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Mr. Paul Mitchell  
Chief Advisor  
Regulation Branch  
Commerce Commission  
PO Box 2351  
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Dear Mr. Mitchell,

Please regard this letter as our cross-submission on the Discussion Paper from the Commerce Commission ("the Commission") on the Setting of Starting Prices for Gas Pipeline Businesses under the Initial Default Price-Quality Path. In this letter I will use MDL to refer to the Gas Transmission Business (GTB) of Maui Development Limited. This cross-submission follows our submission of 28 September 2011 and is based on our review of submissions on the same topic from other parties.

We agree with many of the points made by those other parties. In this cross-submission I will limit myself to expressing and expanding on two main points that we agree with:

- Projections should be based as much as possible on actual data or budgets
- The Commission should reconsider an IRIS scheme

### **Projections should be based as much as possible on actual data or budgets**

We believe this is particularly important for demand and revenue projections. We were intrigued by Powerco's demonstration that there is no discernible relationship between gas usage and growth in GDP, population or households. If any such relationships were to be derived from a regression analysis, the correlation coefficients would likely be negative. In effect, most of the revenue drivers proposed by the Commission seem to be irrelevant.

We support the proposals from various submitters, including the MGUG, that demand projections should be based on the individual budgets of each GPB. The Commission can apply an analysis of historical trends to determine whether such budgets are reasonable.

We also support the proposals that capital expenditure projections should be derived from Asset Management Plans. As we pointed out in our original submission, historical trends cannot form a basis for future capital expenditure other than routine replacement. We note that all other GPBs have made the same point. We agree with GasNet that the mere fact that such Asset Management Plans have not been made public before should not prevent them from being used.

### **The Commission should reconsider an IRIS scheme**

We strongly agree with Vector that the Commission should reconsider an Incremental Rolling Incentive Scheme, or a similar mechanism, that allows GPBs to retain efficiency gains beyond the arbitrary cut-off date provided by the end of a regulatory period.

## Closing Remarks

We note the recent judgement In Vector Ltd v Commerce Commission. It seems that this could possibly result in a delay in implementing the Default Price Path. If this is the case we be happy to work with the Commission towards a revised schedule.

We have appreciated the opportunity to provide this cross-submission. For any additional questions or clarifications please do not hesitate to contact us.

Yours sincerely,

Don Gray  
General Manager, Commercial Operator Maui Pipeline  
**for Maui Development Limited**