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Dear Sir

Submission on the Information Disclosure Discussion Paper– PUBLIC VERSION

1. A revised regulatory regime for gas pipeline businesses (GPBs), electricity lines businesses (ELBs), and major international airports came into effect on 14 October 2008 under a new Part 4 of the Commerce Act 1986 (the Act). The Commerce Commission (the Commission) has released the following Discussion Paper setting out its preliminary views on the approach to information disclosure regulation for the suppliers of regulatory gas pipeline, electricity line and specified airport services:
 - Commerce Commission, Information Disclosure Discussion Paper, 29 July 2009 (the Discussion Paper).
2. This submission reflects the views of GasNet Limited (GasNet) on the Discussion Paper, in particular those issues most relevant to GasNet. It does not consider information disclosure in the context of the electricity lines or the airport sectors.
3. GasNet is a limited liability company owned by Wanganui Gas Limited (WGL) which owns and operates gas networks in Wanganui, Marton, Bulls, Flockhouse and Waitotara located in the central North Island. The Wanganui Gas Company Limited was formed as a private enterprise company in 1879. The business was subsequently acquired by the then Wanganui Borough Council in 1902. Wanganui Gas continued to operate as a Council department until it was formed into a public limited liability company in December 1992. At the same time the Wanganui District Council sold a 25.1% shareholding in WGL to Natural Gas Corporation which it has since

reacquired. Today GasNet is part of a multimillion dollar energy business, focussed on providing reliable and cost efficient energy supply services anywhere in the North Island of New Zealand. From 1 July 2008 the company structure was changed such that the parent company WGL owns 100% of the two new operating entities, GasNet Limited and Energy Direct NZ Limited. Each entity has its own separate Board of Directors, each with its own governance, Statement of Intent and Board meetings.

4. GasNet is the smallest GPB that is currently required to disclose information under the Gas (Information Disclosure) Regulations 1997. GasNet's combined distribution systems are 366 kilometres long, with approximately 10,300 connected consumers. In 2008 GasNet conveyed 1,034,957 GJ of natural gas. To put this into perspective, of the total gas distribution sector, GasNet comprises just 2.3% of total pipeline length, 4.0% of total connected consumers and 3.2% of total gas delivered.¹ These percentages are smaller again when the gas distribution and transmission sectors are combined.
5. As submitted in our 16 February 2009 submission on the regulatory provisions of the Act, GasNet's primary desire is to work with the Commission to ensure that the regulatory provisions of the new Part 4 of the Act are implemented in such a way that associated regulatory costs do not exceed any benefits to consumers either in the short term or the long term. As noted above, GasNet is extremely small in the context of the gas pipeline sector, and the regulatory compliance burden under the new Part 4 is likely to be significantly greater than that we already incur.
6. As previously submitted, the Gas Control Inquiry undertaken in 2003 and 2004 concluded that GasNet should not be controlled. That is, the benefits of regulatory control were not believed to exceed the costs. GasNet is subject to Information Disclosure Requirements (IDR) and will continue to be under the new Act. GasNet will also be subject to default/customised price-quality regulation (DPP/CPP) from 1 July 2010. We are disappointed that these additional provisions are to be applied to our business, particularly as it was deemed unnecessary following the Gas Control Inquiry. This is particularly concerning in light of Nova Gas Limited, a similar sized pipeline business, not being required to comply with either IDR or DPP regulatory requirements.
7. We therefore believe that it is important for the Commission to carefully consider the cost implications for our business as it develops its new provisions for GPBs. We do support a review of the information disclosure provisions to apply to GPBs however, as the 1997 information disclosure regulations are long overdue for review.

¹ Derived from 2008 Gazetted Information Disclosure data.

8. For the purpose of this submission we have assumed that all activities associated with Gas Measurement Systems (GMS) in respect of end-use meters are excluded from the regulated activities to which the information disclosure provisions will apply. This is consistent with the Input Methodology Discussion Paper.²
9. In the following sections we provide a summary of the key issues for GasNet arising from the Commission's preliminary views as set out in the Discussion Paper. This summary is supplemented by our responses to the questions for submitters contained in the Discussion Paper, which are included at the end of this submission.

General

If you have any queries in relation to this submission, please contact the signatory below.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Geoff Evans', is written over a faint, light-colored rectangular stamp or watermark.

Geoff Evans

General Manager

² Commerce Commission, Input Methodologies Discussion Paper, 19 June 2009, paragraph 3.114

SUMMARY OF OUR VIEWS

Sequencing of Consultation and Consultation Processes

10. The Discussion Paper includes a number of detailed proposals for IDR for all regulated sectors including gas distribution and transmission. It is not clear why the Commission has initiated discussion at this level of detail at this stage, prior to Input Methodology (IM) determinations and prior to initial considerations of the form of a DPP for GPBs.
11. GPBs are currently subject to the Gas (Information Disclosure) Regulations 1997 (GIDR). Under section 55J of the Act, the GIDR are to continue to apply until a new IDR determination is made for GPBs. We recognise that section 55E(1) requires the Commission to make IDR determinations for GPBs as soon as practicable. However IDR must be consistent with IMs. This is set out in section 52S(a) of the Act which specifies that IMs must be applied to all regulated goods and services under Part 4 (subject to the section 53F exception for pricing methodology and cost of capital IMs for those suppliers only subject to IDR).
12. There are a number of issues set out in the Discussion Paper which relate to implementation details for the various IMs. These include the measurement of regulatory profit, the regulatory asset base (RAB), the calculation of regulatory tax, shared cost and shared asset allocations and pricing methodologies. The IMs have not yet been determined, and have only recently been consulted upon at the discussion stage. A conference is yet to be held, and draft determinations are not expected for some time. The IM consultation has also debated, and it is yet to be determined, how much detail on each IM will be included in each IM determination, associated Handbooks and other explanatory material and guidance. These issues are of direct relevance to IDR.
13. Accordingly, we believe that a number of the issues raised and questions asked in the Discussion Paper are premature. The Commission must undertake full and fair consultation on the IMs. It cannot presuppose outcomes from this consultation for the purpose of developing IDR. IDR for GPBs does not need to be implemented until after the IMs have been determined and nor should it.
14. In addition, the Commission has yet to publish its initial views for consultation on a DPP for GPBs. This is likely to inform such issues as how to set quality standards for GPBs, measure pass-through costs and define revenue. It is appropriate for quality standards, definitions of revenue and pass-through costs to be consistent between DPP and IDR where possible. The DPP development process therefore needs to be further advanced before new IDR for GPBs is developed and implemented. We therefore submit that the IDR consultation process should be

deferred until IM determinations have been made and initial work on the DPP for GPBs has been completed.

15. Our recent submission on setting the DPP for GPBs³ also raised this sequencing issue, and proposed that the DPP process should not proceed until IMs have been determined. Our submission proposed an alternative consultation process for developing the DPP, which is also relevant for IDR. Given the number of participants is relatively small in the gas pipeline sector we believe that workshops between Commission staff and interested parties will be a far more efficient way of consulting upon and developing new requirements than the current approach of the Commission preparing lengthy consultation documents and each party preparing lengthy written responses to these. We therefore encourage the Commission to consider an alternative approach to regulatory development and implementation for the GPB sector than that it has traditionally applied.

Purpose of Information Disclosure Regulation

16. Section 53A of the Act sets out the purpose of IDR as follows:

The purpose of information disclosure regulation is to ensure that sufficient information is readily available to interested persons to assess whether the purpose of this Part is met.

17. It is therefore intended to be a monitoring regime. It is not intended to ensure that the Purpose Statement is met per se. This is an important distinction, and one which we believe the Discussion Paper fails to recognise. The overall purpose of the Part (as set out in the Section 52A Purpose Statement) is to be met by the combination of the regulatory instruments to apply to regulated suppliers. For GPBs this includes IDR and as well as DPP/CPD regulation (and other authorisations which may have been made and which continue to apply under the new Part 4). Accordingly IDR is not required to ensure that the purpose of the Part is met in isolation. As set out in Section 53A, it is very clearly required to assess whether the Purpose Statement has been met. It should not prescribe approaches to business decisions, policies and practices which the Commission believes must be implemented to achieve the objectives of the Purpose Statement. IDR should only prescribe the information required to assess performance in the context of the Purpose Statement.

