

Proposed amendments to input methodologies for electricity distribution businesses, gas pipeline businesses and Transpower related to government grants and other regulated income

Draft decision reasons paper

11 June 2026



Associated documents

Publication date	Reference	Title
15 April 2026		Notice of Intention - Potential amendments to Input Methodologies for Electricity Distribution Services, Gas Distribution Services, Gas Transmission Services and Transpower
28 September 2012	NZCC 26	Electricity Distribution Services Input Methodologies Determination 2012
28 September 2012	NZCC 28	Gas Transmission Services Input Methodologies Determination 2012 [2012]
28 September 2012	NZCC 27	Gas Distribution Services Input Methodologies Determination 2012 [2012]
29 June 2012	NZCC 17	Transpower Input Methodologies Determination [2012]
4 November 2024	NZCC 26	Transpower Individual Price-Quality Path Determination 2025 [2024]

Contents

Associated documents	1
Chapter 1 Introduction	3
Chapter 2 Proposed amendments to the IMs	6
Attachment A Decision-making framework	11

Chapter 1 Introduction

Purpose of paper

- 1.1 This paper outlines our draft decision and invites submissions on how we propose to amend for the treatment of government grants in relation to income the input methodologies (IMs) for electricity distribution businesses (EDBs), gas pipeline businesses (GPBs) and Transpower contained in the following determinations:
 - 1.1.1 Electricity Distribution Services Input Methodologies Determination 2012 [2012] NZCC 26;
 - 1.1.2 Gas Transmission Services Input Methodologies Determination 2012 [2012] NZCC 28;
 - 1.1.3 Gas Distribution Services Input Methodologies Determination 2012 [2012] NZCC 27;
 - 1.1.4 Transpower Input Methodologies Determination 2010 [2012] NZCC 17.
- 1.2 For Transpower, one of the definitions relevant to these decisions is set out in the Transpower Individual Price-Quality Path (IPP) Determination 2025 [2024] NZCC 26. Therefore, we also propose to amend that determination.
- 1.3 The proposed amendments have been assessed in accordance with the decision-making framework outlined in Appendix A.
- 1.4 In accordance with section 52V of the Commerce Act 1986 (Act), we published a notice of intention relating to the proposed IM amendments set out in this paper on 15 April 2026.¹
- 1.5 This Chapter sets out:
 - 1.5.1 the structure of this paper;
 - 1.5.2 when the proposed IM amendments are intended to take effect;
 - 1.5.3 what materials have been released alongside this paper; and
 - 1.5.4 how you can provide your views.

Structure of paper

- 1.6 Chapter 2 of this paper describes our proposed changes to the IM Determinations. It sets out:
 - 1.6.1 the current IM requirements;

¹ <https://www.comcom.govt.nz/assets/Documents/im-amendments-treatment-of-government-grants/Notice-of-Intention-Potential-amendments-to-IMs-for-EDBs-GPBs-and-Transpower-14-April-2026.pdf>

- 1.6.2 the proposed IM amendments and why we are proposing these changes; and
 - 1.6.3 how the proposed IM amendments meet the decision-making framework.
- 1.7 Attachment A of this paper outlines our framework for considering the scope of potential IM amendments and the decision-making framework we have applied in proposing the IM amendments.

Effective dates for the proposed amendments

- 1.8 Section 52W of the Act requires us to publish, by way of notice in the *Gazette*, a brief description of any IM amendment and the goods and services to which it applies, the reasons for determining that IM amendment and how we are making it publicly available.²
- 1.9 We propose that the amendments discussed in this paper, once finalised following consultation, take effect on the day following publication in the *Gazette* in accordance with s 52W.
- 1.10 This means that the amendments will apply to any relevant price-quality determinations made after the date on which the amendment takes effect.
- 1.11 We consider that the changes proposed in this draft decision do not include fundamental changes to the IMs and so it is appropriate to introduce them mid-cycle.

Materials released alongside this paper

- 1.12 Alongside this paper, we have published:³
- 1.12.1 Draft Electricity Distribution Services Input Methodologies (Government Grants Related to Income) Amendment Determination 2026;
 - 1.12.2 Draft Gas Transmission Services Input Methodologies (Government Grants Related to Income) Amendment Determination 2026;
 - 1.12.3 Draft Gas Distribution Services Input Methodologies (Government Grants Related to Income) Amendment Determination 2026;
 - 1.12.4 Draft Transpower Input Methodologies (Government Grants Related to Income) Amendment Determination 2026; and
 - 1.12.5 Draft Transpower Individual Price-Quality Path (Government Grants Related to Income) Amendment Determination 2026.

