers should the hybrid mechanism apply to a large negative revenue shock event; and

2.31.4 preserves the risk allocation contemplated by the WAPC, leaving demand risk for normal demand variations, and a significant proportion of the overall risk for revenue shocks with the GDBs.

2.32 The +/- 15% threshold and 50/50 sharing ratio in our draft decision strike an appropriate balance. This threshold is reasonably high, with the intention that the mechanism is only triggered by shocks of the type that neither GDBs nor consumers would be well placed to manage. The 50/50 sharing ratio ensures that both parties bear an even portion of the incremental impact above the level the GDB alone is exposed to. This reflects that both benefit from stable service provision and price paths.

The issue to address within DPP4

2.33 New Zealand's gas sector is entering a period where structural decline is widely expected, although the path of that decline remains uncertain. With some producing fields and large users approaching renewal or investment decision points, the system is exposed to abrupt shifts in supply and demand. Potential changes in government policy relating to exploration, LNG infrastructure, the wider energy system and emissions settings add further uncertainty. While new discoveries cannot be ruled out, the evidence points to conveyed gas volumes falling over time, and the pattern of that decline is unlikely to be smooth.

2.34 This potential for short-term uncertainty and volatility in the gas sector during the coming regulatory period is an increase compared to previous DPP resets, and the 2023 IM Review. A large unforeseen demand shock could create outcomes that neither suppliers nor consumers can reasonably manage under the current settings, and give rise to a heightened level of the risks outlined in the preceding section.

2.35 Some submitters on our DPP4 draft decision highlighted that the scale and nature of demand volatility within DPP4 may exceed what GDBs can reasonably forecast or manage using existing tools. Several submitters noted that if demand were to fall sharply and unexpectedly, for example due to supply constraints, policy changes, or major industrial disconnections, then GDBs could face a significant revenue shortfall within the regulatory period. They considered that this could adversely impact the ability of GDBs to maintain service quality for remaining consumers.

2.36 Sector developments since our DPP4 draft decision was published include that Methanex, the largest gas consumer and largest provider of flex over a range of timescales, has written down the value of its New Zealand operation to zero.[11]

2.37 The 2026 Gas Supply & Demand Study prepared for the Gas Industry Co (GIC) by PwC assumes that Methanex and major gas user Ballance Agri Nutrients will both exit in 2027. The impact of such closures on gas distribution network demand will depend on, amongst other factors, their timing relative to any changes in gas production and LNG availability.

2.38 The Government is progressing work towards an LNG import facility, which may provide an additional supply option as domestic production tightens. The Government has shortlisted proposals and is progressing to commercial contracting. The facility could be operational by 2027 or early 2028.[12]

2.39 Overall, we consider that, against our expectation of longer term decline in gas usage, there is an increased likelihood within the DPP4 period of large variations or shocks in supply and/or demand. We are not suggesting such shocks are probable, but rather they are sufficiently increased in likelihood that it is prudent to assess potential impacts and mitigations under the current regime settings.

What we heard in submissions on our DPP4 draft decision

2.40 Submissions on our DPP4 draft decision emphasised that significant uncertainty exists in the gas sector, which GDBs cannot forecast or manage using existing tools. GDBs were concerned that large variations from forecast demand within the DPP4 period could lead to under-recovery of in-period revenue.[13]

2.41 Several submitters noted that if demand were to fall sharply and unexpectedly, due for example, to supply constraints, policy changes, or major industrial disconnections, then GDBs may face a significant revenue shortfall within the regulatory period. This could adversely impact their ability to maintain service quality for remaining consumers, could lead to consumer harm through reduced incentives to invest and through price spikes at the following reset. We summarise submissions on this topic below.

