

4 August 2016

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Dear Keston,

## Submission on Input Methodologies Review Draft Decisions: Cost of Capital Issues

This is the First Gas submission on the Input Methodologies (IMs) Review Draft Decisions, Topic Paper 4: Cost of Capital Issues. Our submission focuses on the Commission's draft decision to reduce the asset beta for gas pipelines from 0.44 to 0.34 (a corresponding reduction in the equity beta from 0.79 to 0.58). The unexpected financial impact of the proposed reduction in asset beta on our business demands that we focus our efforts on this issue. The draft decision is referred to as CC07 on page 62 of the Report on the IMs Review paper released on 22 June 2016. The relevant material in Topic Paper 4 is presented in chapter 4, pages 62-101 and in the appendices of that paper. We intend to review the submissions made by other parties on other cost of capital issues (such as the cost of debt) and will provide any further evidence that we think would be useful to the Commission's decisions in our cross-submission.

We have also attached to this submission an expert report from Oxera on the asset beta for gas pipelines. Oxera are international experts on regulatory cost of capital, and have previously advised the Commission on cost of capital issues in New Zealand. **Both this submission and the expert report from Oxera conclude that the evidence supports retaining a gas asset beta of 0.44.** We also support the submission on this issue made by our shareholder, First State Investments (FSI), which provides evidence from the transactions that created First Gas that also supports an asset beta for gas pipelines of 0.44.

## 1. Why the gas asset beta should remain at 0.44

This submission provides three compelling reasons that the asset beta for gas pipeline businesses should remain at 0.44:

- **Empirical evidence does not support changing the asset beta for gas pipelines – in fact, the empirical evidence points to the opposite conclusion (section 2).** From the time since the IMs were first determined in December 2010, observed asset betas for gas pipelines have remained at or above 0.44. Empirical beta estimates based on observed asset betas for gas pipelines (i.e. excluding electricity comparators) are statistically sound and have been remarkably stable over the past 8 years, providing confidence when setting a forward-looking beta estimate. A materially better approach to beta estimation given this evidence would be to rely on the more relevant comparator set of gas pipelines and leave the gas asset beta unchanged.
- **There are strong principled reasons why gas has a higher beta than electricity in New Zealand (section 3).** The Commission accepts that technology, scale, cost structures, exposure to macroeconomic factors and exposure to regulation all influence exposure to

systematic risk. These factors point to a higher asset beta for gas pipelines than electricity networks – a point that seems to be accepted by all experts (although the size of the difference has not been agreed). The nature of the product, customer characteristics and growth options all support a higher asset beta for gas pipelines relative to electricity networks. The ability for customers to disconnect from gas, or opt not to connect to gas pipelines in the first place, creates very different demand drivers. The Commission’s draft decisions on form of control, if confirmed, would also leave gas distribution as the only regulated business subject to a weighted average price cap (a position we think provides the right incentives, but exposes our gas distribution business to higher levels of systematic risk).

- **Retaining a gas pipelines asset beta of 0.44 is consistent with the framework for the IMs review (section 4).** The Commission has stated that it will only make changes to IMs where there is a clear need to do so.<sup>1</sup> Like other submitters, we support this approach to the IMs review – changing rules without a compelling reason to do so creates uncertainty, which the IMs and the Commerce Act expressly seek to avoid. We see the framework for the IMs review as placing the onus for changing the IMs on any party (including the Commission) wanting to make a change, with a relatively high bar to surpass before any change is made. In the case of changing the asset beta (or any parameter in the cost of capital), this requires both empirical support and compelling principled-based arguments to justify any change.

This submission also considers what lessons can be drawn from regulatory approaches to estimating betas overseas – particularly in Australia (section 5).

