

## **Notes from Gas DPP Reset Question and Answer Session on Process and Issues Paper, 10 March 2016, Commerce Commission, 44 The Terrace, Wellington**

### **1. Purpose**

1.1 The purpose of this document is to:

- 1.1.1 list the attendees at the question and answer session held following publication of the Process and Issues paper on 29 February 2016; and
- 1.1.2 clarify any matters that were discussed over and above what was published in the process and issues paper.

Attendees:	Richard Fletcher, Powerco	Commerce Commission:
	Oliver Vincent, Powerco	Matthew Lewer (chair)
	Nicolas Vessiot, Powerco	Andrew McLoughlin
	Ben Gerritsen, Castalia Advisors	Graham Phelan
	Richie Wallace, Castalia Advisors	James Mulrennan
	Ian Wilson, Gas Industry Company	Paul Ware
	Richard Sharp, Vector	Tricia Jennings
	Kelvin Binning, Vector	Calum Gunn
	Jamie Patton, Maui Pipeline	John Groot
	Matthew Wilson, Maui Pipeline	
	Mike Hensen, NZIER	
	Richard Hale, MGUG	
	Matthew Gardner, Methanex	
	Geoff Evans, GasNet	

Also in attendance by phone: Len Houwers, MGUG  
Linda Thompson, Fonterra, MGUG

### **2. Process**

- 2.1 Stakeholders advised there would be value in workshops on quality of service and revenue and expenditure forecasting, possibly in April/May. In relation to the proposed quality of service workshop, the discussion should be split into distribution and transmission, rather than having one workshop which covered both. The workshops should have a clear purpose, and attention should be paid to defining the problems (if any) that we are trying to solve.
- 2.2 Stakeholders generally considered that the financial model with dummy data should be published with the proposed “winter” paper (June/July) which will

explain how the draft input methodologies would be implemented in the DPP reset.

### **3. Incentives**

- 3.1 Stakeholders generally agreed with the emerging view expressed in the Process and Issues Paper of not proceeding with an IRIS mechanism.
- 3.2 However, it was noted that it is important for regulatory regimes to have appropriate incentives, so any decision not to have a capex IRIS would mean there was no capex wash-up (and therefore there would be a greater incentive to invest in long-life assets versus shorter-life assets).

### **4. Forecasting**

- 4.1 Suppliers generally supported an approach of setting opex and capex allowances based on scrutiny of supplier forecasts. Feedback included:
  - 4.1.1 Suppliers are interested in the boundaries of scrutiny that will be applied to their forecasts. For example, is the regulator second-guessing the risks taken by suppliers? There was a general view that the regulator should not decide on investment decisions that suppliers are best placed to make;
  - 4.1.2 Commission staff commented that the step-and-trend approach for operating expenditure has, so far as initial analysis allows, been found fit-for-purpose. The potential to assess suppliers' forecasts of operating expenditure is being considered as a possible further improvement;
  - 4.1.3 More information may be required to scrutinise suppliers' expenditure forecasts than for an update of the step-and-trend model. Where suppliers' forecasts differ materially from the underlying step-and-trend model this may trigger more scrutiny and information requests; and
  - 4.1.4 The base year (used in the opex step-and-trend model) and Colonial First State's purchase of the Vector and MDL transmission businesses was raised as an issue for the step-and-trend approach.
- 4.2 Points raised by stakeholders relating to constant price revenue growth included:
  - 4.2.1 GIC's study was not necessarily designed for the purpose of forecasting constant price revenue growth. Suppliers encouraged the Commission and GIC to work together on the terms of reference in this regard; and

4.2.2 The refinement to the constant price revenue growth approach was noted by stakeholders as just as important as the scrutiny of supplier forecasts.

4.3 A question was raised concerning whether the Commission had considered a grid investment test approach for major investments under a DPP. The Commission commented that the CPP process is likely to consider the same types of things that a grid investment test approach would, eg, options assessment, cost benefit assessment, consumer consultation.

## **5. Form of Control**

5.1 Some stakeholders expressed concern about volatility in pricing in relation to the increases in Vector transmission tariffs over the current regulatory period.

5.2 The Commission is interested in receiving feedback on any wash-up mechanism.