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Tricia Jennings

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Regulation Branch, Commerce Commission  
Wellington, New Zealand

(Submitted via email to [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz))

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Dear Tricia,

## Re: Gas DPP Reset 2017

Fonterra thanks the Commerce Commission (*Commission*) for the opportunity to provide feedback on the Commission's "Default price-quality paths for gas pipeline services from 1 October 2017 – Process and issues paper".

Fonterra is a member of the Major Gas User Group (*MGUG*) and supports the points raised in that submission.

Fonterra wishes to provide some additional points to the Commission in order to assist the Commission with the Gas DPP Reset.

### 1 STAKEHOLDER ENGAGEMENT

- 1.1 Fonterra supports the Commission's approach to engage with stakeholders on topics and encourages the use of workshops to help facilitate discussions on key topics.
- 1.2 Fonterra suggests that the Commission consider providing greater than two weeks' notice to enable participants to attend, or alternatively, the provision of conference call facilities for those stakeholders that are unable to attend in person to enable greater participation.

### 2 FORECASTING OF EXPENDITURE AND REVENUE

- 2.1 The Commission signals that they will review forecasting issues including approach to the treatment of major capex and forecast capex.
- 2.2 Fonterra notes that whatever approach the Commission implements, it needs to ensure that the incentives are appropriate for the gas pipeline owners to invest and maintain the security of supply of gas supply to end consumers, while not placing an unnecessary cost burden on end users.
- 2.3 For example, the Whitecliffs area requires significant investment in both the Vector and Maui pipelines to reduce the risk of disruptions to gas supply and ensure reliability of the two pipelines. It is uncertain when or how the risk to these two pipelines will be resolved.

### 3 FORM OF CONTROL

- 3.1 The Commission paper refers to capacity auctions being introduced as part of the Gas Industry Company's (*GIC*) transmission access pricing work programme. It is uncertain on when or how or if this will be introduced. Fonterra supports the Commission considering how to ensure that the DPP is able to deal with regulatory changes that may occur, although caution about introducing too much flexibility for things that may not eventuate.
- 3.2 One of the key issues that is not covered by the Commission, is how transmission pricing methodologies are set, which is currently set by the individual pipeline owners. This is unregulated with regard to how the methodologies are set, unlike in the electricity sector.

- 3.3 This is a key issue for end users as there are significant differences in the two methodologies that impact pricing.
- (a) For example, the recent thermal plant closures resulted in a significant increase in transmission costs for users on the Vector pipeline. Whereas on the Maui pipeline there is a lag in price impact on users from this decreased demand.
- 3.4 Any form of control that the Commission sets, including wash up mechanisms, needs to consider how this pricing is applied to end users.

#### **4 QUALITY**

- 4.1 Fonterra supports the suggested improvements to apply quality service standards for both gas transmission and distribution businesses.
- 4.2 An additional improvement would be to provide greater visibility of what the risks are on the pipeline, and what the plans are to mitigate or eliminate these risks in the asset management plans. It is also important to understand what the response plans are to outages and the potential time for restoration to occur.
- 4.3 Both response time to emergencies as well as a quality standard of zero outages should be combined with incident reporting as well as reporting on risks and associated response plans.
- 4.4 This is important from an end-user perspective as these risks and response times flow through to downstream users' business continuity plans and implementation of their own risk minimisation plans.
- 4.5 The Commission outlines that the responsibilities for the security, reliability, and safety of gas transmission services in NZ are shared across the Commission, Worksafe and GIC.
- 4.6 However, none of these parties appear to oversee major capital investments to resolve key risks on the pipelines to ensure that the proposed solution is in the best interests of New Zealand or not.
- (a) For example, at the Whitecliffs area, should the Vector pipeline be joined to the Maui pipeline or not? If they are joined, then how will this be managed if there is a failure on the pipeline at this area or before this area? In the October 2011 gas outage, the separate integrity of the Vector pipeline allowed some gas supply to be restored which minimised the impact of this event.
- 4.7 It would be useful if there was clarity provided regarding if this is considered by any regulatory body as it is an important issue for New Zealand.

If the Commission requires clarification or additional information regarding any of the points raised in the submission, please contact us.

We look forward to continuing to engage with the Commission regarding the Gas DPP Reset.

Yours sincerely,

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