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Paul Melville  
Chief Adviser  
Commerce Commission  
PO Box 2351  
**Wellington**

Dear Paul

## **GAS PIPELINES INQUIRY**

Orion has been monitoring the Commission's gas pipelines inquiry, including the recent conference on the Commission's draft report. Orion's interest in the inquiry is largely related to the precedent effect of Commission decisions, given a range of issues are being considered in the inquiry that are relevant to the Commission's regulation of electricity lines businesses, as well as its regulatory activity generally.

Orion has not made a submission before this time but, having considered the transcripts from the conference, now wishes to provide some brief observations for the Commission to consider with respect to competition and use of ACAM.

### **Competition**

Orion has noted that a number of parties in the inquiry have commented on the degree of competition between energy options, particularly natural gas and LPG.

Orion, through Enerco, used to own the gas pipeline network that is now owned by Vector. I was personally involved in the gas pipeline business at that time, and can attest to the level of competition experienced with other energy options, particularly LPG. As has been pointed out to the Commission, consumers are generally indifferent between natural gas and LPG given the relevant appliances can readily run on either gas. Further, Enerco's experience was that a pipeline installation was often seen as unnecessary by consumers, given perceptions about the level of up-front installation cost, the amount of work required (and often disruption associated with that) and ongoing fixed line charges. LPG on the other hand had the advantage of a relatively instantaneous installation and consumer perceptions around portability of their investment (both in terms of consumers feeling like pipeline installation costs would not be lost if they moved, and mobility of heating appliances (something not possible with natural gas)).

Against this competitive backdrop, a number of Enerco's investments in the gas network were marginal and, given their risk, certainly would not have been made in the presence of a regulated rate of return (or an alternative regulatory approach with similar effect). Further, like the market dynamic now, most of Enerco's new investments were in green-field

developments (e.g. subdivisions), as opposed to extensions to the existing network, which were not commercially prudent given the installation cost and significant competitive threat from other fuels, particularly LPG.

As a final comment on competition, it is perhaps stating the obvious to note that no Christchurch residents or businesses, where Orion is located, have access to reticulated natural gas. Instead, LPG is reticulated in some areas of the city and, of course, available ubiquitously through bottled installations or portable/refillable bottles. The fact that natural gas is not widely available underscores its discretionary nature. Even in areas where natural gas is reticulated, Enerco's experience was that its discretionary nature, in the presence of other energy options, posed a significant competitive challenge.

Since Orion's ownership of a gas pipeline business, it is widely understood in the energy industry that LPG has become an increasing competitive threat, with significant growth in LPG penetration in recent years. While this letter does not obviously provide the Commission with concrete evidence of the degree of competition, Orion considered that an independent view on this matter, based on our earlier experience operating gas pipelines, may be of interest to the Commission.

#### **ACAM**

In respect of ACAM, Orion notes that the Commission is intending to apply an arbitrary reduction to the stand alone costs reported by the pipeline businesses.

While the arbitrary nature of such a reduction would be of concern to Orion (in terms of signalling the Commission's willingness to make significant regulatory decisions without robust supporting analysis), more fundamentally Orion is concerned that the Commission would not accept application of ACAM to determine the appropriate level of costs for a regulatory inquiry of the kind currently underway.

In Orion's view, ACAM is the only defensible and credible method to establish such costs. Moving away from ACAM invariably results in the sort of subjective judgements that the Commission is contemplating.

Thank you for considering this submission. While we have not participated in the inquiry previously (despite us monitoring it closely), we would appreciate the Commission considering the views set out above. If the Commission wished to elicit further information from Orion, we would be happy to assist.

Kind regards



**Roger Sutton**  
**Chief Executive**