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COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

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

Final decision reasons paper

1 September 2026

Associated documents

Publication date	Reference	Title
1 September 2026		Input Methodologies amendment – Treatment of government grants related to income – Final decisions reasons paper
1 September 2026	NZCC 32	Electricity Distribution Services Input Methodologies (Government Grants Related to Income) Amendment Determination 2026
1 September 2026	NZCC 33	Gas Distribution Services Input Methodologies (Government Grants Related to Income) Amendment Determination 2026
1 September 2026	NZCC 34	Gas Transmission Services Input Methodologies (Government Grants Related to Income) Amendment Determination 2026
1 September 2026	NZCC 35	Transpower Individual Price Quality Path (Government Grants Related to Income) Amendment Determination 2026
1 September 2026	NZCC 36	Transpower Input Methodologies (government grants related to income) Amendment Determination 2026
11 June 2026		Input Methodologies amendment – Treatment of government grants related to income – Draft decisions reasons paper
15 April 2026		Notice of Intention - Potential amendments to Input Methodologies for Electricity Distribution Services, Gas Distribution Services, Gas Transmission Services and Transpower
4 November 2024	NZCC 26	Transpower Individual Price-Quality Path Determination 2025 [2024]
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]

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Chapter 1 Introduction

Purpose of paper

1.1 This paper outlines our final decisions on the amendments for the treatment of government grants in relation to income to 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 have decided to amend that determination.

1.3 The 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 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 IM amendments take effect; and

1.5.3 what materials have been released alongside this paper.

Structure of paper

1.6 Chapter 2 of this paper describes our changes to the IM Determinations. It sets out:

1.6.1 the previous IM requirements;

1.6.2 the IM amendments and why we are making these changes;

[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

1.6.3 how the IM amendments meet the decision-making framework;

1.6.4 feedback from submissions; and

1.6.5 our response to submissions.

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 deciding the IM amendments.

Effective dates for the 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 The final amendments discussed in this paper will take effect on the day following publication in the *Gazette* in accordance with s 52W of the Act.

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 in this decision do not include fundamental changes to the IMs and so it is appropriate to introduce them outside of the IM Review cycle.

Materials released alongside this paper

1.12 Alongside this paper, we have published: [3]

1.12.1 Final Electricity Distribution Services Input Methodologies (Government Grants Related to Income) Amendment Determination 2026;

1.12.2 Final Gas Transmission Services Input Methodologies (Government Grants Related to Income) Amendment Determination 2026;

1.12.3 Final Gas Distribution Services Input Methodologies (Government Grants Related to Income) Amendment Determination 2026;

1.12.4 Final Transpower Input Methodologies (Government Grants Related to Income) Amendment Determination 2026; and

1.12.5 Final Transpower Individual Price-Quality Path (Government Grants Related to Income) Amendment Determination 2026.

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[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

Chapter 2 Amendments to the IMs

Summary of final decisions

2.1 The previous IMs treated 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 were not able to retain and use any of the grant for its intended purpose. In addition, they incurred 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 To address this issue, the amendments we are making with this final decision allow regulated businesses the option to treat government grants as:

2.2.1 ORI less retained entitlements, where the retained entitlements are the forecast 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, arising from the project spend. 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 the funded spend.[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.

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 amendments are as follows:

2.6.1 define and apply a new term in the IMs: 'government grants related to income'; and

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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. This does not apply to capital grants, which the IMs allow to be deducted from the cost of assets.

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.

2.6.2 specify that government grants related to income may be netted off against operating expenditure or treated as ORI less retained entitlements.

How the amendments are likely to improve regulatory outcomes

2.7 The amendments will improve incentives for regulated suppliers to innovate by giving them the full value of government grants related to income, reducing compliance costs, and providing clarity on how to treat government grants.

2.8 Following consultation, we remain satisfied that the amendments promote the Part 4 purpose more effectively than the status quo, as considered in our draft reasons paper. Detailed analysis of potential improvements of regulatory outcomes and our reasoning for the amendments can be found in our draft decision reasons paper.[6] Submissions on our draft decision reasons paper did not identify any issues that would cause us to reconsider that assessment.

Detail of IM amendments

2.9 The IMs will be amended as follows.

2.9.1 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.

2.9.1.1 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.

2.9.1.2 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.

2.9.2 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.

2.9.3 For EDBs and GPBs, to allow an option to treat government grants as ORI less retained entitlements, where the retained entitlements are the forecast value of IRIS penalties arising from the associated project expenditure.

[6] Commerce Commission, Input Methodologies amendment – Treatment of government grants related to income – Draft decision reasons paper (11 June 2026), para 2.8-2.12.

2.9.4 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.

2.9.5 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’.

2.10 Under the option to offset government grants related to income against the corresponding opex (paragraph 2.9.1, above), 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 the funded spend. Under the option to recognise the government grants related to income as ORI less retained entitlements (paragraph 2.9.3, above), regulated suppliers will return the grant as ORI but keep an amount sufficient to pay the forecast 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.

2.11 The amendments are similar in operation to IM amendments we made for the treatment of opex related insurance and compensatory entitlements in 2024.[7]

2.12 Consistent with s 53ZB(1) of the Act, we consider that making and applying the IM amendments 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.

Amendments to Transpower’s IPP determination

2.13 For Transpower, ‘government grants related to income’ (as defined in the amendments to the Transpower IMs) will be excluded from the definition of ORI in in the Transpower IPP determination 2025 [2024] NZCC 26 (IPP for RCP4). This is because the definition of ORI is included there rather than in the Transpower IMs. We set out this change in an amendment determination to the IPP for RCP4.

