



Commerce Commission  
by email: [im.review@comcom.govt.nz](mailto:im.review@comcom.govt.nz)

11 July 2022

Dear Commerce Commission

**Re: Feedback on Part 4 Input Methodologies Review 2023 (“IM review”)**

1. Greymouth Gas New Zealand Limited and related companies (Greymouth) mines, produces and transports natural gas to large consumers throughout the North Island. It has 15% market share on a production basis, and 23% on a 2P remaining reserves basis (at Turangi dated 1.1.22). Greymouth is also a consumer of gas pipeline services.
2. This submission responds to the Commerce Commission’s (“Commission”) papers under the IM review: the Draft Framework paper dated 20 May 2022 (“Draft Framework”) and the Process and Issues paper dated 20 May 2022 (“Issues Paper”). This feedback concerns gas pipeline services only.
3. This submission identifies those high-level issues that need to be addressed in the context of the expected emergence of hydrogen and biofuels as New Zealand transitions to a net-zero carbon future. Greymouth has not attempted to prioritise these issues and considers all issues must be resolved in the course of the IM review.

**A. Unpacking the complex context of the IM review**

4. Hydrogen and other gases create new operational considerations that require an amended governance framework on quality standards, irrespective of the effect of those new gases on the economics of regulated gas pipelines for natural gas consumers.
5. There are at least two ways to view the economic considerations. First, hydrogen and other gases (and predicted ongoing demand for natural gas) illustrate that there is likely to be economic life left in the pipelines at least to the extent assumed in DPP2, which indicates that accelerated depreciation is not required.
6. Second, and separately, the extent to which GPBs will be able to recover depreciation (whether or not accelerated) in a low natural gas and alternative gas future may reduce due indirectly to climate change.
7. These points may seem contradictory, but they are not. That is, the economic life of the asset is long because demand is long, but the value of the pipeline (and the present value of future cash flow) may reduce if throughput reduces.

8. In other words, the economic life of the asset pertains to the length of time gas pipeline businesses (“GPBs”) can recover the short-run marginal cost, not the long-run marginal cost, of the asset. Where revenue cannot recover the long-run marginal cost of the asset but can recover the short-run marginal cost of the asset, then pipeline value may reduce without reducing the economic life of the asset.

**B. Hydrogen or other alternative gases are a near certainty near-term, and likely also long-term according to GPBs**

9. Underpinning the context of the IM review is the fact that the re-purposing of gas pipelines for hydrogen or other alternative gases is a near certainty in the near-term, and possible in the long-term according to First Gas Limited (“FGL”).
10. FGL is actively planning a hydrogen blend trial in a gas pipeline.<sup>1</sup> FGL has also announced the intention to convert the gas pipeline network to 100% hydrogen by 2050,<sup>2</sup> based on its commissioned report, the New Zealand Hydrogen Pipeline Feasibility – A study for Firstgas paper (“H2 paper”).
11. The H2 paper states that *“[hydrogen] blending [will happen] at scale from 2030... The network will be 20% hydrogen by 2035, at which point conversion of the network to supply 100% hydrogen will begin. The conversion to a full 100% hydrogen network will roll-out over the next 15 years, to 2050... The conversion to a 100% hydrogen network will begin at the ends of the network and then progressively work back to Taranaki as hydrogen demand grows. Working inwards in this manner means that natural gas can continue to be supplied to users on the network from Taranaki prior to complete conversion of the network to hydrogen”*.<sup>3</sup>
12. Near-term hydrogen blending will impact on gas pipelines in the next regulatory period (DPP3) and beyond. The Commission must take proactive steps (including a DPP3 reopener if required) to ensure that the regulatory framework is capable of supporting transition while also achieving the purposes of the Act in respect of remaining natural gas consumers.
13. Long-term hydrogen blending or sole use may more materially impact on gas pipelines in regulatory periods beyond DPP3 and DPP4. This IM review must lay the foundations for the potential impacts of hydrogen to be dealt with in future regulatory periods. That is in the best long-term interest of consumers.

