

From: Ben Gerritsen [<mailto:ben.gerritsen@firstgas.co.nz>]
Sent: Wednesday, 17 August 2016 2:00 p.m.
To: james.mulrennan@comcom.govt.nz
Cc: Tricia Jennings; Jelle Sjoerdsma; Len Houwers; Richard Hale; Steve Nicholls
Subject: Re: DPP Quality Measures for GTBs

Hi James,

As discussed yesterday, we thought it might be useful to share our views on the matters raised in the letter from the Major Gas Users' Group to the Commission on DPP Quality Measures for GTBs dated 30 June. We are sending you these thoughts now in case they are useful for the DPP policy paper that will be released in September, but we understand that we will also have the opportunity to submit formally on that paper.

Our views are that:

- We appreciate the thought and effort MGUG has put in to propose GTB quality measures for the DPP in its letter of 30 June
- We agree that the current DPP quality measure (response time to emergencies) provides an incomplete picture of how the quality of gas transmission services should be assessed
- We also share MGUG's view that the quality measures chosen for the DPP should not "impose additional burdens on suppliers". Our understanding of the way that the price-quality regime is designed is that the service quality requirements reflected in the quality path should be compensated through the price path. We do not see any issue in the price-quality balance for GTBs currently being out of kilter (e.g. customers generally want to pay higher prices for more secure supply, or vice versa), but do see an opportunity for the current balance of price and quality to be better understood and monitored through additional DPP quality measures. The conceptual link between price and quality paths would be a useful point to confirm in the policy paper.
- In our view the lagging indicators proposed in MGUG's letter would impose additional burdens on First Gas. The GIC paper on security and reliability highlighted the range of commercial and regulatory drivers that already create strong incentives on us to ensure pipeline security and reliability – including foregoing revenue during the period of any outage (a situation that does not appear to be mirrored for other regulated businesses). The lagging indicator to restore service within 48 hours would also have some undesirable consequences. In our view, imposing quality measures that encourage us to look for "quick fixes" in the event of pipeline outages would not be in the long term interests of consumers.
- The leading indicators are more useful. Although we think the better sources of information for these indicators are our annual audit and 5-yearly certification, rather than the PIMP. Possible measures could be for any non-conformance to be resolved within 3-months and for any improvement observation to be responded to within 12-months and closed. We will continue to look at those measures internally and hope to provide a firm view in our submission on the DPP policy paper.
- If possible, it would be good to get clarity from the Commission on three aspects of the quality path discussion (either through the policy paper or a response to this email):
 - How the Commission assesses whether financial consequences (rewards or penalties) should attach to any quality measures
 - The level of confidence the Commission needs in terms of baseline information to set a quality measure
 - The relationship between the quality measures disclosed under ID and measures under the DPP quality path – i.e. whether a better understanding of how we manage pipeline security and reliability would best be provided through ID (and particularly through our AMP disclosures), rather than the quality path.

Best regards,
Ben

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General Manager Commercial and Regulation

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