



COMMERCE COMMISSION

Please refer to:

1205043_1

7 June, 2011

Mr Steve Bielby
Chief Executive
Gas Industry Company Limited
PO Box 10 646
WELLINGTON 6143

Dear Steve

Submission on Gas Industry Co's Proposed Gas Transmission Project

Thank you for the opportunity to provide feedback to Gas Industry Co (GIC) on the document titled "Proposed Gas Transmission Investment Project" (the Project) that was circulated on 25 May.

The Commerce Commission (Commission) is supportive of the need for incentives to invest appropriately and for GIC to pursue objectives that further meets its obligations under the Gas Act 1992. The Commission is keen to learn more on how the Project relates to, and supports, our core responsibilities to gas pipeline businesses and other stakeholders under Part 4 of the Commerce Act (the Act).

The Project potentially raises some overlapping issues and/or conflicts in relation to the work of the Commission and we recommend that these will need to be resolved before any terms of reference are prepared. These issues are as follows:

Improving the Quality and Availability of Information

The Commission is of the view that costs of regulatory compliance should be minimised where at all possible and, in this regard, considers it important to ensure that there is no duplication of effort across regulatory agencies.

The Commission is in the process of developing information disclosure requirements to ensure that there is sufficient information available for interested parties to be able to assess whether the purpose and outcomes of Part 4 of the Act are being met with respect to gas pipeline businesses. The Commission would welcome GIC's input into the process for determining information requirements to ensure that the work of our two agencies in this area is complementary and minimises costs to gas pipeline businesses.

Further updates regarding the Commission's information disclosure requirements for gas pipeline businesses can be found at the Commission's website:

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<http://www.comcom.govt.nz/gas-information-disclosure/>

Please also note that the Information Disclosure (Airport Services) Final Determination published on 22 December 2010 provides a useful overview of the framework used by the Commission to decide what information should be required under Part 4 of the Act.

Improving Commercial Arrangements

The paper is not strictly accurate when it states that the Commission “...*is not concerned with pricing structures...*”. The Commission in fact established pricing principles in the input methodologies for gas pipeline businesses under section 52T of the Act. In doing so, the Commission was concerned with how the costs of supplying gas distribution services or gas transmission services, in aggregate, are recovered at a disaggregated level and the level and structure of prices to recover those costs (e.g. the combination and level of fixed and throughput charges).

The Commission adopted a principles-based approach to pricing methodologies whereby a set of pricing principles apply in the following ways:

- to information disclosure, where information disclosure requirements are likely to require demonstration that suppliers’ pricing methodologies are consistent with pricing principles; and
- to Customised Price-Quality Paths in some instances, where the Commission will determine a pricing methodology that is consistent with the pricing principles.

Such an approach is consistent with that of regulated suppliers (Powerco and Vector’s Auckland gas distribution services) under the Gas Authorisations.

The pricing principles can be found as Table 7.2 on page 180 of the Commission’s Input Methodologies (Electricity Distribution and Gas Pipeline Services) Reasons Paper dated December 2010. It is expected that a gas pipeline business will be required to disclose the pricing methodology it actually applies and demonstrate the extent to which it is consistent with the pricing principles specified in the input methodologies.

Further information on the setting of input methodologies for gas pipeline businesses can be found at <http://www.comcom.govt.nz/gas-pipelines-2/>.

Improving regulatory arrangements

The Commission notes that GIC has cited a ‘Grid Investment Test’ as a potential example of an opportunity for improving regulatory arrangements. Some submissions to the Commission’s recent Initial Gas DPP Discussion Paper dated April 2011 have also proposed such an initiative. The Commission will consider these views in preparing the draft Initial DPP determinations for gas pipeline businesses.

Project timeline

The indicative timelines of the Project suggest it will commence before the determination of the Initial DPP in February 2012, but any conclusions will not be known until well after the Initial DPP takes effect. It is therefore not clear to the Commission how the Project aligns

with our work on the Initial DPP and we would appreciate further clarification on this point from GIC.

General

The Commission is interested in the Project and is happy to learn more from GIC on how it relates to, and supports, our work programmes under the Act. Should you have any questions on any of the above, please contact Paul Mitchell on 04 9243683 or at paul.mitchell@comcom.govt.nz.

Yours sincerely

A handwritten signature in black ink, appearing to read 'AM', with a long horizontal flourish extending to the right.

Anthony Merritt
Manager, Electricity & Gas
Regulation Branch