



22 January 2026

Matthew Clark
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Commerce Commission
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By email to regulation.branch@comcom.govt.nz

Dear Matthew

Re: Gas DPP4 Reset 2026.

This following submission is in response to the Commerce Commission *Gas DPP4 reset 2026 Default price-quality paths for gas pipeline businesses from 1 October 2026 Draft decision - reasons paper* and attachments, dated 27 November 2025. This submission is on behalf of the Major Gas Users Group (MGUG):

Ballance Agri-Nutrients Ltd
Fonterra Co-operative Group
New Zealand Steel Ltd
Oji Fibre Solutions (NZ) Ltd

Our members have been consulted on the preparation of this submission. Nothing in this submission is confidential and some members may choose to make separate submissions.

MGUG also commissioned Castalia to review the demand forecast, its impacts on revenue profiles and the contradictions this highlights. Castalia was also asked to review the implicit valuation of the Brookfield transaction on Firstgas' gas network assets and to comment on what this signalled about the investor's view about economic stranding risk in contrast to the Commission's preferred narrative. Their report is included with this submission and referenced with it.

Structure of the Submission

This submission is in three parts:

- a. Preface setting the context for the submission
- b. Executive Summary of key discussion headings.
- c. Evidence and discussion

Preface

The regulatory framework for the Commission is grounded in two key intersubjective belief systems¹; neo-classical economic theory and its models, and the legal system that defines its role. Neo-classical economic theory and models dominate the institutions, including the Commission and its academic advisors. It is an ideology that describes how the world *should be* rather than what it actually is². The neo-classical theoretical framework was developed in the 19th Century and has persisted, not because it is objectively accurate (it is not), but because it is self-reinforcing through lack of alternative teaching in schools and academic institutions. So, students learn what gets published, what gets published becomes “what counts”, and policy institutions recruit from those pipelines.

Such is the case with the Commission justifying accelerated depreciation as an outcome that *should be* consistent with what *would be* observable in the real world. Consumers including firms³ understand that the real commercial world does not produce outcomes that the Commission claims as being consistent with it. The outcome of accelerated depreciation *raising* prices to consumers as something that is *consistent* with competitive markets, has always felt intuitively wrong for consumers and firms operating in competitive markets. In our submission we explain *why* it is wrong, and why we can't rely on the legal system and the academic echo chamber to see this.

Most of our submission focuses on highlighting the false assumptions used to support the accelerated depreciation regime that leads to front loading revenue for suppliers and rising prices for households and businesses. This has real world impacts. When the Commission approves unjustified energy price increases through DPP4:

- **Manufacturers face higher input costs**, losing competitiveness against international rivals with affordable energy.
- **Production facilities close or relocate offshore** to jurisdictions with rational energy pricing
- **Industrial jobs disappear**, hollowing out regional economies
- **New Zealand loses economic diversity**, becoming increasingly dependent on primary commodity exports
- **Families struggle**, paying even more for essential energy services.

¹ Intersubjective reality is a consensual construct that governs collective perception and action. More specifically it is shared beliefs, meanings, and understandings that exist between multiple individuals which aren't objectively real, but function as real because most people might agree they are (until they don't agree).

² The foundations of neo-classical thinking and modelling have been proven false for decades, but unlike progress in science, false paradigms persist in economics. The economy does not move to equilibrium, rationality is not a feature of consumer or firm behaviour, and “representative agents” are a paper abstraction that do not scale to match objective reality. The models are simply wrong. The list of papers critiquing neo-classical models with empirical evidence, and advances in complex system and dynamic modelling to improve the economic framework is extensive. We don't propose that we should look to reschool the Commission on its entire framework if it is not open to conceding that its basic framework is at fault. We are open to further debate if the submission is not sufficient in outlining all the false assumptions.

³ We suspect that GPBs also understand this, but as beneficiaries of the Commission's false premises are happy to support the Commission.

For DPP4 there are only two directions the Commission can take. It can either persist with and rely on flawed ideology and choose regulatory stability and theoretical purity, favouring suppliers, or it can demonstrate that evidence matters more than ideology, align outcomes with genuine competitive dynamics, and choose a path to restore consumer confidence. It can't achieve both.

[**What We're Asking the Commission**](#)

Accelerated depreciation is a discretionary tool in your regulatory toolkit, not a statutory requirement. In the Commission's final DPP4 determination, you should:

1. Recognize that the theoretical framework justifying accelerated depreciation is contradicted by empirical evidence.
2. Acknowledge New Zealand's affordability and deindustrialization crisis.
3. Remove accelerated depreciation from your final DPP4 determination.
4. Ground regulatory framework and decisions in observable market dynamics, not discredited 19th-century theory

Summary of Our Submission

X 1 DPP3 and the consequent reshaping of the methodology underpinning Commission reasoning have exposed the limitations and flaws in the regulatory design determining the settings of price paths for regulated suppliers. The Commission's failure to recognise the inherent contradictions exposed by adapting the regulatory framework and methodology for a speculative stranding risk assumption has, and will continue, in our mind to damage consumer welfare, and undermine New Zealand's economic performance. The key challenge in the DPP4 draft decision is not in the minutiae of detail on the "business as usual" framing and how to set price paths with allowable OPEX and CAPEX, but in addressing the very flaws in the domain assumptions underpinning them. Our submission focuses on these urgent substantive matters.

X 2 We identify seven fundamental flaws that undermine the regulatory logic. While they have existed since the regulatory framework was designed, the distortionary impacts they create have only become apparent in DPP3 settings that supported accelerated depreciation, compounded by the wider energy issues that have emerged from that period. Simply persisting with these mistakes in the name of "stability" is myopic and undermining of consumer confidence in the Commission. The Commission as a minimum, needs to recognise the fallacy of its stranded economic asset narrative. It should reverse the accelerated depreciation settings that it implemented in DPP3, not continue with them blindly for a further five years. This counterfactual, reversing the settings, does not fix the design flaws, but is at least a simple fix using existing tools, and a materially better outcome for consumers under S52A. The argument supporting the materially better outcome is the self-evident corollary to the arguments how the Commission's assumptions fail the real-world test.

X 3 The Commission should then make a critical inspection of the regulatory design to adjust its theoretical approach with empirical evidence, in the same way that science adjusts its paradigms in the face of evidence that falsifies its hypotheses.

False Domain Assumptions

X 4 We outline seven key domain assumptions that are false:

- a. Gas pipeline services only have economic value for transporting a majority of natural gas.
- b. Consumers have identical preferences, income levels, and behave the same way.
- c. The suppliers (GPBs) can be re-represented as a hypothetical representative firm operating a single asset in a monopoly regulated world.
- d. Demand for gas pipeline services will fall to create economic stranding is the most plausible outcome for the future of these services.
- e. Suppliers have an asymmetric risk justifying accelerated depreciation and is consistent with outcomes seen in competitive markets
- f. Intertemporal neutrality exists
- g. NPV = 0 leaves both suppliers and consumers "whole"

X 5 The falsification of these seven beliefs should be sufficient to invalidate the reasoning around accelerated depreciation and how it is being applied by the Commission.

Context, Challenges, and priorities

X 6 Despite making an effort to get familiar with a wider range of consumer experiences and concerns by the Commission, there is no evidence in the draft decision that any of it mattered. The consumer engagement exercise appears to have been more performative than substantive.

X 7 The consumer context, challenges, and priorities can only be understood within the wider lived experience of the complex system under which they exist. This is a world where energy affordability has overtaken reliability as a primary concern, production is being curtailed or shut down, jobs are being lost, and where households are facing increasing energy poverty. While the Commission can choose to isolate itself within its narrow legal mandate system, it should not assume that what it decides is not having a material impact on consumers because it abstracts every consumer to an “average residential consumer”. The Commission’s context, challenges, and priorities do not describe what matters to consumers, i.e., economic welfare, and avoidance/ minimisation of economic deadweight losses.

Lever 1 – Reassess Stranding Risk and the Future

X 8 While acknowledging all the positive signals for an improved future outlook for gas pipeline services (including regulatory barrier removals), the Commission continues with its single and total economic stranding scenario 30 years into the future. It proposes to continue the accelerated depreciation regime and requires consumers to frontload a further \$281 million payment to suppliers for an unlikely event with no evidence base.

X 9 The Commission has no superior insight into the future. In assuming the worst-case scenario on behalf of both consumers and suppliers, the Commission is converting uncertainty into commitment, which destroys option value and can misallocate risk away from those best able (and best incentivised) to manage it, i.e., GPBs. When the Commission locks in a speculative, unknown future (by baking it into asset lives, depreciation paths, allowed revenues, investment allowances, or cost allocation), consumers also lose flexibility in a number of ways.

X 10 We do not consider Concept’s demand modelling work to be something that the Commission can place much (if any) reliance on. The inherent flaw in their ENZ model is the domain assumption that consumers can not only be modelled as a single “representative agent”, but also that their behaviour is largely price-responsive and least-cost and assume that decision-makers tend toward least-cost options driven by relative prices. These are not simplifying assumptions for reducing complexities in modelling, this is a flawed belief system on which the entire model rests.

X 11 The Commission’s pessimism is also not reflected in GPB behaviour after considering the recent sale of Firstgas’ network assets, nor in the disallowed growth capital of GDB asset management plans.

