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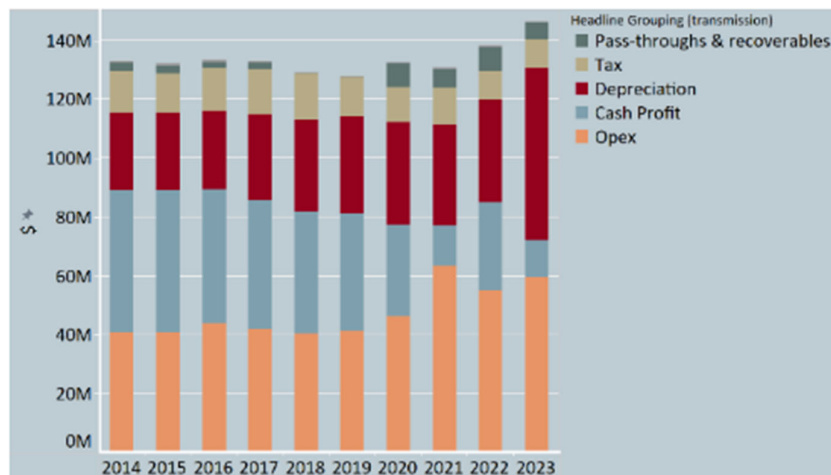
13 March 2025

Dear Matthew

Re: Gas DPP4 2026 – Views in response to open letter

1. Thank you for the opportunity to provide Greymouth's views in response to the Commission's open letter on the gas DPP4 2026 price-quality reset dated 13 February 2025.
2. The open letter includes issues from DPP3, such as supply shortfalls, demand and supply uncertainty, and within-period allocation of risk. These issues are likely to get worse over the next DPP period, and Greymouth looks forward to seeing robust and sustainable proposals from the Commission about how these will be managed and mitigated.
3. The core problem is the sustainability of the revenue cap model in a degrowth industry. E.g. component transmission prices under DPP3 increased by circa 10-43% last year for Auckland consumers (with some Taranaki consumers paying 167% more); made worse for consumers by the Commission accelerating depreciation (see graph). If within-period risk is to remain with gas consumers, price increases and their causes will need to be addressed.

Revenue components of gas transmission businesses, 2014-2023



4. The issues must be addressed to grow the economy and mitigate demand destruction. Consumers will exit if regulated monopoly prices keep increasing greater than inflation.

5. To unpack this (and to develop a sustainable regulated monopoly gas pipeline model in a degrowth industry), Greymouth considers the Commission should finally address, or revisit, **seven** key matters:
- I. Whether the risk of asset stranding has reduced due to changes in government policy since 2022 indicating that there will continue to be a role for natural gas (and therefore gas pipelines), at least as a transitional fuel, beyond 2050. These policies include the reversal of the ban on new offshore exploration, and the ongoing need for natural gas in electricity generation.¹
 - II. Whether the revision (and potential further revisions) of the New Zealand Standard for the Specification for reticulated natural gas (NZS 5442:2008) to allow for blended biomethane with natural gas would alter the Commission's conclusions at paragraphs 3.30-3.32 of its draft decision paper for DPP3² regarding the scope of Part 4 and how that affects accelerated depreciation.
 - III. Whether a reduction in the Regulated Asset Base ('RAB') should have been (and should be and can be) applied contemporaneously with accelerated depreciation to reflect what would be expected in competitive markets, and whether the Commission will reexamine (or engage with its Ministry about re-examining) the initial RAB values. Greymouth has previously written to the Commission that it considered that regulated pipeline assets were introduced into the RAB at inflated values,³ one effect of which has been to magnify the impact of accelerated depreciation on prices in the current period.
 - IV. Whether the Commission considers that Financial Capital Maintenance ('FCM') must be honoured, or whether the concept can be scrapped or hybridised for a degrowth industry under Part 4 the likes of which were not contemplated when the legislation was established. If perfect FCM is retained, then there will be nothing much that the Commission can do to make a revenue cap model sustainable (if a revenue cap model persists) in a degrowth industry – in this case the Commission should engage with its Ministry about what happens in DPP4 given it arguably would not have the required tools or enabling legislation.
 - V. Whether the current price quality model is fair *for natural gas regulated gas pipeline consumers*, starting with the end in mind. Natural gas pipeline consumers should not have to pay for upgrading the transmission system to transport hydrogen, nor should the model not be restructured because of uncertainties with future fuels.
 - VI. What type of investment is required (both economically, and as regarding the purpose of Part 4 of the Act) to meet consumers' *needs* in a *degrowth* industry.
 - VII. Whether a price cap model would be better for natural gas transmission consumers in a degrowth industry, adjusting the starting position as if DPP3 also had a price cap model (without necessarily reopening accelerated depreciation under DPP3