² Section 52W(1)(b) states that IM amendments are secondary legislation which means that the publication requirements for secondary legislation in the Legislation Act 2019 apply.

³ <https://www.comcom.govt.nz/regulated-industries/input-methodologies/input-methodologies-for-electricity-gas-and-airports/input-methodologies-projects/im-amendments-treatment-of-government-grants-related-to-income/?section=documents>

How you can provide your views

- 1.13 We seek your written views on our draft decision and our draft amendment determinations, published alongside this paper, submissions are due by **5pm Thursday 25 June 2026**.
- 1.14 Please address your submission to Ben Woodham c/o infrastructure.regulation@comcom.govt.nz with 'Government grants IM amendments' in the subject line of your email.
- 1.15 We prefer submissions in both a format suitable for word processing (such as Microsoft Word document) as well as a 'locked' format (such as PDF) for publication on our website.

Confidential submissions

- 1.16 We encourage public submissions so that all information can be tested in an open and transparent manner. However, we recognise that parties making submissions may wish to provide information in confidence. We offer the following guidance:
- 1.16.1 if it is necessary to include confidential material in a submission, the information should be clearly marked, with reasons why that information is considered to be confidential;
 - 1.16.2 where commercial sensitivity is asserted, submitters must explain why publication of the information would be likely to unreasonably prejudice their commercial position or that of another person who is the subject of the information;
 - 1.16.3 both confidential and public versions of the submission are required to be provided; and
 - 1.16.4 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.
- 1.17 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 public submissions on our website. Where relevant, please provide both an 'unlocked' electronic copy of your submission, and a clearly labelled 'public version'.

Chapter 2 Proposed amendments to the IMs

Summary of draft decisions

- 2.1 The current IMs treat government grants to fund opex in relation to innovation and other projects as other regulated income (ORI).⁴ ORI must be returned to consumers via the revenue wash-up. This means that regulated suppliers are not able to retain and use any of the grant for its intended purpose. In addition, they may incur incremental rolling incentive scheme (IRIS) penalties where relevant, on the associated project expenditure to the extent that it was not included in their IRIS opex allowance.
- 2.2 The proposed amendments are intended to allow regulated businesses an option to treat government grants as:
- 2.2.1 ORI less retained entitlements, where the retained entitlements are the value of IRIS penalties arising from the associated project expenditure; or
 - 2.2.2 as an offset to the associated project costs where they are not already funded by other allowances.
- 2.3 Under the first option regulated suppliers will return the grant to consumers as ORI but keep an amount sufficient to pay the IRIS penalties, if applicable, from the project overspend. The remaining project spend will then be recovered as an IRIS recoverable cost.
- 2.4 Under the second option regulated suppliers will keep the grant, but its offset against opex will mean that the project costs up to the level of the grant are not recognised for IRIS purposes, so no IRIS penalty or recoverable costs arise from an overspend.⁵ In both cases suppliers are able to fully recover their project costs and consumers do not bear the project costs funded by the government grant. The proposed amendments are similar to IM amendments we made to the treatment of insurance and compensatory entitlements in 2024.⁶
- 2.5 In practical terms, the outcome of each of these options is that the regulated suppliers are left 'whole' in relation to project costs intended to be funded by the grant.
- 2.6 In summary, the proposed amendments are as follows:

⁴ We are aware that GAAP (NZ IAS 20) allows government grants related to income to be deducted from expenditure when recognised. It is our view that the IMs provide for GAAP where it is specified for applicable rules, and that absent any reference to GAAP the IM definition of 'other regulated income' captures all income related to the supply of regulated services that is not excluded, regardless of how it may be treated under GAAP.

⁵ When referring to an IRIS penalty in this paper we are referring both to a penalty incurred as a result of overspending against an IRIS opex allowance and the loss of a reward where additional project expenditure extinguishes or partly extinguishes an existing underspend against the allowance.

⁶ Our insurance IM amendments in 2024 allow EDBs, GPBs and Transpower the option to offset opex insurance and compensatory entitlements against opex or to treat them as other regulated income less the IRIS costs of the associated additional expenditure. See Electricity Distribution Services Input Methodologies (treatment of insurance entitlements) Amendment Determination 2024 [2024] NZCC 36.

- 2.6.1 define and apply a new term in the IMs: ‘government grants related to income’; and
- 2.6.2 specify that government grants related to income may be netted off against operating expenditure or treated as ORI less retained entitlements.