X 12 While the current information suggests that economic stranding is a speculative outcome at best, the Commission could at least attempt to emulate other regulators when considering stranding risk. For example, the approach of the Australian Energy Regulator (AER) is to develop

a range of plausible scenarios over a shorter time frame, and draw more balanced risk assessment from a wider evidence base.

Lever 2 – Reappraise the accelerated depreciation logic

X 13 The Commission is perpetuating three core logical errors in allowing accelerated depreciation on sunk assets that contradict basic tenets of the commercial world.

- a. It converts an ex-ante expectation principle into an ex-post outcome guarantee
- b. It treats sunk assets as if they were still contestable investments
- c. It assumes intertemporal neutrality where none exists.

Each step moves regulation further away from competitive-market outcomes.

X 14 Accelerating depreciation on sunk assets is not a competitive market outcome, and it does not satisfy the various limbs of s52A (particularly problematic for (b) – (d))

X 15 Accelerated depreciation on avoidable costs (new assets) can only be justified when demand is *plausibly* shorter-lived.

X 16 Asymmetric risk argument is not justifiable where ancillary mechanisms are present to recover downside costs (pass through and recoverable costs, price reset triggers, and revenue and capex washups). It also ignores the reality of the actual GPB investors who maintain an investment portfolio and who can (amongst other measures) arbitrage regulatory settings like WACC with their actual cost of capital.

X 17 Precautionary front-loading of sunk asset recovery is not neutral, not reversible in economic terms, and not justified. Accelerated depreciation reversals in later periods are neither plausible, NPV neutral, or equitable between suppliers and consumers. Suppliers benefit from improved cash flows today (financial flexibility, reduced refinancing risk) even if NPV-neutral, while consumers face welfare losses not captured by NPV.

X 18 NPV=0 arguments fail because it uses a corporate finance solvency metric as a welfare-equivalence claim An NPV = 0 test is not a competitive-market counterfactual. It is, at most, an internal financial capital-maintenance condition for the regulated supplier under a modelled revenue path and an assumed discount rate. It speaks to whether the supplier is expected to recover its modelled costs (including a return on and of capital), not to whether consumers receive competitive-like outcomes.

X 19 Risk transfer is irreversible. Once consumers have pre-funded asset recovery and absorbed downside risk ex ante, that risk transfer cannot be undone by future depreciation changes. The fact that prices might be lower later does not reverse weakened investment discipline, reduced risk borne by shareholders, or distorted entry and investment incentives. The Commission assuming that it can somehow manage these risks through allowable revenue and capex is naïve. Suppliers have far greater understanding of their businesses and their portfolio opportunities to undermine regulator controls than any outside party can have.

X 20 Over-recovery risk is asymmetric if stranding does not occur. Accelerated depreciation leads to earlier capital recovery, the allowed returns remain unchanged, and consumers have paid

more with no compensating benefit. Future deceleration is discretionary and may never fully offset this outcome. This produces outcomes more favourable than competition, contrary to s52A(d).

[The “Average Residential Consumer” problem – distributional impacts](#)

X 21 The Commission reduces its decision to how it affects the “Average Residential Consumer”. While buried in the fine print that outcomes may differ for different consumers, the Commission nevertheless assumes that its theory driven outcomes should be assessed against how it affects a “representative agent”.

X 22 The average residential consumer assessment is only useful as a political headline and soundbite. Using the average residential consumer as the “representative agent” is a neo-classical construct that simply does not reflect the diversity of consumers nor the reality of their behaviour or how impacts are distributed across the wider economy. The abstraction of this complexity to fit a theoretical model leads to false conclusions and inferences⁴.

[Next Steps](#)

X 23 The materially better outcome for consumers is for the Commission to reverse the error of DPP3 in accelerating depreciation, to at least attempt to leave consumers whole. While two wrongs do not always make a right, applying lower depreciation rates in DPP4 to recover advanced revenues from DPP3 does provide a partial compensation to consumers before returning to more balanced settings.

X 24 The Commission should revisit the regulatory design to reflect the evidence and information and put the methodology on firmer ground for DPP5.

⁴ Even classical economists like Ricardo, Smith, and Marx had a better grasp of welfare economics as they focused on social classes rather than “representative agent”

Reframing contexts challenges and priorities

1. The Commission provides an overview of the context for DPP4 in its draft decision paper. It describes the main forward issue for GPBs is how to recover costs in a declining market, and the Commission's challenge is to understand the future outlook for gas pipeline services. It acknowledges rising costs of energy and impacts this has on households and businesses but then effectively dismisses them in the draft decision as carrying any weight against supplier interests. The final conclusion, evident in the settings for DPP4 is to change nothing substantial and to justify this as something that provides regulatory stability and maintains consumer confidence⁵. While we would agree that it might seem like stability *if compared to DPP3* settings, we are unclear on what basis the Commission assumes that it retains consumer confidence⁶.
2. To some extent we can see why most of the context is being ignored. The Commission is a creature of statute and its boundaries to act are prescribed in the Commerce Act. It can thus argue that acting mechanically within that system it is simply complying with the law. Connections with the wider reality and the impact of its decisions on other spheres (consumer welfare, economy) are therefore issues assumed for other to deal with. As Radich J, the judge in MGUG's merit review challenging the Commission's decision in DPP3 confirmed⁷:

*In the appeal against the Commissions 2022 Default Price-quality Path Decision, assessed under s 91 of the Act, we have found that the Commission **did not err in law**.⁸*

[2024] NZHC 959 at [268]

3. The “do-nothing different approach” also appears largely reflective of a view that the decisions and reasoning developed in 2021/2 are correct and settled, and that if circumstances improve, the extreme measures implemented can be unwound to leave everyone, including consumers whole. We do not consider this to be the case or true. We cover this more extensively further in this submission.
4. Nevertheless, even accepting that the Commission should act within the law, no matter how close it is to being signalled to update, the Commission fails to use the law in a way that would help consumers rather than suppliers. We deal with this in more detail when we discuss the stranding scenario and accelerated depreciation.
5. The narrow and rigid legal compliance focus, and a preference for “stability” rather than adjusting thinking on better information, creates problems for consumers. Consumers do not experience a siloed world which characterises the attention and domain of the Commission.

⁵ <https://www.comcom.govt.nz/assets/Documents/2026-gas-default-price-quality-path/Gas-DPP4-Draft-decision-reasons-paper-27-November-2025.pdf> p23 para 2.45

⁶ A merit appeal, even if just spearheaded by MGUG, should have signalled that consumers did not have confidence in the Commission's DPP3 and out of cycle IM amendment decisions.

⁷ Major Gas Users' Group Incorporated v Commerce Commission [2024] NZHC 959 (29 April 2024)

⁸ Our emphasis added. Notably the judge claimed that the panel did not need to assess the material better argument if the Commission was simply using tools that were available to it and it was acting lawfully [45] – [47]. In any case the usual neo-classical arguments were trotted out by the lay assistants as a basis for justifying the Commission's approach, underscoring our points in the preface.

Consumers operate within the reality of a complex system where interventions in one part play out in other parts that consumers are exposed to. For example, gas pipelines and cost of gas transport constitutes just one part of an interconnected complex system of energy, economy, and wellbeing, that are experienced directly by consumers. Consumers do not neatly divide, categorise, and separate these interconnected wholes and treat them as unrelated. What happens within the regulation of gas pipelines cascades through the wider system. It impacts on consumer preferences, affects investment sentiment throughout the sector, flows into social welfare, and influences wider economic performance for the country. The emergent outcomes cannot be “unwound”. Complex systems can only be understood with dynamic systems modelling where outcomes are emergent, not linear and predictable. The Commission’s belief in its foresight and confidence that it can simply unwind adverse consumer settings are misplaced.

6. The broader context for consumers is therefore much wider than the Commission describes for itself. New Zealand continues to experience elevated deindustrialisation risk in energy-intensive industries because of gas depletion, dry-year electricity risk, and price elevation and volatility. The evidence is seen in production downturns, and closures/idling events where delivered energy costs was a key factor.⁹
7. Elevated delivered energy costs, including contribution from higher transport costs are harmful to the wider economy and public welfare. For example, a cabinet paper¹⁰ has estimated that sustained cost increases in 2025 alone:
 - a. have reduced New Zealand’s Gross Domestic Product by \$5.2b (1.25%),
 - b. lowered real wages by 1.4%,
 - c. cut household spending by 1.65%, and;
 - d. worsened the trade balance by \$275m.
 - e. 0.5% reduction in employment
 - f. Created Sept 2025 YoY energy inflation 11.3%
8. We describe how the Commission’s decision in 2022 has contributed to accelerating delivered gas cost pressures later in this submission when demonstrating distributional impacts.
9. Simultaneously households are also experiencing increasing energy hardship. MBIE reported that 6.7 per cent (or 132,000) of households reported that they could not afford to keep their homes adequately warm in the previous 12 months, and 6.3 per cent (or 126,000) of households put up with feeling cold a lot to keep costs down in the previous 12 months (a statistically significant change since 2019)¹¹. Renters are also more likely to experience energy hardship than non-renters. According to a recent Consumer NZ survey, energy costs are now

⁹ Including Methanex, Oji FS, and less publicised cases of smaller industrials quietly shutting operations.

