RUSSELL McVEAGH

1 December 2011

Paul Mitchell
Chief Advisor
Regulation Branch
Commerce Commission
P.O. Box 2351
WELLINGTON

By email

Dear Paul

GAS PIPELINE BUSINESSES DRAFT REASONS PAPER

1. We write on behalf of Vector regarding a matter arising in the Commerce Commission's Initial Default Price-Quality Path for Gas Pipeline Businesses Draft Reasons Paper dated 21 November 2011 ("**draft reasons paper**"). It concerns the Commission's conclusion that CPI adjustments from 30 June 2010 cannot be included in the starting prices for the initial default price-quality paths ("**DPPs**") for uncontrolled gas pipeline businesses ("**GPBs**") (see paragraphs 7.15 and 7.16 of the draft reasons paper).

2. We write because reasons for the Commission's conclusion in paragraph 7.16 have not been included in the draft reasons paper. As a result, Vector is finding it difficult to properly respond to the Commission's position. Accordingly, we would be grateful if the Commission could provide reasons for its conclusion in paragraph 7.16 as soon as possible. We emphasise that this is an issue that will potentially have a significant impact on Vector's uncontrolled GPBs (and likely other uncontrolled GPBs).

3. More specifically:

   (a) Under sections 55E and 55F of the Commerce Act 1986 ("**Act**"), the Commission must set the initial DPP for GPBs as soon as practicable after 30 June 2010 following the processes set out in section 53P. As section 53P usually applies to a DPP reset where a DPP is already in existence, 30 June 2010 is deemed to be the end of the previous regulatory period for GPBs. This means that:

      (i) Where the Commission rolls over prices under section 53P(3)(a) by 30 June 2010, the starting prices are those prices.

      (ii) Where the Commission does not set the DPP by 30 June 2010 (as is the case here), under section 53P(11) the starting prices, rates of change and quality standards that apply as at 30 June 2010 continue to apply until the Commission determines the DPP.

   (b) The Commission says that it has considered whether any ongoing rate of change should be included under section 53P(11) of the Act

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on the basis that the CPI adjustment referred to in section 55F(2) provides an implicit rate of change. The Commission then concludes that "[a]lthough we have considered this, our draft decision is that CPI adjustments cannot be included" (paragraph 7.16). While we assume the Commission has reasons for reaching this conclusion, these reasons are not set out. In particular, it is not apparent to Vector why the CPI adjustment referred to in section 55F(2) cannot provide an implicit rate of change.

4. In order for Vector to make an informed response on this issue, we ask that the Commission provide its reasons for the conclusion reached in paragraph 7.16 (and publish these on its website) as a matter of some urgency, and no later than 8 December 2011 (given Vector's submissions on the draft reasons paper are due on 19 December 2011).

5. Please do not hesitate to contact us if you have any questions.

Yours faithfully
RUSSELL McVEAGH

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