Cost Benefit of the Proposals

18. As noted earlier, GasNet is a small supplier and is very concerned about escalating regulatory compliance costs, and how these are assessed against any expected benefits to consumers from

³ GasNet, Submission on the Setting of the Default Price-Quality Path for Suppliers of Gas Pipeline Services Process Paper, 10 August 2009

the additional regulatory oversight on us. We believe that inadequate consideration of compliance costs has been made in the Discussion Paper. We believe this partly reflects inadequate consideration of the purpose for IDR, as set out above. In our view the Discussion Paper includes a number of proposals which are not required to assess performance against the Purpose Statement. For an effective 'level playing field' to be established, all players should be able to operate without escalating compliance costs, directly or indirectly, causing market outcomes which would not otherwise occur. Not all players face the same regulatory requirements or magnitude of cost due to business size. GasNet's primary concern is its ability to competitively price its services. This may be affected to the point where generic growth is diminished and/or bypass events become possible if it is unable to minimise its compliance costs, relative to other pipeline suppliers and suppliers of other forms of energy.

19. In particular, information should not be disclosed which only demonstrates compliance. Disclosure information should be limited to that which is required to meet the section 53A purpose for IDR. Existing GIDRs are audited. The Discussion Paper proposes that IDR under the new Part 4 will also be audited and includes a considerable amount of detail about the role and responsibilities of the auditors. The Discussion Paper also proposes that the Commission undertakes formal reviews of disclosures which fall outside of the traditional annual disclosures. We support in principle external audit and review of disclosure information but note that the scope of the audit must be consistent with the skills of the auditors and the primary objective of the audit is to ensure compliance with IDR.
20. Additional guidance may be provided for regulated suppliers and auditors to assist them achieve and assess compliance. This may include Disclosure Handbooks, the IM determinations themselves, and worked examples or templates. The Commission should not prescribe exactly how each business is to comply with IDR however because such prescription will impose significant and unnecessary compliance cost on regulated businesses. Assuming IDR is audited, there is no justification for including costly additional disclosures which detract from the information which indicates performance.
21. It is highly likely that the compliance costs of regulation for GasNet will significantly exceed any potential benefits that may arise from the additional regulatory scrutiny. Currently our annual regulatory compliance costs (including audit and internal resources) are approximately \$██████████, or approximately \$██████████ per connected consumer. In comparison, we anticipate that with Commerce Commission Levies; along with additional internal compliance costs; the cost of the development of required business processes and maintenance of the proposed information; and external audit of the proposed information disclosures; that the cost will increase to approximately \$██████████ per annum (or approximately \$██████████ per connected consumer). The total budgeted controllable operating costs for our regulated pipeline services (excluding depreciation and GMS related costs) are just \$██████████ per annum or approximately

\$ [REDACTED] per connected consumer, Thus it is extremely difficult to see how such a cost burden can be justified by any realistic 'potential long term benefits to consumers'. It also needs to be noted that the costs above do not acknowledge the audit and compliance costs of DPP regulation which are yet to be consulted on and which will inevitably result in an even greater cost burden. Accordingly the IDR for GasNet, and indeed all such regulatory requirements, must be specifically targeted for our scale, and the net benefits they are expected to generate.

Proposed Disclosures

22. Table 21 of the Discussion Paper sets out the Commission's proposals for IDR for GPBs. A summary of our views on the proposals is included in the table overleaf. As Table 21 illustrates, the Commission is expecting GPBs to disclose a tremendous amount of information. This appears to be excessive when taken in conjunction with the DPP requirements that are to apply to GPBs. This duplication and overlap between regulatory instruments is extremely concerning to GasNet and there appears to have been little if any consideration of the costs of compliance and the need to carefully target the information that must be disclosed.
23. The level of detail proposed is overwhelming for GasNet. The regime has to be efficient for GasNet or otherwise we will be buried in regulatory compliance, both operationally and financially. Not only is it proposed we comply with a detailed and comprehensive annual information disclosure regime but that there will also be substantial doubling up of information through the proposed AMPs. GasNet has always been operationally focussed, specifically in maintaining cost effective, safe and reliable natural gas networks. We very much support the principles of AMPs but we also know our networks very well, in addition to having a tight and knowledgeable control on expenditure. The proposed regime will have us reporting information which has low monetary value due to the level of disaggregation proposed. This will inevitably result in meaningless disclosures, even when normalised. We seriously question what benefit there will be to any party in trying to interpret GasNet's disclosures to the level suggested.
24. Our comments presented in the table overleaf reflect this view, and indicate the information which we believe is superfluous and can be eliminated or modified in order to better achieve the section 53A purpose for information disclosure and the regulatory implementation objectives.

Proposed Disclosure	Scope of Disclosure	Comments
Performance Indicators	Innovation and Investment Efficiency Quality Prices and Profits	Support indicators as the primary performance source of information. Must be meaningful and targeted and based on information which GPBs would typically be expected to maintain. Must be consistent with IMs. Refer to the table included later in this submission (in response to Q.121) for further comments on performance indicators.
Financial Information	Regulatory Profit Statement Regulatory Asset Statement Regulatory Tax Calculation Forecast Statement Consolidation Statement	Support profit, asset and tax statements – but limited to the disclosure of the key components of each for the disclosure year. Do not support disclosure of a forecast statement in annual disclosures. AMPs are the appropriate place for forecasts. Do not support consolidation statements, not justified, do not provide performance information.
Regulatory Asset Base	Regulatory Valuation Roll Forward Report Annual Valuation Roll-Forward by Asset Class Report Asset Transactions with Other Regulated Suppliers Report Initial RAB Report	Do not support the roll forward or asset class reports as these are not required to assess performance. The Regulatory Asset Statement (above) is sufficient. Accept asset transaction reports and initial RAB reports are required.
Statistics	Asset Statistics Demand Statistics Capacity Statistics Pricing Statistics	Supported to the extent that statistics are required for denominators for performance indicators and to normalise business performance. Not supported if statistics are not those that GPBs would typically maintain. Do not support pricing statistics because they are not required, are meaningless and therefore not justified.
Quality	Interruptions Reliability Customer Service	Interruptions and reliability performance indicators are reasonable as these are the aspects of quality which most directly impact on consumers. Customer service indicators are not justified as the customer interface is with the retailer, and consumers are unable to distinguish between retailer and distributor performance.

Proposed Disclosure	Scope of Disclosure	Comments
Asset Management Plans	Assets Covered Service Levels Development Planning Lifecycle Asset Management Planning Risk Management Evaluation of Performance	<p>Support AMP disclosures but note GPBs have not had to publicly disclose such documents to date, and that some effort will be required to convert existing policies, procedures, information and data into a document for external assessment and review.</p> <p>Cannot base AMP specifications on those used for electricity distribution businesses as gas networks are different, have a different level of componentisation and are predominantly located underground.</p> <p>AMPs should cover a five year forecast period, consistent with the regulatory period for DPP regulation. Any forecasts past five years are at best high level estimates and not appropriate for performance assessment purposes.</p>
Pricing	Pricing Methodology Prices Pricing Statistics Contracts	<p>Support the disclosures of pricing methodologies (to be consistent with the pricing methodology IM).</p> <p>Support the disclosure of consumer prices and standard contracts (with the exception of non standard contracts negotiated with individual consumers for commercial sensitivity reasons).</p> <p>Do not support the disclosure of pricing statistics as these are not required to assess performance. They cannot be specified in a meaningful way without considerable compliance cost and therefore cannot be justified. Other pricing disclosures are sufficient.</p>
Other	Assumptions Methodologies Policies	<p>Not supported. Not required to assess performance and therefore inconsistent with the purpose for IDR.</p> <p>Do not meet cost-efficiency implementation objectives and reflects undue regulatory scrutiny on normal business processes.</p>
Segmentation of Business Activity	Transmission and Distribution Geographically non contiguous networks	<p>As all GasNet's networks are geographically contiguous and have common ownership, we have assumed this proposal will not apply to GasNet.</p>
Publication, Retention, Certification	Director Certification for All Audit of Annual Disclosures Statutory Declarations for All	<p>Agree in principle although scope of auditor role must be consistent with the skill and expertise of external financial auditors.</p>

Responses to Questions for Submitters

INTRODUCTION

- Q.1) *In your view, should the Commission's next steps in making information disclosure determinations for the regulated services be as outlined above? Please provide the reasons for your views.*

It is not clear from the discussion set out in Chapter One what the Commission's next steps are for IDR for GPBs once submissions on this Discussion Paper have been received. We acknowledge that the existing GIDRs continue to apply until the Commission publishes a new IDR determination. The Discussion Paper provides no timing or context for this, for example in relation to other work streams such as the IM consultations. We do not believe it is appropriate for new IDRs to be determined until the IMs have been determined. The IMs make up a considerable portion of the information that is likely to be disclosed. This information is also important for developing the DPP.

