GREYMOUTH GAS

Commerce Commission
By email: im.review@comcom.govt.nz

8 August 2022

Dear Commerce Commission

Re: Cross-Submission on Submissions on Part 4 Input Methodologies Review 2023 ("IM review")

1. Greymouth Gas New Zealand Limited (Greymouth) thanks the Commerce Commission ("Commission") for a one-week extension for this cross-submission.

A. Key points in gas sector submissions

2. Greymouth notes that there is reasonable consistency from respondents vis-à-vis the following points:

   - Gas sector (and other) submitters call for the IM review to front up to climate change and alternative technology matters in this review, not (just) future reviews. Those matters are upon industry now and waiting another seven years is too late.

   - Consumers representing a significant volume of supply and demand have been clear about long-term benefit, including pipeline asset write-downs and no accelerated depreciation.

   - Gas sector submitters call for more workshops to solve issues.

   - Gas sector submitters note that gas (in long-term wind-down) is materially different today and looking to the future than other sectors (in steady-state or growth mode).

   - Gas sector submissions are dwarfed in number by submissions on other sectors, yet gas is central to the energy transition and should at least have equitable focus (perhaps be split into a separate stream if required).

3. Greymouth encourages the Commission to give procedural and directional weight to the matters above in the forthcoming steps in the IM review process.

B. Methanex

4. Greymouth supports Methanex's submission.

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C. Major Gas Users Group

5. Greymouth supports MGUG's submission.

6. MGUG discusses ex ante FCM throughout its submission, in particular "the Commission's view [is] that prices need to increase for current consumers relative to prices for future consumers to maintain a reasonable expectation of FCM".[1] Greymouth notes that the Commission's position does not appear dynamically efficient because it is making current consumers relatively worse off than future consumers. Therefore, FCM does not pass the efficiency test when depreciation is accelerated (notwithstanding that FCM is also not fit for purpose in the current gas sector context). Vector also agrees that dynamic efficiency is an important consideration.[2]

7. MGUG also notes that it "can see arguments in favour of investments for repurposing gas pipelines".[3] Greymouth concurs but, with reference to the next paragraph, one of the important matters is about who should pay.

D. Powerco

8. Powerco "[wants] mechanisms that support long-term investment and operation required to support a transition off natural gas".[4] While more mechanisms to manage the gas transition are required, that should not result in long-term investment paid for by natural gas consumers for the long-term benefit of non-natural gas consumers. The Commission notes that 'consumers' is narrowly defined as pertaining to users of pipeline services[5] and that alternative gas investment cannot occur at present.[6] It is inaccurate to draw a blanket conclusion that consumers of natural gas today will be consumers of alternative gases in the future – some may, but many have decarbonisation options. Greymouth recommends that if the Commission opens the IM review to alternative gases, then it should distinguish between the different types of consumers (i.e. per product) and disallow cross-subsidisation from one consumer group / industry to another. Natural gas consumers should not pay for pipeline upgrades or alternative gas investment as that is a present cost for them and it is for the long-term benefit of GPBs and future consumers in a different industry (assuming that those technological investments succeed).

9. Powerco says that "ex ante FCM [should not be compromised] as this would undermine investment incentives in all sectors."[7] However, Powerco seems to be assuming that all sectors should be treated the same – yet sectors in phase down vs. those in growth mode should not be treated the same. Further, what natural gas investment signals should relatively risk-free revenue perpetuate in the context of a wind-down in natural gas? Greymouth recommends that consumers be placed in the centre of this argument, not the revenue aspirations of GPBs.

[1] page 19 of MGUG's submission
[2] at 23. In Vector's letter
[3] page 4 of MGUG's submission
[4] page 1 of Powerco's submission
[5] s2.5 of the Commission's Draft Framework Paper dated 20 May 2022
[6] s5.73 of the Commission's Process and Issues Paper dated 20 May 2022
[7] page 3 of Powerco's submission.

