

Agenda for Gas DPP constant price revenue growth (CPRG) workshop

25 May 2016, 1.00pm – 3.00pm

Commerce Commission, Level 9, 44 The Terrace, Wellington

Attendees

Commerce Commission	<ul style="list-style-type: none"> • Lyn Taylor, Powerco • Nathan Hill, Powerco • Mark Hermann, Powerco • Michael Binney, Powerco • Richard Sharp, Vector • Anna Casey, Vector • Kelvin Binning, Vector • Jamie Patton, Maui • Matthew Wilson, Maui • Jelle Sjoerdsma, Maui • Geoff Evans, Gasnet • Greg O'Malley, Gasnet • Ian Ferguson, PwC (for GasNet) • Sharon Wray, Contact Energy • Ben Gerritsen, Castalia • Richie Wallace, Castalia • Ian Wilson, GIC • Richard Hale, MGUG • Len Houwers, MGUG • Linda Thompson, Fonterra • Danny Garrett, Concept Consulting • Simon Coates, Concept Consulting • Mike Hensen, NZIER • Paul Baker, Nova • Matthew Gardner, Methanex
<ul style="list-style-type: none"> • Joseph Highet • Graham Phelan • Simon Todd • Rhianne Ogilvie 	

Purpose of the workshop

The objectives of the workshop are to:

- inform stakeholders about constant price revenue growth (CPRG) principles
- test our evolving thinking on forecasting CPRG in the next gas default price-quality (DPP) path reset
- highlight the forecasting challenges faced in an uncertain environment.

Specific topics to be discussed at the workshop:

- a look back at the previous approach taken by the Commission in forecasting CPRG for the 2013 gas DPP
- the challenges of forecasting in uncertain environments
- an overview of the gas demand study undertaken by Concept Consulting on behalf of GIC
- potential options for CPRG forecasting in the next gas DPP, including regional tailoring.

Background

Broadly speaking, CPRG forecasts predict the rate at which quantities will grow when prices remain constant. The CPRG forecast is used to set starting prices as well as revenue growth over the course of the DPP.

The working assumption for the next gas DPP reset is that distribution businesses will be on a weighted average price cap, and transmission businesses will be under a pure revenue cap.

In setting prices under a weighted average price cap for the gas DPP reset, we are required to set CPRG forecasts for the regulatory period. These forecasts are used along with forecasts of the Consumers Price Index (CPI) to estimate the amount by which each supplier's revenue will change under the DPP. Some years of the forecasts are also used in the ΔD (delta D) calculation in the compliance formula.

More information on the gas DPP reset process and issues, including CPRG, can be found in the following paper on our website:

<http://www.comcom.govt.nz/dmsdocument/14104>

Key questions for the workshop

- How fit for purpose was the 2013 gas DPP approach to forecasting CPRG?
- Is the 2013 gas DPP approach appropriate for the next gas DPP?
- How has the forecasting environment changed over time, and how is it likely to change?
- What low-cost forecasting options do we have available to us to inform our approach to forecasting CPRG for the next gas DPP?

Topics which will not be a focus of this discussion

We would like to keep the discussion on forecasting CPRG therefore we will not be discussing IM Review decisions, for example, the forthcoming draft form of control decision.

Other general DPP issues are also out of scope.

Items for discussion

Item	Key points covered	Lead	Time
Opening introduction	<ul style="list-style-type: none"> Set objective for the workshop 	Graham Phelan	1.00 – 1.10
Forecasting in uncertainty	<ul style="list-style-type: none"> Findings on high level approaches to forecasting in volatile environments 	Graham Phelan	1.10 – 1.30
Previous CPRG forecasting	<ul style="list-style-type: none"> Outline of CPRG forecasting approach in 2013 gas DPP 	Joseph Highet	1.30 – 2.00
Gas demand study	<ul style="list-style-type: none"> Initial demand findings from gas demand study 	Simon Coates	2.00 – 2.30
Gas DPP CPRG forecasting	<ul style="list-style-type: none"> High level approach options for the next gas DPP including use of tailoring 	Joseph Highet/ Graham Phelan	2.30 – 2.50
Wrap up	<ul style="list-style-type: none"> Wrap up and outline of next steps 	Joseph Highet/ Graham Phelan	2.50 – 3.00

Next steps

We will publish a summary of the matters discussed at the workshop on our website. We will not be asking for submissions at this point, as the matters discussed will be included in our Policy paper for the gas DPP reset, which we intend to publish in September 2016.

If you have any questions, please contact

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