



**MDL Commerce Commission Submission:
Initial Default Price-Quality Path
For Gas Pipeline Businesses
Discussion Paper April 2011**

May 2011

27 May 2011



1. BACKGROUND

- 1.1 Maui Development Limited (**MDL**) welcomes the opportunity to submit on the “Initial Default Price-Quality Path (**DPP**) for Gas Pipeline Businesses” Discussion Paper (**Discussion Paper**) that was distributed by the Commerce Commission (Commission) on 1 April 2011.
- 1.2 MDL notes that the Commission is looking to implement a standardised DPP for Gas Transmission Businesses (**GTB's**). Should this DPP structure not be suitable for MDL, MDL will be required to submit a Customised Price Path (**CPP**) proposal to cater to its specific needs.
- 1.3 MDL notes that the Discussion Paper does not specifically address Starting Price Adjustments (**SPAs**) or specific information disclosure requirements for Gas Pipeline Businesses (**GPBs**). MDL looks forward to submitting separately on these important matters in the near future.
- 1.4 Please note that for this submission, **Initial DPP** refers to the DPP intended to commence in 2012 while the **Next DPP** refers to the DPP to apply during the following regulatory period.
- 1.5 Please also note that MDL's position in relation to the Discussion Paper may change as a result of further information being provided by the Commission.

1.6 The structure of the Submission is as follows:

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2. NATURE AND SCOPE OF DETERMINATION

- 2.1 As per our previous submissions, MDL continues to agree with the Commission's view that gas distribution and gas transmission should be considered as different types of services for the purpose of the Initial DPP.
- 2.2 MDL agrees with the Commission's initial view that path and quality standards should be implemented separately – primarily because it is very difficult to measure quality on the Maui Pipeline, and in particular it would be difficult to quantify the “relationship between marginal cost and benefit of quality”¹.
- 2.3 MDL recommends the Commission reserve judgement on whether an integrated price-quality path approach might be achievable for GTB's in the Next DPP until it has had the opportunity to assess the practicality of the quality measures it has adopted for information disclosure and assessment during the Initial DPP.

3. FORM OF CONTROL

- 3.1 MDL continues to support a revenue cap for the Maui Pipeline business. However MDL does not have a view as to the most appropriate form of control for Vector's gas transmission pipeline network. It is appropriate to allow a GTB to choose the form of control it considers fits most appropriately with its business. Allowing each of the GTB's to be subject to the form of control most appropriate to it is consistent with section 52P of the Commerce Act (**Act**) which suggests that it is consistent with the statutory objective of implementing a supplier-specific form of control.

4. CLAW-BACK

- 4.1 Section 55F(2) the Act provides for a “claw-back” of tariff increases where suppliers have increased tariffs by more than the Consumer Price Index (**CPI**) since January 2008².
- 4.2 MDL agrees with the Commission's current position that claw-backs are not considered relevant for any GPB's for the Initial DPP. However, MDL continues to monitor the development of the Starting Price Adjustment (**SPA**) methodology for GPB's and looks forward to submitting on this methodology when the opportunity arises, and in particular on how this SPA methodology might be utilised to “effectively” adjust revenues that were realised in previous periods.
- 4.3 As an example, MDL is particularly interested in receiving feedback on the Commission's proposed approach to addressing MDL's unders/overs adjustments at the commencement of

¹ Commerce Commission “*Initial Default Price-Quality Path for Gas Pipeline Businesses*” Issues Paper, 12 April 2010, para 2, page 12

² Commerce Commission “*Initial Default Price-Quality Path for Gas Pipeline Businesses*” Issues Paper, 12 April 2010, page 11



the regulatory period. As MDL has noted in previous submissions, unders/overs adjustments are provided for in Schedule 10 of the Maui Pipeline Operating Code (**MPOC**).