**C. Hydrogen and biogas should be recognised within regulated gas pipelines**

14. It is almost certain that GPBs will start transporting gases that are not “natural gas” as contemplated by the Act (and recover revenue from doing so).
15. The use of the pipelines to convey those gases will be a monopoly in the same way as for natural gas, and the Commission (and the government) must act urgently to ensure that:

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<sup>1</sup> para 8 of [https://firstgas.co.nz/wp-content/uploads/FAQs-for-Hydrogen-trial-report\\_FINAL.pdf](https://firstgas.co.nz/wp-content/uploads/FAQs-for-Hydrogen-trial-report_FINAL.pdf)

<sup>2</sup> <https://firstgas.co.nz/news/firstgas-group-announces-plan-to-decarbonise-gas-pipeline-network-in-new-zealand/>

<sup>3</sup> page 13-14 of the H2 paper

- a. GPBs are not able to recover more than 100% of allowable revenue by using regulated assets to provide an unregulated service (i.e. the transportation of gases other than natural gas);
  - b. The full costs required to re-purpose gas pipelines for the transportation of alternative gases (capex alone could cost \$6.5 billion)<sup>456</sup> fall on consumers of those alternative gases and not on consumers of natural gas; and
  - c. There should be no cross-subsidisation by natural gas consumers to alternative gas consumers – including in terms of capital costs recovered through accelerated depreciation, operational costs, and the costs of pipeline upgrades or enhancements carried out during the current regulatory cycle that can be used by future consumers of alternative gases.
16. Given the Commission’s decision in DPP3 to significantly increase GPB starting prices, this work will need to be undertaken swiftly to minimise the cross-subsidisation effects of the accelerated depreciation already included in DPP3 should that decision not be reconsidered or redetermined.
17. It is likely that new assets (such as compressors) will be added to the RAB in the upcoming regulatory period. Due to the low molecular weight of hydrogen, much more compression is likely to be required for hydrogen<sup>7</sup> than natural gas. It is important that the costs of new assets are proportionally allocated as between natural gas and alternative gas industries to avoid cross-subsidisation.
18. Greymouth submits that the Commission:
- a. Reconsider whether hydrogen and other gases come under the ambit of the Act given the significant new context that New Zealand will use regulated gas pipelines to convey non-natural gas, the likes of which has not occurred since commencement of the Act;
  - b. Progress policy and directives that require fair allocation of costs between products, no cross-subsidisation between different industries, and no industry-failure risk picked up by other industries, consumers or the Crown;
  - c. Subject to 18.a. above, requests that the Act be urgently amended to regulate gas pipeline services regardless of product category and to require the outcomes in 18.b. above; and

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<sup>4</sup> assuming all 3,400 kilometres of high-pressure gas transmission pipelines (next footnote) are upgraded at the maximum estimated onshore retrofit cost (subsequent footnote) converted into NZD albeit there is likely to be a range and this estimate will have a high margin of error

<sup>5</sup> <https://www.gasnz.org.nz/nz-gas-industry/natural-gas-industry#:~:text=Owned%20by%20First%20Gas%2C%20there,to%20the%20high%2Dpressure%20system.>

<sup>6</sup> <https://www.statista.com/statistics/1220856/capex-new-retrofitted-h2-pipelines-by-type/#:~:text=Distribution%20by%20are%20estimated%20to,and%200.7%20million%20U.S.%20dollars.>

<sup>7</sup> <https://www.energy.gov/eere/fuelcells/gaseous-hydrogen-compression>

- d. Disclose, after commissioning information if required, a reasonable estimate of the range of capex required to upgrade gas pipelines to more wholly inform the remainder of the IM review.

