

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



Associated documents

Publication date	Reference	Title
2 April 2026	ISBN 978-1-991414-95-3	Proposed amendments to input methodologies for Gas Distribution Services, Amendments related to the 2026 Gas default price-quality path DPP4 - Draft decision reasons paper
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 978-1-991414-93-9	[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')

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Chapter 1 Introduction

Purpose of this paper

- 1.1 This paper sets out our draft decisions on updates to the gas distribution business (GDB) DPP4 draft determination, to implement the demand variation revenue adjustment mechanism (the hybrid mechanism).
- 1.2 The hybrid mechanism is introduced through draft amendments to the Gas Distribution Services Input Methodologies (IMs) in an accompanying paper.¹ Those IM amendments establish the mechanism by defining a new recoverable cost. This paper explains how the mechanism would be applied within the DPP.

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

- 1.3 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).
- 1.4 This consultation includes two reasons papers: a separate paper setting out our draft decisions on IMs amendments, and this paper setting out draft decisions to revise the GDB DPP4 draft determination.
- 1.5 In plain language, this consultation revises our DPP4 draft decision to include for GDBs a price path mechanism intended to mitigate risks to the long-term interests of consumers from an increased risk of large demand shocks in the DPP4 period.
- 1.6 This consultation does not include any proposed changes to the gas transmission services IMs or gas transmission businesses (GTB) DPP4 draft determination.

Materials published alongside this paper

- 1.7 We have published as part of this consultation package the following documents:
 - 1.7.1 Proposed amendments to input methodologies for Gas Distribution Services Amendments related to the 2026 Gas default price-quality path DPP4 - Draft decision reasons paper;²
 - 1.7.2 [DRAFT – option 1] Gas Distribution Services Input Methodologies Amendment (No.1) Determination 2026,³ hybrid mechanism (draft decision);

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](#) (2 April 2026)

² Ibid

³ [\[DRAFT – option 1\] Gas Distribution Services Input Methodologies Amendment \(No.1\) Determination 2026 – hybrid mechanism \(draft decision\)](#) (2 April 2026)

- 1.7.3 [DRAFT – option 2] Gas Distribution Services Input Methodologies Amendment (No.1) Determination 2026,⁴ reopener (alternative option);
- 1.7.4 Revised Draft GDB Default Price-Quality Path Determination Changes related to proposed amendments to input methodologies for gas distribution services – Draft decision reasons paper; (this paper)
- 1.7.5 [DRAFT – option 1] Gas Distribution Services Default Price-Quality Path Determination 2026,⁵ hybrid mechanism (draft decision); and
- 1.7.6 [DRAFT – option 2] Gas Distribution Services Default Price-Quality Path Determination 2026,⁶ reopener (alternative option).

How to make a submission

- 1.8 We welcome your views on the draft decisions set out in this paper and in the accompanying IM amendments paper. A single submission may address both papers. Please send a submission and/or cross-submission in MS Word or pdf document format with your views to:
 - 1.8.1 Matthew Clark, Transpower and Gas Manager c/o infrastructure.regulation@comcom.govt.nz
- 1.9 Please include “Gas DPP4 2026 – Hybrid mechanism and IM amendments” in the subject line of your email.
 - 1.9.1 Submissions are due by **5pm Tuesday 21 April 2026**. We will publish them on our website shortly after.
 - 1.9.2 Cross-submissions will be due by **5pm Wednesday 29 April 2026**.
- 1.10 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.

⁴ [\[DRAFT – option 2\] Gas Distribution Services Input Methodologies Amendment \(No.1\) Determination 2026 reopener \(alternative option\)](#) (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)

1.11 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 Draft decisions

- 2.1 This chapter sets out our draft decisions on how the demand variation revenue adjustment mechanism (hybrid mechanism) will be implemented in the GDB DPP4 determination. The IM amendments draft decision introduces the mechanism by creating a new recoverable cost in the GDB IMs. This DPP paper explains how that mechanism will operate in practice during DPP4.
- 2.2 Our approach ensures the mechanism is applied consistently with the weighted average price cap (WAPC) form of control, and in a way that maintains incentives for efficient expenditure and service provision while mitigating the consumer harm that could arise from large, unforeseen demand shock.
- 2.3 Under the existing WAPC form of control, GDBs bear all in-period demand-variation risk. This remains appropriate for normal business-as-usual demand variations. To the extent that GDBs could apply for a customised price-quality path (CPP) to address any significant demand shock, some in-period demand shock risk does sit with consumers. Demand shocks may arise for example if there were further unanticipated field declines or if gas was prioritised for transmission connected customers (e.g., to Ballance if NZ fertiliser imports were to become constrained).⁷
- 2.4 The likelihood of large, abrupt and unforeseeable supply or demand shocks within DPP4 has increased. Such shocks, if not mitigated, could result in underservicing of remaining consumers, significant price shocks at the next reset, or excessive profits for GDBs if positive shocks occur without consumer sharing.
- 2.5 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).