5. COMPLIANCE WITH THE CAP

- 5.1 MDL considers it appropriate to monitor annual compliance by comparing a supplier's performance against the cap. The Commission's current position is to set the cap as Allowable Notional Revenue, (**ANR**), and monitor performance using a Notional Revenue, (**NR**), calculation. MDL agrees with this process. However, MDL submits that the Commission should refrain from applying compliance measures too rigorously to any single regulatory year. In MDL's view it would be more appropriate to view compliance measures over a number of regulatory years where performance to cap is averaged over time. Smoothing compliance assessment over more than one year in this fashion will provide suppliers with the opportunity to correct any under/over recovery in previous years that is generated by inaccurate forecasting of demand.
- 5.2 MDL agrees with the Commission's proposed solution to uncertainty whereby historical quantities are utilised for the purposes of determining an appropriate ANR and NR for the Initial DPP. We see this as an effective alternative to MDL's previous suggestion to use a wash-up mechanism.
- 5.3 The setting of the ANR for the base year of the Initial DPP will be important in determining an appropriate DPP for MDL. MDL anticipates this to be addressed in detail in the Commission's GPB SPA work stream.

6. CATERING FOR FUTURE INVESTMENT NEEDS

- 6.1 MDL does not agree with the Commission's view that a CPP option ensures sufficient flexibility under a default/customised regulatory framework to cater for the future investment needs of GTBs. The CPP is not a low cost form of control. Given the "full building blocks" approach of a CPP, the outcome of a CPP application is considered extremely uncertain and may result in a paradigm shift from supplier "status quo" (ie under a DPP). MDL is of the view that uncertainty surrounding CPP outcomes is intended to discourage a high number of CPP applications, particularly given CPP applications cannot be withdrawn once made. MDL does not feel that a CPP is a viable alternative to a DPP unless extreme hardship under the DPP is entirely apparent. In practise, the outcome of a CPP is likely to rest on subjective judgement, and it would be difficult for a supplier to accurately predict results. In order to be conservative, a supplier may prefer to remain under a DPP which it may in fact consider to be unsuitable, to avoid the uncertainty of a CPP.
- 6.2 MDL continues to believe that DPPs need to be adjusted to accommodate new investments. MDL proposes that subject to passing an investment test, new investments should be included within the Regulated Asset Base once commissioned.
- 6.3 MDL operates an Open Access regime which is predominantly a common carriage arrangement. It does not distinguish between customers and all customers are subject to a



single standard for tariff calculations. Currently when an investment is made on the Maui Pipeline, the cost (in the form of higher tariffs to provide a return on capital) is spread across all customers. Under these arrangements, existing customers could argue that there might be circumstances where they are required to pay for services that they themselves do not require. However, the arrangements also insulate small groups of customers from being exposed to a high portion of costs. i.e. MDL's cost recovery policies require that all customers would pay a small incremental contribution (via higher tariffs) toward increasing capacity rather than allocating the entire cost to new customers (who predominantly require new capacity).

- 6.4 In terms of MDL's business, the impact of new investment is spread and large price shocks to a small group of customers are largely avoided.
- 6.5 In MDL's view, the current Input Methodologies (**IMs**) along with an option for a CPP, do not sufficiently cater for the future investment needs of GTBs. However, MDL recognises that this is a difficult matter to assess before "incentives to invest" are tested through the initial DPP.

7. RATES OF CHANGE

- 7.1 MDL notes that the Commission is required to set out the rate(s) of change relative to the CPI (**X-factor**) that applies to suppliers for the DPP³. The X-factor limits the maximum amount by which Gas Pipeline Businesses (**GPB's**) are permitted to increase their weighted average price or revenue. The X-factor and the CPI adjustments combined are known as the CPI-X mechanism (**CPI-X**). While the CPI adjustment is considered to be relatively straight forward, MDL considers the productivity measure used to calculate the X-factor to be more complex.
- 7.2 MDL notes that the Commission intends to utilise Total Factor Productivity (**TFP**) in order to analyze the productivity of suppliers.
- 7.3 **X-Factor:** MDL notes the Commission's comment that it may utilise whichever measure of productivity it considers appropriate⁴.
- 7.4 MDL previously submitted that there were a number of "company specific circumstances" which warranted consideration when measuring productivity.
- 7.5 The Economic Insights Analysis⁵ determined that there was no robust identifiable productivity differential between gas distribution and gas transmission industries on the one hand and the economy as a whole. This suggests that an economy-wide productivity measure would be suitable for GTBs. However, MDL notes that the analysis did not conclude as to whether a differential exists between economy wide productivity measures and