¹⁰ <https://www.mbie.govt.nz/dmsdocument/31665-government-response-to-review-of-electricity-market-performance-enhancing-new-zealands-security-september-2025-proactive-release-pdf>

¹¹ MBIE - Report on energy hardship measures Year ended June 2024

the second highest concern for households after groceries. Distributional impacts show the uneven burden the Commission's decisions have on households.

10. From a consumer, and New Zealand Inc perspective, we therefore see the wider context for the Commission's decision as one that impacts on welfare economics, or how well an economy is doing for people. Economic welfare is being eroded, and while there are a wide range of contributing factors, the cost of delivered gas is one factor that the Commission has both control and influence over in its DPP4 decision. The distinction between controlling for consumer welfare, and controlling for supplier financial outcomes seem to have been conflated in the Commission's thought process
11. Within this broader context we also do not see the arguments for accelerated depreciation of gas pipeline assets as either warranted or settled. We challenge both the Commission's view on the future of gas pipelines, as well as its arguments for asymmetric stranding risk, neutral impacts on consumers over the long term, and its ability to reverse consumer harm in later periods.
12. The context as we would describe it, lies at the heart of the tension between the Commission and consumers on the best way forward. GPBs have largely been the opportunistic beneficiaries of the Commission's world view to date. The proposed DPP4 outcome promises to continue to benefit suppliers at the expense of consumers and embed it for a further five years. The Commission should re-examine its premises for stranding risk, and also whether accelerated depreciation is consistent with S52A and wider empirical observations. The message from consumers should be clear; the consumer priority for the Commission is economic welfare, not protecting GPBs from their investment decisions under a false *single* speculative stranding scenario¹².

¹² It is a single scenario because whether the Commission speculates on whether stranding might occur in 2050 or 2060, or some date in between, it never contemplates a future where physical gas pipelines continue in a reconfigured way (partial downsizing or complete repurposing)

Addressing Domain Assumptions

13. In reviewing the material in the draft decision paper, we have come across a number of domain assumptions that are demonstrably at odds with empirical evidence (objective reality). These lead to considerable cognitive dissonance being exhibited by the Commission, and drive their draft decisions to support the wrong conclusions reached in DPP3. We highlight these here in order for our submission to be properly understood.
14. A domain assumption is a *fundamental belief* about a specific field (domain). An example of a false domain assumption, in say cosmology, is that the Earth is the centre of the universe. Or, in economics that markets move to equilibrium (subject to exogenous shocks) and price can be determined by intersection of a downward sloping market demand curve and an upward sloping supply curve (neither of which is true when examining the empirical economic literature)¹³ . A wrong domain assumption might serve to support further logic drawn from its false premise, but it clearly does not support truth, and undermines any conclusion that it might draw from using it.
15. False domain assumptions sometimes persist, not because people fail to recognise them, but because by acknowledging them as false, it undermines the world view that they are vested in. This leads to cognitive dissonance. Empirical, objective evidence is ignored/ dismissed as unreliable, or new stories created to argue why the theory is correct to make the observable facts fit the existing theory¹⁴.
16. The following are domain assumptions used to support the draft reasoning outcome that we argue are false – i.e., not supported by empirical evidence, or reasonable interpretation:
 - a. **Demand for gas pipeline services will fall (linearly) to create economic stranding is the most plausible outcome for the future of these service** – The basis of this belief is that effectively all future pathways for gas pipeline revenue leads to the same outcome – i.e., full economic stranding of the *entire* network, with the only variable being whether stranding occurs in 2050 or 2060. It is doubly injurious in that the Commission also assumes a direct proportionality between gas volume demand, and gas pipeline revenue despite repeated demonstrations how this is not the case¹⁵. This erroneous belief is evidenced, not just by demonstration on alternative gas pathway scenarios (GIC commissioned EY Supply and Demand study, and statements supporting LNG import by central government¹⁶, and determination to support biogas development¹⁷), sector and revenue analysis¹⁸, but also by the GPBs themselves (AMPs preserve optionality,

¹³ <https://braveneweurope.com/steve-keen-the-anything-goes-market-demand-curve> - NB Steve Keen is a Post Keynesian heterodox economist who relies on facts to support economic theories rather than use theories to support facts as neo-classical economists are wont to do.

¹⁴ Try arguing evolution with a creationist to understand this.

¹⁵ See previous submissions showing almost inverse relationships between gas volumes and pipeline revenue when demand is segmented between mass markets and industrials.

¹⁶ <https://businessdesk.co.nz/article/policy/lng-for-new-zealand-stacks-up-says-finance-minister-nicola-willis> budget will be allocated for development steps in 2026, aiming for 2027 imports

¹⁷ <https://www.mbie.govt.nz/dmsdocument/31341-government-statement-on-biogas> (October 2025)

¹⁸ From various MGUG submission starting in 2021 and carrying through into 2025

and recent valuation of Firstgas' assets in sale to Brookfield (at RAB value)¹⁹). Giving up on this belief however seems difficult for the Commission for reasons that are never explained, but opens the path to the thinking that normal commercial risk should be transferred to consumers instead of leaving it with suppliers.

- b. **Gas pipeline services only have economic value for transporting a majority of natural gas.** This is contradicted by the investment plans of GPBs and the statement of the Minister that regulatory barriers would be removed. The Commission however persists with the notion by arguing that this is how the law currently interprets it (ignoring the flexibility that the Commission has to consider a scenario where the law could change to remove the perceived legal straitjacket). A reasonable party might suggest that law change is not *certain* until it has happened, but equally, a reasonable party would say that it seems plausible/ likely. A reasonable party would test the impacts under different scenarios, something which the Commission does not do.
- c. **Consumers have identical preferences, income levels, and behave the same way.** This mistake is rampant throughout the material. The Commission uses the “average residential household” as the representative agent for consumers. Concept Consulting do the same for residential, commercial, and industrial customer, and go even further in their ENZ model which assumes that behaviour is largely price-responsive and least-cost and assume decision-makers tend toward least-cost options driven by relative prices. This full rationality assumption systematically overstates demand reduction. Both beliefs are denied by empirical evidence²⁰. Nevertheless, the rational, representative agent model is a foundation for neo-classical economic theory that has resisted every attempt at demonstrating why it is false.
- d. **Regulated supplier behaviour should be determined against a hypothetical representative firm operating a single asset in a market where it is the only provider of services** – This model serves to justify the entitlements given to suppliers, as if those firms have no ability to diversify perceived asymmetric risks. We argue against asymmetry later. The reality is that all of the GPBs operate regulated assets within a wider business portfolio, including electricity networks and unregulated businesses. The firm’s risk profile is its portfolio risk profile, not its asset risk profile. The point of strategic portfolio management is to diversify risk. For example, GDB owners also own EDBs with the same consumer base. A gas stranding narrative supports an EDB network reinforcement argument for greater CAPEX allowances. Consumers at the moment are being asked to pay for the same risk twice, yet the Commission assumes away the

¹⁹ Castalia – January 2026 *Evidence-based assessment of accelerated depreciation of gas transmission and distribution networks*

²⁰ Aside from being intuitively wrong, there have been numerous empirical studies that show this to be false – see eg Kahneman & Tversky (1979), *Prospect Theory: An Analysis of Decision under Risk*, Tversky & Kahneman (1981), *The Framing of Decisions and the Psychology of Choice*, Samuelson & Zeckhauser (1988), *Status quo bias in decision making*, Grether & Plott (1979), *Economic Theory of Choice and the Preference Reversal Phenomenon*, Kahneman, Knetsch & Thaler (1986) etc, etc

reality that investors do not put all their eggs in one basket. Similarly an investment portfolio allows financial arbitrage to occur (Regulatory WACC vs actual WACC).

- e. **Suppliers have an asymmetric risk justifying accelerated depreciation and is consistent with outcomes seen in competitive markets** – We demonstrate where this belief fails against the limbs of S52A as well as with the chapeau heading of S52A and the inconsistencies in treatment according to what the WACC implies. It is further falsified by the regulatory design where ancillary mechanisms are present to recover downside costs (pass through and recoverable costs, price reset triggers, and revenue and capex washups), by the Commissions own statements on this matter, as well as other regulators.
- f. **Intertemporal neutrality exists** – i.e., the false belief that allocated risk transfer is reversible in later pricing periods to leave consumers and suppliers whole. This belief is used to justify “prudent” settings now, which, if shown to be unnecessary later can be reversed. The reality is that you cannot unwind and reset a complex system to some point in the past. You can’t “undo” history and the emergent outcomes created from it. This assumption demonstrates a fundamental lack of system understanding.
- g. **NPV = 0 leaves both suppliers and consumers “whole”** – this re-represents the intertemporal neutrality argument, but with a different emphasis. Intertemporal neutrality argues that settings are reversible because NPV=0 can be recalculated each regulatory period. NPV=0 is an argument that supplier NPV calculation is indistinguishable from a consumer NPV calculation. This is a strong belief used to justify both the methodology and the consumer interest, but it is false. NPV=0 is also a category error. It is treating a capital-market accounting identity as if it were a welfare / competitive-market outcome test.

17. Each of these assumptions on their own seriously impact on the quality of the reasoning, and collectively they continue the damaging settings of DPP3 into DPP4 to cement 9 years of structural damage to consumers and the economy.