#### **D. Chemical-based quality standards required**

19. These sections take as their starting point that the existing default-price path quality standards are one-dimensional, i.e. relating to emergency response. That reflects the narrow quality standards in section 53M(3) of the Act, yet Greymouth notes those examples are also “without limitation”.
20. Due to the changed alternative gas (and low natural gas future) context, and after a decade or so of operation, Greymouth considers it time for consumers to receive the benefit of multidimensional quality standards in respect of the price that they pay for gas conveyance on regulated gas pipelines.
21. Turning first to chemical-based quality standards, the Commission has found itself constrained from taking into account that gas pipelines will be re-purposed for use for hydrogen or biogases. However, it considers that, within its current regulatory framework, it can allow for hydrogen to be blended with natural gas, stating that *“the threshold at which a blend of hydrogen or biogas ceased to be considered natural gas could be when the alternative gas blend required pipeline or appliance conversion”*.<sup>8</sup>
22. This approach raises concerns as to the quality and safety of the product being transported. Currently, “natural gas” is not defined, although there has been a presumption that it must meet NZS 5442:2008 – Specification for reticulated natural gas (“NZS 5442”). The Commission’s comments contradict NZS 5442 (which allows for a maximum of 0.1 mol% of hydrogen in the natural gas stream). The Commission’s comments indicate that it has a different view on what natural gas is and/or that natural gas may be redefined in the future.
23. The first additional quality standard should relate to which products regulated gas pipelines can transport (not detail NZS 5442 per se). I.e. to avoid adverse impacts on quality and safety for natural gas consumers, quality standards aligned to a chemical-based definition of “natural gas” are required. This product quality standard should:
  - a. Take NZS 5442 (which has underpinned the gas quality requirements in gas pipeline industry arrangements since inception) as its starting position and define other products that may also be conveyed; and
  - b. Set out consumers’ rights if they want to transport or receive one product and not another.
24. Expanding on this from the end-use consumers’ perspective, competitive markets would ensure that consumers received some sort of protection that they receive the product they demand (and that it, including other products it is transported with, is safe). Currently no such protection exists for end-use consumers (notwithstanding that to date

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<sup>8</sup> at para 5.70 of the Default price-quality paths for gas pipeline businesses from 1 October 2022 – Final Reasons Paper

the product has been natural gas) which is problematic in a hydrogen blend world.<sup>9</sup> In the absence of evidence or a survey, the prevailing conclusion should be that there might be some consumers who are highly sensitive to even small blends of hydrogen and that their rights must be protected (after all, they have paid for the pipelines).

25. From a gas retailers' perspective (as direct consumers of regulated gas pipeline services), they too need protection if they sell one product, yet that is delivered with another product. It must be clear who the retailer of the other product is and which party has responsibility for the aggregate delivered blend. That will also be a matter relevant to amendments to section 41 of the Gas (Safety and Measurement) Regulations 2010.
26. There are also operational or other legislative areas beyond the remit of the Commission. E.g. what regulatory body will be responsible for approving hydrogen blending above NZS 5442 levels, how demand used in gas pipelines will be allocated as between natural gas shippers and shippers of other gas blends, and how shippers and users of natural gas (but not hydrogen), and shippers and users of hydrogen, will be protected from the risks associated with the transportation and consumption of hydrogen, particularly quality and safety risks (including nitrogen oxide increases)<sup>10</sup> and the impacts of those risks on contractual arrangements.
27. Greymouth considers that the minimum next step in the IM review (and possibly as a reopener in DPP3) is for the Commission to set the legislative nexus from which subsequent legislation and operations flow. It would be a perverse outcome if the Commission did not address hydrogen and other gases in the way it regulates gas pipelines and that prevents GPBs from conveying, and hydrogen retailers from competing using, those other gases (beyond trial arrangements).
28. Greymouth submits that the Commission:
  - a. Introduces a new quality standard specifying the products that GPBs can convey through regulated gas pipelines, including how the products interrelate, how they are approved for conveyance, and who has responsibility for the different products and their (physical) aggregate blend;
  - b. Confirms its position on the delineation of biogas and hydrogen, including that hydrogen (for example) will be a separate product to natural gas; and
  - c. Aligns with Standards New Zealand and Worksafe on a. and b. to ensure NZS 5442 is not subverted through an increase of hydrogen in natural gas.

#### **E. Interconnection quality standard covering ongoing ability to use gas pipelines**

26. To receive products that they require, consumers also need to have access to the gas pipelines that transport those products. A second quality standard – for interconnection – should be required such that GPBs maintain the quality of supply of services, i.e. that they are available (setting aside operational issues).