Transpower individual price-quality path amendments we are proposing

- 2.7 For Transpower, one of the definitions relevant to this change is set out in the Transpower IPP determination 2025 [2024] NZCC 26 (IPP for RCP4). Therefore, we propose to exclude government grants related to income, as defined in the proposed amendments to the Transpower IMs, from the definition of ORI in the Transpower IPP determination 2025 [2024] NZCC 26.

How the proposed amendments are likely to improve regulatory outcomes

- 2.8 The proposed changes will enable regulated suppliers subject to IRIS under price-quality (PQ) regulation to recover unfunded IRIS costs.
- 2.9 For all regulated suppliers subject to this amendment, the proposed amendments would allow government grants related to income to be recognised in the regulatory accounts in the same way as they are under generally accepted accounting principles (GAAP), reducing compliance costs.
- 2.10 For the reasons outlined above, the proposed IM changes will promote the s 52A(1)(a) limb of the Part 4 purpose more effectively by improving incentives to innovate. The proposed changes will also promote s 52R more effectively (without detrimentally affecting the promotion of the s 52A purpose) by giving clarity about what is meant by government grants related to income and how they should be accounted for.
- 2.11 We consider the reasons outlined above are compelling enough to justify making these changes outside of the normal statutory IM review cycle, because they would promote the Part 4 purpose and support incremental improvements to PQ paths.
- 2.12 The proposed changes will place some additional compliance obligations on EDBs, GPBs and Transpower in calculating operational expenditure and ORI for revenue forecasting and for ID reporting. However, we consider that the likely long-term benefits to consumers would sufficiently outweigh any increase in compliance costs, other regulatory costs or complexity.

Current requirements – government grants related to income

- 2.13 The IMs treat government grants related to income as ORI.⁷ This includes Energy Efficiency and Conservation Authority (EECA) funding for opex in relation to demand flexibility pilots, for example. For non-exempt EDBs, GPBs and Transpower, opex funding

⁷ See fn.4.

treated as ORI must be returned to consumers via the revenue wash-up. For EDBs and Transpower any expenditure on the funded projects will be subject to IRIS penalties where it has not been included in a forecast opex for IRIS allowance included in a default price-quality path (DPP), CPP or IPP determination.⁸

- 2.14 As a result, the regulated suppliers cannot:
- 2.14.1 retain the grant funding for its intended purpose; and
 - 2.14.2 where applicable, will incur an IRIS penalty on project costs (32.16% based on the DPP4 effective opex incentive rate). The remaining costs will be funded by consumers.
- 2.15 The practical implication is that the regulated suppliers will be left with less funding than they need to run the projects – despite the projects being ‘fully funded’ by the relevant government grant.
- 2.16 The same problem will apply to government funded programmes which have a significant opex component.⁹
- 2.17 This rigidity in our rules may act as a disincentive to demand management or similar innovation at a time when demand-side solutions are increasingly important.¹⁰
- 2.18 For all regulated suppliers, the existing treatment of government grants is not aligned to that allowed under GAAP, giving rise to unnecessary compliance costs.

Detail of proposed IM amendments

- 2.19 We propose amending the IMs as follows.
- 2.19.1 For EDBs and GPBs, to allow an option to offset government grants related to income against the corresponding operating expenditure in the year or years of spend, with any grant exceeding the corresponding spend to be treated as ORI.
 - 2.19.1.1 This may give rise to the need for a restatement of past operating expenditure where government grants in relation to income are recognised as receivable in an assessment period after the associated expenditure is first recognised.

⁸ For GDBs grant funding may be kept but ORI is forecast as a reduction in building blocks allowable revenue.

⁹ Capex grants to build assets may be treated as capital contributions, reducing the value of commissioned assets on which the IRIS retention adjustment is calculated, in which case the problem of unfunded IRIS costs does not arise.

¹⁰ This assumes that the costs are not provided for by a forecast opex allowance or able to be funded by an INTSA allowance.

