

# Gas DPP 2017 reset

## First Gas Transmission Gilbert Stream – updated draft decision

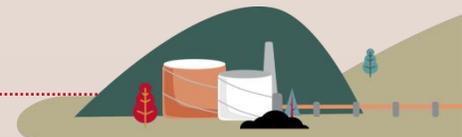
23 March 2017

#2822291



# Gilbert Stream expenditure decision

- The Commission has updated its draft decision based on the additional supporting evidence provided by First Gas (FG) on 17 February 2017 to include the Gilbert Stream capex forecast expenditure of \$9m proposed by FG. This forecast expenditure is now included in FG's ARR capex category as an additional expenditure allowance.
- The Commission will be reviewing other ARR capex category expenditure following the 17 February 2017 information.



# Background

- Gas DPP 2017 reset draft decision was to not accept FG Transmission's significant forecast increase in Asset Replacement and Renewal (ARR) capex category (paras 5.8 - 5.16).
- Gilbert Stream project and White Cliffs preparatory expenditure considered to be inadequately supported.
- Gilbert Stream forecast cost - \$9m. White Cliffs forecast cost - \$82m (\$30m intended to be incurred within the 2017-2022 DPP reset period).
- In our draft decision we said:
  - for Gilbert Stream we would consider additional information in final decision.
  - White Cliffs was more suited to greater level of scrutiny under a CPP.



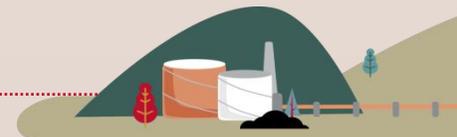
# Commission questions to FG

- We supplied additional questions to FG on 13 February 2017 with ARR capex category focus.
- Regarding Gilbert Stream we sought:
  - Q1.1: Risk analysis and evidence of marine erosion effects at Gilbert Stream;
  - Q1.2: Any industry consultation, discussions and support for the proposed expenditure;
  - Q1.3: Details of alternatives considered;
  - Q1.4: Details of economic impact of pipeline failure, estimated outage duration and cost benefit analysis that underpinned the decision to invest.
  - Q1.5.1: ARR category capex forecast: with Gilbert Stream and White Cliffs expenditure removed;
  - Q1.5.1: ARR category capex forecast : Gilbert Stream expenditure only;
  - Q1.5.3: ARR category capex forecast: White Cliffs expenditure only.



# FG response to Commission questions

- FG provided substantial supporting information on 17 February 2017.
- FG view about Gilbert Stream was that:
  - Erosion rates of 0.375m/year on average are observed at Gilbert Stream. The pipeline is now 9.6m to the cliff edge.
  - Once the pipeline is closer than 10m to cliff it triggers investment decision making as episodic slips at Gilbert Stream may eliminate between 5m to 10m at a time.
- Commission engaged Strata to review the information. Strata concluded that (with reference to Commission's questions):
  - **Q1.1:** FG did not provide all expert reports relating to erosion risk, but it has demonstrated that the risk of episodic failure (5m to 10m) puts the pipeline integrity at risk. Q1.1 was not fully answered.



# FG response to Commission questions

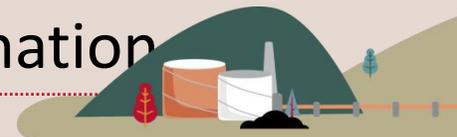
- Strata concluded that:
  - **Q1.2:** FG did provide evidence of industry presentations about its risk analysis in general, it did not provide evidence of industry consultation or any support for the Gilbert Stream investment. Q1.2 was not fully answered.
  - **Q1.3:** FG has demonstrated that it provided analysis and an investigation of options that would meet a Board's reasonable expectation for a business case justification. Q1.3 was fully answered.
  - **Q1.4:** While FG did not provide a figure in its response, the information suggested that the economic cost of the outage would be more than \$240m (6 days x \$40m). Q1.4 was answered.
  - **Commission staff analysis of Q1.4 response:** Given the rate of erosion (0.375m/year) and the 9.6m proximity to the cliff edge an estimate of a 1 in 25 years could be an upper bound pipeline failure exposure. Annualised risk cost is then approximately \$10m p.a. and an NPV at 7% DR of about \$110m. Project cost justified. Q1.4 can be considered fully answered.



# FG response to Commission questions



- Strata summary conclusion (Q1.1 to Q1.4):
  - “Whilst the information and response from First Gas required to address the Commission’s first two questions could have been more robust, we consider that the additional information provided in response to questions three and four demonstrates a clear case for progressing the Gilbert Stream pipeline realignment”.
- The Commission has updated its draft decision based on the additional supporting evidence provided by FG on 17 February 2017 to include the Gilbert Stream capex forecast expenditure of \$9m proposed by FG. This forecast expenditure is now included in FG’s ARR capex category as an additional expenditure allowance.
- The Commission will be reviewing other ARR capex category expenditure following the 17 February 2017 information



# Submissions

- Submissions on this draft decision can be made by 5 pm on Friday 31 March 2017.
- Submissions should be emailed to [regulation@comcom.govt.nz](mailto:regulation@comcom.govt.nz) to the attention of Tricia Jennings.
- Emails should include “Gas DPP – Gilbert Stream” in the subject line.

