



Allocation of risk – consumer perspective

- Difficult to separate problems from solutions because you need a factual (the possible solution) and counterfactual (the status quo) to evaluate the materiality on Δ LTBC (change to the long-term benefit of consumers).
- Unsurprisingly suppliers take a business point of view but rarely quantify perceived problems in terms of Δ LTBC.
- For every claimed problem we ask whether it might actually be solvable by the business itself using a range of risk management tools. Or could they apply for a CPP? Or is it part of the likely ebb and flow of uncertainty over a number of RCP? Or is it a self-interested attempt to de-risk their position?
- Apart from where there is an obvious anomaly in the matrix of how risk is currently allocated (eg WACC) or there is a material change to the sector not considered in 2010 (eg impact disruptive technologies), we start with a view it's a zero sum game and any proposal by a supplier to re-allocate risk requires an adjustment elsewhere.

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Allocation of risk in gas transmission

- **Form of control** is revenue cap rather than weighted average price cap. Comcom considered revenue cap more appropriate where demand generally not controllable by the supplier
- Demand falling but GPB's able to recover regulated revenue (spread over residual demand). Although lower prices were mandated in DPP these are being reversed fairly quickly (Year 15/16 Vector charges increasing by 13%/transmission charges are 20-30% of delivered gas price depending on energy component).
- Reasons for the falling demand assumed as a primarily changing thermal generation. Looks set to continue as generators shift to more peaking capacity, located closer to gas supply.
- Form of control provides little incentive on GPB's to innovate (e.g. develop pricing structures to increase uptake). Question whether this is promoting long-term benefit of consumers/outcomes consistent with a competitive market.
- Three key issues:
 - a. Form of control - demand risk entirely on consumers
 - b. Section 52A – promoting the long term benefit of consumers?
 - c. Uncertainty between DPP and CPP

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