## 2. Empirical evidence does not support changing the asset beta for gas pipelines

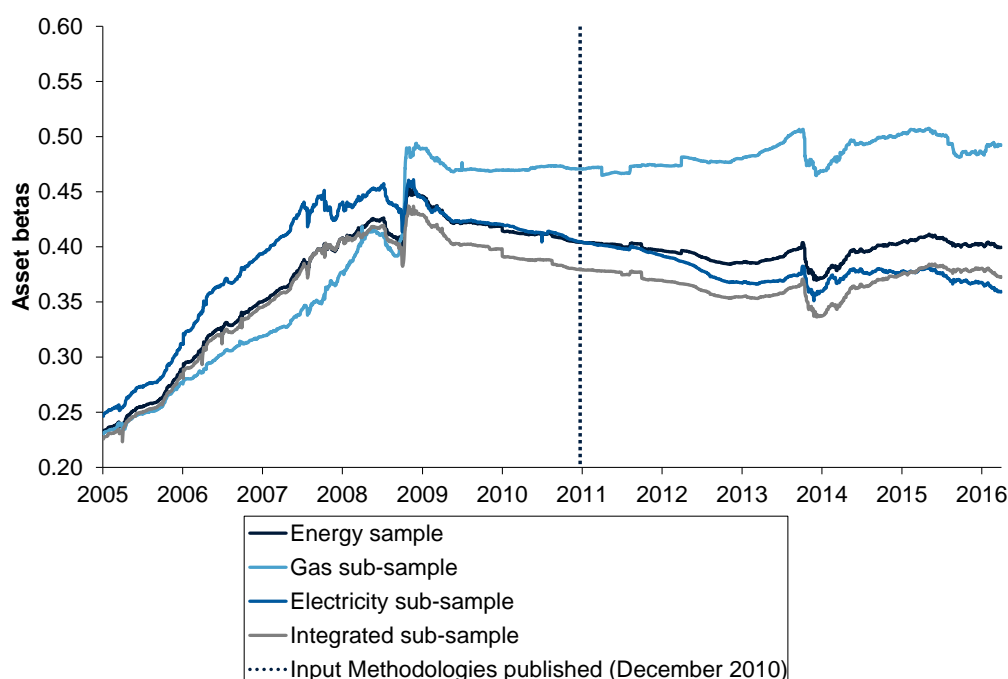
The Commission’s regulatory task is to estimate a beta for gas pipelines that will apply over the next 10 years (for the five yearly price-quality path resets that will apply from 2017-2022 and 2022-2027). The Commission states at para 53 of Topic Paper 4 that beta is “estimated empirically”, and that “historic estimates of average betas are used as beta is expected to be relatively stable over time”.

### Beta estimates using the gas pipelines sample are at or above 0.44

We asked Oxera to apply the Commission’s six-step process for beta estimation to determine an appropriate asset beta for gas pipelines. Using the gas pipeline comparators in the Commission’s dataset provides an asset beta for gas pipelines of between 0.42-0.50. As shown in the graph below (Figure 1 in Oxera’s expert report), the estimated beta for gas pipelines has been consistently and materially above the electricity businesses and integrated utilities in the Commission’s dataset throughout the past 8 years. The clear divergence between the beta of gas pipelines and other businesses in the Commission’s dataset emerges from the end of 2008 (around the time of the Global Financial Crisis), with the trends since that time bearing no obvious relation to those prior. The best estimate of a forward-looking beta for gas pipelines is quite stark using this data.

<sup>1</sup> See for example Commerce Commission “Input Methodologies Review: Invitation to contribute to problem definition”, 16 June 2015, which states at page 60 that WACC will be reviewed “to ensure that the parameters remain fit for purpose given changes in the overall environment faced by suppliers since the IMs were originally set.”

**Figure 1: Rolling five-year daily asset betas (Commerce Commission sample)**



Oxera provides further recommendations on ways to improve the robustness of the beta estimate for gas pipelines in the Commission’s final decision by applying additional screens for liquidity and capital structure. These refinements generate asset betas for gas pipelines of between 0.42-0.51 – again, consistently higher than estimates for electricity networks and integrated utilities.

