

4 August 2016

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Tricia Jennings
Project Manager, Gas DPP reset 2017
Regulation Branch
Commerce Commission
Wellington

By email: regulation.branch@comcom.govt.nz

Dear Tricia,

Default price quality paths for gas pipeline services from 1 October 2017 – implementing matters arising from proposed Input Methodologies changes

1. This is Vector's submission to the Commerce Commission's default price-quality paths for gas pipeline services from 1 October 2017 – implementing matters arising from proposed input methodologies (IM) changes.
2. Vector's contact person for this submission is:

Kelvin Binning
Principal Regulatory Advisor
09 213 1542
Kelvin.Binning@vector.co.nz
3. No part of this submission is confidential and we are happy for it to be publicly released.

Commission's consultation process and interaction with IM review

4. This paper covers matters arising from the Commission's IM review and how it would apply to gas pipeline businesses. Vector is the owner of the gas distribution business (GDB) in the Auckland region and has commented on certain matters as they relate to our GDB, including matters where the Commission has chosen not to amend an IM.

Form of control – weighted average price cap (WAPC)

5. The Commission's form of control section discusses the operation of a "pure" revenue cap for gas transmission businesses, but provides no insight into the weighted average price cap (WAPC) for gas distribution businesses. A key decision in the IM Draft Decisions was the Commission's refusal to allow for a default price path (DPP) reopener in the IMs for

erroneous forecasts that may have been relied upon for estimating constant price revenue growth (CPRG) as part of setting a WAPC.

6. The Commission decided not to include a reopener on the basis that “we are not aware of any significant issues specifically related to CPRG for GDBs.”¹ While the Commission’s forecasts for the initial GDB 2012-2017 DPP were reasonable estimates of demand and have not provided cause for concern, we do not believe that is an adequate basis for not making an amendment given the Commission has recognised CPRG to be a significant challenge for it when setting a WAPC.
7. The Commission’s workshop on CPRG on 25 May 2016 illuminated the significant challenges for forecasting CPRG for GDBs. Concept Consulting’s proposed demand projections for GDBs had five different forecasts with very different outcomes for demand growth for DPPs. To that end, we have some concern about the Commission’s very light treatment of a DPP reopener for GDBs. Vector believes there is merit in having a supplier initiated DPP reopener for CPRG in the GDB IMs to address the risk of unreasonable demand forecasts being based on erroneous assumptions.

Schedule A – Standard lives for assets

8. Vector supports aligning the standard lives in Schedule A of the IM determination² with the asset categories submitted by GDBs as part of their information disclosure requirements in schedules 6 and 11 of the Information Disclosure Determination.³ Currently Schedule A bundles asset categories up to a level that is unnecessary and does not reflect key infrastructure components.

Pass-through costs

9. Vector supports changing pass-through costs from prescribed ‘levies’ to criteria based pass-through costs. We also support increasing flexibility so that criteria based pass-through costs can be specified at the time of setting a DPP or customised price path or within the regulatory period.

Moving from ascertainable costs to the pass-through balance

10. Vector did not experience any issues with the management of pass-through and recoverable costs under the current ‘ascertainable’ model. Therefore, we see limited benefit in moving to the ‘pass-through balance’ model designed for EDBs. The Commission has not demonstrated the merits of moving GDBs to a forecast model required for a ‘pass-through balance’ and we are concerned the cost of doing so may outweigh any benefits.

¹ Commerce Commission, *Input Methodologies Review Draft Decisions: Topic 2 CPP Requirements*, 16 June 2016, p. 30.

² Commerce Commission, *Gas Distribution Service Input Methodologies Determination 2012 (consolidating all amendments as of 15 December 2015)*, 3 February 2016, p. 133

³ Commerce Commission, *Gas Distribution Information Disclosure Determination 2012 (consolidated in 2015)*, 24 March 2015

11. The pass-through balance model for EDBs caters for annual variations in transmission charges which can be significant and cause material risk for EDBs with price compliance. However, such risk is not as significant for GDBs.

Draft financial model

12. In the time available, Vector had limited opportunity to review the Commission's draft financial model. Accordingly, we will continue our review of the financial model and provide more substantive feedback as part of cross-submissions. Vector has commented on the proposed change to 'finance leases' in our IM submission – we do have some concern about this particular change and the documentation provided in the IM review.

Yours sincerely
For and on behalf of Vector Limited

A handwritten signature in blue ink, appearing to read "Richard Sharp".

Richard Sharp
Head of Regulatory