

Commerce Commission
P O Box 2351
Wellington 6140

For the Attention of: Dr Simon Todd

21 November 2016

Dear Simon

Report on GasNet distribution supplier evidence assessment responses

1. I am pleased to provide this report setting out Strata Energy Consulting Limited's (Strata) recommendations to the Commerce Commission on the explanations and evidence provided by GasNet in response to the questions posed to them in your email of 4 November 2016.
2. Four questions were put to GasNet following AMP evidence assessment of their 2016-2026 transitional Asset Management Plan (AMP), published 30 June 2016.
3. The following table provides Strata's recommendations and reasons relevant to each of the questions posed by the Commerce Commission to GasNet:

Question	Question posed	Strata recommendation	Rationale
1.1	An explanation as to why there is an absence of expenditure in the replacement and renewal opex category of GasNet's forecast	The explanation provided at paragraph 3 of the GasNet response does satisfactorily explain the absence of replacement and renewal opex	The full explanation provided appears consistent with the Information Disclosure determination and GasNet's financial reporting expenditure treatment, which capitalises replacement and renewal.
1.2	An explanation as to why GasNet's network opex forecast is predicted to remain unchanged, while forecast total capex and the quantum of network assets to be managed, is expected to grow	The explanation provided at paragraph's 4-to-6 of GasNet's response does satisfactorily explain GasNet's network opex forecasts	The response demonstrates that GasNet have considered whether the quantum of assets and the forecast total capex will impact network opex levels and have determined that for the reasons explained that there is insufficient evidence to merit a responding adjustment to capex
1.3	An explanation that supports GasNet's system growth capex forecast, as this appears to be unsupported by either forecast growth in delivered energy or ICP connections	The explanation and additional information drawn from the GasNet 2016/17 Annual Plan does satisfactorily explain the system growth capex forecast; set out in paragraphs 7-10 of the GasNet response	GasNet acknowledge that the AMP did not demonstrate the increase in gas throughput (GJ per annum) that they have forecast in their Annual Plan from 2017/18
1.4	An explanation that supports GasNet's replacement and renewal capex, as this appears to be unsupported by the condition grade of assets	The explanation in paragraph's 11-13 does not satisfactorily explain the forecast asset replacement and renewal (AR&R) capex for the forthcoming DPP period. It is recommended therefore that the allowance be limited to the upper bound of AR&R capex variation boundary.	Para 11 states that there is no direct link between condition grade and forecast AR&R capex. It also acknowledges that condition grade is a separate exercise unrelated to the disclosed capex forecast. Para 12 acknowledges that there is no consistency between condition assessment and expenditure forecasting and that GasNet will seek to develop and enhance AMP systems to enable this link in the future. Para 13 asserts that condition grade is not the only valid reason for AR&R capex but does not supply additional rationale for its forecasts

Summary of recommendations

4. Strata recommends that the explanations provided to questions 1.1-to-1.3 be accepted and the resultant network opex forecast and system growth capex forecast be accepted.
5. Strata recommends that the explanation provided for question 1.4 by GasNet not be accepted as providing sufficient justification and that asset replacement and renewal expenditure capex forecasts for the assessment period be adjusted back to the upper variation boundary for each year that it exceeds the variation boundary.

Regards

A handwritten signature in black ink, appearing to read 'Bill Heaps', with a stylized flourish at the end.

Bill Heaps
Managing Director
Strata Energy Consulting Limited