Tricia Jennings
Project Manager, Gas DPP reset 2017
Regulation Branch
Commerce Commission
PO Box 2351
Wellington
(via email to regulation.branch@comcom.govt.nz)

4 August 2016

Dear Tricia

RE: Gas DPP reset 2017-Implementing matters arising from proposed input methodologies changes

1. This submission is on behalf of the Major Gas Users Group (MGUG) in response to the Commission's paper of 28 June 2016. Nothing in this submission is confidential.

2. MGUG was established in 2010 as a consumer voice for the interests of a number of industrial companies who are major consumers of natural gas.

3. Membership of MGUG includes:

    - Ballance Agri-Nutrients Ltd
    - Oji Fibre Solutions (NZ) Ltd
    - Fonterra Co-operative Group
    - Goodman Fielder New Zealand Limited
    - New Zealand Steel Ltd
    - New Zealand Sugar Company Ltd
    - Refining NZ

4. Our comments on the DPP reset cover our interest in gas pipeline businesses (GPBs).

5. Our submission acknowledges that implementation matters are dependent on final determinations of Input Methodologies (IM). Our views on matters raised under the Commission's paper relating to implementation matters should not be construed as supporting the current draft IM decisions.

6. Our submission is limited to comments on quantity forecasting, a cap on forecast average price increase, and risk sharing principle in revenue wash-up.

Quantity Forecast

7. The Commission in para 28 asks for views on criteria for determining reasonableness of year ahead forecasts when forecasting revenue. Our view is that GPBs already forecast quantity internally for purposes of budgeting (opex, capex and revenue) and that these budgets would be approved at board level. The Commission should be able to request the forecast detail under confidentiality and have it supported by a Director Declaration[1] that it reflects a reasonable estimate of the expected market demand for the year ahead.

8. Alternatively the Commission may seek an independent forecast to compare with submitted forecasts if an accompanying Director Declaration is not feasible.

Cap on forecast average price increase

9. The pricing experience, particularly on the previous Vector transmission system, has varied considerably between standard and non-standard agreement users[2]. When standard agreement (posted price) users make up nearly 2/3 of the revenue but account for only 42% of the throughput and 20% of the reserved capacity, price adjustments fall disproportionally on standard agreements

10. At the beginning of this current initial DPP period the Commission determined that the GTBs had, in the absence of an effective regulatory control, been significantly over recovering revenue. The Commission mandated large reductions, particularly for the Vector GTB, in the revenue able to be recovered by suppliers.

11. This has been the only time when members have seen a price decrease. Price increases in the first two years of the current regulatory period for standard agreements applying to Vector GTB customers (including our members) were 23% and 25% respectively, clawing back any initial gains made.

12. Price shocks are a critical issue for our members, who face an internationally competitive environment. For the 2015/16 pricing year the additional transmission cost for members on standard agreements was approximately $3.0 million following on from about $2.8 million for the 2014/15 year. These price increases have also come at a time when some of our members have been required to find significant cost savings in their businesses in response to global downturns in their markets.

13. Hence the Commission's suggestion to cap an average price increase as mitigation for price shocks is welcome. Unfortunately it is unlikely to be effective for individual consumers if current pricing methodology in tandem with large number of customised contracts continue to create large disparities in price impacts between customers.

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[1] This may form part of a wider declaration or certification that the Commission would routinely require the GPB to submit.

[2] Most of our members have the majority of their sites on standard transmission agreements. Exceptions are Fonterra's northern dairy factory sites (Kauri and Maungaturoto) and Refining NZ.

14. MGUG would agree with a price cap but believes that it should apply to individual customers and shouldn't exceed more than 10% pa if there is no difference in service provided.

Risk Sharing

15. The Commission is proposing a risk sharing cap under a wash-up arrangement for a catastrophic event that causes actual demand to be less than forecast demand. It cites its decision on Orion's CPP decision as the basis for this principle.

16. Although in principle this seems reasonable if neither a consumer or supplier can manage a catastrophic event risk MGUG would not support risk sharing if the catastrophic event was reasonably foreseeable and within the control of the supplier to mitigate.

17. For example should the Maui pipeline fail through a geotechnical event at an already identified location of weakness (Whitecliffs) we see no reason why consumers should be asked to share in the loss of transmission revenue because of the supplier's failure to act on a known risk in a timely fashion.

Yours sincerely

Richard Hale
Hale & Twomey Ltd
Secretariat for the Major Gas Users Group