

Tricia Jennings
Project Manager, Gas DPP Reset 2017
Regulation Branch
Commerce Commission

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Dear Tricia

Re: Gas Default Price-Quality Path: Matters Related to the Input Methodologies

First State Investments (FSI) is pleased to make this submission on the Commerce Commission's (Commission) process and issues paper related to resetting the default price-quality path (DPP) for gas pipelines.

The Commission has requested submissions on matters related to the input methodologies (IMs) by 24 March 2016, with submissions on the implications for the DPP of the choice of form of control and other matters being due on 30 March 2016.

FSI has made submissions on the choice of form of control (under the IM Review), with this submission focusing on matters linked to both the IMs and DPP—in particular, the Commission's emerging view that an incremental rolling incentive scheme (IRIS) is not warranted for gas pipelines.

We look forward to submitting on the other matters referred to in the Commission's process and issues paper on 30 March 2016.

FSI welcomes the Commission's emerging view that an IRIS should not be implemented for gas pipelines

FSI agrees with the Commission's emerging view that an IRIS for gas pipelines would:¹

- Involve significant complexity and cost
- Provide limited benefits given the expected scale of opex and capex that is not major capex in the next regulatory period.

We think it is unlikely that this position will change in the next DPP reset

We appreciate that the Commission is preserving its ability to consider whether changes in circumstances might warrant a different decision on IRIS in the future. However, we think it is also likely that several of the key decision drivers are enduring ones:

¹ Commerce Commission 'Default Price-Quality Paths for Gas Pipeline Services from 1 October 2017: Process and Issues Paper' 29 February 2015 at Section 5, accessible at [this link](#).

The complexity and cost of splitting out major capex from base capex (primarily for GTBs) and on distinguishing capex associated with customer connections (for GDBs) will be a continuing challenge for gas pipelines.

'Base' capex that does not relate to major capex will always be limited for GTBs given the lumpy nature of capital investment.

We support the Commission's moves to align the DPP and CPP

The Commission is considering the implications for the existing CPP IRIS of its emerging view not to include an IRIS in the DPP. We support the removal of the opex IRIS as part of the CPP to further align the DPP and CPP and drive efficient choices by regulated businesses of the appropriate regulatory regime.

Conclusion

Thank you for the opportunity to make this submission. We look forward to continuing our engagement with the Commission on developing and applying the regulatory settings for gas pipelines in New Zealand.

Yours sincerely



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