**First Gas Limited**
42 Connett Road West, Bell Block

Private Bag 2020, New Plymouth, 4342
New Zealand

**P** +64 6 755 0861
**F** +64 6 759 6509

31 March 2017

Tricia Jennings
Project Manager, Gas DPP reset 2017
Commerce Commission
44 The Terrace
**WELLINGTON 6140**

Sent via email: regulation.branch@comcom.govt.nz

Dear Tricia

**Further cross-submission on draft Default Price-quality Path (DPP) reset decision**

The process for the 2017 Default Price-quality Path (DPP) reset for gas pipeline businesses requires parties to file the following material by 31 March 2017:

- Cross-submissions on First Gas' submission on its expenditure allowances;
- Cross-submissions on Vector's further evidence on its non-network expenditure; and
- Submissions on the Commission's updated draft decision on First Gas' Gilbert Stream proposed expenditure (released on 23 March 2017).

This further cross-submission address each of these issues in turn.

**First Gas submission on expenditure allowances**

The only point we raise in relation to our expenditure allowances is that in expenditure categories where the Commission has accepted our expenditure forecasts, the numbers presented in Attachment D of the draft decision reasons paper differ from those in our Asset Management Plans (AMPs). We have raised this difference with the Commission, and we understand that the Commission is investigating whether this difference is intended or if it results from a modelling error.

**Vector's further evidence on its non-network expenditure**

In its cross-submission of 24 March 2017, Vector provides further evidence in support of its non-network expenditure (see paragraphs 8-17).

Vector states[1] that many of the non-network projects that it needs to complete over the coming regulatory period were deferred until after the businesses sold to First Gas were transitioned away from Vector. As we noted in our submission, this is consistent with the approach taken to several network expenditure projects, where actual pre-sale expenditure was significantly lower than forecast in Vector's previous AMPs. This seems to us to be a prudent approach to IT infrastructure investment, where it makes little sense to implement new systems for operations that will soon be sold.

**The Commission's updated draft decision on First Gas' Gilbert Stream proposed expenditure**

On 23 March 2017, the Commission updated its draft decision to include forecast capital expenditure of $9 million for the Gilbert Stream realignment. We obviously support the Commission's decision to provide funding for an important capital project that needs to be carried out.

The decision is informed by an analysis (carried out by Strata) of the information that we provided in support of the proposed investment. We accept the findings of that analysis that the information provided in response to the Commission's first two questions could have been more robust. While our customer engagement on asset management has improved (as recently acknowledged by the Gas Industry Company),[2] we are keen to engage proactively with our customers on significant pipeline investments.

---

[1] Paragraph 10, Vector cross-submission.

[2] See Gas Transmission Security and Reliability Update, March 2017 – available online at http://gasindustry.co.nz/dmsdocument/5474, which concludes that "Stakeholder engagement on S&R matters during development of the New AMP has improved considerably on previous transmission pipeline owner communications."

We also plan to incorporate economic analysis into significant risk-related pipeline investments, as Commission staff have done in the analysis presented on slide 6 of its decision. In our view, this type of analysis will help to demonstrate the value of proposed investments to our customers – who have encouraged us to more closely link our expenditure plans to desired customer outcomes.

Please contact me if you have any questions on this further cross-submission.

Yours sincerely

**Ben Gerritsen**
General Manager Commercial and Regulation