### Beta estimates using the gas pipelines sample are statistically sound

The Commission needs to have confidence that empirical estimates of asset beta are of sufficient quality to support a regulatory decision. The quality of beta estimates is primarily determined by two factors: the comparability of the companies used to derive the estimate and the number of comparators and data points available.

We strongly believe that the gas pipelines in the Commission’s dataset and Oxera’s refined sample provide the closest comparators to regulated gas pipelines in New Zealand. The businesses used to generate the estimates reported above are engaged in transporting the same product and serving customers with similar demand characteristics as First Gas - and as a result face more comparable levels of exposure to systematic risk than electricity networks and other utilities that carry out a mix of activities. From our review of the websites of the gas companies in the Commission’s dataset, the gas sub-sample also has more similar levels of market penetration than an electricity network in any developed country.

While we recognise that a trade-off exists between comparability and sample size, increasing the number of comparators will not improve accuracy if the companies that are added are not actually comparable. A sample of 100 apples and oranges is a worse predictor of a typical apple than a sample of 10 apples.

In its draft decision, the Commission places considerable weight on estimates of standard error, noting (at paragraph 385 of Topic Paper 4) that “a 0.1 adjustment for GPBs would be less than our estimate of the standard error of the asset beta for the full comparator sample, which is 0.14”. The

table below lists standard errors using the full comparator sample in the draft decision, the gas and electricity sub-samples in the Commission’s dataset, and the refined gas sample used by Oxera. We also list the standard errors in other regulated industries (telecommunications and airports). Together these regulatory precedents establish how much variability the Commission should be willing to tolerate in empirical estimates of beta, and how many companies are required to generate a credible estimate.

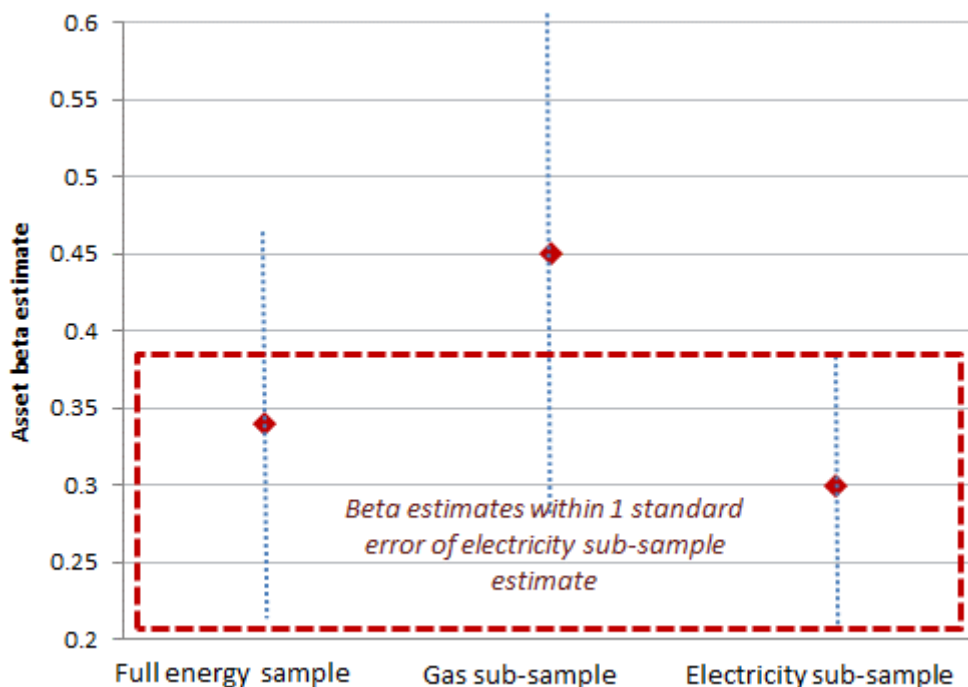
**Table 1: Summary of five-yearly asset beta estimates and standard errors using different comparator samples**