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<sup>9</sup> notwithstanding any trial period in which Greymouth envisages GPBs would obtain the consent of all affected consumers

<sup>10</sup> <https://insideepa.com/share/227828>

27. The existence of petroleum permits extending beyond 2035 and the likely continued demand from non-decarbonising consumers (forthcoming) means there will be a continued need for access to gas pipelines beyond 2035, and also likely well beyond 2050.
28. However, if FGL acts in accordance with the H2 Paper, there will be:
- a. An end to the natural gas market before the last of the petroleum mining permits / licenses (and end-consumer demand for that natural gas) expire; and
  - b. A post-code lottery for end-use consumers vis-à-vis when their access to natural gas ends – i.e. because of the planned rollback of natural gas from each end of the network to Taranaki.
29. Neither outcome is in the interests of natural gas consumers. Both outcomes appear inconsistent with the notion of “just transition”. A fair outcome would be the use of gas pipelines by hydrogen (and/or other alternative gases) in conjunction with natural gas (subject to operational, safety, allocation, and quality standards considerations), and that hydrogen does not or cannot displace natural gas.
30. GPBs with market power should not be able to determine which industries are to be preferred over others. In a competitive market, supply and demand would determine that outcome.
31. If upstream suppliers want to provide natural gas, and end-use consumers want to receive natural gas then ending that market / transaction is not in the long-term benefit of either consumer. The Commission has itself recognised the need to enable this, stating in its DPP3 presentation on 31 May 2022 that *“[it is] making its decision today so GPBs can supply [i.e. transport] [natural] gas as long as there is demand”*.
32. The Commission should act now to ensure that access rights for natural gas consumers are preserved during any transition to alternative gases. It is important that this is done prior to the expiry of the current FGL Gas Transmission Code in the mid-2020s to provide confirmation to industry of the protections of asset use for natural gas consumers and to avoid erosion of consumer rights in the code renewal process (or in code change requests).
33. Greymouth submits that the Commission add a quality standard that GPBs provide open-access commitment (in codes and by way of director certificate) that producers and users of natural gas shall continue to be able to use gas pipelines for that purpose for as long as they want irrespective of whether the pipelines are used to transport other products.

**F. Pricing principles quality standard required**

26. The third quality standard that the Commission should introduce relates to pricing supplied by GPBs in respect of the conveyance of product to which the pricing relates.
27. The phasing down of natural gas and re-purposing of gas pipelines for other gases will see issues of cross-subsidisation come to the fore. It is time to assess whether

compliance with pricing principles<sup>11</sup> should be objectively assessed, rather than leaving GPBs to assess their own compliance.

28. While FGL, for example, has said it will look at this again in the future<sup>12</sup>, that does not guarantee that FGL will comply with the pricing principles. GPBs may prefer not to meet the pricing principles but rather explain why they have not been met. Greymouth considers that pricing principles should be complied with and have compliance demonstrated annually.
29. In coming years, public information will be required to check for fair prices and help inform the gas transition. Greymouth notes parallel electricity industry developments have sought to progress electricity transmission pricing methodologies.
30. Greymouth submits that the Commission:
  - a. Add a pricing principles quality standard that GPBs comply with the pricing principles and demonstrate compliance with that annually, and where compliance is not achieved, require GPBs to refund over-charged consumers and not recover compensated amounts from future years (so as to comply with the pricing principles); and
  - b. Assess, or require the GIC to assess, following wide consultation, the quality of GPB's demonstration of compliance with the pricing principles quality standard.

