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### **IM Review - Process and Issues/Draft Framework Submission**

Methanex welcomes the opportunity to provide its views on the Process and Issues Paper and Draft Framework Paper provided by the Commission as part of the 2022/23 Input Methodologies Review.

Methanex' scope of interest in the IM Review is restricted to the regulation of the Gas Transmission Business. Methanex' previous submissions to the Commission during the DPP3 reset process focussed on addressing the issue of network stranding risk affecting gas pipeline businesses. Our focus remains on this aspect of regulatory settings.

1. The principal concerns Methanex has in respect to GTB regulation are:
  - (i) That the key economic principles used by the Commission are applied in a manner that balances the interests of pipeline owners and consumers, both current and future and also remains consistent in promoting Section 52A objectives when addressing network stranding risks.
  - (ii) There is a review of the specific settings applied by the Commission in the 2022-26 Gas Pipeline DPP reset ("DPP3"), and in particular the decision to apply accelerated depreciation to address network stranding risk during the DPP3 regulatory period and the scale of adjustment made.
  - (iii) That the level of scrutiny applied by the Commission in terms of setting default price-quality paths and monitoring outcomes is evaluated to test its sufficiency, particularly in the context of assuring that Section 52A objectives are being met when capital recovery has been accelerated. Our concerns include:
    - (a) The level of scrutiny of the information feeding into the DPP setting process generally, including the Commission's level of reliance on forecasts provided by suppliers.
    - (b) The degree of rigour applied by the Commission to the evaluation of stranding risks feeding into the assessment of accelerating capital recovery.

2. In our submissions on the DPP3 reset, we considered that regulatory reset process and timeframe was not suited to consideration and incorporation of fundamental changes that should instead have been more comprehensively addressed as part of the IM Review.
3. We remain of this view and request that the decisions on IM amendments made in the DPP3 reset are thoroughly reviewed in respect of the decision process, choice of accelerated depreciation as the appropriate tool and the assessment of the specific settings applied in DPP3.

### Addressing network stranding risk

4. In general terms we believe the Commission's decision framework for making significant IM amendments outside of a Section 52Y process warrants improvement. During the DPP3 reset process the Commission enumerated its position that it would only consider significant IM amendments being made outside of a Section 52Y process under exceptional circumstances.<sup>1</sup>
5. We disagreed at the time with the Commission's decision that it had a sufficient foundation to address network stranding during the DPP3 regulatory period. We believe the process fell short of the level of scrutiny and consultation that would have been reasonably expected to occur if it had been undertaken as part of the Section 52Y review for implementation at the 2027 Gas DPP reset ("DDP4").
6. With this in mind we request the Commission:
  - (i) Thoroughly reviews its decision to adopt accelerated depreciation, including its decision in respect of gas pipeline businesses to diverge from the approach taken with regard to allowing EDBs to apply for accelerated depreciation, and re-evaluates the level of acceleration that was applied in the DPP3 reset.
  - (ii) considers whether a more systematic and comprehensive process for reviewing IMs (specific to the particular industry) should be undertaken as a matter of course at each regulatory reset (and DPP4 in particular) anticipating that significant IM amendments might be required and, if so, given the sufficient time and scrutiny needed to properly consider those changes.

### Recent draft decision by the Australian Energy Regulator

7. We request that the Commission gives particular consideration to the Australian Energy Regulator's draft decision in respect to regulation of the APA Victorian Transmission System released in June 2022.<sup>2</sup>

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<sup>1</sup> Section 2.34, "Resetting default price-quality paths for gas pipeline businesses from 1 October 2022 - Process and Issues paper", 4 August 2021

<sup>2</sup> "Draft Decision - APA Victorian Transmission System (VTS) Access Arrangement 2023 to 2027 (1 January 2023 to 31 December 2027)", AER, June 2022, page 5  
AER Reference: AER202216

