COMMERCE COMMISSION NEW ZEALAND

12 May 2015

Mr Jelle Sjoerdsma
Maui Development Limited
PO Box 23039
Wellington 6140

Mr Brett Butler
Vector Limited
PO Box 99882
Newmarket
Auckland

Dear Jelle and Brett

Recoverable costs in respect of gas balancing

Maui Development Limited (MDL) and Vector Limited (Vector) have requested that we confirm whether gas balancing 'cash-outs' in respect of the Maui gas pipeline can be recognised as recoverable costs under the input methodologies that relate to regulated gas transmission businesses.[1]

Specifically, we have considered:

- whether a cost or credit arising from a cash-out transaction is "a cost or a credit arising from the GTB's purchase or sale of balancing gas"; and
- whether a cost or credit arising for Vector from a cash-out transaction in respect of the Maui gas pipeline is a recoverable cost for Vector's transmission business.

Based on the information you supplied to us, and the Gas Industry Company's description of cash-out transactions included in its recent consultation material on MDL's change request,[2] we consider that recoverable costs include:

- cash-outs under the current gas balancing regime; and
- daily cash-outs arising from the regime pursuant to MDL's change request.

We consider that the relevant input methodology does not limit recoverable costs to those arising in respect of the supplier's own network. As a consequence, recoverable costs will include both cash-out costs and credits for MDL, and cash-out costs and credits for Vector.

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1 Clause 3.1.3 of the Gas Transmission Services Input Methodologies Determination 2012, NZCC 28, including all subsequent amendments.

2 Draft Recommendation on 10 October 2014 MPOC Change Request, 15 February 2015, pp. 38-39; Final Recommendation on 10 October 2014 MPOC Change Request, 28 April 2015, Gas Industry Company

AUCKLAND
L19, ASB Building
135 Albert Street
P.O. Box 105-222
AUCKLAND 1143, NEW ZEALAND

WELLINGTON
L6, 44 The Terrace
P.O. Box 2351
WELLINGTON 6140, NEW ZEALAND
Tel: (04) 924 3600 Fax: (04) 924 3700
Main Office

CHRISTCHURCH
9 Radley Street
Woolston
P.O. Box 10-199
CHRISTCHURCH 8145, NEW ZEALAND

Reasons for our view

We have reached the view above relating to whether a cost or credit arising from a cash-out transaction is "a cost or a credit arising from the GTB's purchase or sale of balancing gas" on the following basis:

- cash-out transactions involve the sale or purchase of gas where title is passed;
- "balancing gas" is not defined in the input methodologies, but a cash-out transaction would be understood by the industry as relating to a gas balancing process. A specific gas balancing transaction need not involve a physical balancing action;
- the circumstances to which a cash-out transaction relates are generally beyond the control of gas transmission businesses because they arise from operational imbalances, for which limited tools are available to manage given they arise from the uncertainties of consumer demand.

With respect to whether a cost or credit arising for Vector from a cash-out transaction in respect of the Maui gas pipeline is a recoverable cost for Vector's transmission business:

- our reading of the relevant provisions governing recoverable costs for gas balancing activities indicates that they are not limited to costs or credits arising from gas transactions for a supplier's own network;
- we consider it appropriate that costs or credits from cash-out transactions arising for Vector are recoverable costs because they are largely outside Vector's control.

We understand, based on the Gas Industry Company's description of the daily cash-out transactions, that the market-based balancing regime for the Maui pipeline will not change any of the critical elements of cash-out transactions that are relevant for the recoverable cost provisions of the input methodologies. On this basis, we have concluded that recoverable costs will include daily cash-outs.

If you have any questions please contact Matthew Lewer, Manager, Regulation Branch (ph 04 924 3820, matt.lewer@comcom.govt.nz).

Yours sincerely

S J Begg

Sue Begg
Deputy Chair
Commerce Commission

cc: Mr Ian Dempster and Mr Ian Wilson, Gas Industry Company