



Maui Development Limited
PO Box 23039
Wellington 6140

24 March 2016

Ms. Tricia Jennings
Project Manager, Gas DPP reset 2017
Regulation Branch
Commerce Commission
PO Box 2351
Wellington 6140

Telephone: (04) 460 2535
commercial.operator@mauipipeline.co.nz

Dear Tricia,

This letter contains our initial feedback on the "Default price-quality paths for gas pipeline services from 1 October 2017" process and issues paper dated 29 February 2016. In this letter we will use the terms "MDL", "we", "us" or "our" to refer to the Gas Transmission Business (GTB) of Maui Development Limited.

In this letter we will only provide comments on the issues and matters that are also related to the Input Methodologies review. We will address all other matters in a later submission. Our comments are only intended in relation to issues for the gas transmission sector.

Form of control

As we indicate in our separate comments on the Commission's "Emerging views on form of control" paper for the Input Methodologies review, we strongly support the emerging view to maintain a revenue cap for GTBs but to move to a 'pure' revenue cap based on current quantities with a wash-up mechanism for over and under recovery.

The elimination of the need to make forecasts of constant price revenue growth (CPRG) for gas transmission is among the benefits of this approach.

With respect to implementation of a wash-up mechanism we offer the following comments.

- We expect the wash-up mechanism would apply at least annually, based on differences between forecast and actual revenues for a pricing year.
- It may be useful to also consider wash-ups with a higher frequency. Capacity auctions, for example, could be held on a quarterly or even monthly basis. If so, a wash-up for over or under recoveries from such auctions could apply with the same frequency.
- Implicit in this is that we expect that proceeds from capacity auctions can be included in the revenue wash-up mechanism. In addition to that option, however, it may be beneficial to be able to set aside parts of those proceeds for other purposes as well. For example, if persistent capacity auction surpluses are achieved (in excess of expected proceeds) then those could also be set aside in a reserve fund that could be used for capital contributions to alleviate capacity constraints.
- It may be useful to review the Framework Guidelines from the EU Agency for the Cooperation of Energy Regulators (ACER) in relation to the EU regulation for transmission capacity allocation and auctions. This includes a paragraph: "Auction revenues exceeding the allowed revenue, or values determined by the National Regulatory Authority ... shall be used for different aims subject to the approval by the National Regulatory Authority, such as lowering network tariffs, removing congestion by investments or providing incentives to the Transmission System Operators to offer maximum capacity."

- We would indeed expect to set initial tariffs, and perhaps reserve prices for capacity auctions as well, on the basis of forecasts for a pricing year. As part of our current pricing methodology we already retain an external consultant to provide us with throughput forecasts every year.
- We agree that the revenue wash-up mechanism could also be used for smoothing of price changes. We were accustomed to using this approach prior to the imposition of the current form of control under the DPP regime. Doing so would require an equitable time-value-of-money adjustment for the deferred revenue if permitted price increases are smoothed across multiple pricing periods.
- We are not sufficiently familiar with Transpower's EV account mechanism to determine how suitable that would be. On the face of it, it may be unnecessarily complex for dealing with under and over-recoveries of revenue only. We suggest that those be dealt with similar to a recoverable cost (that could be negative) that would be added to allowable revenue in a year; with an appropriate time-value-of-money adjustment.
- We expect gas transmission pricing to rapidly evolve over the next few years. This will be a consequence of the intended merger between the current Vector and MDL GTBs and of GIC work on transmission access pricing and code convergence. Any wash-up arrangements should therefore be capable of operating independently from the exact pricing structures and categories that exist currently.

IRIS

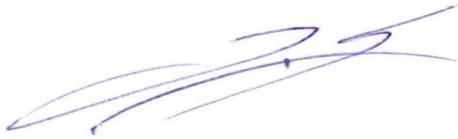
We are pleased to confirm that we support the Commission's emerging view of not implementing an IRIS for the gas transmission sector. We agree that the potential benefits from implementing a capex and opex IRIS for gas pipeline services are unlikely to outweigh the complexity and associated costs.

We acknowledge the Commission's reasons for not wishing to retain an asymmetrical IRIS option under a CPP for gas transmission services. For consistency with the DPP, and to avoid potential transition difficulties, it may indeed be optimal to remove the IRIS option altogether.

Conclusion

We have appreciated the opportunity to provide these comments. For any additional questions or clarifications please do not hesitate to contact us.

Yours sincerely,



Jelle Sjoerdsma
Commercial Operator, Maui Pipeline
for Maui Development Limited