GREYMOUTH GAS

28 January 2016

Keston Ruxton
Manager, IM Review
Regulation Branch
Commerce Commission
By email to im.review@comcom.govt.nz

Dear Keston,

RE: IM Review and 2017 Default Path – Gas Specific Issues

Greymouth Gas New Zealand Limited ("Greymouth Gas") is pleased to make a submission on the above to the Commerce Commission from the perspective of a gas producer and a gas retailer. This includes some general themes / questions that have arisen from discussions with our customers. Greymouth Gas has a gas market share of approximately 8%, by volume. Comments are:

- If Vector made (or will make) a $167m gain[1] by selling some of its pipelines to First State Funds, does that reset the total allowable recoverable money upwards for the relevant pipelines in the next default price path period?

- With the recent changes in market based balancing and daily gas allocations, it might be a good time to review how balancing costs are factored into the default price path model. December 2015 saw significant volumes of cash-outs in the pipeline – much more than before the new arrangements began.

- Some pipeline usage prices in the first default price path period have increased significantly year-on-year due to reductions in demand, e.g. Otahuhu and Southdown. Greymouth Gas believes that there needs to be more protection for the gas industry, e.g.:

    - The default price path concept will be problematic in future years in a low demand scenario if pipeline cost increases encourage switching from gas to other energy sources. This would not be a positive investment signal for upstream investment.

    - Pipeline usage prices should not increase indefinitely as demand trends to zero.

[1] http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11542249

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    - Perhaps there should be a cap on annual aggregate pipeline usage price increases (notwithstanding the level of demand), which is then factored into the total allowable recoverable money and default price resets in future years.

- Gas pipeline businesses have taken some steps to improve the transparency and "fairness" of the allocative cost split of the total allowable recoverable money. However, there is still debate about this and sub-optimal transparency. Maybe the allocative cost split could have some regulatory policy settings applied to it to further improve transparency, consistency and fairness based on economic principles.

- A gas grid investment test has been on or near various agendas for some time – does the Commerce Commission see this as part of its vision?

- While good work has been done on gas pipeline business asset management plans in recent years, we do not consider that these are as good as they could be for the downstream market. E.g.:

    - It is not clear how business-as-usual pipeline risk is being managed, including if risks materialise or are tracking at greater consequence or likelihood than normal.

    - With some pipelines in, or entering, the second half of their useful life, it is important to have public transparency about (for example) what is being done to prevent another issue like what happened on the Maui Pipeline in 2011.

Greymouth Gas is happy to discuss these comments, and we hope that they can be of use in the Commerce Commission's process.

Yours sincerely,

Chris Boxall
Commercial Manager