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30 March 2016

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

Dear Tricia,

This letter contains the remainder of our feedback on the "Default price-quality paths for gas pipeline services from 1 October 2017" process and issues paper dated 29 February 2016. It follows up on the comments we already provided in our letter dated 24 March 2016 for the issues that also affect the Input Methodologies. 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. Our comments are only intended in relation to issues for the gas transmission sector.

Company specific issues

Subject to approval from the Overseas Investment Office, we expect that Colonial First State Global Asset Management (Colonial) will complete its planned acquisitions of the Vector and MDL GTBs in the first half of 2016. After completion, this means there will be only a single supplier and asset manager for gas transmission services in New Zealand. We support the Commission's view that there should be only one price-quality path.

We note that Vector and MDL currently have different pricing years and disclosure years. There will be a need for alignment after the merger of the two GTBs. We understand that Colonial is liaising with the Commission on how best to deal with this and the associated transition issues.

Process issues

We appreciate the Commission's clarification of the process it intends to follow. With respect to providing a draft version of the Commission's financial model we would indeed appreciate an opportunity to review this at an early stage. Even if it is only populated with 'dummy' data, it would still be helpful to understand the structure of the model.

Starting revenues

We support the Commission's intent to set starting revenue for the gas transmission DPP on the basis of current and projected profitability. In view of the proposed merger of Vector's and MDL's GTBs, as well as the proposed switch to a 'pure' revenue cap, this seems more sensible than rolling over the combined notional revenue caps that existed previously.

Revenue growth

We agree that moving to a 'pure' revenue cap with a wash up mechanism should eliminate the need for the Commission to make long-term forecasts of revenue quantities for price-quality path determinations in the gas transmission sector.

Given the low predictability of gas transmission throughput trends over a multi-year period we consider this a benefit. To the extent that the Commission would like an independent view on possible trends, we suggest it liaise with GIC for an update of the “Long term gas supply and demand scenarios” prepared by Concept Consulting Group.

Expenditure forecasts

We support the Commission’s view to use gas transmission supplier forecasts as a starting point to set opex and capex allowances. This should be particularly appropriate in the case of setting a price-quality path that is applicable to only a single supplier.

Quality

We provided our initial views on quality of service and security of supply in our letter dated 28 January 2016 as further input for the Input Methodologies review. We support the development of quality of service measures other than the current ‘response time to emergencies (RTE)’ for gas transmission.

With respect to the Commission’s suggested quality of service standard of zero outages, combined with a comprehensive incident reporting obligation, we can provide the following comments.

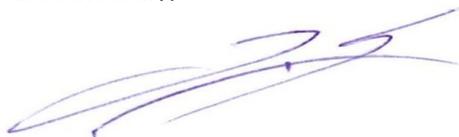
- In effect, we already have an objective of zero outages. Any outage on a transmission pipeline is a serious event which we always seek to avoid.
- Any non-trivial pipeline outage would be likely to lead to a critical contingency and be dealt with under the Gas Governance (Critical Contingency Management) Regulations 2008. This would always be followed by an investigation of the critical contingency and a report on the resulting findings.
- As a result, we do not expect the suggested standard will provide any improved incentives.
- We agree that such a standard should not be revenue linked.

We support the use of workshops with a variety of stakeholders to review opportunities to develop more useful quality standards for gas transmission. Assuming this can be achieved, we support the Commission’s view (in Table 1) to “reassess the current information disclosure measures to ensure readiness for any development of standards for the 2022 reset”.

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