18. We deal with each of these in more detail as they arise in our submission.

Economic stranding is not the most plausible outcome for the future of these services

19. The draft reasoning paper (Chapter 2) contains an impressive detailing of the efforts the Commission made to update itself on the state of the gas sector and the new information that has emerged since its decisions in 2022. It acknowledges among other matters that:

- a. Gas affordability is now the **number one concern** for many consumers, *overtaking reliability and security*
- b. The knock-on effects on demand as a function of prolonged, elevated gas prices (aka “death spiral”)

- c. Government energy policies now include boosting biogas investment; LNG import; and improving investment conditions to bring more domestic gas to market. All of these potentially bolstering “*the economic outlook for gas and gas pipelines*”²¹.
- d. Businesses warning of job losses, production cuts, and a shift back to coal or diesel as electrification remains prohibitively expensive.

20. The Commission contrasts this with the current picture on domestic gas supply “*falling faster than expected*”²², extrapolating it as a confirmation bias. It implicitly concludes that on balance all of the positive signals above should carry little weight, because they are uncertain/speculative, whereas falling gas supply is an empirical and observable fact. Hence it should stay the course, and justify it as something that signals “stability”.

21. To its credit, the Commission so far has resisted supplier self-interested pleas that the future is looking even more grim for their (gas) assets than in 2022, and that the Commission should be even more aggressive in protecting the economic return of their investments. However, it still relies on Concept’s long-term forecast and assesses this to be reasonable. We dispute this. Concept’s forecast methods and models are based on flawed neo-classical assumptions of representative agent and consumer rationality that do not reflect reality and systematically bias the demand forecast to low values²³.

22. The final result out of all this background is for the Commission to assume that nothing material has changed since its thinking in 2021. A key outcome of this status quo (or “stable” approach) is that the Commission is proposing to continue with accelerated depreciation on all of GPB assets, whether sunk or new, for at least another five years to embed 9-years of consumer detriment. The outcome of this is somewhat disastrous for consumers concerned about affordability (i.e., most consumers according to the Commission’s own engagement process). It is also based on a flawed approach as we show later.

23. Why does it matter? From the *Financial model Gas DPP4 draft decision 27 November 2025* spreadsheet²⁴ the difference between MAR with mitigation (accelerated depreciation), and without mitigation (normal depreciation) over DPP4 is **\$281.9 million**²⁵ (Figure 1). This is the amount that is advanced to GPBs by consumers over the 5-year regulatory period. By comparison the difference in the 4-year DPP3 period final decision was **\$156.1 million** (Figure 2). On a per annum basis, consumers are transferring **44% more** in accelerated depreciation

²¹ 27 November 2025 - Gas DPP4 reset 2026 Default price-quality paths for gas pipeline businesses from 1 October 2026 Draft decision - reasons paper, 2.28 p19

²² Ibid – p15, “Forecast supply is falling faster than expected”

²³ Another example of modelling the world as it should be, rather than as it is. A further problem is that Concept’s model includes ability to force decarbonisation as an exogenous variable (It is not disclosed if the model did this)

²⁴ Output tab

²⁵ The Commission at table 3.5 in its draft decision shows a difference of \$248.1 m as a result of depreciation allowance difference. It’s not clear where the other \$34 m additional costs come from, but it is a relatively unimportant detail in the wider context of the impact of accelerated depreciation overall on consumer prices.

revenue to GPBs in DPP4 than in DPP3²⁶. As we explain later this 10% premium insures investors at consumers' expense. From a consumer perspective this could also be likened to an interest free loan with no repayment value.²⁷

DPP4 - Draft	No Mitigation \$'000					Total
	Firstgas	Firstgas	GasNet	Powerco	Vector	
	Transmission	Distribution	Distribution	Distribution	Distribution	
MAR, pricing period 2027	185,392	38,880	5,790	68,335	73,603	372,001
MAR, pricing period 2028	189,099	38,826	5,863	69,218	73,020	376,026
MAR, pricing period 2029	192,881	38,608	5,925	70,113	72,274	379,801
MAR, pricing period 2030	196,739	38,316	5,989	70,820	71,503	383,366
MAR, pricing period 2031	200,674	37,852	6,051	71,380	70,674	386,631
	964,786	192,482	29,618	349,865	361,075	1,897,826
With Mitigation (accelerated depreciation) - \$'000						
DPP4 - Draft	Firstgas	Firstgas	GasNet	Powerco	Vector	Total
	Transmission	Distribution	Distribution	Distribution	Distribution	
	Transmission	Distribution	Distribution	Distribution	Distribution	
MAR, pricing period 2027	214,849	44,931	6,639	79,188	74,666	420,273
MAR, pricing period 2028	219,146	44,868	6,723	80,210	82,584	433,531
MAR, pricing period 2029	223,529	44,616	6,794	81,247	81,741	437,927
MAR, pricing period 2030	228,000	44,279	6,867	82,067	80,868	442,080
MAR, pricing period 2031	232,560	43,742	6,938	82,715	79,931	445,887
	1,118,085	222,435	33,961	405,427	399,790	2,179,698
						281,872

Figure 1: DPP4 Accelerated Depreciation Impact on Consumers

DPP3 - Final	No Mitigation \$'000					Total
	Firstgas	Firstgas	GasNet	Powerco	Vector	
	Transmission	Distribution	Distribution	Distribution	Distribution	
MAR pricing period 2023	140,101	27,200	4,751	56,072	52,452	280,576
MAR pricing period 2024	148,014	29,846	5,119	60,740	53,684	297,404
MAR pricing period 2025	155,917	32,070	5,401	64,395	53,809	311,592
MAR pricing period 2026	164,201	34,346	5,678	68,006	53,757	325,987
	608,234	123,462	20,949	249,214	213,701	1,215,559
With Mitigation (accelerated depreciation) - \$'000						
DPP3 - Final	Firstgas	Firstgas	GasNet	Powerco	Vector	Total
	Transmission	Distribution	Distribution	Distribution	Distribution	
	Transmission	Distribution	Distribution	Distribution	Distribution	
MAR pricing period 2023	147,227	28,566	4,852	57,633	58,317	296,595
MAR pricing period 2024	163,455	32,919	5,339	64,169	61,646	327,527
MAR pricing period 2025	180,939	37,149	5,752	69,924	63,816	357,579
MAR pricing period 2026	200,246	41,782	6,175	75,899	65,846	389,949
	691,867	140,416	22,118	267,625	249,625	1,371,650
						156,091

Figure 2: DPP3 Accelerated Depreciation Impact on Consumers

²⁶ DPP3 accelerated depreciation averaged \$39 m pa. DPP4 the average annual accelerated depreciation is \$56 m pa – i.e. 44% more

²⁷ Either discounting reduces the value of any repayment to zero, or repayment does not occur at all.

24. The problem with the “prepare for the worst, hope for the best approach” is that the Commission has no better foresight than anyone else on where the gas sector will be in 30 years-time. Yet in assuming the worst-case scenario on behalf of both consumers and suppliers, the Commission is converting uncertainty into commitment, which destroys option value and can misallocate risk away from those best able (and best incentivised) to manage it, i.e., GPBs. When the Commission locks in an unlikely future²⁸ (by baking it into asset lives, depreciation paths, allowed revenues, investment allowances, or cost allocation), consumers lose flexibility in a number of ways that increase their dead weight losses:

- a. **Loss of timing flexibility (real options):** Consumers can’t “wait and see” and then adapt once technology, policy, or demand is clearer, because today’s prices and commitments are already shaped around that forecast. The system becomes less able to pivot cheaply²⁹.
- b. **Reduced choice over risk exposure:** A forecast-anchored regime implicitly decides who bears the downside if the forecast is wrong. It shifts risk from suppliers (investors) (who voluntarily take forecast risk) onto consumers (who can’t, or find it difficult, to opt out of the regulated service).
- c. **Weaker ability to express preferences through demand:** If charges are front-loaded or made more fixed to recover costs³⁰ under the assumed future, consumers have fewer effective levers (usage, timing, substitution) to respond. Price signals get blunter and consumers’ decisions matter less³¹.
- d. **Path dependence and “ratchet” effects:** Once revenue recovery or asset lives are accelerated on a particular narrative, it’s politically and institutionally hard to reverse. Even if the pessimistic future doesn’t arrive, consumers may still pay the irreversible costs.
- e. **Less room for decentralized discovery:** Competitive markets let many actors test different views of the future; some fail, some succeed, and information is revealed. A centralized forecast substitutes one view for many, reducing experimentation and learning.
- f. **Intergenerational rigidity:** Anchoring to an unlikely future often pulls costs forward. That constrains future consumers’ ability to choose what they want to fund later (or not fund at all) once the world is known.

25. We further caution the Commission on placing any weight on Concept’s GDB demand forecast. This is largely a “black box” outcome from their touted ENZ model that only Concept understands. However, we can point to a number of questionable domain assumptions in its design that drive its conclusions. A particularly obvious one is that ENZ assume that behaviour is

²⁸ We comment later why the effects are not reversible as the Commission assumes.

²⁹ For example, forcing demand to electric imposes greater transition costs on the electricity sector. It also reduces consumer income to invest (or even continue to operate)

³⁰ As already observed in the tariff structures of GPBs

³¹ See our commentary on distributional impacts later in this submission

largely price-responsive and least-cost and assume decision-makers *tend toward least-cost options driven by relative prices*. This “rational” expectation and “representative agent” assumption just do not match the real world.