- 2.19.1.2 This option will not be available for government grants related to income where funding for the associated expenditure is already provided for by way of a PQ path forecast opex allowance or an innovation and non-traditional solutions allowance (INTSA) allowance.
 - 2.19.2 For Transpower, to offset government grants related to income against the corresponding operating expenditure in the year or years of spend, with any grant exceeding the corresponding spend to be treated as ORI.
 - 2.19.3 For EDBs and GPBs, to allow an option to treat government grants as ORI less retained entitlements, where the retained entitlements are the value of IRIS penalties arising from the associated project expenditure.
 - 2.19.4 For EDBs and GPBs, to exclude ‘government grants related to income’ that have been netted off in calculating an operating cost from the definition of ORI.
 - 2.19.5 For Transpower, EDBs and GPBs, to include government grants related to income, less any government grants related to income that have been netted off in calculating an operating cost, in the definition of ‘retained entitlement’.
- 2.20 Under the option to offset government grants related to income against the corresponding opex (2.19.1), the grant is kept and the project costs up to the level of the grant are not recognised for IRIS purposes, so no IRIS penalty or recoverable costs arise from an overspend. Under the option to recognise the government grants related to income as ORI less retained entitlements (2.19.3), regulated suppliers will return the grant as ORI but keep an amount sufficient to pay the IRIS penalties, if applicable, from the project overspend. The remaining project spend will then be recovered as an IRIS recoverable cost. In both cases regulated suppliers are able to fully recover their project costs.
- 2.21 The proposed amendments are similar in operation to IM amendments we made for the treatment of opex related insurance and compensatory entitlements in 2024.¹¹
- 2.22 Consistent with s 53ZB(1) of the Act, we consider that making and applying the IM amendments as proposed in the draft IM amendment determinations will not reopen any existing PQ path in the current regulatory period (ie, DPP3 for gas transmission and distribution services, RCP4 for Transpower, and DPP4 for EDBs). This reflects that in each case, the IM amendments would not reopen, within the regulatory period, the allowable revenue for the remaining years of the regulatory period.

Proposed amendments to Transpower’s IPP determination

- 2.23 For Transpower we propose to exclude ‘government grants related to income’ (as defined in the proposed amendments to the Transpower IMs) from the definition of ORI in Transpower’s IPP determination. This is because the definition of ORI is included there

¹¹ Electricity Distribution Services Input Methodologies (treatment of insurance entitlements) Amendment Determination 2024 [2024] NZCC 36.

rather than in the Transpower IMs. We set out the proposed change in a draft amendment determination to the IPP for RCP4.

- 2.24 As there is no change to the allowable revenue, we consider that the proposed amendment to the IPP for RCP4 does not reopen the PQ path for Transpower.

How the proposed amendment to the IPP for RCP4 aligns with our decision-making framework

- 2.25 The proposed amendment to the IPP for RCP4 would give effect to the same policy change for Transpower as outlined above for the IM amendments proposed for PQ-regulated suppliers.
- 2.26 We therefore consider the proposed amendment to the IPP for RCP4 would have the same effect in terms of promoting the s 52A(1)(a) limb of the Part 4 purpose more effectively, for the reasons already outlined above.

Attachment A Decision-making framework

Purpose of this attachment

- A1 This attachment describes:
- A1.1 our framework for considering the scope of potential input methodologies amendments, which is relevant in considering what IMs it may be appropriate to amend outside of the statutory IM review cycle in section 52Y of the Act; and
 - A1.2 the decision-making framework we have applied in proposing the IM amendments.

Framework for considering the scope of potential IM amendments

- A2 Our framework considers:
- A2.1 the statutory context;
 - A2.2 our specific powers to amend IMs; and
 - A2.3 what we must take account of when amending IMs outside of the statutory IM review cycle under s 52Y.

Statutory context

- A3 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.
- A4 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.¹²

¹² Wellington International Airport Ltd & others v Commerce Commission [2013] NZHC 3289, para [213].

- A5 However, some uncertainty remains inevitable.¹³ 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”,¹⁴ and “there is a continuum between complete certainty at one end and complete flexibility at the other”.¹⁵
- A6 The s 52R purpose is primarily promoted by having the rules, processes and requirements set upfront prior to being applied by regulated suppliers or ourselves.
- A7 However, as recognised in ss 52X and 52Y, these rules, processes and requirements may change over time.
- A8 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 PQ 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.¹⁶
- A9 When considering IM amendments, we must therefore be mindful that this may have a detrimental effect on:
- A9.1 the role that predictability plays in providing suppliers with incentives to invest in accordance with s 52A(1)(a); and
- A9.2 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.
- A10 At times there will be a tension between making changes to improve the regime and better promote the s 52A purpose on the one hand, and certainty on the other.
- A11 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.
- A12 As the High Court has observed, section 52A is paramount in all our decision-making processes under Part 4, including in setting and amending the IMs. The other purpose statements within Part 4 are relevant matters but they should be applied consistently with s 52A.¹⁷
- A13 In considering the “materially better” test, the High Court in *Wellington International Airport Ltd v Commerce Commission* [2013] NZHC 3289, at [165], observed:

¹³ *Wellington International Airport Ltd & others v Commerce Commission* [2013] NZHC 3289, para [214].