#### **G. Asymmetry between end-use natural gas consumers**

31. As to natural gas consumers, the current wider legislative and regulatory settings are likely to cause natural gas consumers who are able to decarbonise to do so over the near to medium term. However, it is expected that there will be other consumers who cannot easily decarbonise. The annual demand from these consumers beyond 2035 is expected to be about 50 PJ.<sup>13</sup>
32. The regulatory framework (to date) does not provide for a scenario where the consumer pool is not relatively stable or in growth mode, and it is likely that the DPP3 decision will have asymmetric impacts on these different consumer groups. It is important that the IM review take this into account.
33. Consideration of the impacts of accelerated depreciation on each type of consumer illustrates this. E.g. consumers unlikely to decarbonise in the near term will not obtain benefits from paying higher prices for gas conveyance given that GPB incentives to rebuild gas pipelines beyond their economic useful life are likely to be irrelevant for natural gas consumers.
34. Higher prices as a result of accelerated depreciation may accelerate the move of those consumers able to decarbonise away from natural gas. That may:

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<sup>11</sup> i.e. in section 2.5.1 of the Transmission Services Input Methodologies Determination 2012

<sup>12</sup> consultation letter on gas transmission prices for the gas year commencing 1 October 2022

<sup>13</sup> <https://www.gasindustry.co.nz/our-work/work-programmes/gas-supply-and-demand/#gas-supply-and-demand-projections>

- a. Result in consumers shutting down New Zealand operations and moving overseas, resulting in job losses and other losses to New Zealand's economy;
  - b. Detrimentially impact the orderly and efficient transition to alternative fuels, including the risk of the adoption of uneconomic alternatives which ultimately fail and will need to be replaced again; and
  - c. Result in these consumers cross-subsidising non-decarbonising consumers.
35. Front-loading GPB revenue recovery does not benefit these shorter-term consumers either, most of whom will not want natural gas replacement pipelines beyond their economic life as they will not be gas users in the medium or long-term.
36. In short, the only parties who benefit from accelerated depreciation are GPBs, who look set to lock in windfall gains.
37. Greymouth submits that the Commission:
- a. Reverse accelerated depreciation approved in DPP3; and
  - b. Disallow accelerated depreciation in subsequent periods, and amend the IM accordingly.

**H. Long-term benefit on reserves (and upstream consumers) is critical**

38. The Act defines consumers with reference to the Gas Act 1992, which includes gas producers who consume gas for their own operations (that being common in industry). Accordingly, gas producers are consumers for the purposes of the Act and the IM review.
39. Accelerated depreciation has detrimental impacts on upstream consumers, of which Greymouth is one (as an upstream producer and shipper to downstream consumers).
40. One of the tests for booking reserves is that there is an available market. If the gas pipelines' economic life has been artificially shortened then the market for natural gas could be zero earlier than expected, which will impact the reserves that companies are able to book.
41. It is not in the long-term benefit of upstream asset owners (as consumers of the gas pipeline) to have asset sizes artificially reduced because gas pipelines' economic life is artificially shortened. In a competitive market it is the lack of demand, not the forced shut-down of demand because of the lack of transport services, that should determine reserves write downs.
42. For context, Greymouth notes that many permit/licence end-dates are beyond 2035 (including three of Greymouth's), some are beyond 2050 and one is beyond 2060. End of production is not dictated by end of permits but end of economic production, but nevertheless permit end dates (with extensions) are a proxy for natural gas supply and demand.



43. Greymouth submits that the Commission liaise with MBIE's NZPAM division and gas miners to obtain information about end dates of existing petroleum mining fields and permits / licenses so it can consider that information.

**I. Questionable marginal additional safety and reliability benefits for consumers in DPP3 makes those reasons unlikely to be relevant for justifying future price increases**

44. Reflecting further on consumers, Greymouth does not understand what additional natural gas safety and reliability will be forthcoming for consumers as a result of DPP3 (which the Commission alluded to in its 31 May 2022 presentation).

45. Greymouth considers that safety and reliability justifications are unhelpful when abstract, and that abstract citation does not support decision making integrity. Gas pipelines are reliable and safe – it is difficult to see how providing hundreds of millions of extra dollars to GPBs will make them more reliable and safe.

46. Greymouth submits that the Commission:

- a. Explain what marginal additional gas pipeline safety and reliability outcomes will be delivered to industry as a result of its DPP3 decision; and
- b. Cite safety and reliability as justification for funding increases coupled with use of specific examples rather than as part of abstract narrative.

**J. 'Bucket of money' model does not work in a low volume natural gas future**

47. Turning to economics generally, the Commission should be considering how to manage the balance between allowable revenues and consumer pricing as natural gas volumes decrease. There will come a point where it is unsustainable for GPBs to recover revenues in the manner in which they have done while the industry was in a stable or growth phase.