	Asset Beta Estimates			Standard Errors		
	4-weekly	Weekly	Daily	4-weekly	Weekly	Daily
Energy sample (draft decision)	0.30	0.34	0.39	0.13	0.13	0.12
Gas sub-sample (Commission)	0.44	0.45	0.50	0.17	0.17	0.13
Electricity sub-sample (Commission)	0.26	0.30	0.37	0.08	0.09	0.12
Gas sub-sample (Oxera)	0.42	0.45	0.51	0.16	0.16	0.12
Electricity sub-sample (Oxera)	0.27	0.30	0.36	0.05	0.06	0.08
Chorus FPP determination	0.36	0.41	0.41	0.03	0.06	0.13
Airports sample (draft decision)	0.66	0.60	0.59	0.31	0.30	0.31

Sources: Chorus from Oxera “Third Review of Expert Submissions on the WACC”: betas from Table 4.1 (page 14), standard errors from Table A2.3 (page 24)

The conclusion drawn by the Commission on the relationship between the full comparator set and the sub-sample of gas pipelines (that an uplift of 0.1 is within the standard error) cannot be drawn when comparing the two sub-samples of electricity and gas businesses. Using weekly daily, adding the standard error of the electricity sub-sample estimate to the corresponding beta estimate falls well short of the beta estimate for the gas sub-sample. As shown in the graph below, the weekly asset beta estimate for electricity networks (using the Commission’s dataset) is 0.30. Adding the standard error of that estimate would give an upper bound estimate of 0.38. This is much lower than the weekly asset beta estimate for gas pipelines of 0.45 (again using the Commission’s dataset) – suggesting that the estimates are statistically different. The same is true for all electricity sub-sample estimates (4-weekly, weekly and daily) using both the Commission and Oxera comparators.

**Figure 2: Summary of weekly asset beta estimates and standard errors using different comparator samples**



Another important conclusion from the table above is that the standard errors using the gas and electricity sub-samples are comparable to those resulting from the larger dataset. In the case of Oxera’s refined electricity sub-sample, the standard error on asset beta estimates falls to between 0.05-0.08, which is more precise than the full comparator sample used in the draft decision. The standard errors for Oxera’s refined gas sub-sample (ranging from 0.12-0.16) are similar to the standard errors of the full comparator sample (ranging from 0.12 – 0.13). Further, these standard errors are at levels that are consistent with the recent regulatory pricing decision made by the Commission for Chorus and much lower than the standard error of asset beta estimates for airports information disclosure.

We conclude that the empirical evidence does not support the proposed reduction in asset beta for gas pipelines. A materially better approach to beta estimation given this evidence would be to rely on the more relevant comparator set of gas pipelines and leave the gas asset beta unchanged.

### **3. There are strong principled reasons why gas has a higher beta than electricity in New Zealand**

We accept that empirical estimates need interpretation. The estimates do not speak for themselves and may run counter to intuition, as the Commission found in 2010 when first setting an asset beta for gas pipelines (we note that by 2010 the gas asset beta was actually higher than electricity).

We see two conceptual questions that the Commission needs to resolve in this case to be confident that the material difference shown in the empirical estimates reflects reality:

- What are the reasons that explain any difference in empirical estimates of beta across different industries (the Commission has put a great deal of emphasis on relativities between electricity networks and gas pipelines)?
- What are the reasons that support or discourage the use of empirical estimates of beta drawn from a sample that includes businesses from other countries (in this case primarily from the United States)?

## Several factors lead to gas pipelines having more exposure to systematic risk

The Commission lists 5 factors (at paragraph 27 of Topic Paper 4) that it says influence exposure to systematic risk – technology, scale, cost structures, exposure to macroeconomic factors and exposure to regulation. In his 2008 report that informed the 2010 Input Methodologies, Dr. Lally set out 9 reasons why beta might be higher in one industry than another – again related to the exposure that an industry faces to systematic risk. Oxera has reviewed the evidence on each of these factors in its report, and concludes that 5 of the 9 factors could plausibly explain part or all of the empirical difference observed between electricity and gas asset betas.