¹⁴ *Commerce Commission v Vector Ltd* [2012] NZCA 220, para [34].

¹⁵ *Commerce Commission v Vector Ltd* [2012] NZCA 220, para [60].

¹⁶ For further discussion see *Wellington International Airport Ltd & others v Commerce Commission* [2013] NZHC 3289, para [213]-[221].

¹⁷ *Wellington International Airport Ltd v Commerce Commission* [2013] NZHC 3289, para [165].

Both the s 52A purpose, of the long-term benefit of consumers and the s 52R purpose, of promoting certainty for suppliers and consumers, are relevant. However, we consider that in this context the s 52R purpose of certainty is conceptually subordinate to the s 52A purpose of the long-term benefit of consumers. We say that because promoting the long-term benefits of consumers in accordance with s 52A is the central purpose of Part 4 as a whole. IMs must be designed with that in mind. Subject to that, a materially more certain IM is to be preferred to a less certain IM.

- A14 More recently, the High Court in *First Gas Ltd v Commerce Commission* [2026] NZHC 1224, at pg. 69, noted “If a change would better give effect to the Part 4 purpose, then change is not only justified but required by the statutory framework.”
- A15 Therefore, it is open to us to amend an IM if the evidence shows us that it would better promote the s 52A purpose of Part 4, even if it would not promote the s 52R purpose.

Amendments inside and outside the IM statutory review cycle

- A16 This section considers the circumstances in which IMs may be amended and what must be taken into account when making amendments to IMs outside of the statutory review cycle.
- A17 All IMs must be reviewed at least once every seven years, as mandated by s 52Y.¹⁸ 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.
- A18 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. Additionally, 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).
- A19 On the other hand, it is important that the IMs are fit-for-purpose going into a DPP reset, particularly as under s 53ZB(1) the Commission cannot reopen the PQ path on the grounds of an IM change (except in limited circumstances).¹⁹

Amendments outside of the statutory IM review cycle

- A20 We generally focus on two types of amendments outside the statutory IM review cycle:
- A20.1 those that support incremental improvements to PQ paths; and
 - A20.2 those that enhance certainty about – or correct technical errors in – the existing IMs.

¹⁸ The next statutory Part 4 IM review is due in 2030.

¹⁹ Under s 53ZB(2) a PQ path must be reset by us with a new PQ path made by amending the PQ 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 PQ path being set had the changed IM applied at the time the PQ path was set.

- A21 We do not generally consider it to be appropriate to consider 'fundamental' changes outside the statutory IM review cycle. Fundamental changes to the IMs are generally those that relate to the definition of the fundamental building blocks used to set PQ paths (listed in s 52T(1)(a)), and that are central to defining the balance of risk and benefits between suppliers and consumers.
- A22 However, we can and will reconsider fundamental building blocks where there is a compelling and urgent rationale for doing so.²⁰
- A23 We consider that the changes proposed in this draft decision do not include fundamental changes to the IMs and so it is appropriate to introduce them mid-cycle.

The decision-making framework we have applied

- A24 In deciding whether to propose IM amendments, we are using a decision-making framework that we have developed over time to support our decision-making under Part 4 of the Act.²¹ This has been consulted on and used as part of prior processes, and helps provide consistency and transparency in our decision-making.
- A25 Specifically, in respect of each potential IM amendment we will consider whether they would:
- A25.1 promote the Part 4 purpose in s 52A of the Act more effectively;
 - A25.2 promote the IMs purpose in s 52R of the Act more effectively (without detrimentally affecting the promotion of the section 52A purpose); and
 - A25.3 significantly reduce compliance costs, other regulatory costs, or complexity (without detrimentally affecting the promotion of the section 52A purpose).

Amendments to the IPP for RCP4

- A26 Our discretion as to whether we amend the IPP for RCP4 is driven by whether such an amendment would promote the s 52A purpose of Part 4.
- A27 We may also take into account the s 52R IM purpose as well as the other matters listed at paragraph 2.24, where they are relevant and where taking them into account does not compromise our achievement of the s 52A purpose of Part 4.

²⁰ An example of this was the re-consideration of the Part 4 WACC percentile decision in 2014. The compelling reason for this 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.

²¹ See [“Commerce Commission: Part 4 Input Methodologies Review 2023 Framework paper” \(13 October 2022\)](#), para X20-X21.