2.42 In its submission, Powerco:[14]

2.42.1 accepted volume risk being placed on GDBs under a WAPC; but submitted that the context for DPP4 is "different from the DPP3 context, which assumed moderate demand growth in aggregate, yet the tools and mechanisms available to GDBs to manage this risk do not reflect the difference between DPP3 and DPP4";

[11] Methanex 2025 Annual Report (3 March 2026) pg. 38
[12] https://www.beehive.govt.nz/release/delivering-lng-support-energy-security (9 February 2026)
[13] Submissions and cross-submissions can be found on our website, 2026 Gas default price-quality path
[14] Powerco, Submission on Gas DPP4 Draft decision (22 January 2026)

2.42.2 noted that relying on uncertainty mechanisms is common in other jurisdictions. (Although the reopeners it referenced relate to uncertain expenditure rather than demand shocks); and

2.42.3 submitted that if demand falls significantly due to a change event such as change in government policy this could lead to material reductions in revenue that "*could risk underservicing remaining customers and exposing them to price shocks when demand is corrected for in DPP5. Being able to reflect this shift and smooth prices within the period creates more stable prices for customers which the Commission acknowledges is a factor consumers tend to value.*"

2.43 Vector submitted:[15]

2.43.1 in favour of a change to the form of control for GDBs to a revenue cap, supported by expert reports analysing why a change to the revenue cap should be made (see submissions by Oxera and HoustonKemp);[16] but

2.43.2 was open to a hybrid mechanism that would partially shift demand variation risks to consumers, and Frontier Economics, on behalf of Vector, advocated for a price-quality path reopener or a hybrid price path mechanism as an alternative to a change in the form of control.[17]

2.44 Entrust, the controlling shareholder of Vector, submitted that a move to a revenue cap is justifiable given volume and connection forecasting risks.[18]

2.45 Firstgas did not comment on this issue in their submission or cross submission but were party to joint submissions including the joint submission from Vector, Powerco and Firstgas that:[19]

2.45.1 noted that the draft decision did not introduce any uncertainty mechanisms to mitigate the risk that actual demand over the DPP4 period differs from that assumed;

2.45.2 argued that a demand risk sharing mechanism, could provide a pragmatic way to manage this risk by balancing the objectives promoted by price caps and revenue caps; and

2.45.3 submitted that a hybrid mechanism could be put in place with settings that initially saw GDBs bearing most of the risk, but which could be adjusted at later resets.

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[15] Vector, Submission on Gas DPP4 draft decision (22 January 2026)
[16] Oxera, Suitability of a revenue cap for GDBs under DPP4 (20 January 2026) and HoustonKemp, Form of control for gas distribution businesses in New Zealand (20 January 2026).
[17] Frontier Economics (prepared for Vector) - Key issues in Gas DPP4 Draft Decision (21 January 2026)
[18] Entrust, Submission on Gas DPP4 Draft decision (21 January 2026)
[19] Firstgas, Powerco & Vector, Letter to the Commerce Commission – Submission on the Draft DPP4 decision (22 January 2026)

2.46 In its cross submission, Greymouth Gas opposed a hybrid price path mechanism which it submitted would mean consumers would pay for 'transport netbacks' and consider that it makes "*no sense to replicate this dynamic for GDBs and worsen cost increases for consumers*".[20]

2.47 The Major Gas Users' Group (MGUG) in its cross submission:[21]

2.47.1 supported retaining the WAPC as the appropriate form of control for GDBs in DPP4, opposing Vector's proposals for a revenue cap or hybrid mechanism,

2.47.2 argued that the WAPC appropriately places volume risk on suppliers, noting that commercial choices are available to GDBs to manage this risk, and that Powerco accepts this risk allocation; and

2.47.3 submitted that Vector's advocacy for a revenue cap or hybrid approach reflects its own strategic incentives rather than sector-wide considerations.

Assessment that existing tools may not be sufficient

2.48 We have considered whether the tools currently available to GDBs remain sufficient to manage our updated view on uncertainty and associated risks, or whether an additional mechanism is required to address the adverse consequences of a significant demand shock on consumers.

2.49 Currently GDBs have some ability to manage demand-related risks through expenditure reprioritisation, pricing and commercial arrangements with customers and the option to apply for a CPP. However, as several submitters have noted, these tools have limits particularly where demand changes are large, sudden, or driven by factors outside the control of the GDB.

2.50 As GDBs reduce expenditure or adjust pricing to respond to volatility, the likelihood increases that they may be unable to fully absorb or mitigate the effects of a significant demand shock. In such circumstances, the risks of detriment to consumers set our above increase.