From our reading of the expert evidence on this topic and the draft decision, all experts and the Commission agree that some combination of factors is likely to push the asset beta for gas pipelines in New Zealand higher than for electricity networks. The question is *how much* higher the gas asset beta should be than electricity. This consensus reflects the vastly different characteristics of gas and electricity in New Zealand – with gas currently only reaching around 21 percent of households in the North Island and much fewer businesses (whereas electricity connects close to 100 percent of households and businesses).

Oxera's report demonstrates (in section 3) that:

- Gas use (and by implication gas pipeline revenue) is significantly more volatile than electricity
- Gas customers change their gas use to a greater extent than electricity customers when they experience a change in income (i.e. they have higher income elasticity of demand). High income elasticity estimates for gas in New Zealand make sense given the relative ease of changing gas use, and are consistent with observed relationships between income elasticity and gas market maturity from overseas (see Figure 3.5 of Oxera's report)
- Gas pipelines have more opportunities to expand than electricity networks, which introduces an element of systematic risk. Oxera concludes that economic regulation does not fully insulate regulated businesses from this exposure to systematic risk.

Oxera explains that while revenue and price regulation under Part 4 of the Commerce Act mutes the impacts of these underlying sector characteristics, it does not eliminate their effects on beta. While the Commission does not propose to adjust the asset beta to reflect form of regulatory control, we note that the Commission proposes to subject all regulated electricity networks to revenue cap regulation, while leaving gas distribution business on a weighted average price cap (a decision that we support). The result of these decisions and observations is that the only regulated businesses exposed to significant volume risk in upcoming regulatory periods will be gas pipelines – again providing conceptual support for a higher asset beta.

## Several factors support empirical estimates of beta drawn from the US

While not perfectly comparable, we consider that gas pipelines in the United States have broad characteristics that are generally comparable with pipelines in New Zealand (certainly more so than countries such as the United Kingdom where gas networks reach nearly all households).

Table 2 presents some broad sector comparators for the gas industry between New Zealand and the United States. While the regulatory controls of gas pipeline businesses in the United States are different from those applied in New Zealand, we agree with Dr. Lally's advice to the Commission that this would tend to understate US betas relative to equivalent New Zealand companies.<sup>2</sup>

**Table 2: Summary of Broad Gas Sector Characteristics in New Zealand and the United States**

Characteristics	New Zealand	United States
Gas proportion of primary energy needs	22.6%	29%
Proportion of households connected to gas	21% (North Island only)	56%
Proportion of total gas demand consumed by:		
Electricity generation	29.0%	35.2%
Industrial	63.5%	36.1%
<i>Industrial users</i>	<i>(14.6%)</i>	
<i>Petrochemical feedstock</i>	<i>(29.2%)</i>	
<i>Petrochemical process</i>	<i>(19.7)</i>	
Commercial customers	4.3%	11.7%
Households (and vehicles in US)	3.2%	18.6%
Regulatory controls	Incentive-based regulation	Mix of federal and local, mix of rate of return regulation and incentive-based regulation (known as performance based ratemaking)

Sources: NZ - 2015 Energy in New Zealand; Statistics New Zealand; NZ Gas Story, July 2016. U.S. - Energy Information Administration; American Gas Association

We also note that the composition of gas companies in the Commission's sample appears to be moving towards New Zealand's composition of regulated gas pipelines. The split of gas transmission to gas distribution businesses in New Zealand is roughly 50:50 (by revenue). While we do not have revenue splits for the gas businesses in the Commission's sample, the raw number of transmission companies suggests that gas transmission was under-represented in the first two 5-year periods considered by the Commission, where there were only 2-3 transmission businesses from samples of

<sup>2</sup> Lally (2016) "Review of WACC Issues", 25 February

13-14 gas pipelines. This has increased to 7 gas transmission businesses from a sample of 18 in the most recent 5-year period (which represents about 40% by number).