26. This design flaw carries over into the overall ENZ model which is described as *bottom-up, “dynamic recursive” hybrid* – i.e., it represents sectors/technologies in detail and then steps forward year-by-year, including feedback loops (e.g., electrification → higher electricity demand → higher prices → affects electrification). It takes key “state-of-the-world” drivers like GDP and population as inputs³², and models many decisions **as least-cost choices driven by relative prices within its sector modules** (with some decisions **exogenous where needed**, e.g., fossil-fuel phaseout profile³³). A further problem is that technology is assumed to be constant and innovation (a defining feature of competitive markets) can be ignored.
27. The problem with this modelling approach can be clearly seen when Concept compare their preferred ENZ model to what the GDBs themselves (who presumably understand consumer behaviour better) assume. In every consumer segment the ENZ model predicts vastly steeper reductions in ICPs than the GDBs (with skin in the game) (Figure 3)

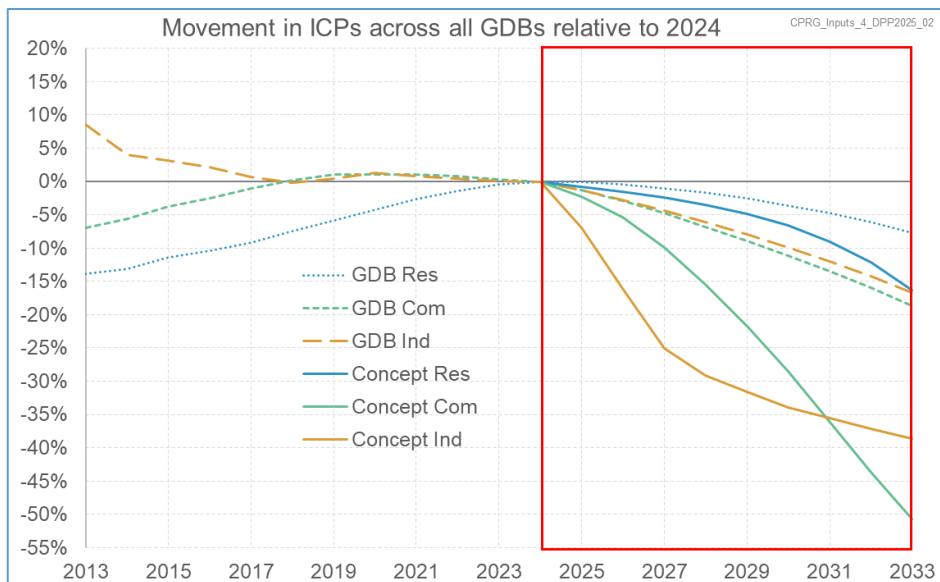


Figure 3: Source <https://www.comcom.govt.nz/assets/Documents/2026-gas-default-price-quality-path/Concept-Consulting-Gas-DPP4-Draft-demand-forecasts-report-August-2025-v2.xlsx>

28. We do not consider Concept’s modelling to be something that the Commission (or anyone) should place much reliance or interpretation on without understanding its underlying design assumptions and limitations. Thankfully, it appears that the Commission has placed more weight on its own view that ICP numbers should be higher in DPP4 than either GDBs or Concept

³² <https://www.comcom.govt.nz/assets/Documents/2026-gas-default-price-quality-path/Concept-Consulting-Gas-demand-projections-to-feed-into-the-default-price-quality-path-DPP-regulation-of-gas-distribution-businesses-22-August-2025-v2.pdf>

³³ It is not clear whether Concept applied this exogenous forcing assumption in their model, but given their past preferences to include it, it seems likely.

forecast. We appreciate this, as we also have some scepticism on the forecast of some GDBs due to inherent conflict of interest in the numbers that they provide.

29. The future outlook should only matter in terms of how the Commission assesses allowable revenues for the next period for avoidable costs (not sunk). If the Commission must crystal ball gaze, a prudent and reasonable approach it could take, is to use a shorter forecast period, and develop multiple scenarios to assess stranding risk³⁴. It should also be much clearer on what drives economic stranding risk for GPBs which clearly *is not* domestic natural gas volume profile. Legislative amendment³⁵ to at least include other gases in gas pipeline services is not a question of if, but when; LNG import and biogas industry are long past being just an “idea”; and while a reduction in demand seems possible, this will affect mainly the large intensive gas users with direct connections on the transmission system, and much less the imbedded demand in GDBs. A stable and sustainable demand comprising mass market, large commercials and industry, and fast start generation would not be an unreasonable position to arrive at.
30. We would suggest that the GPBs themselves do not believe the Commission’s worst-case scenario, and their behaviour is a more reliable indicator of their beliefs than their statements to the Commission:
 - a. The Brookfield acquisition of Firstgas’ gas network from Igneo infrastructure partners as announced in October 2025 and expected to close in the first half of 2026 occurred at near the full valuation of the RAB³⁶. Brookfield (skin in the game) is a sophisticated buyer and its offer was based on the same market information that the Commission (with no skin in the game) has formed a diametrically opposed view on. In this case, the party with the most to lose has a more optimistic view of the future than the Commission who has no stake. Regardless of valuation estimate accuracy, a strong statement in support for the long-term viability of the network assets was also made by the CEO of Clarus, Paul Goodeve. As quoted in EnergyNewsBulletin³⁷ -

"Having a company of the scale and experience of Brookfield choose to invest in Clarus is positive," Goodeve said.

"As a highly credible, **long-term investor**³⁸ in essential infrastructure, we are confident they will be a strong owner for Clarus."

³⁴ See for example 2021 GSOO - AEMO, 2021 Gas Statement of Opportunities, March 2021. The AEMO developed 6 scenarios to 2040 and how these were used in regulatory decisions <https://www.aer.gov.au/system/files/2025-07/SOTEM%202023%20-%206%20-%20Regulated%20gas%20pipelines.pdf>

³⁵ An omnibus regulatory bill drafted by MBIE to adjust the definition of gas pipeline services in the Act has been on the table since 2021 and has received further more recent support from the Minister in context of biogas.

³⁶ Castalia – January 2026 *Evidence-based assessment of accelerated depreciation of gas transmission and distribution networks*. A full analysis and the inconsistencies between supplier rhetoric and behaviour is clearly shown.

³⁷ 6 October 2025 - *Brookfield and Powerco agree \$2b Clarus breakup in landmark NZ energy deal*

³⁸ Our emphasis added

- b. GPBs had allowed for system growth within their AMPs, which the Commission then disallowed as inconsistent with *its* view on asset stranding risk³⁹.
- 31. Finally, the argument for reversing accelerated depreciation settings is that these are not only harmful to the short and, long-term interests of consumers, but also are in breach of any reasonable economic interpretation of S52A as we explain further.

Rethink the accelerated depreciation logic

The flaws in accepting shortened asset lives in the Building Block Method

- 32. Over recent years, leading into DPP3 and the IM review the Commission has advanced a number of arguments for allowing for accelerated depreciation to raise prices to consumers. These rest largely on assertions and beliefs/ theories rather than empirical evidence. We do not accept that the arguments as reasoned by the Commission as settled.

Supplier asymmetric risk argument

- 33. At a very fundamental level accelerated depreciation leading to higher prices for consumers is not consistent with outcomes produced in competitive markets. The Commission's argument that it *should* raise prices to consumers rests on the mechanics of its BBM, and an argument that somehow regulated firms are "different" in their commercial behaviour and practices through a circular argument within their belief system. But the absurdity of accepting higher prices on falling demand as being a competitive market outcome should be self-evident. While Sections 52A(1)(a)–(d) are the *mandatory outcomes*⁴⁰ Parliament has singled out as the way Part 4 is meant to "promote outcomes that are consistent with outcomes produced in competitive markets", *they are not the only considerations* that can ever be relevant to deciding what is "consistent with competitive market outcomes". This is because the chapeau ("long-term benefit" and "consistent with competitive markets") still does work as an overarching lens, not just the subparagraphs. As the Court noted, the outcomes (a)–(d) in s 52A(1) are *a* (not *the*) means to the end of promoting that central purpose⁴¹.
- 34. The exclusion of other competitive market outcomes (such as falling prices with falling demand) only appears to work because the assumption is that (a)–(d) is an exhaustive list of what outcomes produced in competitive markets means. Anyone with experience in real markets recognises this as a fiction, and it is only consistent with an intersubjective economic belief system framework that can assume away reality.
- 35. Even acknowledging that things *are*, because sufficient number of people within the Commission believe it to be so, there are strong legal and economic reasons why accelerated depreciation on sunk assets that raises prices to consumers do not meet conditions (a)–(d) (Table 1).

³⁹ 27 November 2025 - Gas DPP4 reset 2026 Default price-quality paths for gas pipeline businesses from 1 October 2026 Draft decision - reasons paper, 3.28 p31 the Commission effectively determined that its view on the future should be more reliable than those of investors.