2.51 We are satisfied that, if this risk eventuates within the period, GDBs have limited existing tools to address this risk in ways that do not cause harm to the consumer interest. CPPs are available to the GDBs to address volume shocks but may be expensive to prepare and process. CPPs would not address positive volume shocks.

[20] Greymouth Gas, Cross-submission on Gas DPP4 Draft decision (12 February 2026) p 3.
[21] MGUG, Cross-submission on Gas DPP4 draft decisions (12 February 2026)

Assessment of options

2.52 In determining whether to amend the IMs to include an in-period mechanism to address significant demand variations, we assessed three options: maintaining the status quo, introducing a revenue shock event reopener, and introducing a hybrid demand variation revenue adjustment mechanism.

Maintain the status quo with the ability to apply for a CPP

2.53 Under the status quo, GDBs would continue to bear all demand variation risk under the WAPC. Beyond its own management decisions, if a significant unforeseen demand shock occurred, the main regulatory tool available to a GDB is to apply for a CPP. Under the current IMs, there is no reopener that would provide for this circumstance.

2.54 The CPP process would impose a high regulatory burden on the GDB, consumers and the Commission, and would take longer than the other options. CPPs are also costly to prepare and process. Under the IM's these costs are recoverable costs. The costs of CPPs could be compounded if a large event applied to more than one GDB at the same time.

2.55 A CPP would provide the Commission with the ability to scrutinise costs and expenditure forecasts bearing in mind the long-term interests of consumers, and reset the price path accordingly. The outcome for consumers under a CPP following a large demand shock would be to reset the price path.

2.56 Under the status quo without a CPP, consumers could face a price uplift at the next DPP. A CPP could bring forward the full extent of any price increases. Whereas the proposed hybrid mechanism would effectively bring forward only the consumer share of revenue impact above the threshold, until the next reset.

2.57 The trade-off in terms of the consumer interest is that the hybrid mechanism, unlike a CPP, comes with no additional scrutiny of the efficiency of expenditure before additional revenue is recovered from consumers in the event of a qualifying demand shock.

2.58 However, under the proposed hybrid mechanism, GDBs would bear all of any demand shock up to the 15% threshold, which limits the extent to which additional revenue would be recovered from consumers. For intermediate-scale negative demand shocks, this reduces the likelihood of material changes in network scale, as gas consumers are expected to remain widely distributed across networks and associated cost reductions are likely to be modest. In these circumstances, the benefit from additional expenditure scrutiny provided by a CPP may not be significant, particularly given the existing incentives on GDBs to optimise expenditure levels.

2.59 On balance, while we consider that the WAPC remains appropriate for normal variations in demand, the status quo is less able to adequately address the risks of unforeseen shocks, where a CPP could be a rational response.

Price-quality path reopener

2.60 We have considered the option of a price-quality path reopener for revenue shock, which would allow a GDB to apply to reopen its price path ahead of the next reset if the revenue impact of a demand shock exceeded a threshold.

2.61 As set out in the draft IMs amendments – option 2 paper published alongside this paper, we have considered a qualifying condition for this reopener to include a +/- 15% revenue shock. As with other reopeners, a GDB would need to submit an application and we would need to assess it. We would reopen the price-quality path only if we were satisfied that it would promote the long-term benefit of consumers to do so, and if so, only to the extent that is reasonably necessary to mitigate the effect of the reopener event on the DPP.

2.62 This option provides a scrutiny benefit like a CPP under the status quo, but more flexibility and a significantly lower regulatory burden on the GDB and the Commission. The key advantages of a reopener being:

2.62.1 the Commission is required to reassess expenditure, demand forecasts, and allowable revenue in deciding if and how the price path ought to be reopened in the long-term interests of consumers; and

2.62.2 this consideration is contained in scope compared to a full CPP reset.

2.63 However, reopeners have several downsides relative to a hybrid mechanism:

2.63.1 they are not 'automatic' in the way the hybrid is, and involve greater cost and administrative burden for both GDBs and the Commission;

2.63.2 greater uncertainty for consumers, as the timing and outcome of a reopener are not prescribed as they would be under the hybrid mechanism;

2.63.3 potential for the price increases brought forward into the regulatory period to be larger than those under a hybrid mechanism; and

2.63.4 there is the potential for full risk transfer to consumers, as a reopener may allow 100% of the revenue impact to be recovered from consumers compared to only a share of the revenue impact exceeding the threshold under the hybrid mechanism.