10. Powerco calls for the Commission to outline how it will manage trade-offs between improving the regime and balancing certainty.[4] Greymouth cautions that if the regime is not fit for purpose (or if GPB certainty is higher than for competitive businesses) then improving the regime to align with today's context should by default improve certainty of the governance arrangements. System improvements should rank higher than GPB certainty to recover revenue regardless of reducing customers or changing context.

E. Vector

11. Vector's proposed addition to the IM review to "require an additional overarching objective: to promote the ERP Pathway and the net zero target more effectively"[8] is conflated but the intent warrants further discussion. E.g. the ERP Pathway (insofar as it relates to gas in the IM review) is abstract – it effectively defers to a) the ETS ensure that the market achieves efficient outcomes and, b) the forthcoming industry work on gas transition and energy strategy. Further, it is unclear what could be more effective than net zero. In addition, such a proposal should be checked to ensure it does not provide a loophole for GPBs to source alternative gas funding.

12. It is axiomatic for Vector to say that "it is axiomatic that suppliers must be appropriately incentivised to make the right investments at the right times, and [be] adequately compensated for doing so [because] if they are not, then they may choose not to invest"[9] in the gas sector. E.g. if there is no need for gas pipelines beyond their current economic life, then choosing not to (over)invest in more natural gas pipelines is likely to be the most efficient and effective outcome. I.e. investment incentives with revenue recovery are inappropriate if the investment is not required. Further, stating that this "is beyond dispute [and] will significantly harm both consumer and producer welfare" does not make that a fact.

13. The evidence presented by Vector to argue against changing FCM, i.e. in relation to the airport sector court case,[10] may support Vector's conclusion in the airport sector. However, that FCM has underpinned the regime historically does not mean that it cannot change in the future and does not mean that it should not change if the current or future context changes. In this case, unlike airports, the gas sector is not in steady-state or growth mode, but in long-term forecast decline. Greymouth does not consider that Vector's argument justifies its conclusion in respect of the gas sector.

14. Vector, like Powerco, wants natural gas consumers to pay for alternative gas innovation in the gas sector,[11] which Greymouth does not support. GPBs have regulated pipelines for natural gas consumers – that is the status quo. Any changes to that need to have regard for different categories of consumers receiving regulated pipeline services to ensure that industries in decline do not subsidise start-up industries.

15. Greymouth does not understand the discussion on form of control[12] in the context of the gas sector. These arguments tend to render attention away from more fundamental arguments related to ex ante FCM, accelerated depreciation and asset values.

[8] at 9 in Vector's letter
[9] at 27 in Vector's letter
[10] at 33-35 of Vector's letter
[11] page 3 of Vector's submission
[12] page 4 of Vector's submission

16. Similarly, Greymouth is concerned that asking for RAB indexation[12] renders a less important matter technical and detracts from the underlying issues of whether RAB is appropriate and who should bear asset stranding risk.

17. Further, arguing that "NPV = 0 mitigates concerns around GPBs making excessive profits"[13] conflates the technical with the underlying question of ex ante FCM and asset write-downs. Vector seems to be taking a priori that it should get a return of, and on, its capital and bear no asset stranding risk. That is not in consumers' long-term benefit in the gas sector which is in long-term decline.

18. It does not make sense how Vector could argue for a higher WACC percentile,[14] when it has just increased its GDB prices by 20% in the middle of a cost-of-living crisis.

F. First Gas

19. First Gas uses 'renewable' to describe hydrogen, fossil fuels including hydrogen, and biogas.[15] Fossil fuels that include hydrogen are not renewable. Yet nothing is renewable on an ultra-long-term basis (when the sun swallows the earth) (and everything is renewable on a long-term basis (when swamps become fossil fuels again)) – so the time-period is important. And if renewable relates to a shorter time-period, then just because the sun may provide long-term sunlight doesn't mean that solar equipment (for example) can last without the solar panels being replaced. The second law of thermodynamics means that for something to perpetuate in its original state 'ad infinitum' requires external inputs into that system to compensate for entropy. 'Renewable' is therefore a meaningless term that does not mean zero carbon. The concept should be replaced with a concept relating to the life-cycle emissions impact. Greymouth encourages the Commission to define 'renewable' from a first principles basis if that term is to be discussed further in the IM review. At present, it makes little scientific sense.

