



MDL Response to GIC on Proposed Gas Infrastructure Investment Project

Background

This paper is in response to the GIC paper on its Proposed Gas Transmission Investment Project. MDL is happy to support the project as it believes the objective of “establishing the current need for gas transmission investment and developing an effective pathway for gas transmission to take place” is worthwhile. While the current focus for infrastructure investment discussions is Vector’s North Pipeline system, MDL believes that the issue will eventually become more general and that it is timely to discuss it now.

The Project Plan

We understand that the project plan may alter as a result of the project scoping exercise. The following are our comments on the elements of the plan set out in the GIC paper.

1. Improving the quality and availability of information

We think that any steps in the direction of providing supply/demand scenarios must improve the ability of gas transmission companies to plan for future demand. Much of the critical information is scattered in various hands around the industry and confidentiality and commercial considerations can stop it being exchanged. We consider an industry wide agreement to come up with an agreed set of supply/demand scenarios would be useful for all parties. MDL anticipates supply/demand scenarios would take into account annual averages but also daily swing and intra-day swing.

We also note that the Commerce Commission is considering a requirement to have future estimated gas demand included in gas transmission companies’ asset management plans.

2. Improving Commercial Arrangements

We note the attention given to transmission pricing and its effect on the demand for new capacity as well as need for an investor to recover the full cost of any investment. Both these factors are primarily influenced by the rate of return allowed for new and existing investment. This in turn is being regulated by the Commerce Commission. One of the purposes of this regulation is to give suppliers incentives to innovate and invest. However if rates of return are set too low this objective is unlikely to be fulfilled. Note also that it is unrealistic to expect investment to cover all capacity requirements and new investment needs to be weighed against the quality of service that is considered appropriate for the asset (ie the optimum demand curtailment volume per annum).

3. Improving Regulatory Arrangements

We note that an investment test has already been suggested by both MDL and Vector as part of a mechanism to allow new investment to be taken into consideration for gas transmission businesses using the Default Price Path, (DPP). One of the less desirable



features of the proposed DPP is that it does not currently have any provision for increasing returns to the pipeline owner to compensate for new capital investment during the 5 year regulatory period. Although an alternative is available through the Customised Price Path mechanism, it is likely to be expensive and slow as well as presenting some risks to transmission system owners.

Feedback

- MDL agrees with the project plan and objectives.
- Considers the project management outline suitable.
- Nominates Donald Gray as a member of the Panel of Strategic Advisers.