### **What are the electricity beta impacts of using gas sector comparators?**

The Commission started to consider the implications of using more directly comparable companies for beta estimation in Topic Paper 4. At paragraph 387 of Topic Paper 4, the Commission presents four different scenarios if the comparator sample used to estimate asset beta was limited to gas businesses in the way described above and in Oxera's expert report. In our view, these scenarios are not directly helpful to the Commission's core regulatory task – which in the case of our business is to estimate a forward-looking asset beta for gas pipelines. The Commission's role is to find the best estimate of beta for each regulated sector, which does not mean one has to come down so that the other can go up (or stay the same).

We do, however, think that the approach used by Oxera provides the most robust beta estimates and should be applied consistently. That is, the Commission should limit its sample to the most similar comparators, test the statistical validity of the results, and interpret the results against the conceptual reasons and expectations for beta to differ across regulated industries.

The Commission notes (in footnote 253) that if scenario 1 was valid, it would expect to see a material difference in other regulators' asset beta estimates for electricity and gas businesses. We disagree with this suggestion. As we describe in section 5 of this submission, other regulators are faced with the choice of using a larger sample of international comparators or a relatively small sample of domestic comparators. The Commission does not face the same decision given that New Zealand does not have enough publicly traded comparators to generate reliable beta estimates. Rather, the Commission has an opportunity to improve comparability by distinguishing betas by sector and better reflecting the nature of the particular service provided, the nature of customers, and the effect of growth options facing market participants.

## **4. Retaining a gas pipelines asset beta of 0.44 is consistent with the framework for the IMs review**

Section 52R of the Commerce Act states that the purpose of the IMs is to promote certainty for suppliers and consumers in relation to the rules, requirements, and processes applying to the regulation, or proposed regulation, of goods or services under this Part. The regulatory impact statement that accompanied amendments to the Commerce Act to introduce Part 4 states that a major problem with the previous regulatory regime (Part 4A) was that it “devolves a significant amount of discretion and flexibility to the regulator, but that has come at the cost of increased uncertainty for business.”<sup>3</sup>

In line with these provisions, the Commission has clearly stated that it will only make changes to IMs where there is a clear need to do so – in essence, where the current IMs are not fit for purpose.<sup>4</sup>

We do not consider that reducing the asset beta for gas pipelines as part of the IMs review would be faithfully applying this approach given that:

<sup>3</sup> See: <http://www.mbie.govt.nz/publications-research/publications/business-law/ris-review-4-4a-commerce-act.pdf>

<sup>4</sup> See for example Commerce Commission “Input Methodologies Review: Invitation to contribute to problem definition”, 16 June 2015, which states at page 60 that WACC will be reviewed “to ensure that the parameters remain fit for purpose given changes in the overall environment faced by suppliers since the IMs were originally set.”



- **No party has suggested that the current gas asset beta is not fit for purpose.** The cost of capital IM determined in 2010 withstood considerable scrutiny through the merits review process. To our knowledge, no party raised concerns about the gas asset beta in that process and the High Court did not suggest that it needed to be reviewed. The issue was not raised in the Commission’s problem definition paper for the IMs review – and the only party that mentioned the asset beta for gas pipelines (Transpower’s consultants Frontier Economics) responded to the problem definition paper in support of applying an uplift for gas pipelines over electricity networks.<sup>5</sup>
- **The empirical evidence supports the current gas asset beta.** To discharge an onus of proof that is weighted against change (and towards regulatory stability), empirical evidence needs to support the proposed alteration to the IMs. The High Court merits review decision clearly emphasised the importance of empirical analysis in cost of capital decisions.<sup>6</sup> In this case, the statistically valid results summarised above provide clear evidence to derive the appropriate gas asset beta for the coming regulatory period using a more comparable sample set.