We acknowledge that there is also other non IM information which is likely to form part of IDR. Some of this is also likely to form part of the DPP to apply to GPBs. There is a sequencing issue the Commission needs to address in this context, which it has not done so in the Discussion Paper. We have set out our detailed views on this in the first part of our submission.

STATUTORY FRAMEWORK AND REGULATORY FRAMEWORK PRINCIPLES

- Q.2) *Do you agree that the term 'interested persons' is broad in its application and includes all persons that are interested in the activities of a regulated supplier? If not, please provide the reasons for your view, an alternative interpretation and why you consider this to be more appropriate.*

Yes. However we also submit that the Section 53A provision which sets out the purpose of IDR to ensure that information is available to interested parties to assess whether the regulatory purpose statement is being met does not require IDR to achieve all components of the purpose statement in isolation. IDR is a light handed regulatory tool suitable for monitoring and relative performance assessment. It is supplemented by DPP/CPD regulation for GPBs which sets specific price and quality standards for regulated suppliers.

- Q.3) *Do you agree that pre-prescribed performance indicators will assist interested persons in the assessment as to whether the purpose of Part 4 is being met? If not, please provide the*

reasons for your view, an alternative approach and why you consider this to be more appropriate.

Yes. However it is important that pre-prescribed indicators are defined in a manner which is logical for the sector and based on information which is readily available and that which would normally be expected to be retained by the regulated business. We also submit however that indicators should not necessarily be prescribed for all regulatory objectives. IDR can include other forms of disclosure (such as AMPs and pricing methodologies) which may be better mechanisms to measure performance against some regulatory objectives than performance indicators.

Q.4) *Do you agree that these principles are consistent with the purpose of information disclosure which is to ensure that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met? If not, please provide the reasons for your view, alternative principles and how you consider these are better aligned to the purpose of information disclosure.*

We accept the economic principles are relevant to IDR although we note that in practice these are difficult to measure, particularly in a set of annual disclosures. It should not be expected that IDR can achieve all of these principles in the short term, nor in isolation of DPP/CPP regulation. Simple indicators will not be able to measure all of these objectives, and other forms of disclosure can assist to achieve this.

We also note that although Financial Capital Maintenance (FCM) or a “normal returns” benchmark may assist in designing regulatory instruments consistent with the Purpose Statement objectives, it should not be the only concept which is used to assess the level of returns that a regulated supplier may expect. It is more appropriate to consider the concept of FCM as a minimum condition that must be met. FCM is also useful for considering the impacts of various approaches adopted by regulated businesses over time.

We note that the 2006 GPS is specifically targeted at ensuring regulated suppliers have sufficient incentives to invest in infrastructure. Firms expect to earn at least their cost of capital. This is important in a regulatory environment where it is more likely that any ex post assessment of excess profits is likely to lead to restrictions on prices; than an ex post assessment of below normal profits leading to compensation for regulated firms.

In the context of information disclosure FCM can only be applied on an ex-post basis and only as a monitoring tool.

We also note that there are trade-offs between the four parts to the Purpose Statement. In balancing these trade-offs the Commission needs to be mindful of the consequences of under investment in core infrastructure (gas, electricity and airports) and ultimately should assess these trade-offs on the basis of a “do no harm” principle. We therefore submit that providing sufficient incentives to invest and provide quality consistent with consumer demands are the two most important aspects of the Purpose Statement.

We agree and support the four implementation principles of consistency, transparency, cost-effectiveness and flexibility and agree these should be consistent for all forms of regulation applied under Part 4. We are concerned however that a number of the proposals in the Discussion Paper have not been adequately assessed against these principles. We comment on this issue in the context of the specific proposals contained in the Discussion Paper throughout the remainder of this submission.

MONITORING PERFORMANCE

Q.5) *What other areas of performance, if any, do you think the Commission should consider when assessing whether the purpose of Part 4 is being met? Please provide the reasons for your view.*

None. We note that Section 53B sets out the Commission’s requirements in respect of IDR including the requirement to publish a summary and analysis of the information for the purpose of promoting greater understanding of the performance of regulated suppliers, relative performance and performance over time. The Discussion Paper provides very little indication of how the Commission intends to fulfil this requirement. This should include an indication of what the Commission interprets “summary and analysis” to mean and what it intends to provide in fulfilling this requirement across the topics set out in paragraph 105 of the Discussion Paper. This is important because it is not possible to specify the range and content of the indicators without understanding how they will be reported by the Commission.

Q.6) *Do you agree that an indicator relating to investment is required? If not, please provide the reasons for your view.*

No. We believe that the AMP and the RAB provide sufficient information for interested parties to assess regulatory investment objectives. Simple investment indicators may be relatively easy to calculate but they add to compliance cost and may be misinterpreted due to their simplicity. In addition we note that it is not possible to specify any indicators relating to investment, until the RAB IM has been determined. Innovation and investment are better assessed as part of Asset Management Plan (AMP) disclosures. We also do not support

performance indicators which cannot be objectively measured. Performance indicators which require subjective assessments of performance are not appropriate.

- Q.7) *Do you believe that a capital expenditure ratio is an appropriate indicator? If not, please provide the reasons for your view, an alternative and explain why you consider this to be preferable.*

Although capital expenditure ratios may be reasonably easy to calculate it is not clear whether they provide meaningful information and we are concerned that overly simplistic ratios will be misinterpreted and therefore may be detrimental to IDR. The ratio of capital expenditure to the asset base only makes sense if the asset base is measured in current cost terms. This option has not been proposed by the Commission in its IM proposals for GPBs. Capital expenditure should be assessed as part of AMP disclosures.

- Q.8) *Do you have any views on the Commission's proposed treatment of capital expenditure ratios under information disclosure? If so, please provide the reasons for your views.*

Capital expenditure is not a short term measure as it will change considerably over time as investment cycles change. For this reason it is better assessed as part of a wider AMP. The AMP can provide information about renewal and growth capital expenditures.

The renewal ratio is not logical unless the asset base is measured in current cost terms. It is highly simplistic to compare depreciation and renewals and draw conclusions about the rate of asset replacement otherwise.

We understand that it may be reasonably easy to calculate simple capital expenditure ratios (such as capital expenditure per consumer) but we question why these would be prescribed as part of an information disclosure package when they are not considered by the Commission to be key performance indicators. This is inconsistent with the implementation principles of transparency and cost effectiveness. They do not need to be prescribed as interested parties will presumably be able to calculate them from other data to be disclosed.

- Q.9) *Do you agree that the disclosure of an AMP is an appropriate means of demonstrating innovation and investment? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.*

Yes we agree. An AMP is the most appropriate mechanism for demonstrating how investments are made and innovation introduced as they cover both capital and maintenance activities. AMPs also provide the context for expenditure decisions which cannot be provided in simple performance indicators.

We understand that the Commission has prescribed a level of detail to be included in the AMPs for EDBs, and that this is monitored and reviewed by the Commission annually and a summary of the review is published. We believe this process can help fulfil a number of the objectives of IDR and avoid the need to determine other performance indicators for investment and innovation. However we are concerned that the Commission needs to seriously consider the AMP requirements in the context of GPBs and not just adopt the EDB requirements as a template for GPBs. EDBs have considerably more assets which are inspected, maintained and continually replaced or upgraded. Most GPB assets are located underground which adds complexity to asset monitoring and repairs.

We are aware that EDB AMPs are often 150 – 250 pages long, and that this is driven to a large extent by the IDR for AMP disclosures for EDBs. GasNet does not currently publish an AMP, and will need to collate a number of different policies, documents, working practices, experiences and data sources in order to generate an AMP for external reporting purposes. We anticipate that a shorter document than often produced by EDBs will more than adequately cover our asset management policies and forecasts for our networks in a cost effective way and therefore we caution the Commission against implementing an overly prescriptive and cost ineffective approach to AMP IDR for GPBs.

Q.10) *Do you have any views on appropriate indicators for measuring innovation? If so, please provide the reasons for your views.*

No. We do not believe it is appropriate to attempt to specify an indicator for this purpose. Innovation can be addressed in AMPs, and it is also specifically addressed in DPP/CPP regulation through the “rate of change” component of the price path. This is sufficient in order to meet the objectives of the Purpose Statement. An additional innovation indicator is therefore not required and we do not support the publication of performance indicators which rely on subjective assessments rather than measurement of actual performance.

Q.11) *Do you have any views on appropriate indicators for measuring quality? If so, please provide the reasons for your views.*

We address this in response to Q.49) – Q.54) below.

