

24 March 2016

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Commerce Commission
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[By email]

Dear Tricia

**Submission on DPP from 2017 for gas pipeline services, process and issues paper
– Public version**

1. This submission responds to the Commerce Commission's (Commission) consultation paper "Default price-quality paths for gas pipeline services from 1 October 2017: Process and issues paper", dated 29 February 2015. We provide information about GasNet's current business plans and comment on selected topics within the consultation paper that are of most importance to GasNet.
2. Part of this submission is confidential (marked as **[GCI]**) and we provide both public and confidential versions.

GasNet investments and the DPP

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GCI]

Form of control

7. The Commission's emerging view on the form of control is that it needs to do further analysis to determine whether a revenue cap or a weighted average price cap should apply to gas distribution businesses (GDBs).
8. GasNet supports the weighted average price cap continuing to apply to GDBs. The price cap, with lagged quantities, is already in place and understood by GDBs and is straightforward to audit and operate. We do not believe the case for change has been made, particularly as the gas DPP regime only started in 2013 – frequent change is unlikely to promote confidence in the regulations. However, we would be comfortable with the Commission keeping the issue under review for the next review of input methodologies.
9. GasNet incurred significant costs in setting up systems and processes in order to operate in a manner that complies with the current gas DPP. We would prefer to avoid any changes that meant we have to incur further system costs to operate under a different system.

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GCI]

11. We appreciate that using a weighted average price cap would require the Commission to forecast demand for GDBs, which can be a challenging task. However, the Commission has recently suggested that DPPs could be reopened when revenue forecasts proved to be inaccurate,¹ which would help to resolve any significant errors in forecasting demand.

12. Finally, GDBs have more scope to grow and to compete with other fuel types than electricity distribution businesses (EDBs) do. A weighted average price cap works better for GDBs as it aligns revenues with the success in growing our businesses.

Increased use of suppliers' forecasts to set capex and opex allowances

13. The Commission's initial view is that it would like to actively explore the option of using gas pipeline businesses' (GPBs) own capex and opex forecasts as a starting point for their capex and opex allowances.

14. GasNet agrees with the Commission's view. GasNet will have the best information available about our future expenditure needs and the DPP is more likely to fit our requirements if more reliance is placed on our own forecasts, [

GCI]

15. We appreciate the Commission will want to scrutinise these forecasts to some degree. It is in consumers' interests for the Commission to apply a low-cost approach that focuses on key matters and provides for recovery of prudent and efficient costs. We note that given the small scale of our business, our forecasts are simple and transparent. Accordingly GasNet should not be required to provide large volumes of detailed and audited information in response to Commission requests.

¹ Commerce Commission, "Input methodologies review: Emerging views on opportunities to improve the way default and customised price-quality paths work together", 29 February 2016, paragraph 50.

That would not be low-cost and may outweigh any benefits that GasNet receives from having better forecasts used to set the DPP.

Pass-through and recoverable costs

16. GasNet has previously had some correspondence with the Commission regarding the approach to setting pass-through costs in the current Gas DPP. The requirement that all pass-through costs included in prices must be “ascertainable” at the time prices are set causes some operational difficulties: i.e. GasNet now needs to keep track of what pass-through costs were known at the time prices were set and needs to apply a cost of debt adjustment to those costs.
17. GasNet understands that a different approach to managing pass-through costs is applied for EDBs. The “pass-through balance” approach permits the regulated supplier to set prices to recover their expected pass-through costs. If the regulated supplier's actual pass-through costs are different, there is a "wash-up" where any under or over-recovery is corrected for in a following year, adjusted for the time value of money. GasNet supports applying the “pass-through balance” approach to GDBs at the next reset.

Incremental Rolling Incentive Scheme

18. The Commission's initial view is that an Incremental Rolling Incentive Scheme (IRIS) should not be applied for GPBs at this time.
19. GasNet agrees with the Commission's view. [

GCI] We note that IRIS is a complex mechanism and we think it would be useful to further examine how it has worked in the electricity sector before applying it to the gas sector.

Gas quality standard

20. The current quality standard that applies to GDBs is the ‘Response times to emergencies’ metric. GasNet has invested significantly in systems and processes to

ensure we are capable of meeting audit requirements related to this standard. We support keeping the current quality standard given the investments that have been made in reporting and recording data on this matter. It is also a useful indicator of how well GDBs respond to emergency events on their networks.

21. Additional quality measures are reported, and audited, through Schedules 10a and 10b of our information disclosures and these provide a more rounded picture of the quality of supply we provide. These measures were first reported on in 2013 and there is still a relatively limited set of historical information in this area.
22. GasNet recommends the Commission does not create any new quality standard at this time. Instead we recommend the Commission takes more time to obtain an increased time series of information about quality of supply trends for all of the regulated gas businesses. This data would help to identify a robust additional quality standard that could be applied at a future DPP reset. Meanwhile the 'Response times to emergencies' quality standard should be retained alongside the suite of quality measures within information disclosure.
23. It is important to recognise that gas network businesses operate under a series of stringent safety rules and regulations due to the nature of the gas product that is transported. Compared to electricity, gas networks also rarely suffer significant volumes of interruptions. This means the need for quality standards is arguably less pressing for GDBs than it is for EDBs. Therefore we do not see any real consumer benefit from introducing a new quality standard for the next regulatory period.

Closing Remarks

If you have any queries in relation to this submission, please contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Geoff Evans', written in a cursive style.

Geoff Evans
General Manager