³ Commerce Act 1986, Section 53P(I)

⁴ Discussion paper, Section 6.5, Page 29

⁵ Discussion paper, Section 6.13, Page 32



productivity on the Maui Pipeline. MDL suggests that insufficient data is available for analysis in order for that conclusion to be drawn.

- 7.6 MDL agrees that an X-factor of zero is appropriate for the Initial DPP. This is primarily due to a current lack of information which would be required in order to determine the level of efficiencies that are feasible for GTB's.
- 7.7 MDL submits that further analysis on company specific productivity (within the Gas Transmission Industry) needs to be undertaken before any determination is made as to an X-factor for MDL for the Next DPP. It notes that although throughput is the major determinant of pipeline productivity, under a revenue cap productivity gains resulting from increased throughput are not retained by the pipeline owner.
- 7.8 **Data Requirements for Rates of Change:** MDL notes that work in this area is ongoing.
- 7.9 **Inputs:** The following inputs might impact on outputs (and productivity).
 - a) **Capital Expenditure:** Asset Replacement or Renewal is not likely to increase outputs. Capital Expenditure for capacity enhancement may result in increasing outputs although it should be noted that capital expenditure for GTBs is generally lumpy and does not lead to significant increases in outputs in the immediate to medium term. Capacity enhancement for GTBs as a whole may have a measureable impact on Maui Pipeline and in this sense, industry wide measures might be useful (subject to further MDL specific analysis being undertaken).
 - b) **Operating Expenditure:** The Maui Pipeline business is subject to a significant portion of fixed operating expenses. It has not been established that these expenses could be reduced over time at a given level of throughput (keeping quality of service constant). In fact some expenses, such as maintenance, might actually increase over a pipeline's life.
 - c) **Direct Employees:** MDL currently runs the Maui Pipeline through a series of external service contracts. MDL has no interest (ownership) in the various service providers it contracts with. Contracts were entered into on a competitive basis. For this reason, MDL does not consider that it has any Direct Employees, or any Direct Labour costs. In MDL's view a breakdown of operating expenses in the following categories is reasonable. MDL does not consider that further detail will have any valuable or practical application.

Operating Expense Categories	
	Gas Flow Costs
	Corporate Overheads
	System Operations
	Pipeline Maintenance
	Rates and Levies
	Commercial Management
	Regulatory Management

- 7.10 **Outputs:** The following assesses the Commission's suggested outputs component of the TFP model.
 - a) **Throughput:** MDL has volatile levels of throughput, partly due to its limited customer base and partly due to its operation of a common carriage regime which is effectively a "pay for what you use" system. MDL has virtually no direct control over throughput as it is based on broad economic factors. For example, gas supply may be constrained in future, increasing



the price of delivered gas and applying downward pressure on throughput regardless of the level of inputs (OPEX or CAPEX).