Q.12) *Do you have any views on appropriate indicators for measuring profits? If so, please provide the reasons for your views.*

This is dependent on the outcome of the IM consultations. We have considered this issue further in response to Q.17) – Q.26) below.

Q.13) *Do you have any views on appropriate indicators for measuring pricing efficiency? If so, please provide the reasons for your views.*

It is not possible for simple performance measures to assess allocative efficiency through pricing disclosures in a cost effective manner. This is a complex concept and any indicator is likely to be overly simplistic. We believe this should be assessed as part of pricing methodology disclosures consistent with the IMs. We also note that the DPP will set price path constraints for GPBs. This in conjunction with other pricing disclosure requirements is sufficient. This is considered further in response to Q.66) – Q.69).

Q.14) *Do you have any views on the appropriate cost based indicators to assess whether regulated suppliers have taken action to minimise costs? If so, please provide the reasons for your views.*

Incentives for cost efficiencies are provided in the rate of change component of the DPP. We accept it is reasonably straight forward to calculate simple cost indicators, however, as noted previously, we are concerned about how such simple indicators can be misinterpreted and therefore to what extent they assist to achieve regulatory objectives.

Q.15) *Do you have any views on the Commission's proposed treatment of operational expenditure ratios under information disclosure? If so, please provide the reasons for your views.*

For the same reasons as set out in response to Q.7) we do not support asset base indicators for the purpose of assessing operational expenditures. These are influenced by the RAB methodology, and unless a current cost method is employed the results are distorted by the different valuation methods employed over the life of the assets. Operational expenditure ratios should be assessed against physical measures, such as pipeline length, consumer numbers and gas conveyed.

Q.16) *Do you have any views on the Commission's proposed treatment of capacity utilisation ratios under information disclosure? If so, please provide the reasons for your views.*

The characteristics of gas networks need to be considered further before it is possible to determine whether meaningful capacity utilisation measures can be derived. Gas networks are built in anticipation of future connections. GPBs have only limited influence in determining the rate of new connections and the quantity of gas consumed by connected consumers. There is also little opportunity for GPBs to size their investment precisely to the expected demands of consumers, unlike EDBs which are able to undertake a number of small incremental investments and move components around the network in order to meet demand

(for example distribution transformers). This issue is addressed more fully in response to questions Q.55, Q.121 and Q.136 for GPBs included later in this submission.

RETURN ON INVESTMENT

Q.17) *Do you agree that profitability should be measured using an ROI measure? If not, please detail the measure that is appropriate and explain how that measure would better meet the purpose of information disclosure?*

Yes, although in our view it is not possible to specify how this should be calculated until the IM determinations have been made. The relevant IMs include RAB, regulatory tax and WACC. In addition, the cost allocation IM will influence inputs to both the numerator and denominator to the ROI indicator.

We do not support consultation on this measure at this time. It is not clear why for example in paragraph 179 there is a discussion of the tax payable approach to measuring regulatory tax. This is premature given the IM determinations have not been made, and the Commission has only just finished its initial consultation on this matter. The Commission's preliminary views on inputs to a profitability measure are not an appropriate basis on which to undertake consultation on IDR.

Q.18) *Do you agree that revaluations and depreciation in the Regulatory Profit should be the same value as that which is used in rolling forward the RAB value? If not, please detail how depreciation and revaluations should be treated and how this treatment is consistent with the FCM concept.*

Yes, it is important that consistency between IMs is achieved, and reflected in any profitability measure in IDR.

Q.19) *Do you agree that the value of capital contributions and vested assets (net of any consideration) should be recognised as income in the ROI? If not, please explain how the value of the returns earned from vested assets and capital contributions should be treated and why you consider this to be preferable.*

This issue needs to be considered further once the RAB IM has been determined. The measurement of all asset related cash flows needs to be consistent, and as consistent with GAAP as possible. Capital contributions are not significant for GasNet and are currently treated as revenue for financial reporting purposes.

It is not clear however from the Discussion Paper why the Commission believes that the inclusion of capital contributions and vested assets in income ensures a reasonable

comparison with WACC? These will be lumpy in nature and in some years may be significant. In those years, (assuming they are included in income in the year they are received) profits will be substantially higher than in other years. The depreciation and return on such assets however is spread over the life of the assets. Thus for profit measurement purposes there will be a mismatch in the timing of the variables attributable to assets for which capital contributions are received.

Q.20) *Do you agree that lost and found assets should not be treated as income and expense? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

Yes. It is appropriate for GPBs to continually improve their asset base information, and for this to be reflected in the RAB (in recognition that the change in value reflects assets which should have been recognised in the past), but for this reason it is not appropriate to include the adjustment in the income statement. The term lost and found assets should also include recognition of corrections to assets which were included in the asset base, such as corrections to asset categorisation, location or age.

Q.21) *Do you agree that a ROI comparable to a vanilla WACC and a post-tax WACC should be disclosed? If not, please provide the reasons for your view.*

This seems reasonable but we are concerned about how the Commission intends to interpret this data in its annual monitoring, given it is reasonable for regulated suppliers to earn returns which depart from WACC in any twelve month period.

Q.22) *Do you agree that half the value of the net new capital investment should be reflected in the RIV value? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

Again we are concerned that the Discussion Paper proposes a view on the treatment of RAB components (works under construction in this instance) which are being consulted upon for the IM determinations. This is premature.

Q.23) *Do you agree that assets acquired from or sold to another regulated supplier or business unit should be included in the RIV to the extent that the profit relating to those assets is recognised in the regulated supplier's regulatory profit? If not, please detail how asset acquired from or sold to another regulated supplier or business unit should be treated and why you consider this to be preferable.*

Yes.

Q.24) *Do you agree that it is appropriate to treat assets acquired from or sold to another regulated supplier that doesn't relate to merger or acquisition activity as above? If not, please explain how these should be treated and why you consider this to be preferable.*

Yes.

Q.25) *Do you agree that an adjustment to RIV for working capital is not necessary given its likely materiality? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

No. This is a legitimate asset for a regulated supplier and should be included, irrespective of materiality. Its exclusion understates the RAB.

Q.26) *In your view, how should the capital costs associated with the use of regulated assets to provide regulated and unregulated services be attributed? Please provide the reasons for your view.*

The treatment should be consistent with the common cost allocation methodology currently being consulted upon for the IM determinations. This is not an issue for GasNet as we have very few assets shared between GasNet and Energy Direct and these are allocated on the basis of usage. In addition, GMS assets are easily identified and are able to be excluded from the RAB.

FINANCIAL INFORMATION

Q.27) *Do you agree that the Commission should consider GAAP as the starting point, but modify the disclosures where required to meet the purposes of information disclosure under the regulatory regime? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

Yes. However we note that the discussion in the previous Chapter on ROI includes a significant number of proposals where departures from GAAP will be required (RAB, RIV, vested assets, revaluations and regulatory tax). There has been no recognition of this in the discussion of the specification of the ROI.

In addition in response to the discussion in section 5.3.3 regarding cost allocation and sharing of asset costs, it is not clear why the Commission has determined that transparency is required around the allocation of costs and assets between regulated services and unregulated services. The IM determination will set out an allocation method to be applied for each sector. Each regulated supplier will be required to apply the IM in its IDR. This is

expected to be audited. This is sufficient and avoids disclosure of information relating to unregulated businesses which in our view is not appropriate.

Q.28) *Do you agree that where the sale of the asset is made to an unregulated entity or business unit, then the regulatory profit should be adjusted for gains or losses on sale? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

Yes, because this is consistent with GAAP.

Q.29) *Do you agree that pass-through revenue and the associated distribution should be transparently disclosed in the regulatory profit statement? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

This is not relevant for GasNet.

Q.30) *Do you agree that pass-through costs should be separately disclosed? If not please provide a detailed explanation as to why it shouldn't be separately disclosed.*

Pass-through costs are subject to consultation in the IMs. They will also be determined as part of the DPP to apply to GPBs. We support in principle the separate disclosure of pass-through costs.

Q.31) *Do you agree that insurance expenses should be included in the calculation of Regulatory Profit only where these are paid to an insurance entity? If not please, provide a detailed explanation as to why insurance should or shouldn't be disclosed, including a reference to the materiality of the insurance costs.*

GasNet insures with an external party and includes the costs of insurance in its regulated business financial statements.

Q.32) *Do you agree that merger and acquisition expenses should be included in Regulatory Profit? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

Yes, they are a legitimate expense associated with achieving efficiencies and innovation. They should be included in regulatory profit.