Our concern is not that the IMs review is not the right time to consider asset beta – we agree with the Commission (at paragraph 347 of Topic Paper 4) that it is. However, we believe that this IMs review is not the right time to change the asset beta for gas pipelines. There is no compelling case demonstrating that the current beta is no longer fit for purpose, and in fact the empirical evidence adds stronger support for the current level of the gas asset beta than existed when it was first set in 2010.

## 5. What lessons can be drawn from regulatory approaches to estimating betas overseas?

In its Draft Decision (at paragraphs 375-376 of Topic Paper 4), the Commission finds support for its removal of the gas beta uplift from the fact that Ofgem and the AER estimate the same equity beta for both gas and electricity distribution businesses. As mentioned above, the UK gas sector has fundamentally different characteristics from New Zealand, with gas networks reaching nearly every premise (and therefore being much more comparable to electricity networks). We also believe that the Commission has misread the regulatory lessons from Australia. While it is true that the AER estimates the same beta for gas and electricity distribution and transmission businesses, this approach needs to be understood within the broader context of how beta is estimated by Australian regulators – which differs markedly from the IMs.

The AER (as well as other Australian regulators) has essentially opted to take the opposite approach to the Commission’s IMs in the use of international comparators. Instead of relying on a large sample of listed entities (primarily from the United States), Australian regulators believe that estimates based on a small sample of Australian comparators will be more reliable. In its most recent relevant decision (Amadeus Gas Pipeline Access Agreement: Final Decision, May 2016, page 3-258), the AER states:

*We do not include international energy network firms in our comparator set for empirical analysis. We consider international energy firms are not suitable comparators in this case, for the following reasons:*

<sup>5</sup> Frontier Economics “Recommendations for priorities in review of cost of capital IMs”, August 2015, which states at page 64 that “For the avoidance of doubt, we are not arguing that the risk profiles of gas and electricity networks do not differ.”

<sup>6</sup> *Wellington Airport and Others v Commerce Commission* [2013] NZHC 3289 <http://www.comcom.govt.nz/dmsdocument/11470>

*- They deviate from our definition of a benchmark efficient entity definition because they do not operate within Australia. Differences in regulation of businesses, the domestic economy, geography, business cycles, weather and a number of different factors are likely to result in differences between equity beta estimates for similar businesses between countries... It is difficult to assign quantitative impacts to these qualitative factors.*

*- We discuss equity beta estimates in the context of our foundation model, which is the domestic Sharpe-Lintner CAPM... This provides a strong rationale for estimating the equity beta using Australian data. If we included international energy firms in our comparator set, it may be more appropriate to use an international or global CAPM...*

*- Equity beta estimates from international comparators are measured with respect to the market portfolio of their home market... This means the equity beta estimates from international comparators are not a measurement of the firm's systematic risk relative to the Australian domestic market portfolio... As Associate Professor John Handley (Handley) stated:*

*In general, domestic betas and international betas measure different things and are not comparable due to potential differences in the covariance structure and level of systematic risk in the respective markets. This is purely a definitional difference.*

The small sample, domestically-focussed approach, combined with the fact that there are no electricity distribution pure plays available on the Australian market, means that it is difficult in practice for Australian regulators to distinguish between gas and electricity betas.

This issue is usefully illustrated by the differences and similarities between the beta estimates developed by the West Australian Economic Regulatory Authority (ERA) and the AER. Both the AER and the ERA believe that a small sample of Australian-only entities is more appropriate than a large sample of entities from other markets. This reflects the understanding of the practical differences of estimating a common set of betas across very different market portfolios, and a recognition that the regulatory regimes differ greatly across countries.<sup>7</sup>

The AER originally used a sample of 9 companies set out in the table below.