8. In its draft decision the AER has rejected APA's request to accelerate depreciation for the 2023-27 regulatory period in a situation and set of circumstances that appears remarkably similar to that of the DPP3 reset:
  - (i) Network stranding risk as the same underlying issue
  - (ii) A similar regulatory timeframe
  - (iii) A similar economic and regulatory environment, facing similar challenges and opportunities from decarbonisation, declining natural gas use over the long-term, increased electrification and prospects for alternative gases.
9. Methanex has limited knowledge of the intricacies of network regulation in Australia, but we have formed the impression that the AER has taken a markedly different approach to regulation than the Commerce Commission:
  - (i) The decision process to determine if measures to address network stranding risk is necessary appears to be more in keeping with the mechanism for adjusting asset lives provided for EDB's that emerged out of the 2016 IM Review.
  - (ii) The AER appears to require substantial evidence to be provided by the applicant to support a request for accelerated depreciation.

We request the Commission gives consideration to the recent APA decision and re-evaluates its DPP3 determinations and decision making processes more generally.

10. The Commission's decision to adopt accelerated depreciation in DPP3 was based on its assessment of extraordinary circumstances and the need for action without delay. By contrast the AER does not appear to have had the same concerns with respect to the Victorian Transmission System. We note in particular the comment made by the AER in respect to the APA's application that ***"it has not satisfied us that there is a case for taking action at this time, or that the difference between acting now and acting 5 years from now would materially change outcomes for consumers."***<sup>3</sup>

We request the Commission re-assesses the fundamental decision processes, including level of scrutiny, analysis and consultation that led to its conclusions, and consider making changes to its decision framework, the affected IMs and their application.

11. We also note that the AER has placed an extensive set of expectations on pipeline owners seeking compensation for network stranding risk which it set out in its supporting Information Paper of November 2021.<sup>4</sup>

We request the Commission considers implementing a similarly comprehensive process of information gathering and evaluation in its assessment of network stranding risk going

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<sup>3</sup> AER Draft Decision, page 6

<sup>4</sup> "Regulating gas pipelines under uncertainty- Information paper", AER Nov 2021, page 45  
AER Reference: AER212808

forward and with sufficient transparency for consumers to have confidence that the risk is being evaluated with an appropriate degree of rigour.

### Level of Commission Scrutiny as an Issue

12. Methanex considers that the existing DPP resetting mechanism as a generic low cost approach is not well suited to addressing complex and emerging issues, such as has presented itself with regard to increased network stranding risks.
13. We request the Commission considers whether, the increased complexity and uncertainty associated with addressing declining natural gas use and the increased risk of network stranding, together with the prospect of mispricing the risk to the detriment of consumers, warrants a general increase in the scrutiny it applies to determining DPP settings for gas pipeline businesses going forward.
14. We believe consideration should be given to recalibrating the 'low-cost, generic' approach to setting DPPs. We request the Commission gives consideration to adopting a more detailed and comprehensive assessment process in order to better address the increasing risks now being imposed upon consumers and provide a greater assurance that pipeline owners are indeed making business decisions that are consistent with Section 52A objectives in the context of increased network stranding risks.
15. In respect to application of the building block model to determine allowable revenue, we request particular consideration is given to modifying the approach to use of supplier forecasts and the BAU variance test.

The current BAU variance triggers of 5% above historical average opex and, in particular, 10% increase above historical average capex, should be re-evaluated. We believe that the prospect of increased network stranding risk warrants a lowering of the threshold for undertaking detailed scrutiny. In aligning monopoly business outcomes with those of competitive industries facing stranding risks we would expect conservation of capital expenditure over time to occur.

Methanex acknowledges that there are a range of other issues that the Commission has identified for its consideration and we look forward to continuing engagement with the Commission on those issues as they relate to the regulation of gas pipeline businesses, as well as the issues that we have raised in this submission, as the IM Review progresses.

Yours sincerely

Stuart McCall  
**Managing Director**