⁴⁰ i.e. must *give effect to*

⁴¹ WELLINGTON INTERNATIONAL AIRPORT LTD & ORS v COMMERCE COMMISSION [2013] NZHC 3289

Table 1: Sunk Cost vs Avoidable Cost treatment against S52A

s 52A limb	What “competitive-outcome” tends to imply	Accelerated depreciation on sunk assets (legacy – sunk cost)	Accelerated depreciation on new assets (avoidable cost)
(a) Incentives to innovate & invest	Investors expect opportunity to earn returns <i>ex ante</i> , but still bear demand/obsolescence risk; sunk cost recovery is not guaranteed	⚠️ Economic stranding risk is a normal commercial risk associated with demand uncertainty, technological change, and policy evolution. Improves investor protection <i>ex post</i> , but weakens competitive discipline on legacy investment decisions and can entrench expectations of regulatory backstops.	<input checked="" type="checkbox"/> If it reflects best-estimate shorter economic life (not “insurance”), it can support efficient investment when demand is <i>plausibly</i> shorter-lived
(b) Efficiency & quality reflecting consumer demands	Efficient cost recovery and tariff structures that avoid inefficient exit/bypass; prices shouldn’t trigger self-defeating volume loss	✗ Raises near-term prices; increases exit/bypass incentives and can worsen utilisation efficiency (“spiral” risk).	⚠️ Can be efficiency-consistent if small/marginal and aligned to benefit period, but still risks demand erosion if it materially lifts prices.
(c) Share efficiency gains with consumers, incl. lower prices	Competitive pressure passes efficiency gains to consumers through lower prices over time	✗ Mechanism is primarily cost re-timing that increases prices now; not “sharing gains.” Accelerated depreciation raises prices <i>ex ante</i> without any demonstrated efficiency gain. Consumers are required to pre-fund downside protection for suppliers, which is inconsistent with s 52A(c), under which consumers should share in efficiency	⚠️ Still tends to increase prices now; may reduce later cross-subsidy only if tightly targeted and paired with tariff reform.

		gains, not underwrite commercial risk	
(d) Limit ability to extract excessive profits	Avoid systematic over-recovery and windfalls	<p>✗ Higher over-recovery risk if stranding does not eventuate (consumers pay earlier/higher without symmetric clawback). suppliers retain the benefit of earlier capital recovery while consumers face permanently higher prices. This creates outcomes more favourable than those in competitive markets and conflicts with s 52A(d). This seems even more obvious where gas pipelines are repurposed to transport renewable gases.</p>	<p>⚠ Lower windfall risk if evidence-based and limited to incremental assets, but still needs symmetric true-ups to protect against over-recovery.</p>

36. The basic conclusion from Table 1 is that sunk-assets acceleration is typically the least consistent with “competitive outcomes” and most problematic against (b)–(d). New-assets acceleration can be defensible only as *evidence-based* economic-life alignment.
37. This conclusion should not be surprising. Sunk assets can have no effect on willingness to invest, only the treatment of new assets can⁴²; price rises on sunk assets does not constitute an efficiency gain, therefore there is no gain sharing. In competitive markets, consumers do not pre-fund asset stranding insurance. Furthermore, if the Commission persists with this, it will mean accelerated depreciation will have been in place for 9 years at the end of DPP4 and there’ll be no effective clawback left in place – see also our comments under Reversibility of Accelerated Depreciation as to why the reversibility argument fails.
38. This leads to a further Commission refinement of the argument for accelerating depreciation on sunk cost assets. The typical argument from the Commission for supplier asymmetric risk is that suppliers are constrained in earning any upside by the Commission limiting upside to “normal

⁴² See also Regulation Body of Knowledge, Joskow, P. April 1996 https://regulationbodyofknowledge.org/wp-content/uploads/2013/03/Joskow_Does_Stranded_Cost.pdf The article references the electricity sector, and for the submission purpose it provides a clear explanation of why avoidable costs (opex and new capex) , not average cost (that includes sunk assets) is what defines competitiveness.

returns" (S52A – d), while GPBs are fully exposed to downside risk. This is a dubious premise for a number of reasons:

- a. **Upside limitation is not unique to regulation** - Competitive markets constrain upside returns through entry and substitution. *Regulated caps are a different mechanism, not a different outcome.* Therefore, limited upside does not create a relevant asymmetry relative to competition.
- b. **Risk is already priced** - The allowed rate of return compensates investors for systematic risk. If regulatory settings increase risk, the economically correct response is to adjust the return on *new investment*, not to alter depreciation of sunk assets
- c. **Downside risk is an equity function** - In both regulated and competitive markets, equity capital exists to absorb downside outcomes, including asset stranding. i.e. equity holders (shareholders) have a residual claim on the company (the WACC calculation assumes this also). This means that they are exposed to downside risk. Removing this function, and protecting investors by front-loading capital recovery *converts equity into debt⁴³-like claims and weakens allocative efficiency.*

The Commission and advisers construct a way around this by distinguishing between different types of risk – systemic vs non diversifiable risk and arguing that stranding risk is a unique risk not compensated for in the WACC. WACC and CAPM on which it is based are theoretical constructs. The difficulties that the Commission has each time it wants to determine what appropriate values for its parameters are and suitable comparator firms should attest to the fact that they don't know whether asset stranding risk is part of WACC or not, it is only an assertion that according to theory it *shouldn't* be. Real world firms assess hurdle rates on their internal objectives, and actual WACC can be lower than regulatory WACC creating upside for the investor.

- d. **Suppliers aren't hypothetical firms** – Powerco, Vector, and Clarus are portfolio assets. Investors in them have diversified risk within their strategic portfolios. Accounting profits are also different from regulatory profits, and different taxation jurisdictions create different rules for allocating losses, profits, and write up/ down to maximise shareholder returns. The hypothetical firm is a theoretical creation within a theoretical view of a real-world system. Investors operate in the real world and manage portfolio risk. Strong evidence that regulatory abstraction benefits suppliers can be seen when investors pay above the RAB value when acquiring a regulated asset. Reasons vary, but RAB And WACC are regulatory constructs. The allowed WACC can exceed the buyer's cost of capital, or tax and accounting effects can lift equity value relative to the RAB regulatory construct.

⁴³ If regulation guarantees or accelerates recovery so strongly that investors are insulated from downside (like stranding), then shareholders are no longer acting like residual risk-bearers. They start to look like they have quasi-guaranteed repayment, i.e., like lenders. If this is considered as acceptable then to be consistent the WACC should be much lower.

- e. **Claim falsified by regulatory design** – The design of the regulatory system, including ancillary mechanisms for cost recovery explicitly undermine the claim.
 - i. GPBs are incentivised to earn above normal returns intra-period. In fact, this is explicitly encouraged by the regulatory settings as benefitting consumers (s52A a, b, c). Consumers only benefit from efficiency gains by pricing in the *next* period.
 - ii. asymmetric revenue risk is an empirical claim only if (i) the firm's upside is constrained in practice, but (ii) downside shortfalls are not fully trued-up (or not recoverable in any credible way). That premise is hard to sustain once ancillary wash-ups mechanisms are considered.

Ancillary mechanisms

- 39. For example, in 2021 the Commission noted⁴⁴:
 - a. *The GTB potentially faces greater demand uncertainty than GDBs within the next regulatory period. In 2016 we adopted a 'pure' revenue cap for the GTB with a wash-up of under- and over-recovery of revenue (changing from a lagged revenue cap). The purpose of the wash-up of revenue is to ensure that revenue is not under- or over-recovered over time. We note that while we use the term 'cap' – which implies something that is asymmetric – the effect is actually symmetric⁴⁵.*
 - b. The washup amounts for Firstgas is a consistent feature of Firstgas' price path compliance statements across all years allowing revenue from forecast demand variations to be recovered from consumers. There is no evidence that washup balances are persistently unrecovered.
- 40. This mechanical correction for both over and under recovery is also evident in other jurisdictions, e.g.:
 - a. Ofgem's RIIO frameworks include correction mechanisms for over/under recovery (the K factor) in allowed revenue calculations⁴⁶.
 - b. RIIO financial handbooks describe Allowed Revenue including "corrections for charging over/under-recovery."⁴⁷
- 41. A regulator discussion paper (Queensland Competition Authority) states that with a revenue cap and unders/overs account, the firm receives/repays the difference between actual and allowable revenue, and that total revenue variability is eliminated "from a net present value perspective," leaving "*no meaningful revenue risk*"⁴⁸. This is under a wider discussion on

⁴⁴ https://www.comcom.govt.nz/assets/pdf_file/0018/261810/Resetting-default-price-quality-paths-for-gas-pipeline-businesses-from-1-October-2022-Process-and-Issues-paper-4-August-21.pdf A33, p61

⁴⁵ Our emphasis added

⁴⁶ RIIO-ED1 regulatory instructions and guidance: Annex C – Revenue and Financial Issues – p 15, R13 – Correction factor

⁴⁷ RIIO-ET2 Price Control Financial Handbook – p7, 2.2

⁴⁸ November 2012 Queensland Competition Authority – *Discussion Paper Risk and the Form of Regulation*, vii Key Propositions (c), and p16 4.3 para 4

ancillary mechanisms that complement the principal form of regulation and whose function is to reduce both diversifiable and non-diversifiable risk (cost pass throughs, price – reopeners/review triggers, and unders-and-overs accounts). All of these mechanisms also exist in the New Zealand regulatory regime.