2.64 Nonetheless, while our draft decision is for the hybrid mechanism, we are also publishing for consultation draft amendments to the gas IMs and the GDB DPP4 draft determination that illustrate how a revenue shock reopener could be implemented. This will allow stakeholders to consider and comment on that in their submissions.

Demand variation revenue adjustment aka hybrid mechanism

2.65 The hybrid mechanism set out above in the description of our draft decision provides the following advantages compared to the status quo (including application for a CPP) or a reopener. It:

2.65.1 offers partial, in-period mitigation of large demand shocks while retaining the core incentives and risk-allocation features of the WAPC.

2.65.2 takes effect automatically and quickly, reducing the risk of service degradation or extreme price adjustments at the next reset;

2.65.3 provides greater certainty to consumers and suppliers about how large demand shocks will be treated within a regulatory period, and by providing greater certainty better supports incentives to invest;

2.65.4 has a lower cost and regulatory burden than a CPP or reopener for GDBs, consumers and the Commission;

2.65.5 retains incentives under a WAPC for GDBs to manage demand risk. GDBs bear all risk for variations less than he threshold (positive or negative). This ensures that GDBs remain incentivised to manage expenditure, seek efficiencies, and respond to changes in demand, while providing some assurance of mitigation where shocks are too large to reasonably absorb; and

2.65.6 limits the potential for excessive profits in the event of a large positive demand shock by sharing benefits between suppliers and consumers.

2.66 We have considered potential disadvantages of the hybrid mechanism, with parameter values specified in the DPP determination, relative to the status quo or a reopener, including:

2.66.1 the disadvantage of being an automated process is that it exposes consumers to price increases without the scrutiny and consultation afforded by a CPP or reopener; and

2.66.2 while setting the hybrid threshold and sharing parameters in the DPP determination allows flexibility, it may provide less certainty than a reopener, for which parameters are set in the IMs.

2.67 We consider that the automatic nature of the hybrid mechanism is on balance positive, and that the certainty benefits outweigh the loss of consultation and scrutiny.

2.68 We would welcome submissions on any perverse or unintended incentives here.

The hybrid mechanism will better promote the s 52A purpose

2.69 Weighing these options, we consider that the hybrid mechanism provides the most balanced and proportionate response to the risks to long-term consumer interests identified above, and better promotes the purpose in s 52A than the status quo or providing a revenue shock reopener.

2.70 The hybrid mechanism preserves the core incentive and risk-allocation features of the WAPC for normal demand variations, reflecting our view that GDBs are generally best placed to manage these risks. At the same time, it introduces limited, in-period mitigation for large, unforeseen demand shocks. This shared approach provides assurance that GDBs will not be fully exposed to revenue impacts arising from risks they may be poorly placed to manage, supporting continued investment and the ongoing provision of safe and reliable services to consumers, consistent with s 52A(1)(b).

2.71 By reducing exposure to extreme downside outcomes once predefined parameters are met, the mechanism mitigates the risk that unaddressed revenue volatility could weaken incentives to invest or maintain asset performance. In doing so, it better promotes efficient investment and operational decision-making in the long-term interests of consumers, consistent with s 52A(1)(a) and (c).

2.72 Relative to a reopener or a CPP, the hybrid mechanism is more certain and less administratively burdensome. This predictability supports efficient expenditure by GDBs and reduces regulatory costs, promoting the IM purpose in s 52R and further promoting s 52A(1)(a).

2.73 The mechanism also promotes s 52A(1)(d) by limiting the potential for excessive profitability in the event of large positive demand shock. Consumers could benefit in this case in a way that they might not under the status quo or by providing a new discretionary reopener.

2.74 Although the mechanism introduces some additional short-term risk to consumers, this risk is limited by design. Any price impact would occur at a delayed and predictable time, giving consumers certainty to consider their options. The mechanism would apply only in unlikely circumstances involving significant shocks, and GDBs would remain fully exposed to the risks associated with normal demand variability.

