

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

10 March 2017

Dear Tricia

**RE: Gas DPP 2017-Draft Reasons Paper 10 February 2017.**

1. This submission is on behalf of the Major Gas Users Group (MGUG) and is in response to the Commission's paper<sup>1</sup> of 10 February 2017 inviting submissions on its draft reasons paper for the Default Price-Quality Path for Gas Pipeline Businesses 2017 - 2022. Nothing in this submission is confidential.
2. 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.
3. 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
4. Our submission covers the following matters:
  - i. Ability to respond to Draft Decision
  - ii. Significance of First Gas Transmission own expenditure forecast for asset renewal and replacement (ARR)<sup>2</sup>
  - iii. Treatment of GasNet Bay of Plenty asset sale
  - iv. Setting standards for quality of service

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<sup>1</sup> Default price-quality paths for gas pipeline businesses from 1 October 2017 to 30 September 2022 Draft Reasons Paper

<sup>2</sup> Commission's email of 24 February 2017 attaching various documents from First Gas.

### **Ability to respond**

5. MGUG is anticipating that we will have a greater involvement in the cross submission process depending on supplier responses to the Commission's reasoning. As a consumer group we do not have the same access to supplier information to comment specifically on reasonableness of supplier assumptions. However we may be able to test supplier assertions as they respond to aspects of the Commission's reasoning. Hence although we may not be commenting on areas of concern in this response we will be relying on the cross submission process to do so.
6. The cross submission phase is relatively short however. Given the significance of this draft decision we believe the Commission should allow more time for consumer interests to be adequately addressed, including providing time for consumers to examine supplier information and responses to the draft decision. Accordingly we would request the Commission to extend the deadline for cross submissions to 31 March 2017.

### **First Gas Asset Replacement and Renewal (ARR) Capex**

7. We note the email received from the Commission dated 24 February 2017 regarding the treatment of Whitecliffs and Gilbert Stream projects which attaches information received from First Gas regarding these two projects. As we understand it the Draft decision was not to accept these two projects, on the basis they were not adequately supported.
8. While the reasoning for Whitecliffs is well understood we are not clear on the Commission's position with regard to Gilbert Stream, nor on the remaining ARR capex. The key question for major users is how the Commission's treatment might impact on demand for a reliable service.<sup>3</sup>
9. At this stage we want to examine supplier responses to the draft decision before commenting on the Commission's treatment. Hence it will help greatly if the Commission would consider positively our request to extend the deadline for cross submissions.

### **Treatment of GasNet Bay of Plenty asset sale**

10. MGUG were surprised to learn that GasNet has abandoned its attempt to compete in First Gas's distribution territory and that First Gas had agreed to purchase the un-commissioned assets under construction from GasNet.
11. The Commission notes (5.21) that it will accept that the value of those assets will be the purchase price plus any subsequent capitalised costs required to commission them,

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<sup>3</sup> We also note that in response to a series of questions from the Commission First Gas has provided a breakdown of its Asset Replacement and Renewal Capital expenditure for these projects (including timing), which makes clearer the balance of expenditure attributed by First Gas to ARR.

including the cost of financing from the date of First Gas's acquisition to the date of commissioning.

12. From a consumer perspective three consequences stand out as being inconsistent with the purpose of Part 4:
  - v. The benefits outlined by the Commission of increased competition will no longer be realised<sup>4</sup>.
  - vi. It is not clear that these assets would have been built if it had been left as First Gas's choice<sup>5</sup>.
  - vii. It is not clear if the purchase price included a premium over GasNet's actual costs to build these assets and if so why that premium should be allowed into the RAB.
13. The investment is therefore not efficient and to the degree that this inefficiency inflates First Gas Distribution's RAB the cost of this transaction is being borne by consumers when compared to the counterfactual of GasNet's original intent to invest and compete in First Gas' Bay of Plenty network.

#### **Setting Standards for Quality of Service**

14. MGUG promoted the initiative to include a major interruption quality standard for GTBs to fill a gap in the existing regulatory settings on service levels that reflect consumer demands.
15. 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.

Yours sincerely



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

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<sup>4</sup> C8, C9 Default price-quality paths for gas pipeline services from 1 October 2017 – 30 August 2016

<sup>5</sup> First Gas Distribution Asset Management Plan 2016 (S5.85) suggests any network expansions in Papamoa area wouldn't have occurred before 2018-2020 [http://firstgas.co.nz/wp-content/uploads/FGL\\_distribution\\_2016\\_asset\\_management\\_plan.pdf](http://firstgas.co.nz/wp-content/uploads/FGL_distribution_2016_asset_management_plan.pdf)