42. The situation is slightly different for GDBs under a weighted average price cap form of control where there are no general revenue wash-ups. However, the IMs do include pass-through costs, recoverable costs, price review triggers, and a capex wash-up adjustment. Equally revenue overs/ unders works both ways in that over-recoveries in actual revenue vs allowable revenue are not automatically repaid (so affected consumers are not automatically compensated). It was the Commission’s recognition of GDBs ability to influence demand that made it decide in 2022 that GDBs should remain subject to a weighted average price cap which incentivises investment by GDBs to maintain their customer base⁴⁹. The GDBs accepted the rewards under a growth phase, but now seek to insulate themselves when ICP growth is no longer a given (and in some cases being actively disincentivised to grow to support an electrification strategy).
43. The further evidence of the unmanageable downside revenue risk myth is something that GPBs are demonstrating through their AMPs and more forcefully through the signal in the Brookfield acquisition. While the Commission continues to assume that gas pipeline repurposing to extend asset lives has no effect on economic life, GPBs are actively anticipating and working towards a future that keeps their assets earning their allowable revenue past the point where natural gas might be the majority of the gas transported in the system.
44. Finally, the theoretical construct of a “representative regulated firm” does not square with the reality of GPB investors where the gas network asset is part of a wider strategic investment portfolio. In particular where the investor owns both the electricity network and gas network to the *same* customer the costs of one is easily passed on. For example, the “future is electric” narrative is being used by the same investors to argue for greater CAPEX allowances for network reinforcement. That greater allowance is being passed on to the gas consumer as well as pure electricity owners. Essentially asset risk is diversified within the wider investment portfolio risk.
45. In conclusion; claimed asymmetry is not proven by real world portfolios, and in regulatory risk does not warrant socialising downside risk through depreciation. Competitive consistency requires that risk be priced, targeted, and conditional—not pre-funded by consumers

Reversibility of Accelerated Depreciation – Intertemporal (welfare) neutrality

46. The next argument offered by the Commission in support of the accelerated depreciation regime is paraphrased here as the following: *Even if providing ex-post compensation is not a competitive outcome, and the risk is not asymmetric (both of which we do not accept), it does not matter, because the settings are reversible, and therefore the measures are simply prudent and robust.* The argument can be rephrased as a belief that intertemporal neutrality exists in regulatory decisions.

⁴⁹ https://www.comcom.govt.nz/assets/pdf_file/0025/284524/DPPs-for-gas-pipeline-businesses-from-1-October-2022-Final-Reasons-Paper-31-May-2022.pdf p59

47. A key feature of the IM revision was the use of acceleration factors that could be applied at each reset. Hence if acceleration factors were used in one period (factors < 1), and conditions were different in subsequent periods such that early revenue should be clawed back, the Commission would set these factors at $>1^{50}$. In other words, accelerated settings can be reversed and both the consumer and supplier are left whole in the long run. Central to this is the assumption of $NPV=0$ can be recalculated each period⁵¹.

48. The reversibility argument contains a number of unlikely heroic assumptions:

- Accurate Risk Assessment** – this assumes that the Commission can accurately quantify stranding risk and its changes over time. The reality is that stranding risk is inherently uncertain and speculative, and suppliers have information advantages and strong incentives to overstate risk⁵²
- Stable Demand Base** – It assumes that future consumers will still be present in sufficient numbers to benefit from lower tariffs when depreciation is reversed. In reality, demand may continue to decline (e.g., gas phase-out), so fewer consumers remain to enjoy the “rebate.” The overall effect is that early consumers pay higher prices, but later consumers may not exist in enough volume to balance the NPV.
- Perfect Intertemporal Neutrality (NPV=0)** – this assumes that shifting depreciation forward and then back leaves both consumers and suppliers no worse off in net present value terms. In practice, consumers are not indifferent to timing: higher near-term prices reduce affordability and may accelerate demand exit, which is not captured by a simple NPV calculation. In addition, NPV neutrality assumes the same discount rate for suppliers and consumers, but:
 - Lower-income consumers facing liquidity constraints (can't afford higher bills now) are not indifferent to cash flow timing (losing money today to save the same amount in the future)
 - Consumers may move, disconnect, or die before benefiting from future reversals
 - Consumers typically have higher effective discount rates than the regulatory WACC⁵³ (while suppliers can have lower effective discount rates)
 - Consumers forced to pay higher prices today face real opportunity costs where welfare losses aren't captured in simple NPV calculations (Foregone consumption or investment, potential fuel poverty impacts, economic efficiency losses from distorted price signals)

⁵⁰ Ibid , para 6.15.2 p 93

⁵¹ We deal with this separately in the next heading

⁵² Evident in their submissions, particularly Vector.

⁵³ Eg Newell, R., Siikamaki, J INDIVIDUAL TIME PREFERENCES AND ENERGY EFFICIENCY – National Bureau of Economic research <https://www.nber.org/papers/w20969>

Meanwhile, suppliers benefit from improved cash flows today (financial flexibility, reduced refinancing risk) even if NPV-neutral.

- d. **No Distributional Effects** – this assumes that the same consumers who pay higher prices now will be the ones benefiting later when depreciation is reversed. In reality, consumer cohorts change: households move, industries close, new entrants arrive. Early payers may never see the benefit⁵⁴.
- e. **Regulatory Credibility and Commitment** – this assumes regulators will actually reverse depreciation in future periods if risk reduces. In practice, there is considerable confirmation bias built into accelerated depreciation. Once it is granted, there is pressure to find reasons to maintain it⁵⁵. Regulatory discretion may be further constrained by politics, as well as precedent.
- f. **Perfect Foresight** – this assumes that the regulatory framework will remain stable and calculable over decades. The reality is that policy changes, legislative reforms, court decisions may alter the regulatory compact; economic crises or political shifts may prevent planned reversals⁵⁶. Ultimately the longer the timeframe, the less credible the commitment becomes.
- g. **Investor and Consumer Risk Symmetry** – this assumes that both sides are equally insulated: suppliers recover costs early, consumers get relief later. In reality, suppliers benefit immediately (cash flow certainty), while consumers bear immediate cost increases and uncertain future relief. By the time risk "reduces," the window for meaningful reversal may have closed (asset already largely depreciated). To put this another way, accelerated depreciation raises prices today with certainty. Any future deceleration is uncertain, delayed, and discounted. Because money has time value a dollar over-recovered today is not neutralised by a dollar under-recovered later. Consumers are worse off in present-value terms even if total nominal recovery is equal. Competitive markets do not impose this intertemporal distortion.
- h. **No Dynamic Demand Response** – this assumes higher near-term tariffs do not alter consumer behaviour. In reality, higher prices may accelerate demand decline, worsening stranding risk and undermining the very basis for reversal⁵⁷.
- i. **Measurable and Attributable Reversals** – this assumes that future price reductions can be clearly identified as "reversals" of prior accelerated depreciation. The reality is that

⁵⁴ For example, as is already evident, industry is paying up front and this is leading to plant closures. This can be "magicked" away by assuming a single "typical" consumer who exists across all time, an abstraction common in economic theory, but not remotely reflective of reality.

⁵⁵ Already seeing this in the submissions of suppliers. Equally regulatory decisions are made by different Commissioners over time with potentially different philosophies

⁵⁶ It is even worse than this. The Commission is aware of planned changes to Part 4 but chooses to pretend that it is not going to happen when developing its forward scenario that it uses to justify stranding risk.

⁵⁷ A point also noted in the Castalia report and one that is consistent with a Post-Keynesian view that if regulation raises fixed charges / average prices to defend capital recovery, you can trigger a demand spiral and political legitimacy problem.

multiple factors affect prices in each regulatory period (demand changes, efficiency improvements, new investments). It is difficult to isolate and attribute specific price impacts and suppliers may argue other factors justify maintaining prices despite reduced stranding risk.

Reset Logic, $NPV = 0$ category error

49. The intertemporal neutrality and $NPV=0$ arguments overlap, but we deal $NPV=0$ argument here to distinguish it from behavioural insights.
50. The Commission leans on “ $NPV=0$ ” (the present value of allowed revenues equals the present value of forecast efficient costs, discounted at the allowed WACC) to say: “therefore the firm is left whole, and consumers aren’t worse off.” The category error is treating a **capital-market accounting identity** as if it were a **welfare / competitive-market outcome test**. Using $NPV=0$ to conclude “consistent with competitive outcomes” is a category mismatch: a **corporate finance solvency metric** is being used as a **welfare-equivalence claim**
 - a. **NPV=0 is a financing statement, not an efficiency statement.** An NPV condition can be satisfied under very different price paths, risk allocations, and behavioural responses. It tells you something narrow: given the regulator’s chosen discount rate and forecasts, the model balances. It does not tell you: whether prices reflect opportunity cost like they would under competition; whether the allocation of downside risk is efficient; whether quantity demanded, connection decisions, bypass, fuel-switching, or exit responses create deadweight loss; whether consumers’ intertemporal welfare is improved or harmed.
 - b. **It silently assumes the regulator’s counterfactual is correct.** $NPV=0$ is “true” only inside the regulator’s model (demand forecast, RAB roll forward rules, WACC, etc)
51. When the Commission argues that “ $NPV=0$ so nobody is worse off / both consumers and suppliers are left whole, it is also leaning on a further stack of assumptions that usually do not hold:
 - a. **NPV=0 for the supplier implies consumers are “whole” - Not true.** $NPV=0$ is (at best) an *investor capital-maintenance* condition. Consumer “wholeness” is about consumer surplus, affordability, and efficient prices/quantities, none of which is guaranteed by setting allowed revenues so that an asset-owner’s NPV equals zero. It ignores path dependence and lock-in. Even if the next period is set to $NPV \approx 0$, consumers may already have paid **irreversible** amounts because of the prior path (front-loaded depreciation). You can’t “refund” history just by resetting the forward-looking model.
Failure mode: You can have $NPV=0$ while prices are higher, quantities lower, and deadweight loss larger than under alternative paths.
 - b. **The WACC is correct and stable - Not true.** WACC is an estimate with parameter uncertainty (risk-free rate, MRP, beta, leverage, tax, inflation). Small errors, compounded over long-lived

assets, materially change NPV. As also noted, regulatory WACC can be larger than the actual cost of capital of the investor in the regulated asset.

