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Andy Burgess  
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Commerce Commission

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Dear Andy

**Draft default price-quality paths for gas pipeline businesses from 1 October 2022**

Nova Energy (“**Nova**”) notes with concern the Commerce Commission’s intent to allow substantial increases in prices by the gas distributors and gas transmission owner from 1 October 2022 (DPP3). As a major wholesaler and retailer of natural gas, Nova is concerned that the terms of DPP3 will in fact accelerate the decline of gas consumption. Such a decline in consumption will prematurely shorten the economic life of production assets at the producers’ end of the gas pipelines, and consumers’ assets, such as gas boilers, etc. at the downstream end.

Nova acknowledges that the gas pipeline businesses (GPBs) need to be incentivised to continue to build on and maintain their networks to meet reliability standards. But the strongest incentive for them to do so is to protect the value of their existing pipeline assets, i.e. they need to continue to invest, even if it is to just maintain gas volumes through their existing pipelines and thereby maintain future revenues. That said, it is clearly incumbent on the Commission to allow GPBs to earn an economic return on new investments. As such, Nova agrees with the Commission’s intent to allow an accelerated depreciation rate on incremental capital expenditure required to maintain or expand pipeline capacity.

Nova does not agree however with granting the GPBs an increased depreciation rate on existing sunk assets. All commercial enterprises face market risks, and this is reflected in their cost of capital. The Commission’s application of WACC to determine the GPBs’ regulated earnings is carefully determined on a comparison of market risks and returns. Their earnings therefore already fully reflect the market uncertainties related to climate change, etc. Past decisions made by gas producers, distributors, and consumers were all made in the context of political and economic uncertainty. There has never been a guarantee that New Zealand would still be producing gas at current rates, or still have available the current level of contingent gas reserves.

Nova therefore asks that the Commission apply its depreciation adjustment factor to new investments only. It may also be appropriate to progressively reduce the scaler over time, based on eventually approaching a point where new investments may have a very limited expected economic life consistent with outcomes in competitive markets. However, for existing sunk investments there is no justification for an accelerated depreciation rate.

As Nova stated in its earlier submission; 'Natural gas will remain a critical energy source for New Zealand industry and consumers for many years to come. It is important to prepare the inevitable changes required to reduce carbon emissions, but the best path to that remains uncertain.' All gas market participants, from producers through to residential consumers, have significant levels of capital invested in existing assets. It is incumbent on the Commerce Commission to enable all market participants to achieve a fair economic return from those investments and not favour a single sector of the market.

Yours sincerely



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