Q.33) *Do you agree that financing information should not be required due to the difficulty in meaningfully allocating the portion that relates to the regulated business? If not, please*

provide details on how information on financing can be meaningfully allocated to regulated business units.

We do not support the proposal for the Commission to assess financeability through the assessment of consolidated (including regulated and unregulated business) information. This adds significant compliance cost for IDR and the justification for this assessment is not readily apparent. GPBs will be subject to DPP/ CPP regulation. It is not clear how IDR can assist the Commission with assessment of financial viability given IDR are ex post measures and are intended to reflect the performance of the regulated business. This is more appropriately considered when setting DPP and CPP terms, including starting prices and the rate of change.

- Q.34) *Are there any additional means for which an assessment of financial viability could be made? If so, in light of the regulatory provisions, please provide details of how the assessment can be made.*

We do not support an assessment of financial viability as part of IDR. It is not consistent with the section 53A purpose for IDR.

- Q.35) *Do you agree that regulated suppliers should use the leverage assumption and cost of financing assumptions outlined in the cost of capital input methodology in preparing the deductible interest and interest tax shield calculation? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.*

This may be appropriate for monitoring purposes for IDR, but it is likely that some suppliers (such as GasNet) may be unable to achieve the same cost of debt as much larger suppliers such as Powerco and Vector. This may make comparisons between GPBs meaningless. In addition, IDR is intended to provide information pertaining to the performance of a regulated supplier. Including notional assumptions in the measurement of profit are inconsistent with this objective.

- Q.36) *Do you agree that disclosure of related party transactions should at least be consistent with GAAP and also include transactions between business units? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.*

This should be consistent with GAAP and include disclosures between regulated and unregulated businesses. This is not material for GasNet. For WGL most costs are directly attributable to the regulated pipeline business, the unregulated GMS business or the unregulated retailing business. Thus related party transactions are not material. Since 1 July 2008 GasNet has been introducing its own systems and processes along with entering into

arrangements with third parties for the provision of services previously provided as shared services under WGL. As at 1 July 2009 the only outstanding service provided by Energy Direct (who took over the services previously provided under WGL) is payroll but this is expected to cease this month. There remains some inter-company activity between GasNet and its parent WGL for such services as insurance and IT which are provided by WGL at the group level for itself and its subsidiaries.

- Q.37) *Do you agree that transactions with related parties, including transfer pricing information, should be disclosed? If so, please provide details of how this information should be disclosed. If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.*

This is not a material issue for WGL, but we strongly oppose the disclosure of any information which is commercially sensitive to WGL's unregulated energy retailing or GasNet's GMS business which operate in a highly competitive market. There is no justification for this additional disclosure for GasNet given our company structure.

- Q.38) *Do you agree that reconciliation between consolidated statutory reporting and regulatory reporting should be required for the purpose of monitoring compliance? If not, please provide the reasons for your view, an alternative to monitoring compliance and why you consider this to be preferable.*

No. This does not meet the cost-effectiveness principle and the related party transaction disclosures provide transparency over the inter business relationships relevant to the regulated business. There is no need for the Commission to include an additional compliance monitoring role when the auditors have already reviewed and signed off on compliance with the IDR. This would be a complex process and it is not appropriate for WGL to provide such information which would expose the WGL unregulated energy retailing and GasNet GMS businesses. We therefore strongly oppose this proposal which has not been adequately justified in the Discussion Paper.

- Q.39) *In your view, what form should the consolidation and reconciliation disclosures take? Please provide the reasons for your view.*

We do not support this proposal. The proposed disclosures represent a significant departure from GAAP disclosures. It is therefore difficult to see how any reconciliation to statutory accounts could be performed and how these can meet the cost effectiveness principle.

- Q.40) *Do you agree that financial information should be disclosed by way of a Regulatory Profit Statement, Regulatory Asset Statement, Regulatory Tax Calculation, Forecast Statement and*

Consolidation Statement? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.

Our current financial statement disclosures are consistent with GAAP. This is efficient. It appears as if the Discussion Paper has been based on the existing EDB disclosures. It is not clear why this is so and the proposals reflect a significant departure from existing disclosure requirements for GPBs, which is inconsistent with the consistency principle.

It is not possible to comment on the regulatory profit, tax or RAB statements until the IMs have been determined. We believe it is premature for the Commission to be considering this level of detail at this time.

We do not support the inclusion of a forecast statement in the annual disclosures. Forecasts of asset expenditures are expected to be included in AMPs. Any other disclosure is simply duplication. It is also not appropriate for forecasts to be audited. They are forecasts not actual outcomes.

We do not support the consolidation statement for the reasons outlined earlier. We note the Commission may wish to understand how regulated businesses have been defined and common costs shared between them particularly where a supplier owns more than one regulated business. It is expected this will form part of the cost allocation IM and regulated suppliers will be required to apply this IM in their annual disclosures. It is unreasonable however for significant compliance costs to be imposed by requiring all regulated suppliers to disclose consolidated financial statements.

REGULATORY ASSET BASE (RAB) DISCLOSURES

Q.41) *Do you agree that if the initial RAB value is established by updating a base valuation, then supporting disclosure of the methodology and assumptions will be required for transparency? If not, please provide the reasons for your view.*

It is not clear from the Discussion Paper what the transparency objective is intending to achieve in this respect and how this has been assessed against other implementation objectives. Paragraph 82 suggests that transparency is required to provide the rationale for indicators and to assist interested persons to understand. It also states the Commission's summary and analysis should assist with this. If the initial RAB forms part of disclosed financial statements and these are audited, then more detailed disclosure may not be required.

Q.42) *Do you agree that disclosures relating to the roll forward of the RAB should be sufficiently transparent so as to show the roll-forward calculation? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.*

No, for the reasons outlined above. The roll forward will be audited and it is not required to assess performance.

Q.43) *Do you agree that the distinction between system fixed assets and non-system fixed assets under an indexed or un-indexed historic cost roll-forward approach is not required for the on-going purpose of information disclosure? If not, please provide the reasons for your view.*

Yes, for the same reasons as outlined in response to Q.42) above.

Q.44) *Do you agree that if shared asset costs were to be excluded from the RAB this should be done by way of an adjustment to the final RAB value, depreciation and revaluations? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

This is not an issue for GasNet. Any treatment of shared assets needs to be consistent with the common cost allocation IM.

Q.45) *Do you agree that the treatment of leases consistent with GAAP is the appropriate approach under information disclosure? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

Yes.

Q.46) *Do you agree that the level of prescription of information disclosed for assets acquired from or sold to another regulated supplier or business unit should be consistent with the information disclosed in the initial RAB and be sufficiently detailed to provide transparency? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

Yes, this appears reasonable so long as the compliance costs are reasonable. We reserve the right to comment further once more detailed implementation details are developed.

Q.47) *What do you consider to be the implications of the two approaches for recognising the cost of finance during construction, being either application of an FDC allowance, or application of GAAP? Which approach do you prefer, and why?*

This is part of the RAB IM consultation, and therefore cannot be determined for IDR until the IM process has been completed. In principle, the treatment of borrowing costs should be consistent with GAAP to allow data prepared for statutory reporting purposes to be used for regulatory reporting.

Q.48) *Do you agree that RAB information should be disclosed by way of a Regulatory Valuation Roll-Forward Report, Annual Valuation Roll-Forward by Asset Class Report, Asset Transactions with Other Regulated Suppliers Report and Initial RAB Report? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

No. These requirements are excessive. The RAB will be audited. The Discussion Paper does not provide justification for this level of disclosure nor an assessment of the cost/benefit. Given the RAB value will be audited we believe this is not needed as it is not required to assess performance against the Section 52A Purpose Statement.

The following information is reasonable for RAB disclosure:

- Opening RAB
- Year End RAB
- Annual Depreciation
- Annual Revaluation (if any)
- Value of Assets Transferred (at acquisition date).

The data listed above can be prepared in accordance with the IMs and IDR and audited as such. Accordingly we do not support the proposal to disclose individual reports for:

- Regulatory Valuation Roll Forward Report
- Annual Valuation Roll Forward By Asset Class

As stated previously, we accept the requirements for the following reports; however we believe these requirements are adequately met by the RAB disclosure as listed above.

- Asset Transactions Report
- Initial RAB Report.

There is significant compliance cost associated with this information and it is not required for the performance indicators proposed, or to meet any of the regulatory objectives set out in the Discussion Paper with the possible exception of the transparency requirement. We believe this is insufficient justification for the proposal as any compliance assessments form part of the annual audit of the RAB.