Draft decision on DPP implementation

- 2.6 We propose the following to implement the hybrid mechanism for DPP4:

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.

- 2.6.1 setting specific forecast revenue values for each GDB and each assessment period of DPP4. These values are derived using our standard building-blocks approach and adjusted for outturn CPI. They are used solely to determine whether the mechanism applies and the amount of any recoverable cost;
 - 2.6.2 setting a +/-15% variation from CPI-adjusted forecast revenue as the threshold. This threshold is deliberately high, ensuring the mechanism applies only to genuinely large shocks. It applies symmetrically to positive and negative revenue variations;
 - 2.6.3 if actual revenue falls outside the +/-15% range, only the portion outside the deadband is shared. The sharing ratio is 50% to consumers and 50% to the GDB. A negative variation results in a positive recoverable cost; a positive variation results in a negative recoverable cost.
- 2.7 The updated draft DPP determination sets out the formula for calculating the recoverable cost, reflecting actual revenue, forecast revenue (adjusted for outturn CPI), the +/-15% range, and the 50/50 sharing. Recoverable costs flow into prices two pricing years later.⁸

Reasons for our draft decision

- 2.8 Our role in setting the DPP is to provide GPBs with incentives that promote the long-term benefit of consumers. In doing so, we are guided by our responsibilities under Part 4 of the Commerce Act 1986 (the Act). Specifically, our regulation aims to provide GPBs with incentives to innovate, invest, improve efficiency, and provide services at a quality that reflects consumers' demands, sharing efficiency gains with consumers through lower prices, and being limited in their ability to extract excessive profits.⁹
- 2.9 To make our decisions on the implementation of the demand variation revenue adjustment mechanism in a way that promotes the long-term interest of consumers, we identified two high-level elements in our approach:
- 2.9.1 continue to incentivise GDBs to invest to operate and maintain pipelines services at a quality that consumers demand while demand for gas exists; and
 - 2.9.2 manage price volatility within the DPP4 period by taking an approach to provide steady and predictable pricing over DPP4 unless there is a clear and compelling case for change.

⁸ [Proposed amendments to input methodologies for Gas Distribution Services, Amendments related to the 2026 Gas default price-quality path DPP4 - Draft decision reasons paper](#) (2 April 2026)

⁹ Section 52A of the Act.

- 2.10 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 noted, these tools have limits particularly where demand changes are large, sudden, or driven by factors outside the control of the GDB.
- 2.11 As we have discussed in the accompanying GDB IM amendment paper the risks to consumers of a large revenue shock caused by significant drop in supply/demand include:
- 2.11.1 underservicing of remaining customers, for example through lower service levels or potential network re-sizing, as GDBs respond to manage expenditure, and
 - 2.11.2 a risk of exposure to large price shocks when demand is corrected for at the next price-quality path reset or under a CPP.
- 2.12 We consider a large positive revenue shock to be less likely but not impossible 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 demand.
- 2.13 We consider the availability of a ‘release valve’ will enable GDBs to manage the impact of a significant demand shock and continue providing services to consumers in the event of a significant demand shock event. The proposed mechanism provides a proportionate and limited intervention to mitigate these events as well as enhancing, to a degree, certainty about allocating the costs and risks associated with demand shocks. A hybrid mechanism may assist in deferring or avoiding the need for a CPP, the application costs of which are treated as a recoverable cost.
- 2.14 For the purposes of the threshold, we consider the revenue should be measured as the variation of actual revenue compared to the forecast revenue for each assessment period which we model at the time of determining the DPP4 price path. To give effect to this, we propose setting out specific forecast revenue figures in Table 6 of the GDB DPP4 determination which will be used as a baseline to measure revenue variation. These numbers are derived using our building-blocks approach.
- 2.15 The forecast revenue for the hybrid price path mechanism is demonstrated in Table 6 of the accompanying paper, [DRAFT – option 1] Gas Distribution Services Default Price-Quality Path Determination 2026 – hybrid mechanism (draft decision).¹⁰
- 2.16 We propose a threshold of +/-15% of forecast revenue, which we consider would represent a significant demand shock that affects either a GDB’s ability to manage demand risk or results in windfall gains.