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<sup>7</sup> Economic Regulatory Authority of Western Australia “Rate of Return Guidelines: Meeting the requirements of the National Gas Rules”  
<https://www.erawa.com.au/cproot/11953/2/Rate%20of%20Return%20Guidelines.PDF>

**Table 3: Comparator companies used by AER to estimate beta in 2009**

Firm (ASX ticker)	Time / trading period	Sectors
AGL Energy Limited (AGK)	January 1990 – October 2006	Electricity, Gas
Alinta (AAN)	October 2000 – August 2007	Gas
APA Group (APA)	June 2000 – present	Gas, Minority interest in other energy infrastructure
DUET Group (DUE)	August 2004 – present	Electricity, Gas
Envestra Ltd. (ENV)	August 1997 – October 2014	Gas
GasNet (GAS)	December 2001 – November 2006	Gas
Hastings Diversified Utilities Fund (HDF)	December 2004– November 2012	Gas
Spark Infrastructure Group (SKI)	March 2007 <sup>8d</sup> – present	Electricity, Gas
AusNet Services (AST), formerly SP AusNet (SPN)	December 2005 – present	Electricity, Gas

Source: AER analysis; Bloomberg; AER, *Review of the WACC parameters: Final decision*, May 2009, p. 255.

However, three of the firms listed in this table were no longer trading by June 2013. In the AER's view, AGL has changed its business so that it no longer resembles a benchmark regulated entity (as above p 3-254). Envestra was delisted in October 2014. From this smaller sample, AER arrive at an equity beta estimate of 0.7.<sup>8</sup>

Unlike the AER, the ERA selects pure play traded gas pipeline businesses in setting WACC for the gas pipelines it regulates. For its latest decision on the Dampier to Bunbury Pipeline (DBP), the ERA identified four trading gas infrastructure assets as of June 2016: APA Group, AusNet Services, DUET Group, and Spark Infrastructure Group. It estimated an equity beta for a portfolio consisting of these four businesses of 0.7 (the same beta as estimated by the AER).<sup>9</sup>

We recognise that the Commerce Commission does not have the option of relying on a small sample of relevant New Zealand comparators. Since the Commission uses an international sample from different markets and different regulatory regimes, the relevant lesson from the Australian experience is not that it should estimate the same beta for gas and electricity regulated networks. Rather, the observations made by the AER about its approach would suggest that the relevant lesson would be that the Commission should refine its sample to a shorter list of comparators in similar markets and with broadly similar regulatory controls.

## 6. Conclusion

We are deeply concerned about the impacts of substantially reducing the asset beta on investment in New Zealand's regulatory industries – not just by our shareholders (First State Investments), but by all investors in regulated assets. To face an unsignalled regulatory decision that substantially reduces

<sup>8</sup> AER "Final Decision: Amadeus Gas Pipeline Access Arrangement: 2016-2021

<sup>9</sup> ERA "DBNGP Access Arrangement: 2016 – 2020 Access Arrangement Period Access Arrangement Document"

<https://www.erawa.com.au/gas/gas-access/dampier-to-bunbury-natural-gas-pipeline/access-arrangements/proposed-access-arrangement-for-period-2016-2020>

the equity value of a company within months of significant transactions provides an undesirable indication of the risks that investors are expected to bear in New Zealand's regulated industries. This also has potentially significant adverse impacts on the cost and availability of capital, and will not help to meet gas industry objectives. The Commission has an opportunity reconsider the analysis, approach, conclusions and broader implications of the draft decision based on the evidence provided in submissions.

We look forward to continuing to engage with the Commission through the process of reviewing the IMs. Please contact me if you wish to discuss this further at [ben.gerritsen@firstgas.co.nz](mailto:ben.gerritsen@firstgas.co.nz) or call me on (021) 911 946.

Yours sincerely

A handwritten signature in black ink, appearing to read 'BGR', with a small dot below the first letter.

**Ben Gerritsen**  
General Manager Commercial and Regulation