QUALITY DISCLOSURES AND STATISTICS

- Q.49) *Do you agree that the requisite quality, quality targets and actual quality are appropriate measurements of quality for the purposes of information disclosure? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

Yes, subject to acknowledgement that requisite quality is difficult to measure and consumers cannot be expected to be able to articulate what their expectations about requisite quality levels are, with the possible exception of large consumers.

- Q.50) *Do you agree that requisite quality should be disclosed by suppliers of regulated services through the AMP so that they can choose the best way to establish and disclose the requisite level of quality? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

Yes, it is reasonable to include this information in AMPs and for suppliers to determine how this is best established.

- Q.51) *Do you agree that the Commission should assess the process by which suppliers engage with their consumers to assess requisite quality, how target quality has been determined based on requisite quality information and how the supplier has performed against target quality? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

We agree that it is appropriate for the Commission to review AMPs. We are concerned at the Commission's assumptions about the price/quality trade-off. In reality consumers connected to a meshed pipeline system receive the same quality of service. It is not possible to differentiate on this basis, and by price. GasNet's pipeline systems are small and compact located in the Wanganui and associated districts. The proposals set out in paragraph 377 are not appropriate for our networks and will only add significant compliance cost for no real benefit. We therefore do not support them.

- Q.52) *Do you agree that suppliers of regulated services should be required to engage with their consumers and disclose how they engage or plan to engage with consumers, what service offers or commitments they make to consumers, how they make decisions about requisite quality standards, what types of contractual or other arrangements, if any, they enter into in relation to quality and how they plan to deliver requisite quality in terms of medium-term service delivery? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

No. This is excessive for the reasons outlined above. It is sufficient for suppliers to set out target quality standards based on local knowledge of their consumer base and consumer needs (with additional consultation with large consumers with specific needs as necessary). Local knowledge is derived from interaction with consumers, their retailers, experiences during previous events and discussions with new consumers. This is sufficient and appropriate. Targets can be revised over time to reflect new information.

Q.53) *Do you agree that quality information should be audited? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

No. This is outside the skill set of financial auditors and adds little value to the process. It also should not be determined until the quality components of the DPP have been developed and the audit requirements for DPPs established.

Q.54) *Do you agree that the aspects of quality most relevant to suppliers of regulated services should include reliability, supply quality-other and customer service? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

Reliability is the primary aspect of quality which impacts on consumers and can be included in annual disclosures. It should therefore be the focus of the IDR. Safety should not form part of the IDR and is covered by the Health and Safety in Employment Act, and new provisions applying to GPBs are expected with the passage of the Energy Safety Review Bill currently before the House. Supply quality is best included in AMPs. Customer service is handled by retailers and we question how this information can be captured in a cost effective manner given the relationship between retailer and consumer which interposes itself between the distributor and the consumer. We do not support customer service indicators for this reason.

Q.55) *Do you agree that statistics information should include asset information, demand and capacity information? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

We agree that limited statistical data helps assess performance, however this must be assessed against the cost-effectiveness principle. We do not support the inclusion of detailed asset information as set out in response to Q.48) above. GasNet is a small gas network business; the costs associated with this proposal are not justified in our view. We do not support the pricing statistics proposal either, as this is not required to meet the regulatory objectives, which are covered by other disclosures. We believe these proposals exceed the requirements purpose for IDR which is to monitor performance against the purpose statement.

ASSET MANAGEMENT PLANS

- Q.56) *Do you agree that suppliers of regulated services should apply a recognised AMP standard? If so, what is the appropriate standard that should be applied? Please provide the reasons why you consider it to be preferable?*

No. The purpose of IDR is to monitor performance against the Purpose Statement. We do not believe it is necessary to prescribe a standard for AMPs in order to achieve this monitoring objective. It is therefore not appropriate for the Commission to impose regulatory requirements which the Commission believes to reflect best practice asset management planning. This is inconsistent with the monitoring objective of IDR.

- Q.57) *Do you agree that AMPs should cover at least a ten-year forecast period? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

This forecast period is too long. It is not possible to forecast beyond five years with any certainty and the regulatory period for DPP regulation must be 4-5 years. AMPs should be consistent with this. At the time DPPs are reset, GPBs will have disclosed information relevant for the forthcoming period, this is sufficient. Any forecasts beyond five years are at best high level estimates that will eventually change as near term events and circumstances are taken into consideration. We therefore do not support the proposal for a ten year planning period.

- Q.58) *Do you agree that the AMPs should be certified by Directors that they are compliant with the requirements and that the AMP describes actual process and practices implemented by the business? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

It is not clear why two Director's declarations are required for GPB AMPs. This seems overly onerous. A single declaration should suffice. The AMP is a forecast document. It is not appropriate therefore for Directors to declare that it represents actual processes and practices for the entire forecast period. It represents planned processes and practices and Directors declarations should reflect this. It may be appropriate for the AMP to specify to what extent planned processes differ from current processes and practices. It may also be appropriate for Directors to provide specific certification over the first year of the AMP, as this will be consistent with the Annual Plan, which Directors will have committed to as part of normal business planning processes.

Q.59) *Do you agree that the Commission should review investment and innovation, quality and energy efficiency, demand side management and loss reductions as part of the AMP review process for Electricity Distribution Lines Businesses? If not, please provide a reason for your view, an alternative and why you consider this to be preferable.*

Not answered.

Q.60) *Do you agree that an AMP should include details of the background and overall approach to, and objectives of, a regulated supplier's asset management and planning processes? If not, please provide reasons for your view.*

Q.61) *Do you agree that an AMP should include details of the assets covered by the plan? If not, please provide reasons for your view.*

Q.62) *Do you agree that an AMP should include details of the regulated suppliers' plans for asset growth and their methods for reaching asset – related growth decisions? If not, please provide reasons for your view.*

Q.63) *Do you agree that an AMP should include details of the regulated suppliers plans for maintenance and renewal of assets over the planning period? If not, please provide reasons for your view.*

Q.64) *Do you agree that an AMP should include details of risk policies, assessment, analysis and mitigation methods, and details of emergency response and contingency plans? If not, please provide the reasons for your view.*

Q.65) *Do you agree that an AMP should include a regulated supplier's assessment of its performance against its own financial and service level targets as they relate to asset management planning? If not, please provide the reasons for your view.*

We understand that the discussion set out in section 8.4 of the Discussion Paper (components of AMPs) and addressed in Q.60) – Q.65) above has been largely based on the existing information disclosure requirements for AMPs for EDBs. We believe it is important to carefully review these requirements before any new requirements are implemented for AMP disclosures for GPBs, for the following reasons:

- The new Part 4 of the Act defines a new purpose for IDR which is to ensure information is available for interested parties to assess whether the Purpose Statement is being met, as set out in section 53A. This is not a requirement for IDR to achieve the purpose statement per se. In this context, GPBs will be subject to DPP/PPP regulation which assists in achieving the objectives of the Purpose Statement. Thus we do not believe that the Commission should prescribe how AMPs should achieve the Purpose Statement. The purpose of AMPs is for regulated suppliers to demonstrate their AMP practices and forecasts. These will be business specific.

- As noted earlier gas pipeline networks are inherently different to electricity distribution networks. They include predominantly underground assets which remain largely untouched throughout their life. This increases the complexity of condition monitoring and repair.
- As noted above, we believe AMPs should be limited to a five year forecast period.

PRICING AND OTHER DISCLOSURE

Q.66) *Do you agree that all regulated suppliers should disclose and publish their pricing methodologies? Please provide the reasons for your view.*

Yes. These should be consistent with the pricing methodology IM, and based on the principles set out in the Gas Authorisation, as indicated in the IM Discussion Paper and our submission on that paper. We believe that this disclosure requirement along with the disclosure of the current tariffs for regulated services fully meets the allocative efficiency objectives of the regulatory regime in the context of IDR.

We do not support the proposal to disclose pricing statistics as set out in paragraph 478 in the Discussion Paper. This is not required to meet allocative efficiency objectives (as set out above) and is likely to result in disclosures which are meaningless. We do not believe this proposal will enable meaningful comparisons of prices between consumer groups and between suppliers (which is provided in the disclosures of actual tariff schedules).

Q.67) *Do you agree that regulated suppliers should disclose prices? If not, please provide the reasons for your view.*

Yes, because it assists GPBs to demonstrate allocative efficiency objectives, and also assists in providing information for consumers regarding price and quality trade-offs. Price disclosure should be limited to notification to retailers, publication on the website and publication in local newspapers. We do not believe however that it is appropriate for the disclosure of individual contract prices where these have been negotiated directly with the consumer and form part of an individual supply contract. These terms should remain confidential between the consumer and the supplier.

