

30 May 2012

Commerce Commission
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[By email]

Dear Sir/Madam

Submission on Proposed Amendments to Input Methodologies

Introduction

1. This document forms GasNet Limited's ('GasNet') submission on the 'Consultation on Electricity and Gas Input Methodology Determination Amendments 2012' Paper dated 11 May 2012. It is proposed that the Input Methodologies (IMs) are amended for gas pipeline businesses (GPBs) to align the various methodologies with a standard regulatory reporting period, commencing 1 October each year, for all GPBs. It is also proposed that the asset valuation IMs are amended in respect of assets acquired from related parties
2. We are somewhat surprised that the Commission is re-consulting on parts of the Input Methodologies (IMs) which were determined just 18 months ago following a substantial consultation process. However GasNet welcomes the opportunity to provide further input to the development and implementation of the Commerce Act, Part 4 regulation which now applies to us.
3. As previously advised GasNet is a relatively small GDB located in the wider Wanganui region. In 2011 GasNet conveyed 1.1 Petajoules of natural gas to over 10,000 consumer connections (representing less than 4% of all natural gas consumer connections) across our 386 km of network mains (less than 2% of the total length of natural gas network mains).

Disclosure Year End

4. GasNet has previously strongly opposed the proposal to impose a regulatory reporting period on us which differs to our statutory reporting period. Our recent submission on the draft Information Disclosure Requirements stated:

The Draft Determination proposes that financial disclosures will be made for a disclosure year ending 30 September. This is a change to the 1997 IDRs where each GDB discloses information pertaining to a 30 June year end, which is consistent with their own year-end for statutory financial reporting purposes. We understand this new approach is proposed in order to align disclosure years with pricing years.

As has been previously submitted, a move to 30 September year end disclosures is not GasNet's preferred option as it will impose additional compliance costs on us, given our June financial year-end. Two sets of financial accounts will need to be generated at different dates, significantly increasing the workload for our small finance team. In addition, we will be unable to combine our regulatory and statutory audits as we have done to date. We therefore submit that the disclosure year should remain consistent with our statutory reporting year, as it does under the 1997 IDRs. This remains the lowest cost option for us.

Fundamentally, GasNet does not agree with the Commission's view that the alignment of disclosure and pricing years is so important. All three GDBs already set prices on 1 October and report at 30 June for statutory and ID purposes. Staggering of statutory and pricing disclosures is already part of our business processes. The choice of when prices are set should be left to GDBs to determine.¹

5. The Consultation Paper acknowledges that both Maui Development Limited and Vector Limited oppose the Commission's proposed move away from a financial year end for disclosure purposes. We would like to stress to interested parties that GasNet has also recorded its opposition to this proposal.
6. We continue to oppose the proposal. The Consultation Paper suggests that the Commission believes that the advantages of the proposal outweigh the additional cost and complexities as identified as concerns by Vector and Maui Development. These are valid concerns which are consistent with ours.
7. As outlined in our earlier submission, we do not accept that it is necessary to align the disclosure period and the DPP assessment period (which is to be aligned with the pricing year). Pricing and regulatory/statutory reporting are already out of line and have been for many years. Further it is not clear to us why the Commission cannot meet its information disclosure obligations under the Act with different disclosure periods across GPBs. This has been acceptable to the Ministry of Economic Development (and its predecessors) for the past 15 years. The proposal

¹ Paragraphs 28-30 of our 9 March 2012 submission on the Commerce Commission's Draft Information Disclosure Requirements and Draft Reasons Paper.

appears to be more of one of convenience for the Commission rather than of any direct benefit to others, at the cost of substantial additional complexity for GPBs.

8. As previously submitted we are a relatively small operation. We employ a total of 16 staff, of which 12 are directly involved with the regulated services captured by Part 4. The additional compliance burden on us to implement the new IMs; and the proposed new information disclosure requirements; and the pending DPP should not be underestimated. We are struggling to comprehend how this additional cost is consistent with the “long term benefit of consumers” as required by the Act.
9. For example we will need to prepare our regulatory financial statements from audited statutory information. That will only exist for the first three quarters of the disclosure period at the time it is to be compiled and disclosed. We will need to get our auditors to pre-audit the first quarter of the following financial period before our regulatory statements can be compiled. This means we will need to replicate our year end and audit processes twice in a financial year.
10. Notwithstanding this view, we intend to do everything we can to ensure GasNet complies with the requirements of Part 4. However our shareholders, and we believe our customers, expect us to achieve this as efficiently as possible. The proposal to misalign the information disclosure and statutory reporting years is a source of inefficiency. We urge the Commission to reconsider its proposal. The additional complexity in meeting the new compliance obligations, and applying them to an October - September disclosure period should not be underestimated.

Related Party Asset Acquisitions

11. GasNet undertakes all capital related work either in-house or with the assistance of independent third party contractors. We therefore do not purchase assets from related parties. We have not considered the proposed amendments to the IMs in this respect.

Concluding comments

If you have any queries in relation to this submission, please contact me.

Yours sincerely



Geoff Evans
General Manager