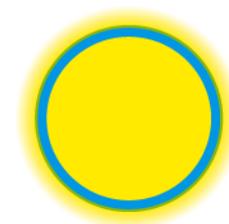


4 August 2016

Keston Ruxton
Manager, Input Methodologies Review
Regulation Branch

Via email: im.review@comcom.govt.nz



Dear Keston

Gas DPP Implementation paper

This is Powerco's submission on the Commerce Commission consultation paper *Default price-quality paths for gas pipeline services from 1 October 2017 - Implementing matters arising from proposed input methodologies changes*, dated 28 June 2016.

Introduction of a 'pass-through balance'

The Commission has proposed to introduce a 'pass-through balance' for Gas Distribution Businesses (GDB's). This pass-through balance aims to remove risk of under (and over) recovery of pass-through and recoverable costs.

Powerco's experience with the application of the pass-through balance for electricity default price path (DPP) compliance is that it has added a significant amount of complexity and effort to the compliance process. However, given the scale of electricity pass-through and recoverable costs we consider the removal of the risk of material under (and over) recovery compensates for the increased administrative burden. The benefits for GDB's however are less clear.

In our experience the risk of under (and over) recovery is less significant for GDB's as pass-through and recoverable costs are relatively small and any under or over recoveries are generally immaterial. Over and under recoveries are also subject to a cost of debt adjustment so losses and gains due to the timing of recoveries is minimised.

In summary, our view is that for GDB's, the risk of under (and over) recovery of pass-through and recoverable costs is immaterial and is not a significant concern. The introduction of a pass-through balance would add a great deal of administrative burden for little gain (risk reduction). For this reason we do not support the Commission's proposal to introduce a 'pass-through balance' for GDB's.

Capex wash-up

The Commission is proposing to introduce a capex wash-up for gas distribution and transmission businesses. This recoverable cost adjusts revenues for the difference between actual and forecast commissioned assets in the last year of the previous regulatory period. Powerco supports the introduction of this wash-up.

Treatment of Other Regulatory Income (ORI)

The Commission is proposing to change the way in which 'other regulatory income' (ORI) is accounted for in the DPP financial model. Currently a forecast of ORI is included in the model and is subtracted from a supplier's allowable revenue. The proposed change would see ORI removed from the financial model and instead accounted for in the wash-up part of the compliance process. Our understanding is that this change in approach would remove forecast error. We are supportive of the proposal on this basis.

Revenue cap application

The Commission has advised in their IM review draft decision papers that the information within the gas DPP implementation paper has implications for the proposed application of a revenue cap form of control.¹ We have addressed all matters regarding the application of a revenue cap form of control in our submission on the IM review draft decision papers.

Thank you for the opportunity to provide comments on this consultation. If you wish to discuss any of the points made, or clarify any matters, in the first instance please contact Nathan Hill tel. (06)759 8582, email nathan.hill@powerco.co.nz.

Yours sincerely



Richard Fletcher
General Manager Regulation and Corporate Affairs

¹ Paragraph 99 IM Review draft decision Topic paper 1