Q.68) *Do you agree that regulated suppliers should be required to disclose the terms and conditions of supply and that the scope of disclosures should be limited to terms and conditions for the supply of regulated services? If not, please provide the reasons for your view.*

We support the disclosure of terms and conditions of supply consistent with published tariff disclosures. These assist in the interpretation of the tariffs, and accordingly should be made

available to all existing and potential consumers to whom they may apply. For the same reasons as set out in response to Q.67) above, such disclosure should exclude individual contract terms negotiated between a supplier and an individual consumer.

Q.69) *Do you agree that the disclosure of policies will assist in achieving the stated purposes? If not, why not, and what information do you suggest would provide meaningful information?*

No. This is excessive and not justified. IDR are intended to provide a light handed regulatory mechanism for assessing whether the regulatory purpose statement is met. For GPBs, DPP/PPP regulation also assists in meeting these objectives. The policies listed in paragraph 496 are not necessary to determine the “assessment of risks that could materially impact on the profitability or viability of the regulated business” as described in paragraph 495. The Discussion Paper does not define materiality. In addition, this is not consistent with the Section 53A purpose for information disclosure.

The proposal appears inconsistent with the discussion in section 5.3.2 of the Discussion Paper which suggests the Commission does not believe financing or cash flow information is required for disclosure purposes. We support this view, and believe this is also relevant in the context of the policies outlined below.

It is in our view highly unlikely that our credit policy, delegated authority policy, profit distribution policy, sponsorship policy or insurance policy could have a material impact on profitability. For example:

- Debtor balances are totally immaterial in the context of the total balance sheet of GasNet
- Delegated authority policy is also totally immaterial in the context of the total balance sheet
- All of GasNet’s profits are consolidated into WGL.
- GasNet has no sponsorship commitments.
- Our total insurance fees are less than 1% of our total operating expenses.

We do not believe it is appropriate for a regulator to be assessing such micro policies. These policies should be business decisions. They are also policies which apply to the overall business not just the regulated business. For this reason we believe they are beyond the scope of the regulatory regime and any share of associated costs is adequately covered by the cost allocation IM.

The Discussion Paper provides no indication about how they would be actually used by interested persons. We do not support disclosure for disclosure sake and believe this proposal is not justified and it also intrudes into non regulated business decisions.

PUBLICATION, RETENTION, CERTIFICATION, STATUTORY DECLARATION AND AUDIT

Q.70) *Do you agree that publicly disclose should require a notice in the Gazette of that disclosure? If not, please provide the reasons for your view, an alternate and why you consider this to be preferable.*

Yes.

Q.71) *Do you agree that the Annual, AMP and pricing methodology disclosures should be publicly disclosed? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.*

Yes, but these should include only the most relevant information necessary to meet the section 53A requirement for IDR.

Q.72) *Do you agree that prices disclosures should also be notified to each consumer by whom the charge is payable? If not, please provide the reasons for your view.*

No. Disclosure should include notification to all retailers, publication on the website and publication in local newspapers. Retailers have the commercial relationship with consumers, and should be responsible for notifying them of tariffs (inclusive of energy and pipeline services). There is already significant anecdotal evidence from retailer annual disclosures to their customers, the consumers, that many consumers do not understand what purpose the disclosures serve and despite highlighting that the advice is not notification of a price increase many believe that it is, with the result that they either don't understand or believe that it is purely superfluous information. In addition, it is not practical for GasNet to make individual notifications to all consumers as we do not retain individual consumer names or postal addresses and further if GasNet were required to notify the consumers, it would inevitably result in even greater confusion given that GasNet has no relationship with the consumer and they are unlikely to know who GasNet is.

Q.73) *Do you agree that templates should be used where appropriate and that disclosures should be made available to the Commission in Excel format with relevant formulae in place? If not, please provide the reasons for your view.*

It depends to what extent the proposed templates will require significant departures from GAAP. Currently GPB disclosures are consistent with GAAP in most respects for financial disclosures. We are aware the EDB templates are not. We do not support templates which

include superfluous information and which depart from GAAP in material respects. We also do not support templates which are specified to monitor compliance as opposed to performance for the reasons outlined earlier.

Q.74) *Do you agree with the proposed timing for disclosures? If not, please provide the reasons for your view.*

We agree that annual disclosures should be published five months after the 30 June year end. We also agree that it is appropriate for AMP disclosures to be made at the beginning of the forecast period which would equate to the beginning of a financial year.

Gas prices are reset at 1 October not 1 July. Any pricing methodology and tariff disclosures should coincide with the pricing year not the regulatory year.

Q.75) *Do you agree with the proposed regulatory year end dates? If not, please provide the reasons for your view.*

Yes for GPBs.

Q.76) *Do you agree that regulated suppliers should continue to disclose information and retain disclosed information and information supporting the disclosed information for a period of at least seven years? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.*

Regulated suppliers should continue to retain IDR information for seven years. This should not need to be disclosed for that period however, assuming interested parties can request copies of previous disclosures. We would suggest disclosures should be made available on websites for the current and prior year.

Q.77) *Do you agree that Director certification should be required for the Annual, AMP and pricing methodology disclosures to certify that the information being disclosed complies with the relevant requirements? If not, please provide the reasons for your view.*

Yes.

Q.78) *Do you agree that audit reports should be required for Annual Disclosures? If not, please provide the reasons for your view, an alternative to obtaining independent assurance and why you consider this to be preferable.*

Yes. This is an important part of the disclosure process and ensures that disclosures have been prepared with the IDR. Accordingly, it is possible to limit the disclosures to the information required to monitor performance. Additional information should not be required to be disclosed in order simply to provide information for monitoring compliance, which is achieved by the audit. We therefore do not support a number of the proposals in the Discussion Paper for detailed disclosures and reconciliations.

It is also important that the form of the audit opinion required for different types of information (for example financial and non financial) is carefully considered. We do not believe auditors should provide opinions on forecast information as we do not believe this is required.

Q.79) *Do you agree that audit reports should not be required for AMP, pricing methodology, prices or contract disclosures? If not, please provide the reasons for your view.*

Yes, these contain information which it is not appropriate for auditors to opine on.

Q.80) *Do you agree that the form of audit reports should be flexible enough to allow for any changes in the New Zealand Auditing Standards without requiring an amendment to the requirements? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.*

Yes.

Q.81) *Do you agree that audit reports should include a statement as to whether the disclosures comply with the requirements and include explanations of any material non-compliance? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.*

Yes. This is the primary reason for the audit.

Q.82) *Do you consider it appropriate for there to be different assurance requirements for different types of information and what do you think they should be? Please provide the reasons for your view.*

We believe the scope of the audit should be that the disclosures comply with the IDR (for all annually disclosed information).

We do not believe reference to applicable industry standards is required and this may introduce potential conflicts. Any requirements should be included in the IDR.

We do not believe prospective financial and non financial information should form part of annual audited disclosures and therefore they should not be audited, nor is it appropriate to do so. AMPs will include forecast financial and non financial information. These will not be audited. There is no need to replicate the information elsewhere which adds unnecessary compliance cost.

We also do not support the proposal that auditing requirements for prospective financial and non-financial information should be similar to the standard of assurance required by the Securities Regulations 1983. The publication and audit of a registered prospectus is by nature an infrequent event, and the standard of assurance is justified by the purpose of the prospectus and reliance on it by investors. To impose the same audit requirements on annual disclosure information will in our view, disproportionately increase compliance costs relative to the benefits of increased assurance.

In practice it would be difficult and costly for auditors to determine whether the prospective financial information has been properly compiled on the basis of the assumptions made or adopted by the business and set out in the AMP. Auditors will not have the requisite expertise to evaluate engineering assumptions within the AMP and will require expert opinions from technical specialists in order to do so, at additional cost.

Q.83) *Do you agree that audit reports should be addressed to interested persons and contain a statement that acknowledges the auditor's duty of care to the Commission? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.*

The proposal that audit opinions are addressed to interested persons and contain a statement acknowledging the auditor's duty of care to the Commission significantly increases the risk to auditors of taking on responsibilities to third parties with regard to their opinion. We understand auditors would seek significantly higher fees if this is the case. We therefore do not support the proposal which we believe will add unnecessary compliance cost.

Q.84) *What do you consider to be an appropriate level of independence for auditors? Please provide the reasons for your view.*

We agree with the proposals set out in paragraph 541 of the Discussion Paper.

Q.85) *Do you agree a statutory declaration should be attached to all information made available to the Commission under any disclosure requirement? If not, please provide the reasons for your view.*

Yes, this appears reasonable.