- b) On the other hand, Throughput (output) has little effect on operating costs (input), other than for compressor fuel costs. Since costs are largely fixed, MDL can handle a relatively large increase in throughput without experiencing a large corresponding increase in costs.
- c) If throughput were to increase significantly (by say 30%) without any requirement for further investment, this would tend to suggest that productivity increased by 30%. However MDL's income from its investment would not rise as it will be subject to a revenue cap.
- d) **Gigajoule Kilometres (GJ.Km) transported (MDL suggestion):** This is considered a more relevant output for the Maui Pipeline business than throughput as it aligns more accurately to MDL's revenue structure. GJ.km is utilised to calculate tariff 1 which accounts for around 75% of MDL's total income. It should be noted (as above) that increasing inputs will not necessarily cause GJ.km to increase as GJ.Km is effectively beyond MDL's control.
- e) **Other Charges:** As stated in previous submissions, MDL earns revenue in the area of pipeline balancing (Cash out and Incentives Pool income). However, it should be noted that balancing income is required to be offset against balancing costs. Furthermore, net balancing costs are categorised as a recoverable cost (potentially to be treated the same as a pass through cost).
- f) **Capacity Charges:** MDL does not currently charge for capacity although an ability to charge for "Authorised Quantities" is provided for in section 7 of the MPOC. MDL does not intend offering Authorised Quantity as a service for the time being. The Gas Industry Company (GIC) are currently reviewing capacity issues on transmission pipelines and MDL will likely take its future direction based on the outcome of that particular work stream.
- g) **Revenue/Penalties from Incentives Schemes:** It is not possible to comment on the viability of this output without details of these schemes. MDL respectfully requests an opportunity to submit on the suitability of any proposed incentive scheme well in advance of its implementation.
- h) **Number of Input/Offtake Locations:** This is considered to be an adaption from "number of connections". In terms of this measure, it should be noted that MDL cannot control growth/reduction in numbers of input/offtakes by manipulation of inputs such as OPEX and CAPEX. Connection to the Maui Pipeline is governed by Open Access provisions in the Maui Pipeline Operating Code, (MPOC).
- i) **Capacity:** Capital expenditure for expansion is likely to result in higher capacity. Thus capacity increase is a likely output from an increase in CAPEX (for expansion). In terms of the Maui Pipeline, the capacity constraint at the Mokau Compressor Station is an effective measure of Maui Pipeline capacity. This may change over time if significant increases to demand are realised and additional constraints emerge.
- j) **Reliability:** This complicated area will be addressed separately under the "Quality" section of this submission.
- k) **Unaccounted for Gas (UFG):** The main driver behind UFG is metering error. It is important to note that, with the exception of three meters owned by MDL, meters are owned by third parties, (i.e. our customers). MDL does however require minimum metering standards which are specified in Schedule 1 of the MPOC.



- l) **Pipeline Length:** MDL has no current plans to extend the length of the pipeline. Length remains effectively fixed and thus length is not a viable measure for assessing a relationship between inputs and outputs.
- m) **Asset Values:** As submitted previously, MDL does not consider that there is any practical application in including more detail than the following asset breakdowns:

Assets Categories	
System Assets	Pipeline
	Compressors
	Stations
Non System Assets	Office Furniture and Fittings
	Computer Hardware and Software

- n) 7.11 MDL is concerned that reliance on data formula of type described above has the potential to deliver misleading results. It should be noted that, in terms of MDL's business, there is no clear relationship between inputs and outputs (except to ensure that levels of input are sufficient to provide a safe and reliable service). MDL submits that company specific variables need to be addressed in determining future productivity levels on the Maui Pipeline. MDL submits that the Commission should consider unique aspects of MDL's business when analysing productivity of suppliers in the next regulatory period.

8. QUALITY STANDARDS

- 8.1 In terms of quality standards, MDL currently reports under Gas Information Disclosure Requirements (**GIDR**) regulation. Particular performance measures that measure quality are: Unaccounted for Gas (**UFG**), unplanned interruptions, Pipeline Curtailment, and Number of Outages. The usefulness of these quality measures have been extensively documented by MDL in previous submissions⁶.
- 8.2 MDL notes that the Commission previously provided an indicative list of performance measures under initial DPP⁷. The list consisted of SAIDI, SAIFI, and CAIDI for reliability standards; Public Reported Escapes, and (possibly) UFG for System Integrity. In its updated Discussion Paper, the Commission's intention is to use safety as the only quality measure for the Initial DPP⁸. However the Commission also intends implementing further quality measures for information gathering purposes in the Initial DPP. In the event that thresholds are not met, further information can be requested by the Commission. This information would be utilized to set quality standards at future resets.
- 8.3 Below are MDL's views on safety and other quality measures utilized for information gathering purposes in the Initial DPP.