¹ Ministry for the Environment, *New Zealand's second emissions reduction plan 2026-30*, 11 December 2024

² Default price-quality paths for gas pipeline businesses from 1 October 2022 – Draft Reasons Paper, 10 February 2022

³ Attached: Greymouth Petroleum letter to The Hon Dr Megan Woods dated 6 August 2019 re: Gas Transition Matters

(although that would be in consumers' interests)) to avoid locking in the unsustainable price increases experienced in DPP3.

6. The Commission would not be meeting its obligations under Part 4 regulated monopoly pipeline legislation if it were to allow unsustainable (and unnecessary) price inflation to fall on consumers for a second pricing period in a row.

Yours sincerely,

Chris Boxall

Chris Boxall
Commercial Manager



GREYMOUTH PETROLEUM

6 August 2019

The Hon Dr Megan Woods
Private Bag 18041
Parliament Buildings
Wellington

By email: [REDACTED]

Dear Minister,

RE: Gas Transition Matters

Greymouth Petroleum ("Greymouth") is a New Zealand owned and operated petroleum production group headquartered in Auckland, with operations in the Taranaki region. Greymouth is active throughout the upstream value chain, most notably the development, production and marketing of hydrocarbons. Greymouth ranks second amongst NZ owned petroleum production companies when measured in barrels of oil equivalent produced per day (today supplying circa 10% of NZ's daily gas production) and on a remaining reserves basis (holding circa 17% of NZ's gas reserves measured on a 2P basis).

The purpose of this letter is to outline Greymouth's concern that the current regulatory framework for determining gas transmission pricing may result in gas being less able to support NZ's orderly transition to a renewable and sustainable energy system.

Greymouth considers the current regulatory framework is not compatible with NZ's projected lower gas supply outlook and the planned reduction in utilization of fossil fuels. Specifically, Greymouth considers this framework will place further upwards pressure on the delivered gas prices for consumers and result in accelerated demand destruction in the gas market. These are not good outcomes for NZ's economic wellbeing, energy security, cost competitiveness, and carbon footprint (gas may be switched back to coal).

The flip side of this framework is that gas pipeline businesses are, and will remain, protected from the financial and economic impacts of reduced gas supply and the transition from fossil fuels in a way that no-one else in the industry – including, particularly, consumers – will be.

Greymouth outlines the top four gas transition matters below – and outlines a solution after each for Ministerial consideration.

1 – Transmission price setting methodology

The price for transmission services is formulaically derived by dividing a regulated maximum allowable revenue able to be earned by a Gas Transmission Business ("GTB") by forecast throughput volumes. If the GTB does not recover its allowable revenue in one year, it is able to increase prices in the following year to make up the difference.¹

¹ Subject to a cap of 20%

This means that GTB owners take no volume risk and are shielded from the financial and economic impacts of reduced gas supply and the transition from fossil fuels. Gas transmission prices will rise under this methodology in the medium term as gas production volumes decrease at a greater rate than allowable revenue. Sustained increased transmission pricing is contrary to the primary objective in the Gas Act of "ensuring there is downward pressure on delivered gas costs and prices".