20. First Gas' position that "there is considerable uncertainty about the extent to which infrastructure repurposing to utilise renewable fuels will be viable"[16] conflicts with its bullish position summarised in Greymouth's submission. It would be helpful if First Gas could clarify its position on this matter.

21. Greymouth rejects First Gas' call for FCM[16] that will benefit it and not consumers, with reference to other comments on the topic in this cross-submission.

22. First Gas does not seem to have considered that the Commission has identified that regulated pipeline consumers are natural gas users, not alternative gas users. Greymouth can understand a GPB advocating for innovation funding – but in this case that is not in the long-term interest of natural gas consumers, but in the long-term interest of GPBs and future alternative gas consumers. Natural gas consumers of regulated gas pipelines should not "[fund] a considerable portion [of repurposing of gas pipelines]"[17] when "it may not prove successful"[17] when that investment will displace them as consumers of regulated pipeline services. That is a lose-lose for natural gas consumers.

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[13] page 19 of Vector's submission
[14] page 23 of Vector's submission
[15] page 3 of First Gas' submission
[16] page 8 of First Gas' submission
[17] page 9 of First Gas' submission

23. Greymouth agrees with First Gas' call[18] for reopeners and potentially staggered changes (provided that is not used to defer matters raised in the IM review), and notes that reviews more frequently than every seven years may be required. However, Greymouth rejects the need for further principles that could obfuscate matters, e.g. First Gas' call for retaining status quo elements until there is sufficient certainty,[18] when its earlier commentary noted that the present and future is particularly uncertain.[19] When, therefore, would First Gas propose that the Commission deals with uncertain matters?

24. First Gas argues that allocating demand risk to consumers should be maximised. But what is demand risk? Consumers (who are both producers and consumers) take the supply and demand risk together with GPBs as all parties are part of an integrated system. Greymouth considers the key issue relates to investment, climate change or decarbonisation risk, and that the investor in competitive markets has that risk. Further, Greymouth counters First Gas' points on allocating maximum 'demand' risk to consumers, including a) GPBs' ability to manage risk is unlimited depending on its creativity and equity appetite for innovation, and b) many things are outside many business' control at present and that truism does not justify one business receiving protection from the same risk and others not.

25. Greymouth doubts that natural gas consumers are concerned that GPBs will be left with stranded assets.[20] It is much more likely that consumers are concerned with what GPBs will charge and what quality protections will enable continued use of natural gas.

26. First Gas' arguments questioning asset write-downs is poor.[21] Asset write downs cannot undermine incentives for GPBs to continue to invest (beyond what is required to keep the pipelines working (which is arguably already provided for (or if there is a bespoke climate change risk then a CPP could be sought))) when limited investment for natural gas in the long-term is not required. There is room for asset write downs down to the level of GPBs' short-run marginal costs (plus whatever minimal capex is required). GPBs should be stopping or limiting future investment that is not necessary. Second, other sectors are in steady-state or growth mode, so should not be concerned about asset write downs. Asset write-downs for GPBs should have wider consequences – i.e. that asset values are correlated to climate change risks. It is important that message gets through so that good investment decisions can be made in other sectors.

27. Greymouth questions how it could be in consumers' long-term interests if GPBs could recover charges from (a much lower number of) consumers as 'compensation' for residual risk?[21] That would exacerbate a death-spiral. It also detracts from considering what should happen in the counterfactual competitive market test.

Yours faithfully,

[redacted]

Chris Boxall
Commercial Manager

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[18] page 11 of First Gas' submission
[19] page 6 of First Gas' submission
[20] page 17 of First Gas' submission
[21] page 21 of First Gas' submission