⁶ MDL Commerce Commission Submission, "Information Disclosure under Part 4 of the Commerce Act 1986", 4 September 2009.

⁷ Commerce Commission "Initial Default Price-Quality Path for Gas Pipeline Businesses" Issues Paper, 12 April 2010, page 35, Table 4

⁸ Discussion Paper, section 7.28, page 39



- 8.3.1 **Safety:** MDL notes the Commission's intention to use safety as the only quality measure for the Initial DPP.
- 8.3.2 Safety standards are addressed in a number of existing regulations and inclusion of specific safety standards in Commerce Act regulation would be a duplication and unnecessary.
- 8.3.3 Safety standard breaches are very rare on pipelines with fatality rates <1 in 100 years. The target for lost time injury or fatality rate (**LTIFR**) for all personnel working on the Maui Pipeline is 0.
- 8.3.4 The Commission has proposed a quality standard regarding emergency response time (for informational gathering purposes only) which would require that 95% of all emergencies must be attended to within 60 minutes. An emergency would be defined as an incident for which one of the emergency services (police, fire service etc) is called.
- 8.3.5 MDL's pipeline runs through isolated terrain where access is often difficult. Depending on the location of an emergency, it may not be realistic to have a representative on site within one hour. Furthermore, the definition of emergency requires careful consideration to ensure that it is not too broad, covering situations where emergency services are called as a precautionary strategy rather than because they were needed.
- 8.3.6 MDL agrees with the Commission's exclusion of Public Reported Escapes (**PREs**) for the Initial DPP, on the basis that there is a lack of historical information available to assess the viability of the measure.
- 8.3.7 While leaks on the Maui Pipeline are considered very rare, in MDL's view PREs data should distinguish between escapes caused by a GTB and escapes caused by third parties. The extent of a PRE should also be given adequate consideration. Where a pin-hole leak occurs, the impact on pipeline safety is considered extremely minor. It is feasible to put a clamp on the leak with no disruption to transmission services.
- 8.3.8 Leaks are extremely unlikely if a pipeline can be intelligently pigged regularly. If it cannot be, leaks are addressed predominantly on a reactive basis. i.e. it is not appropriate to systematically dig up lengths of buried pipeline to assess whether there is erosion.
- 8.3.9 **Reliability:** Reliability, in terms of MDL's business, refers to the ability of our customers to transport their scheduled volumes of gas on the Maui Pipeline.
- 8.3.10 Reliability is impacted where:
- a) There is insufficient capacity on the Maui Pipeline to transport required volumes;
 - b) Where customers flow outside their approved quantities causing curtailment to other customers; or
 - c) An interruption causes volumes of gas to be curtailed

MDL views reliability as an important quality category and it is considered important that reliability is measured in a way that is relevant. MDL is required to nominate a capacity for the Maui Pipeline and its performance should be judged on its ability to provide that capacity.



Because of the common carriage regime used by the Maui Pipeline, curtailment due to capacity limitations can be separately monitored.

