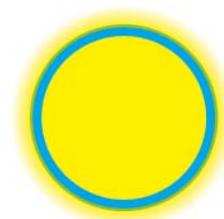


30 April 2010

Matthew Lewer
Regulation Branch
Commerce Commission
PO Box 2351
Wellington

[By email: regulation.branch@comcom.govt.nz]



Dear Matthew,

Powerco Submission on Form of Control in *Issues Paper: Initial Default Price-Quality Path for Gas Pipeline Businesses*.

1. Powerco welcomes the opportunity to comment on the Form of Control section of the *Issues Paper: Initial Default Price-Quality Path for Gas Pipeline Businesses* ("Issues Paper"), published by the Commerce Commission ("Commission") on 12 April 2010. Our comments only relate to the form of control for gas distribution businesses ("GDBs").

Weighted Average Price-cap

2. In paragraphs 4.26 to 4.29 the Commission provides its initial view on the form of control for the gas default price-quality path ("DPP"). In summary the Commission proposes a weighted average price-cap for GDBs. Powerco agrees and supports this proposal.

Implementation Issues

3. In addition, the Commission requests views on any implementation issues that it should consider. The Gas Authorisation price path presented a number of challenges, particularly due to the short time frame between the release of the CPI figure and the deadline of the Annual Compliance Statement. Broadly, the approach taken under the electricity DPP should address this issue. As the electricity DPP approach to inflation and base quantities aligns with the Gas Authorisation, it seems sensible to apply the same approach to the Gas Distribution DPP.
4. The main differences between the price path under the gas authorisation and the electricity DPP are:
 - pass-through costs will be forecast; and
 - the Annual Compliance Statement is produced after the assessment period.

Pass-through costs

5. The electricity DPP requires electricity distribution businesses ("EDBs") to forecast transmission costs around 3-4 months before the assessment period.

Under the Gas Authorisation, costs are only included when they become certain. Clause 10.2.1 states that,

[...] Where the amount of a pass-through cost has become certain, for example by Powerco receiving an invoice or notice, the amount payable must be included in the annual compliance statement.

6. Powerco recommends that the Commission consider if gas pass-through costs are sufficiently predictable to avoid a technical breach of the price path. This is because, if electricity transmission costs are excluded¹, pass through costs represent a greater percentage of revenue in the gas business. For example, over the last two years, electricity pass-through costs (excluding transmission) represent around 0.6-0.7% of allowable revenue, whereas gas pass through costs represent around 4-5% of allowable revenue.
7. Gas pass-through costs have also been more difficult to predict, mainly due to variances in the funding needed for the Gas Authorisation process. In FY2009 there is a 40% variance between the forecasted pass through costs in the Authorisation and the actual amount.
8. If the Commission does require pass through costs to be forecast, there will need to be a transition mechanism to ensure all pass-through costs are recovered. For example, prices from 1 October 2011 to 30 June 2012 will have been set using pass-through costs for the period 1 July 2009 to 30 June 2010. Prices from 1 July 2012 however, would only include pass-through costs from 1 July 2010, leaving a 2 year gap.

Annual Compliance Statement

9. Powerco supports providing the Annual Compliance Statement after the assessment period. This is an approach that works well for electricity distribution, and one we consider appropriate for gas distribution.

Pricing Methodology

10. In paragraph 4.4 the Commission refers to its preliminary view that suppliers on a DPP should not be required to apply the pricing methodology input methodology under the DPP. Powerco agrees and continues to support the Commission's preliminary view.
11. Thank you for considering the points raised in this submission and please contact me on 06 759 6216 if you wish to discuss any of the issues Powerco has raised in more detail.

Yours sincerely

Paul Goodeve
Regulatory and Business Manager

¹ Electricity transmission costs have been excluded to allow for comparison and as they are generally highly predictable do not present issues to forecasting prices.