48. The "bucket of money" model ("BOMM") is not fit for purpose in a low volume natural gas future. While GPBs may not be able to charge or recover all amounts even if full recovery is approved in a BOMM, the long-term benefit of consumers will be better served if the model prevents GPBs fleecing consumers.

49. Greymouth does not have a view what the new model should look like, suffice to say that a new one (or major amendments to the existing one) is needed including to assist with certainty of out-year price signals for consumers and to manage the gas transition. At a minimum the model should permit recovery of short-run marginal costs required to safely deliver natural gas to consumers without consumers paying more than the pricing principles suggest.

50. Greymouth submits that the Commission consult on and then adopt a new model (or material amendments to the BOMM) that does not exponentially increase \$/GJ prices if natural gas throughput exponentially decreases.

**K. Accelerated depreciation should be disallowed as it leads to excess profits, and EBITDA is a type of profit**

51. Greymouth considers the introduction of accelerated depreciation in the DPP3 decision runs contrary to the purpose in s 52A(1)(d) regarding the extraction of excessive profits.
52. The Commission has recently concluded that GPB profits are acceptable.<sup>14</sup> No explicit methodology was described, although the Commission alludes to having considered post-tax profits yet also talks about 'profitability' more generally. The Act does not define 'excess profits'.
53. Greymouth submits that EBITDA is a measure of profitability and profit.<sup>15</sup>
54. While the effect of increasing gas pipeline revenue for accelerated depreciation is a cash cost for consumers, it is a cash benefit for GPBs – a benefit they keep (as an early return of capital). Yet to do that, accelerated depreciation means that GPB's (cash) profitability, i.e. EBITDA, will be excessive meaning that accelerating depreciation is against the purpose of s52A(1)(d) of the Act. Accelerated depreciation is not the way to manage asset stranding risk.
55. Greymouth submits that the Commission:
  - a. Unwind the accelerated depreciation aspects of its DPP3 decision; and
  - b. Prohibit the use of accelerated depreciation in future determinations.

**L. RAB methodology (arguably not fair to begin with) does not work in a low / no volume natural gas future world**

56. Turning to the underlying asset value, as Geoff Bertram alludes to (albeit in this case not for gas pipelines),<sup>16</sup> it appears that the Commission has been using RABs rather than historical cost for setting asset values, which in turn are used to set depreciation.
57. This suggests that in the past there might have been windfall gains to GPBs when the gas pipelines were first regulated. Greymouth requests the Commission to demonstrate that initial RAB values did not create windfall gains for GPBs. It would be in the long-term benefit of consumers to ensure that they have not paid too much money to date.
58. Prima facie, it appears that the cost of gas pipelines has been paid many times over by users over time. How can there be any depreciation left to recover? Particularly in the context when depreciation cannot be presently argued to be ring-fenced for future natural gas pipeline asset rebuild. It is a long-term benefit for consumers to ensure that poor historical calculations or over/under payments will be corrected for the future.

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<sup>14</sup> para 10.12 of the Issues Paper

<sup>15</sup> <https://www.investopedia.com/articles/06/ebitda.asp>

<sup>16</sup> [https://comcom.govt.nz/\\_data/assets/pdf\\_file/0015/224502/Geoff-Bertram-Submission-on-Aurora-Energys-CPP-Issues-paper-18-August-2020.pdf](https://comcom.govt.nz/_data/assets/pdf_file/0015/224502/Geoff-Bertram-Submission-on-Aurora-Energys-CPP-Issues-paper-18-August-2020.pdf)