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

How the amendment to the IPP for RCP4 are likely to improve regulatory outcomes

2.15 The amendment to the IPP for RCP4 will give effect to the same policy change for Transpower as outlined above for the IM amendments for PQ-regulated suppliers.

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

2.16 We therefore consider the amendment to the IPP for RCP4 will 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.

Chapter 3 Submissions and our responses

Summary of submissions on our draft decision reasons paper

3.1 We received submissions on the Input Methodologies amendment – Treatment of government grants related to income – Draft decision reasons paper from Unison and Centralines, Electricity Networks Aotearoa, Alpine Energy, Orion, and Transpower.

3.2 Submitters were largely supportive of the Commission's proposal and considered the amendments to be reasonable, consistent with past policy, and uncontroversial. A common thread throughout the feedback was support for our draft decision on the basis that the amendments better align regulatory policy with the intent of government funding and improve access to incentives for regulated businesses to invest in areas of efficiency and innovation.

3.3 Some concerns and recommendations were raised by stakeholders. These are summarised below, alongside our responses.

Transpower's submission

3.4 Transpower submitted that because it is subject to a specific capex incentive mechanism, applying to capital expenditure in the Capex IM, it is not clear whether the Commission has considered how the proposed amendments would apply to Transpower's capex incentive arrangements. It suggests the Commission's previous consideration of the treatment of insurance entitlements for Transpower may provide a useful precedent for considering this issue.

Our response to Transpower's submission

3.5 The amendments do not address government grants related to assets because, for EDBs, these can be treated as capital contributions and deducted from commissioned asset costs, reducing expenditure subject to IRIS penalties. Although Transpower has no IM rules for capital contributions, we do not consider Capex IM amendments are needed.

3.6 Unlike insurance entitlements, GAAP allows asset-related government grants to be deducted when calculating an asset's carrying value.[8] For EDBs and Transpower the asset valuation IMs provide that, with specified exceptions, the cost of an asset is determined by applying GAAP to the asset as on its commissioning date.

3.7 Although Transpower's capex incentive rates apply to relevant capex rather than commissioned asset costs, the definition of capex includes costs intended to form part of the value of commissioned assets. This means Transpower may use asset-related government grants to offset the corresponding capex costs, shielding them from IRIS penalties. Therefore, no Capex IM amendment is required.

[8] New Zealand Equivalent to International Accounting Standard 20 Accounting for Government Grants and Disclosure of Government Assistance (NZ IAS 20)

ENA's submission

3.8 In its submission, ENA recommends that the Commission explores extending the amendments to include other third-party cost recoveries, for example vegetation management costs. ENA considers that this work does not have to occur during this current amendment process but that the Commission should allocate resources to the consideration of the broader question regarding the treatment of reimbursement-type payments across the regulatory framework. Alpine Energy supports this approach in its submission.

Our response to ENA's submission

3.9 As ENA has not asked for the treatment of reimbursement-type payments generally to be addressed during this current amendment process, it was not considered to be within scope when making our final decision. We will engage with ENA further to ascertain the extent of the policy issue and evaluate whether other amendments are warranted.

Orion's submission

3.10 Orion submitted that the 'implicit' qualifier in the determination that excludes "expenditure that has been explicitly or implicitly provided for in a DPP or CPP" from eligibility for the amendment may be problematic as it would place an unspecified burden of evidence on EDBs.[9] Orion requested clarification from the Commission on the level of evidence required to disprove this qualifier.

3.11 Orion also submitted a general recommendation for the Commission to publish amendment determinations as red-lined versions of principal determinations so regulated businesses can refer to 'one source of truth'. It suggests consolidation of the IM determinations would remove unnecessary complexity for businesses interpreting the regulations which would reduce the risk of non-compliance.

Our response to Orion's submission

3.12 The exclusion of expenditure that has been explicitly or implicitly provided for in a DPP or CPP is intended to prevent over-recovery of costs in situations where there is clear provision for those costs in opex allowances, and so we have retained this qualification. We do not consider that this places a burden of proof on EDBs to demonstrate there is no such provision, as we recognise forecasts of opex may not be sufficiently granular to identify particular projects or programmes subject to government funding.

3.13 In relation to the presentation of amendment determinations, we note Orion's suggestions and agree that consolidation of the IM determinations on a timely basis would help to remove unnecessary complexity for businesses interpreting them.

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[9] [Draft] Electricity Distribution Services Input Methodologies (Government Grants Related to Income) Amendment Determination 2026 [2026] NZCC XX, para [5.1].

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 deciding 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.[10]

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

A5 However, some uncertainty remains inevitable.[11] 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",[12] and "there is a continuum between complete certainty at one end and complete flexibility at the other".[13]

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.[14]

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.[15]

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11 Wellington International Airport Ltd & others v Commerce Commission [2013] NZHC 3289, para [214].
12 Commerce Commission v Vector Ltd [2012] NZCA 220, para [34].
13 Commerce Commission v Vector Ltd [2012] NZCA 220, para [60].
14 For further discussion see Wellington International Airport Ltd & others v Commerce Commission [2013] NZHC 3289, para [213]-[221].
15 *Wellington International Airport Ltd v Commerce Commission* [2013] NZHC 3289, para [165].

A13 In considering the "materially better" test, the High Court in Wellington International Airport Ltd v Commerce Commission [2013] NZHC 3289, at [165], observed:

> 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.[16] 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).[17]

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

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[16] The next statutory Part 4 IM review is due in 2030.

[17] 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.

A20.2 those that enhance certainty about – or correct technical errors in – the existing IMs.

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.[18]

A23 We consider that the changes made in this final 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.[19] 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.

[18] 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.

[19] See "Commerce Commission: Part 4 Input Methodologies Review 2023 Framework paper" (13 October 2022), para 20-21.