- 8.4 **Interruptions:** Interruptions of the pipeline services may occur where a pipeline or welded party event occurs. This may lead to curtailment of quantities and thus impact reliability of the service. Welded party events, which are included within MDL's current disclosures under the heading "Unplanned Interruptions", are outside MDL's control and the responsibility of welded parties. Thus it is not appropriate to measure the quality of MDL's performance against interruptions that were caused by other parties. MDL notes that, generally, unplanned interruptions are caused by welded party non-compliance.
- 8.4.1 Pipeline curtailments are considered relevant to MDL's reliability standards where they are due to the failure of pipeline equipment. There have not been any pipeline events due to failure of pipeline equipment since the commencement of Open Access in 2006. A possible example of such an event is a situation where compressors have failed and curtailments have been made due to the pipeline's reduced capacity to deliver gas.
- 8.5 **SAIDI / SAIFI:** As, MDL has previously submitted, it has some concerns over the use of SAIDI, and SAIFI statistics⁹. These statistics are relevant to high frequency, low duration events but are not appropriate measures for a transmission pipeline where interruptions are very infrequent but the duration (usually measured as consumer-minutes) can be significant. This is especially true when the time taken to re-establish collapsed gas networks is considered. Based on this it may be more appropriate to measure the pipeline service quality in terms of its ability to deliver its declared capacity.
- 8.6 The following comments are made in relation to quality measures that the Commission considers particularly appropriate for GTBs in its Discussion Paper:
- 8.6.1 **Gas Demand by Gas Gate:** MDL currently makes daily metered and scheduled data available on the MDL IX for all welded points and Hourly Flow data by welded point is available on the BGX (Balancing Gas Exchange) Website. This measure is considered a relevant indicator of demand on the pipeline but it is not a relevant indication of quality of service provided (where high levels of service cause increases in demand) as MDL effectively has no control over demand. ie an increase in demand on the Maui Pipeline is not likely as a result of an increase in quality of service. It will more likely be due to outside factors.
- 8.6.2 **Gas Reservation Measures:** These are not applicable to MDL as the Maui Pipeline operates predominantly on a common carriage basis and does not offer reserved capacity on its pipeline.
- 8.6.3 **Total Number of Users:** MDL has a small static number of customers (Shippers) and there is a heavy reliance on four major shippers: Genesis, Contact, Vector and Methanex.

⁹ MDL Commerce Commission Submission "*Customised Price Path CAPEX/OPEX Information Requirements*", 16 April 2010, Para 5, Page 7



- 8.6.4 **Compressor Availability:** Compressor availability is an effective indicator of reliability of service. The Mokau Compressor Station is MDL's only compressor station. It operates two units with the second unit available as backup. Redundancy (back up) is a relevant feature for Compressor Availability. A correct measure of failure to meet Compressor Availability standards should take into account only those periods where compression was required and neither compressor was available.
- 8.6.5 **Number of critical contingencies declared:** MDL does not support Critical Contingency as a reliability measure for the Maui Pipeline as Critical Contingencies are generally caused by third parties i.e. producer outages or non compliance of its customers with self-balancing requirements.
- 8.6.6 **Gas Quality:** Gas specification is the responsibility of injecting parties. MDL has an obligation to ensure injecting parties are monitoring gas quality and to respond appropriately in the event that non-specification gas enters the pipeline. The responsibility of parties in terms of gas quality is addressed through contract in the Maui Pipeline Operating Code (MPOC). The gas specification is based on a New Zealand Standard.
- 8.6.7 **Customer Service:** MDL does not recommend that the Commission seek to measure customer service through time to connect to a new customer. MDL has only 14 (large welded point) connections. The time for connection varies considerably depending on the specific circumstances surrounding each new connection. The process of constructing and certifying a new interconnection can be difficult and lengthy, particularly if a "hot tap" connection is required. (See MDL's Draft Interconnection Policy¹⁰ for details. Other customer interfaces vary considerably and measures such as "response time" are seen as requiring resource to record while providing little that is helpful.
- 8.6.8 **Provision of Information as a Performance Measure for Quality:** MDL suggests that provision of information is utilises as a quality performance measure. MDL currently provides timely (hourly) metered (by welded point), scheduled (by welded point), and pressure data (at various points) to its customers and other interested parties through MDL IX and its balancing website (www.bgx.co.nz). This increases gas users' ability to balance their positions and avoid penalties and others costs associated with non compliance. Provision of timely information increases the efficiency of the gas transmission system. However, provision of information considered "Confidential" as defined within the MPOC, should not be included within the scope of the performance measure.
- 8.6.9 **Target Reliability levels set through customer preferences:** Greymouth supported the use of reliability as a quality performance measure, which should be "set at the level that customers want"¹¹. In practice it is very difficult to identify common preferences of customers in gas transmission. In any case the emphasis should not be on what customers want, but

