GREYMOUTH GAS

30 August 2021

Attn: Regulation branch team
Commerce Commission
PO Box 2351
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By email: regulation.branch@comcom.govt.nz

RE: GPB DPP3 reset

1. Greymouth Gas New Zealand Limited (**Greymouth**) welcomes the opportunity, in this open communication, to provide this submission on the Commerce Commission's (**Commission**) paper titled "Resetting default price-quality paths for gas pipeline businesses from 1 October 2022" published on 4 August 2021 (**Process and Issues paper**).

Starting price for DPP3 should be based on Reset not Rollover

2. Greymouth considers that significant uncertainty exists in the New Zealand (**NZ**) gas sector and future direction will be influenced by Government decisions on climate change policy. The NZ energy sector will experience material changes to achieve the legislated target of net zero emissions by 2050. The Climate Change Commission recommends a significant reduction in future gas demand to ensure NZ is on track to meet its emission targets.

3. Greymouth does **not consider it appropriate** for the Commission to defer decisions for the gas Default Price-Quality Path (**DPP**) for gas pipelines businesses (**GPBs**) for the third regulatory period beginning 1 October 2022 (**DPP3**). The NZ gas sector is on a downwards trajectory – it is a question of the speed of descent.

4. Greymouth considers the Commission should determine starting prices based on current and projected profitability of each GPB (a **Reset**). The alternative of rolling over the prices applying at the end of the preceding regulatory period (a **Rollover**) avoids addressing the substantive regulatory and policy issues operating on the gas market in the near term. A Reset delay will lead to the perverse outcome of providing excess profits to GPBs in the short term – the regulatory regime is designed to avoid this outcome for monopoly businesses.

5. Greymouth is concerned that the current regulatory regime for GPBs is fit for purpose for a gas sector **only when there is a stable long-term outlook**. This necessitates the Commission adopting a holistic approach to price determination to extend the acceleration of the Input Methodology (**IM**) Review to coincide with the timing for DPP3 reset.

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Stranded asset risk must be borne by GPBs

6. Greymouth supports the assessment of the increased risk of gas pipeline networks becoming economically stranded as NZ transitions to a net zero emissions economy.

7. Greymouth does not support the establishment of mechanisms (e.g., accelerated depreciation, shorter asset lives, ex-ante compensation) to eliminate the risk of economic network stranding. A large proportion of this non-systematic risk must be borne by GPB owners and attributed to the cost of business. Section 52A of the Commerce Act 1986 (the **Act**) states that part of the purpose of Part 4 regulation is "*promoting outcomes that are consistent with outcomes produced in competitive markets*" – the guarantee of full investment recovery is never assumed in a competitive market.

8. If the Commission chooses to institute compensatory mechanisms, Greymouth submits that these be moderated by offsetting factors, including: a) the utility of the gas pipeline network to transport zero carbon gas (including hydrogen) from 2030 onwards[1]; b) the reversal of the profit windfall for gas pipeline owners following the introduction of the DPP regime in 2013 (when GPBs set their regulatory asset base based on an optimised depreciated replacement cost significantly higher than historical cost – causing a transfer of wealth from consumers).

Long term benefit of consumers of gas pipeline services is best served by affordable prices

9. Greymouth submits it is not reasonable for consumers of gas transmission businesses (**GTBs**) to manage demand risk via a revenue cap. This will result in material price increases given predicted reductions in gas demand. This will be exacerbated if compensatory mechanisms are introduced. GTBs advocate that this will provide consumers with more stable pricing and GTBs incentives to invest – but it will be at significant expense to, and it will cruel affordability for, consumers. It is not consistent with the primary purpose of Part 4 regulation per section 52A of the Act "*to promote the long term benefit of consumers*".

10. Greymouth submits that the Commission must overlay price caps on transmission charges levied by GTBs (to cushion the impact on consumers). Alternatively the Commission and Gas Industry Company (**GIC**) should be tasked with finding a solution which accords with the primary objective of the Gas Act to "*ensure there is downward pressure on delivered gas costs and prices*" – with such collaboration consistent with the Memorandum of Understanding between the Commission and GIC dated 5 August 2011.

11. Greymouth requests the Commission to oblige GTBs and Gas Distribution Businesses to demonstrate that DPP resultant pricing signals the economic cost of service provision by being subsidy free – i.e. being greater than incremental costs and less than standalone costs. This is one of the Pricing Principles[2]. The standalone cost should represent the alternative fuel of electricity in a decarbonising world. Application of this would provide a legitimate upper bound to transmission pricing.

12. Greymouth asks that the Commission identify, apply and report experience from international gas markets in establishing a robust and credible pricing regime for monopoly gas pipeline networks.

13. Greymouth welcomes the opportunity to submit in person. Commission queries should be directed in the first instance to andrew.mcgavin@greymouthpetroleum.co.nz with a copy to Colin Willett (colin@greymouthpetroleum.co.nz)

[1] Firstgas Group announces plan to decarbonise gas pipeline network in New Zealand, 29 March 2021

[2] Clause 2.5.2(1)(a), Gas Transmission Services Input Methodologies Determination 2012 (consolidating all amendments as of 3 April 2018), Commerce Commission, 3 April 2018

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