¹⁰ [\[DRAFT – option 1\] Gas Distribution Services Input Methodologies Amendment \(No.1\) Determination 2026 – hybrid mechanism \(draft decision\)](#) (2 April 2026)

- 2.17 The threshold is relatively high and is set with the intention that the mechanism is only triggered by large shocks of the type that neither GDBs nor consumers would be well placed to manage. A lower threshold would risk triggering the mechanism during normal, manageable demand fluctuations, while a higher threshold would reduce its effectiveness as a safeguard against consumer harm.
- 2.18 The risk-sharing ratio between consumers and the GDB in excess of the threshold will determine the amount of relief provided to a GDB or alternatively the amount of gain received by consumers.
- 2.19 We propose a sharing ratio of 50/50. We consider this:
- 2.19.1 balances risks between both parties when extreme events occur;
 - 2.19.2 prevents excessive profitability in positive-shock scenarios;
 - 2.19.3 maintains incentives for GDBs to manage demand changes efficiently; and
 - 2.19.4 avoids full risk transfer to either party, consistent with our key economic principle of risk allocation.
- 2.20 The +/-15% threshold and the 50/50 risk-sharing ratio as a combined mechanism provide only partial in-period revenue mitigation of significant demand shock events until the next price-quality path reset or until such a time when the pipeline business can apply for a CPP, where in each case we can fully scrutinise and reset any demand forecasts and consider how the business is or should be operating in response to the demand shock.

How these proposed DPP changes will better promote the s 52A purpose

- 2.21 In the situation of normal demand variations, we consider the GDBs are best placed to manage risk under a WAPC. However, where an unforeseen demand variation is sufficiently large to be considered to have a shock effect on consumers and GDBs where they can no longer manage the risk, the threshold in the hybrid price path mechanism will incentivise GDBs to continue to operate normally and provide services at a quality demanded by consumers, consistent with s 52A(1)(b), as it will provide certainty as to recovery of additional revenue to partially mitigate the demand/revenue shock.

- 2.22 The risk-sharing proportions and the threshold we have proposed help to mitigate excessive profitability to some degree by sharing the additional demand risk between the business and consumers (consistent with s 52A(1)(d)). This is because the risk-sharing will maintain an incentive for the business to manage expenditure, restructure tariffs or otherwise grow demand, and would also share some of the benefit in the event of a significant one-off positive demand or supply event. The mechanism also promotes s 52A(1)(d) by limiting the potential for excessive profitability in the event of large positive demand shocks. The combination of the +/-15% threshold and the 50/50 sharing ratio will ensure that consumers share in the benefit of materially higher than forecast volumes, while GDBs retain incentives to manage expenditure and respond efficiently to changes in demand.
- 2.23 The parameters we have proposed mean that it would apply only in circumstances involving significant shocks, and GDBs would continue to bear the risk associated with normal variations in demand.

DPP implementation for the alternative option – a demand shock reopener

- 2.24 The IM amendments draft decision includes, as an alternative to the hybrid mechanism, an option to introduce an in-period revenue shock reopener.
- 2.25 A reopener would:
- 2.25.1 allow a GDB to apply to reopen its price path if a large revenue shock event (caused by a change in demand) occurs;
 - 2.25.2 require us to assess the application; and
 - 2.25.3 allow us to reset prices within the period if doing so would promote the long-term benefit of consumers.
- 2.26 Although not our preferred option, we have prepared drafting to provide transparency and to invite submissions on whether a reopener would better address the risks associated with large demand shocks.
- 2.27 As with the hybrid mechanism, the DPP would need to specify:
- 2.27.1 forecast revenue values for each GDB for each year of DPP4; and
 - 2.27.2 how these values are adjusted for outturn CPI to ensure comparability with actual revenue.

- 2.28 These forecast values are not otherwise used in the WAPC context, so including them in the DPP determination is necessary for the reopener to work. We set out indicative drafting for a price-quality path reopener in the accompanying paper, [DRAFT – option 2] Gas Distribution Services Default Price-Quality Path Determination 2026 - reopener (alternative option).¹¹
- 2.29 Consistent with the GDB IM amendment draft decision, a revenue shock event reopener would use a +/-15% variation from forecast revenue (adjusted for outturn CPI) as the qualifying condition.
- 2.30 If actual revenue falls outside this range, a GDB may apply to have its price path reopened. Similar to the hybrid mechanism, the threshold is intended to capture large, extraordinary events.
- 2.31 If a GDB applies for a reopener:
- 2.31.1 we would assess whether the threshold has been met;
 - 2.31.2 if met, we would decide whether reconsidering the price path would promote the long-term interests of consumers;
 - 2.31.3 if we do decide to reconsider, we may amend the price path, only to the extent necessary to mitigate the impact of the event.
- 2.32 Unlike the hybrid mechanism, a reopener:
- 2.32.1 is not automatic;
 - 2.32.2 involves regulatory discretion; and
 - 2.32.3 may result in full recovery of the revenue impact of the unanticipated change in volumes, rather than partial sharing.
- 2.33 This provides a higher level of scrutiny but also greater uncertainty and administrative burden.

¹¹ [DRAFT – option 2] Gas Distribution Services Default Price-Quality Path Determination 2026 – reopener (alternative option) (2 April 2026)