GAS PIPELINE SERVICES

Q.120) *Are there any additional characteristics of gas pipeline services that would affect how the information disclosure regime for gas pipeline businesses should be applied? If so, please give examples of how components of the information disclosure regime should be customised in light of the characteristics identified.*

No.

Q.121) *Do you agree that the performance indicators outlined in Table 20 are sufficient for the purpose of information disclosure under Part 4 for gas pipeline services? If not, please provide detailed examples of what performance indicators would better serve the purpose of information disclosure for gas pipeline services.*

We support disclosures of performance indicators as the most relevant means of assessing performance on an annual basis. Our comments on the proposals for performance indicators are set out in our response to earlier questions. We have not repeated them at length here. A summary of our views on the proposed performance indicators set out in Table 20 of the Discussion Paper is provided in the table below.

Performance Area	Proposed Performance Indicator	Comment
Innovation and Investment	AMP Review Rating – Innovation and Investment Capital Expenditure Ratio Renewal Ratio Capital Expenditure Growth Ratio	AMP review ratings are not supported because they are subjective and not required. AMP disclosures are sufficient. Other ratios are simple, but caution is required when using RAB measures as denominators, due to the inconsistency of the measurement basis between the numerator and denominator, which leads to misrepresentation of performance.
Efficiency	Operational Expenditure Ratio Overhead Operational Expenditure Ratio Maintenance Expenditure Ratio Capacity Utilisation Relative Unit Price Index	Opex ratios are simple, but subject to the same limitations as noted above in respect of capex ratios. Capacity utilisation is supported in principle but difficult to measure for GPBs. We do not support the relative unit price index as it is simplistic, meaningless and difficult to specify on a consistent basis for all businesses in a regulated sector.
Quality	SAIDI and SAIFI AMP Review Rating – Quality	We support the disclosure of reliability measures. Do not support the AMP review rating because it is subjective. AMP disclosure combined with an AMP review is sufficient to meet the requirements without an “indicator”.
Prices and Profits	ROI	We support the disclosure of ROI.

Q.122) *What do you consider to be the appropriate method for calculating the relative unit price index? Please provide reasons for your view.*

We do not support this measure, we believe it is overly simplistic and not required to meet the objectives of IDR as pricing methodology disclosures and tariff schedules achieve this in a more meaningful way.

Q.123) *Are there any additional operating expenditure categories that would assist in meeting the purpose of information disclosure for gas pipeline businesses? If so, please provide details of how the proposed operating expenditure categories would assist the purpose of information disclosure.*

No.

Q.124) *Are there any additional capital expenditure categories that would assist in meeting the purpose of information disclosure for gas pipeline businesses? If so, please provide details of how the proposed capital expenditure categories would assist the purpose of information disclosure.*

We do not believe that disclosure of capital expenditure categories in annual disclosures is required to meet the section 53A objective for IDR. Standardising capital and maintenance expenditure categories in AMPs however may assist interested parties understand AMPs.

The categories proposed are reasonable for AMPs for GPBs.

Q.125) *Are there any additional asset categories that would assist in meeting the purpose of information disclosure for gas pipeline services? If so, please provide details of how the proposed asset categories would assist the purpose of information disclosure.*

We do not support the proposed disclosure by asset category which has not been justified in the Discussion Paper. We do not believe it is required to meet the provisions of section 53A and it will add considerable compliance costs to GPBs. We also note that it is not possible to develop depreciation assumptions until the RAB IM has been determined.

However In terms of completeness of the asset categories, there is the category of pipeline crossings (road, rail, river/stream & other) which has been omitted from the list which are material for GasNet and as relevant as valves.

Q.126) *Do you agree that relevant statistical information for gas pipeline services should include asset information, demand, energy delivery efficiency and pricing statistics? If not, please provide the reasons for your view, an alternative and why you consider this to be preferable.*

We do not agree that statistics relating to assets in use, capacity and demand are required to support and inform the analysis of performance indicators. Statistics are often used as denominators in performance indicators (such as number of connections, or length of pipe or demand or capacity). It is reasonable to disclose these statistics for this purpose only. Other indicators such as UFG are also useful indicators, but these should be disclosed because they are indicators, not for the reason set out above.

We believe the Commission needs to refine its intention relating to statistical disclosures in this manner. For this reason we do not support the disclosure of superfluous information about assets and prices.

Q.127) *Do you agree that the maximum demand and maximum non-coincident peak demand should be measured? If not, please provide details of how capacity utilisation should be measured and the reasons for your view.*

Individual components (such as sections of mains, district pressure reduction stations, sales gates) within a gas network can be relatively easily rated in terms of capacity (providing criteria have been established to ensure that the results are comparable between different networks and different network owners).

However when looking at the total grid network it is not so easy. If network capacity is determined as being the maximum throughput at the weakest link for example, then the whole network could be assessed purely on the basis of one single element, which if upgraded could suggest a significant increase in declared capacity. The proposed measures are unlikely to be meaningful for gas pipeline systems.

Q.128) *Do you agree that suppliers of gas pipeline services should be required to disclose pricing statistics for consumers grouped by size, as currently required in the EDB information disclosure requirements? If not, please provide the reasons for your view, an alternative to assessing pricing efficiency and why you consider this to be preferable.*

No, for the reasons outlined previously. The proposed consumer sizing definitions are not valid for our network which highlights the inappropriateness of such measures. We do not have domestic or commercial prices.

Q.129) *Do you agree that the key aspects of service quality for gas pipeline services should include reliability, supply quality and customer service? If not, please provide details of the aspects of quality that are relevant and the reasons for your view.*

Yes, with the exception of the customer service measures for the reasons outlined earlier. The proposals however would introduce new measures, which would require us to establish new systems, and we would not be able to provide historical comparisons at this time.

Q.130) *Do you agree that reliability for gas pipeline services should include the disclosure of planned and unplanned interruptions, the causes of interruptions, third party damage events, leaks, public reported escapes and SAIDI, SAIFI and CAIDI measures? If not, please provide the reasons for your view, alternatives and why you consider these to be better aligned to the purpose of information disclosure.*

Yes, we believe these are reasonable and an improvement on the measures included in the current GIDRs.

Q.131) *What measures do you think might be appropriate for the measurement of supply quality (other than reliability) for gas pipeline services? Please provide your reasons.*

We do not support the proposals for 'gas pressure experienced by consumers' and 'frequency of poor pressures' because we are unable to collect this information with any degree of certainty without implementing significant data capture processes at significant cost. We do not have a direct relationship with the consumer so this information is currently likely to reflect predominantly anecdotal sources (or in response to a fault event). In addition there is difficulty in segregating poor pressure events from faulty appliances.

Q.132) *What do you believe is the appropriate means of measuring service quality for gas pipeline businesses? Please provide the reasons for your view.*

We do not support the proposals for the customer service indicators, as the level of service provided to consumers is predominantly a reflection of the performance of the energy retailer, not GasNet.

Q.133) *Do you agree that disclosure of separate statistics and quality information for non-contiguous networks is appropriate information for the assessment of performance? If not, please provide the reasons for your view, an alternate and why you consider this to be preferable.*

GasNet's networks are geographically contiguous. We have assumed therefore that, similar to the existing EDB disclosure requirements, any networks which are not interconnected, but

are geographically continuous, will not be required to make geographically non-contiguous disclosures. Any alternative interpretation is illogical, in our view, as there is no justification for segregated performance assessments and the compliance costs would be excessive.

Q.134) *In your view, what thresholds or criteria should the Commission use as a means of excluding networks from the requirement to separately disclose quality and statistics information? Please provide the reasons for your view.*

Refer Q.133) above. In addition, for GasNet the 75,000 GJ per annum threshold is not met for all networks, so we have assumed therefore that disclosure is limited to only those networks above this threshold.

Q.135) *Do you agree that the above mentioned disclosures from the GIDRs are not required for the purposes of information disclosure under Part 4? If not, please explain how they would assist with the purpose of information disclosure.*

We agree that only information required to derive performance indicators should be disclosed in annual disclosures. Thus full financial statements may not be required. We agree that working capital disclosures are not required per se, however this does not mean working capital should not be included in the RAB as set out in our IM submission.

Q.136) *In your view, should the detailed network capacity information currently required to be disclosed through the GIDRs continue to be required under the new information disclosure requirements? Please provide the reasons for your view.*

No we do not support the retention of this disclosure requirement. This disclosure requires some effort to prepare, and the information is made publicly available on request. We have never received a request for the information, and other than the copy we submit to MED each year, we are not aware of any other party which has used it.