2.75 Overall, we consider that the hybrid mechanism best promotes the long-term benefit of consumers under s 52A. It provides a targeted and proportionate response to extreme demand shocks, supports the continued provision of safe and reliable gas services, and maintains incentives for efficient operation and investment, while preserving the core features of the WAPC.

Chapter 3 Decision making framework

Purpose and structure of this chapter

3.1 This chapter sets out the framework we have applied in reaching our draft decisions. In doing so, it explains:

3.1.1 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

3.1.2 the decision-making framework we have applied in making the draft amendments.

Framework for considering the scope of potential IM amendments

3.2 Our framework considers:

3.2.1 the statutory context;

3.2.2 our specific powers to amend IMs; and

3.2.3 what we must take account of when amending IMs outside of the statutory IM review cycle under s 52Y of the Act.

Statutory context

3.3 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.

3.4 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, s 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.[22]

[22] *Wellington International Airport Ltd & others v Commerce Commission* [2013] NZHC 3289 at [213].

3.5 However, some uncertainty remains inevitable.[23] 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",[24] and "there is a continuum between complete certainty at one end and complete flexibility at the other".[25]

3.6 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.

3.7 However, as recognised in ss 52X and 52Y, these rules, processes and requirements may change over time.

3.8 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.[26]

3.9 When considering IM amendments, we must therefore be mindful that this may have a detrimental effect on:

3.9.1 the role that predictability plays in providing suppliers with incentives to invest in accordance with s 52A(1)(a); and

3.9.2 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 CPP, as applicable.

3.10 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.

3.11 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.

3.12 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.[27]

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[23] *Wellington International Airport Ltd & others v Commerce Commission* [2013] NZHC 3289 at [214].

[24] *Commerce Commission v Vector Ltd [2012] NZCA 220* [2012] 2 NZLR 525 at [34].

[25] *Commerce Commission v Vector Ltd [2012] NZCA 220* [2012] 2 NZLR 525 at [60].

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

[27] 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].

3.13 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.

3.14 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 IM statutory review cycle

3.15 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.

3.16 All IMs must be reviewed at least once every seven years, as mandated by s 52Y.[28] 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.

3.17 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).

3.18 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.[29]

3.19 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 IM review cycle

3.20 We generally focus on two types of amendments outside of the statutory IM review cycle:

3.20.1 those that support incremental improvements to price-quality paths; and

3.20.2 those that enhance certainty about – or correct technical errors in – the existing IMs.

[28] The next statutory Part 4 IM review is due to be completed by 2030.

[29] 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.

3.21 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.

3.22 However, we can and will reconsider fundamental building blocks IMs where there is a compelling and urgent rationale for doing so.[30]

The proposed amendments relate to incremental changes to price-quality paths

3.23 The IM amendment that we are considering for the demand variation revenue adjustment mechanism would amend the definition of recoverable cost, which flows through to the specification of price IM.

3.24 In our view, this change supports incremental changes to price-quality paths and is not a 'fundamental' change to the IMs. It does not amend the core building blocks and makes an incremental adjustment to the balance of risk between consumers and suppliers, which would apply only if an uncertain event eventuates.

The decision-making framework we have applied

3.25 In deciding whether to make IM amendments as part of the Gas DPP4 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.[31] This has been consulted on and used as part of prior processes, and it helps provide consistency and transparency in our decision making.

3.26 Specifically, in respect of each draft amendment we considered whether it would:

3.26.1 promote the Part 4 purpose in s 52A of the Act more effectively;

3.26.2 promote the IMs purpose in s 52R of the Act more effectively (without detrimentally affecting the promotion of the s 52A purpose); and/or

3.26.3 significantly reduce compliance costs, other regulatory costs, or complexity (without detrimentally affecting the promotion of the s 52A purpose).

[30] 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 EDBs and Transpower New Zealand Limited.

[31] See "Commerce Commission: Part 4 Input Methodologies Review 2023 Framework paper" (13 October 2022), para X20-X21

3.27 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:

3.27.1 whether there were alternative ways to address the identified issues without changing the IMs;

3.27.2 the permissive considerations under s 5ZN of the Climate Change Response Act 2002;[32] and

3.27.3 other Part 4 provisions, namely:

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

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

3.28 The outcomes specified in paragraph 3.24 are referred to as the 'IM amendments framework outcomes'.

[32] 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).