Tricia Jennings
Project Manager, Gas DPP reset 2017
Regulation Branch
Commerce Commission
PO Box 2351
Wellington
(via email to regulation.branch@comcom.govt.nz)

27 April 2017

Dear Tricia

RE: Gas DPP 1 October 2017 to 30 September 2022 Technical Consultation Paper 2017

1. This submission is on behalf of the Major Gas Users Group (MGUG) and is in response to the Commission's paper[1] of 13 April 2017. As we understand it the Commission is inviting submissions on:

    a. Whether the matters referred to in this technical consultation paper accurately give effect to the February 2017 draft decisions; and

    b. Will be workable in terms of their practical applications and demonstrating and assessing compliance with the price quality drafts.

2. Hence our comments are restricted the specific matters referred to in this paper noting the Commission is still due to make its final determination in May 2017 taking into account the submission and cross submission process.

3. Nothing in this submission is confidential.

4. MGUG was established in 2010 as a consumer voice for the interests of a number of industrial companies who are major consumers of natural gas.

5. Membership of MGUG comprises:

    - Ballance Agri-Nutrients Ltd
    - Oji Fibre Solutions (NZ) Ltd
    - Fonterra Co-operative Group
    - Goodman Fielder New Zealand Limited
    - New Zealand Steel Ltd
    - New Zealand Sugar Company Ltd
    - Refining NZ

6. Our submission covers the following matters:

[1] Default price-quality paths for gas pipeline businesses from 1 October 2017 to 30 September 2022 Draft Reasons Paper

i. Treatment of GasNet Bay of Plenty asset sale

ii. Setting standards for quality of service

Treatment of GasNet Bay of Plenty asset sale

7. The Commission says it is reconsidering its position on the valuation of the Western Bay of Plenty assets purchased by First Gas from GasNet. MGUG raised the treatment of the Gasnet Bay of Plenty asset sale in our submission dated 10 March 2017 on the draft DPP.

8. The Commission acknowledges (para 1.10) that First Gas paid a price that is materially in excess of GasNet's cost to construct these assets. The Commission notes that had GasNet commissioned the assets they would have entered its RAB at the cost to construct etc (para 1.12). The Commission is proposing therefore that the assets should be transferred to First Gas at the cost to construct plus any associated financing and commissioning costs. The Commission notes that this approach would be consistent with the policy intent of the Input Methodologies.

9. We agree with the Commission that this should be the approach. A higher valuation would mean a higher RAB to be borne by consumers when GasNet's original intent was to invest and compete in First Gas' Bay of Plenty network on the cost to construct etc.

Table 2.1 - Removal of the method for calculating the average increase in price

10. The Commission says it is removing the method for calculating the average price increase. On the face of it we are not sure what the Commission means or intends by doing this but it appears the outcome is that the proposal to put in place a cap on average price increases has been abandoned.

11. We are unclear whether the Commission has made this decision because it is concerned about the method or because it considers the method may lead to unintended consequences. No explanation has been provided e.g. in the same way the Commission has articulated its position with respect to the GasNet expenditure. Hence we remain concerned that the basis for making these changes has not been well articulated.

12. As noted in our cross submission dated 24 March 2017 MGUG supported the Commission's proposal to cap price increases. We cited our experience of pricing volatility in 2015/16. The Commission has acknowledged this concern in the Draft Reasons paper (Paragraph F27 at page 119).

13. We note that First Gas puts some weight on the ability of customers and the GIC to effectively veto a pricing regime that is not supported by industry but as we articulated in our cross submission (paragraph 21) we did not support this view. Specifically we noted that GIC's regulatory powers did not extend to regulating pricing. [2]

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[2] http://gasindustry.co.nz/work-programmes/transmission-pipeline-access/developing/gas-transmission-workshop-august-2016

14. Our view remains that the price increase cap remains appropriate.

Table 2.1 - Setting Standards for Quality of Service

15. We repeat our earlier comment that MGUG considers the draft decision and supporting arrangements to include a major interruption quality standard for GTBs a good outcome for consumers and is supportive of the Commission's position on this matter.[3]

16. In this context MGUG is happy to support the technical changes proposed in Table 2.1 as we do not see them undermining the proposed quality standard. We reiterate however our previous position that we see no basis for excluding the Band 2 curtailment category from the Commission's definition of major interruption.

Yours sincerely

Richard Hale/Len Houwers
Hale & Twomey/Arete Consulting Ltd
Secretariat for the Major Gas Users Group

[3] MGUG "Cross Submission on Gas DPP 2017 – Draft Reasons Paper 10 February 2017" – 24 March 2017