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Regulation Branch  
Commerce Commission  
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24 March 2016

Dear Keston

**RE: Submission on Emerging Views on Opportunities to Improve the Way Default and Customised Price-Quality Paths Work Together: 29 February 2016**

1. This submission is on behalf of the Major Gas Users Group (MGUG)
2. MGUG was established in 2010 as a consumer voice for the interests of a number of industrials who are major consumers of natural gas.
3. Membership of MGUG includes:
  - Ballance Agri-Nutrients Ltd
  - Oji Fibre Solutions (NZ) Ltd
  - Fonterra Co-operative Group
  - Goodman Fielder New Zealand Limited
  - New Zealand Steel Ltd
  - New Zealand Sugar Company Ltd
  - Refining NZ
4. These industries are a significant part of New Zealand's economy, including; the primary industry export sector, in provision of energy security, and through import substitution assisting New Zealand's balance of payments. Their manufacturing base in New Zealand relies on a secure energy supply, which for natural gas includes secure and reliable gas transport (transmission and distribution). Collectively the group has invested significant long term capital in manufacturing facilities that consume about 30 PJ per annum of natural gas, or about 15% of the gas supplied to the market in New Zealand.
5. The focus of this submission is to provide comments on the Commission's emerging views as they relate to matters affecting gas pipeline businesses.
  - a. We support the Commission's approach to step back and examine the options that currently exist for tailoring default/customised price-quality paths.
  - b. We believe the Commission's proposed **proportionate scrutiny principle** is a reasonable approach for assessing the price and quality cost/benefit impacts on consumers.

- c. We think the use of working groups is a good step. This is suggested by the Commission in Paragraph 39 (Footnote 14). It has been acknowledged as an appropriate approach for quality (security and reliability) and should be included in the range of options for assessing the benefit of a tailored approach.
  - d. Implicit in the principle should be that the type of scrutiny e.g. technical expertise necessary to undertake verification and audit, the engagement process etc is appropriate to the matter in consideration.
  - e. We note we are still partially through the first DPP for gas and do not have the full experience of a completed default path yet.
6. We have discussed the Commission's approach with the Major Electricity Users Group and generally have the same views on common matters. Subject to viewing the total draft IM package mid-June, MGUG agrees with the eight emerging views described at a "high-level at this stage". We list these with MGUG comments inserted:

- **Emerging view 1: We are open to taking a more tailored approach to setting the DPP where this can be done without significantly increasing cost.**

MGUG agrees provided any increase in costs will clearly, that is quantifiably, be less than preferably short-term benefits to consumers and definitely less than the present value of long term benefits to consumers.

- **Emerging view 2: We consider that 'single-issue' CPPs are not appropriate.**

MGUG agrees.

- **Emerging view 3: We should apply a proportionate scrutiny principle in continuing to refine the CPP requirements and in assessing CPP proposals.**

MGUG agrees. See comment above.

- **Emerging view 4: We are open to expanding the role of DPP reopeners.**

MGUG agrees.

- **Emerging view 5: The quality-only CPP option should be replaced with a DPP reopener.**

MGUG agrees.

- **Emerging view 6: We are open to considering a CPP reopener for contingent and unforeseen projects.**

MGUG agrees. A question was raised during the process and issues workshop on 10 March 2016 concerning whether the Commission had considered a grid investment test approach for major investments under a DPP. The Commission commented that the CPP process is likely to consider the same types of things that a grid investment test approach would, e.g. options assessment, cost benefit assessment, consumer consultation. MGUG believes the Commission

should ensure that the CPP process is examined to see how well it aligns with a grid investment test approach.

- **Emerging view 7: We are open to considering approval of net additional costs incurred prior to CPP approval.**

MGUG agrees provided any increase in costs will clearly, that is quantifiably, be less than preferably short-term benefits to consumers and definitely less than the present value of long term benefits to consumers.

- **Emerging view 8: We are open to providing for the expansion of the range of pass-through costs that can be added when setting the DPP.**

MGUG agrees provided the Commerce Commission are also open to considering removing existing pass-through costs if it can be shown that a GPB can influence those costs.

7. The **real-world example to illustrate the application of the Commission's emerging views (Page 24)** is very helpful. These matters (both pigging as standard pipeline maintenance and exceptional matters such as the required capex for Whitecliffs) are critical to MGUG members' confidence in the security and reliability of gas supply. But while they are critical they also represent two very different problems to be addressed - one which is an accepted and regular part of good pipeline management, the other (Whitecliffs), a unique problem which raises significant questions about the cost to remedy, the potential risks faced by consumers who are reliant on the pipeline and the options for reducing/mitigating those risks during the project process. The illustration provided by the Commission's emerging views using a CPP provides a more focussed approach for addressing the range of issues that a problem such as Whitecliffs presents.
8. This submission is not confidential. Some members may make separate submissions.

Yours sincerely



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Secretariat for the Major Gas Users Group