¹⁰ MDL OATIS Publications page (www.oatis.co.nz)

¹¹ Discussion Paper, section 7.25, page 38



on what MDL can be reasonably expected to do at a given level of investment, or what the customer is prepared to pay for, either through tariffs or customer charges.

9. REGULATORY, ASSESSMENT, DISCLOSURE, AND FINANCIAL PERIODS

- 9.1 The Commission's current position is that "the pricing and assessment periods of all GPB's should align to either 2 July or 1 October each year"¹² with its preferred option for annual assessment periods of 1 October – 30 September. This would require partial compliance for the period 2 July 2012 to 30 September 2012. Under this (Commission) preferred option, MDL would need to change its pricing year to start on 1 October each year.
- 9.2 MDL's current tariff year runs from 1st July to 30th June while its disclosure year is based on a calendar year. As previously stated, MDL prefers a pricing period from 1 July to 30 June. However, MDL (as it has said in the past) would not resist a change to its tariff year (for commencement on 1st October 2011) "if there were adequate reasons for doing so". The justification for requiring that MDL adjust its pricing year to 1 October is to align MDL's pricing with that of other GPB's.
- 9.3 However MDL does not support any initiative to change its current financial year and disclosure year which are currently based on a calendar year. MDL agrees with Vector's submission on this point. "Vector recommends that the Commission permit regulated suppliers to provide information disclosure aligned to their own financial years rather than the regulatory year. This would mitigate the costs identified with consolidation statements"¹³. MDL also believes that its Asset Management Plan (**AMP**) should be aligned with MDL's financial year along with other information disclosure requirements. The AMP, in particular, should be an important part of MDL's budgeting process and its preparation should be aligned accordingly.
- 9.4 MDL would be particularly adverse to any requirement to provide backdated financials or disclosures covering different annual periods.

¹² Regulatory Periods, MDL "Submission 2, Initial Default Price-Quality Path for Gas Pipeline Businesses" (for the Commerce Commission), 14 May 2010, section 6, Page 10

¹³ "Submission to Commerce Commission on Information Disclosure Process and Issues Paper", 9 March 2011, section 18, Page 6



10. CONCLUSIONS

- 10.1 MDL agrees with the Commission's view that gas distribution and gas transmission should be considered as different types of services for the purpose of the Initial DPP.
- 10.2 MDL agrees with the Commission's initial view that price path and quality standards should be implemented separately - rather than adopting an integrated approach where price and quality are linked.
- 10.3 MDL continues to support a revenue cap for the Maui Pipeline business.
- 10.4 MDL agrees with the Commission's current position that claw-backs are not considered relevant for any GPB's for the Initial DPP.
- 10.5 MDL continues to believe that a provision for adjusting DPPs needs to be developed to accommodate new investments. MDL proposes that subject to passing an investment test, new investments should be included within the RAB once commissioned.
- 10.6 MDL agrees that an X-factor of zero is appropriate for the initial DPP.
- 10.7 Quality and performance standards should be carefully measured against their practical application vis-à-vis each supplier.
- 10.8 Consumer preferences for quality standards are relevant, but need to be tempered with an appreciation of the standards consumers are prepared to pay for.
- 10.9 MDL wishes to align its Disclosure Year, (and its Asset Management Planning), to its Financial Year.

Yours sincerely,

A handwritten signature in blue ink that reads "Don Gray".

Don Gray

General Manager

Maui Pipeline Commercial Operator