59. Moreover, the RAB purpose is flawed – to maintain the value of the assets over time<sup>17</sup> – when the value of the assets (and their earning potential) will reduce because of climate change and lower gas demand using sensible valuation methods, particularly as asset replacement is improbable in respect of natural gas consumers.
60. Accordingly, the prevailing RAB approach is not the appropriate model given the significant change to the market environment for natural gas. In a competitive market, assets tend to devalue because of negative information or effects. Asset owners in a competitive market have to wear those reductions in value and are not able to recover the original cost of the asset.
61. The question is why should GPBs recover their capital over time (as if the asset was never exposed to asset stranding risk)? That is not efficient, or fair. That is not in the long-term benefit of consumers because in a competitive market, reductions in demand would lead to reduction in prices and therefore reduction in asset values determined by NPV of future cash flows.
62. Allowing for asset revaluation at the end of economic life (and not earlier) would also not be in the long-term benefit of consumers as there would be no consumers after that to receive the benefit of any revaluation. Further, leaving revaluation towards the end of the asset life deprives consumers from paying for fair value throughout the gas pipeline asset life by way of regular reassessment of the asset value, thus regular reassessment of the depreciation-derived contribution to revenue.
63. Greymouth submits that instead of multiplying RAB by inflation, it would be in consumers' best long-term interests to set RAB and derive subsequent depreciation (whether or not accelerated) by revaluing the RAB using an NPV cash flow approach (requiring assumptions about what is fair to pay for future transmission services). Then if historical depreciation that has been effectively paid for by consumers (including that which predates the gas pipelines being regulated) is already greater than the revalued RAB, the decision for the Commission will be whether to set future depreciation allowances at zero or whether to require GPBs to refund the historical over-recovery to consumers.
64. Either way, that suggests that annual revaluation of RAB should be undertaken as outlined above to minimise price shock and maximise the chance that consumers do not overpay conveyance fees due to depreciation deviating from what it should have been had the RAB been revalued earlier. This is the way to deal with asset stranding risk.
65. Finally, in support of the RAB comments (and in support of any alternative arguments that GPBs should be exposed to asset stranding risk), GPBs earn WACC whose calculations reflect some equity and risk component, making it untenable that GPBs have no regulatory asset stranding risk. Further, some GPBs, like FGL, entered the fray knowing about climate change risk and therefore they should not be able to wholly mitigate their asset stranding risk.
66. Greymouth submits that the Commission:

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<sup>17</sup> para 5.177 of the Issues Paper

- a. Demonstrate how its historical setting of RABs for gas pipelines has not resulted in windfall gains for GPBs;
- b. Replace or amend the existing RAB methodology with one that revalues assets on the basis of a NPV cash flow model reflecting the facts that natural gas will i) materially phase down in the future, and ii) that assets will likely reduce in value because of climate change risks;
- c. Subject to the below, set future depreciation on the basis of the above, adjusting it up or down annually;
- d. Factor in historical depreciation that consumers have effectively paid for and if it is greater than the revalued RAB (or equivalent), decide whether to set forecast depreciation at zero or require GPBs to refund consumers; and
- e. Reopen DPP3 to give effect to the above, which is in the long-term benefit of consumers - the IM review should have happened before DPP3 anyway.

**M. Climate change**

67. Greymouth notes that the 2050 net zero carbon goal is “net” zero and does not prohibit gross emissions (it requires ongoing gross emissions at/after 2050 to be offset).
68. The Commission’s focus on the Task Force on Climate-Related Financial Disclosures approach is unlikely to be of much use unless it considers the pros and cons.
69. New Zealand is behind the times in not progressing regulatory support for carbon capture and storage or direct air capture technology. That is a further reason not to accelerate pipeline depreciation, as upstream consumers and the workforce have a critical role to play in the gas transition.

**N. Conclusion**

26. Greymouth submits that the Commission extends the date of cross-submissions on the IM review. Not all parties have the same resource to commit to this critical issue.
27. The natural gas industry and regulated gas pipeline industry has changed to one of a limited future, aside from possible substitute use. Accordingly, Greymouth questions the relevance of prevailing policy designed for an unlimited future. The whole regime needs new thought and leadership.
28. In conclusion, climate change poses many questions of this IM review which the Commission must address including a suite of additional quality standards, future fuels, ruling out accelerated depreciation and allowing for regular fair asset revaluation for impairment, in each case as expected and required in a competitive market.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Chris Boxall', with a long horizontal flourish extending to the right.

Chris Boxall  
Commercial Manager