There is presently a lack of transparency of transmission costs beyond a one year horizon – this discourages a gas producer entering long term agreements to provide gas supply on a delivered basis to any customer when gas volumes are available.

Greymouth recommendation: Change the legislation to give the Commerce Commission tools to (1) impose price caps on transmission charges levied by GTBs (2) require GTBs to positively comply with the Commerce Commission's Pricing Principles – currently they are guidelines, and (3) require GTBs to publish transmission prices each year on a rolling five year basis.

2 – Asset base determination

The Regulated Asset Base ("RAB") is a key input of the building blocks methodology setting a gas pipeline owner's maximum allowable revenue. Greymouth estimates that the combination of the return of, and return on, capital invested represents between 55-65% of maximum allowable revenue for GTBs. For GTBs, RAB is based-off an historical optimised depreciated replacement cost ("ODRC") valuation inflated over time as proxy for fair value.

Greymouth supports a methodology that reflects an optimised network to provide gas transportation, which adjusts for capacity excess, negative load growth and age. Greymouth is not confident that RAB values used by GTBs properly reflect gas market changes over recent times (e.g. closure of Contact Otahuhu & Mercury Southdown stations, and Genesis Huntly station increased coal fuelling).

Greymouth considers RABs should signal the economic costs of service provision on a subsidy free basis to accord with the Pricing Principles. This should be assessed on an aggregate system level to ensure that resultant total revenue achieved is less than or equal to stand alone costs of an alternative energy source. Greymouth considers that the appropriate alternative energy source should be electricity consistent with the NZ Government's wider decarbonisation goals.

Greymouth recommendation: Change legislation to require the Commerce Commission to regularly conduct, and/or require GTBs to regularly conduct, valuation exercises to align asset values with prevailing industry environment and fuel substitution risk.

3 – Regulatory regime introduction wind fall gains

The introduction of the Default Price-Quality Path ("DPP") regime in 2013 resulted in gas pipeline businesses setting their RABs based on ODRC significantly higher than historical cost. As a result, this asset-base resetting exercise provided a profit windfall for pipeline owners, and a transfer of wealth from consumers. At the same time, regulators did not opine that excess profits were not earned by GTBs prior to 2013.

Greymouth acknowledges that the Electricity Price Review Expert Advisory Panel has concluded it sees no merit in reopening the (ODRC) methodology for setting asset values in the electricity sector. Greymouth considers that is an appropriate conclusion for the electricity sector given that its longer-term demand growth trajectory will moderate transmission / distribution price increases to consumers – MBIE is picking that electricity demand will increase up to ~47% by 2050, while Transpower is predicting an increase of ~120% over the same time frame. However, the gas market can anticipate the opposite

trajectory based on current reserves and policy settings, requiring this issue to be looked at again in a gas market specific context.

Greymouth recommendation: Change legislation to require the Commerce Commission to claw back the wealth transfer to gas pipeline owners that arose on DPP introduction, or excess profits earned prior to that date, to alleviate price increases for gas carriage inherent in the tariff setting methodology for gas pipelines.

4 – Access

Greymouth is concerned that GIC has concluded the Gas Transmission Access Code (GTAC) proposed by First Gas is materially better than the existing terms and conditions for access to, and use of, transmission pipelines, despite the removal of users' current unequivocal rights to access gas pipeline networks. Gas users should not face restrictions to access the market – this adds unnecessary cost and delay when natural gas should be assisting with the 'just transition'.

Greymouth recommendation: Require the GIC to reinstate gas users' unequivocal right of access to gas transmission pipelines in the GTAC.

Conclusion

Greymouth supports the Government's ambition to target lower emissions, but considers it critical that all energy stakeholders transition in a planned and managed way to ensure our economy and living standards do not suffer, whilst retaining the central premise of energy affordability for all consumers.

Greymouth representatives would be happy to discuss the contents of this letter with you and/or your team.

Yours sincerely


Andrew McGavin
Business Development Manager

cc: Mr Andrew Knight (Chief Executive Officer, Gas Industry Company)