- c. **Forecasts are unbiased and symmetric** - *Not true*. NPV=0 claims often assume unbiased demand/cost forecasts and that upside and downside errors “wash out”. In reality, forecast errors can be systematic and skewed e.g., pessimistic demand

Failure mode: Persistent forecast bias shifts wealth across periods/groups⁵⁸.

- d. **Intertemporal shifting is welfare-neutral** (“timing doesn’t matter”) - *Not true*. It confuses ex ante viability with ex post welfare. Roll-forward is a finance-accounting construct (“investor kept whole”) masquerading as a welfare test. Competitive-market consistency is about allocative and dynamic efficiency, not whether a discounted cashflow identity can be made to balance. Accelerating cost recovery can be defended as “NPV-neutral” for the firm, but it can still harm consumers because timing matters (arguments covered in previous heading)

Failure mode: Earlier customers pay more; later customers pay less. That’s not “everyone whole” — it’s redistribution.

- e. **Consumers are a single representative agent who stays connected** - *Not true*. It hides intergenerational transfers behind discounting. Accelerating recovery shifts costs to current users and away from future users. Discounting makes that look harmless in the model, but the incidence is real—especially where today’s customers are captive and tomorrow’s, are not. Real consumers are also heterogeneous. Some can bypass, electrify, relocate, or reduce usage; others can’t. A price path that is “NPV neutral” can cause exit, leaving remaining customers with higher unit charges (death spiral dynamics).

Failure mode: The “average consumer” might be *fine on paper* while some groups are materially worse off.

- f. **NPV=0 is computed over the correct horizon and asset set** - *Not true*. “NPV=0 each period” (reset logic) can ignore that sunk assets embody past commitments and past risk-taking. It treats sunk costs as if they can be repriced indefinitely. A reset that re-optimises returns on a sunk asset base effectively turns sunk costs into a **rolling claim on future consumers**, rather than accepting that sunk costs are a risk borne by investors (as in competitive markets). Treating everything as ex-ante at each reset assumes away the history of who bore which risks.

Failure mode: You can effectively convert equity-like sunk-risk into debt-like recovery by repeatedly “resetting” without acknowledging irreversibility.

- g. **The model can ignore real-option value and irreversibility** - *Not true*. Competitive markets preserve consumers’ ability to switch, defer, substitute, or wait. Roll-forward + pre-emptive

⁵⁸ As evidenced by persistent pessimistic forecast bias across both DPP3 and DPP4 – compounded by black box models like Concept’s ENZ that are based on false input and design assumptions that bias towards pessimistic outcomes.

capital recovery often removes flexibility by raising prices now to protect against uncertain futures the regulator can't forecast better than the market. Real networks have option value (wait/expand/repurpose) and irreversible investment. "NPV=0" is a point estimate that often misses the value of flexibility and the cost of locking in one path under deep uncertainty.

Failure mode: A decision can be NPV-neutral yet destroy option value for consumers (and/or suppliers).

- h. **No material deadweight loss effects from the price path** - *Not true.* NPV=0 arguments usually treat the regulated revenue stream as a transfer. But price changes can change consumption/investment choices and create deadweight loss (especially with large tariff changes or cost recovery brought forward⁵⁹):

- i. industrial users curtail production or shut a line earlier than efficient,
- ii. households under-heat/under-use energy services relative to efficient consumption,
- iii. new connections don't proceed even when socially beneficial
- iv. Early retirement of otherwise serviceable equipment (e.g. gas boilers)
- v. Inefficient bypass options exercised⁶⁰

Failure mode: Even if transfers net out, efficiency losses mean consumers aren't "whole".

Conclusions

52. The basic conclusions from this section are:

- a. Accelerating depreciation on sunk assets is not a competitive market outcome, and it does not satisfy the various limbs of s52A (particularly problematic for (b) – (d))
- b. Asymmetric risk argument is not justifiable where ancillary mechanisms are present to recover downside costs (pass through and recoverable costs, price reset triggers, and revenue and capex washups). Nor does it reflect the reality of the investor's asset portfolio management, or their ability to arbitrage regulatory settings in real world conditions.
- c. Precautionary front-loading of sunk asset recovery is not neutral, not reversible in economic terms, and not justified. Accelerated depreciation reversals in later periods are neither plausible, NPV neutral, or equitable between suppliers and consumers. Suppliers benefit from improved cash flows today (financial flexibility, reduced refinancing risk) even if NPV-neutral, while consumers face welfare losses not captured by NPV.
- d. Risk transfer is irreversible. Once consumers have pre-funded asset recovery and absorbed downside risk ex ante, that risk transfer cannot be undone by future depreciation changes. The fact that prices might be lower later does not reverse weakened investment discipline,

⁵⁹ As currently evidenced by tariff structures

⁶⁰ In particular this can be seen in EDBs (some of who also happen to be GDBs benefitting from accelerated depreciation) arguing for higher CAPEX allowances "because gas consumers will be transitioning to electricity – especially incentivised by higher gas line charges". Suppliers benefit two ways from the same narrative while a more balanced outlook on gas futures delays EDB investment.

reduced risk borne by shareholders, or distorted entry and investment incentives. The Commission assuming that it can somehow manage these risks through allowable revenue and capex is naïve. Suppliers have far greater understanding of their businesses and their portfolio opportunities to undermine regulator controls than any outside party can have.

- e. Over-recovery risk is asymmetric if stranding does not occur. Accelerated depreciation leads to earlier capital recovery, the allowed returns remain unchanged, and consumers have paid more with no compensating benefit. Future deceleration is discretionary and may never fully offset this outcome. This produces outcomes more favourable than competition, contrary to s 52A(d).
- f. An $NPV = 0$ test is not a competitive-market counterfactual. It is, at most, an internal financial capital-maintenance condition for the regulated supplier under a modelled revenue path and an assumed discount rate. It speaks to whether the supplier is expected to recover its modelled costs (including a return on and of capital), not to whether consumers receive competitive-like outcomes.

The “Average Residential Consumer” problem – distributional impacts

53. The Commission appears to seek to justify its decisions by calculating the impact on average residential gas bills⁶¹ effectively creating a political headline that consumers will see no change in real terms.
54. We don't fully understand why the Commission should relate its decision only to impact on a hypothetical average residential household. It seems likely a reflex and reflection of the underlying neo-classical culture of the Commission where models are developed from single representative agents.
55. Referencing the “average residential consumer” could also be a standard communication and comparability tool for justifying its decisions. We accept that the Commission operates in a political economy and a simple communicable headline metric for politicians and media is a useful way to simplify the more complex welfare economics underlying regulatory decisions. However, there is a difference between satisfying a demand for a sound bite for general stakeholders, and a reasoning paper intended to engage a range of stakeholders affected directly by the Commission's decision. The Commission falls well short of informing consumers. It should understand this, if attending consumer forums had a genuine purpose to understand consumer experience. Industrial customers for example are not interested in the effect on “average residential households”. They want to understand the unique effect on *them*, and waiting for a retailer to eventually tell/ explain it to them is not something that engenders consumer confidence in the Commission.
56. Consumers also do not typically see a breakdown of their gas bill to enable them to see where the increases are coming from, and retailers generally restrict their communication to the effect that line charges are simply passed through based on the Commission's decisions. This just leaves the consumer with the headline that the Commission's decision is not the reason for bill increases, which is simply misleading.
57. Good practice would at least suggest that average residential household impacts is paired with at least *some* distributional information, e.g., low-use vs high-use, vulnerable customers, renters vs owner-occupiers, regions, and other consumer groups, such as industrials and the large commercials that drive our economy. This analysis is especially necessary because tariff design and fixed charges shift burdens considerably. These tariff decisions are left in the hands of GPBs and can have a profound effect on the burdens felt by consumers who do not conflate smooth revenue paths for suppliers with the actual price path they experience.
58. The lack of the Commission's interest to consider the distributional impacts of its decisions can be contrasted with Ofgem's commitment to annual consumer impact reports and efforts to

⁶¹ <https://www.comcom.govt.nz/assets/Documents/2026-gas-default-price-quality-path/Gas-DPP4-Draft-decision-reasons-paper-27-November-2025.pdf> para 3.90, p42

provide transparency on the work that it does and the value it delivers⁶². We assume that this is because it is a *legal* requirement in the UK, but not in New Zealand⁶³.

59. The Commission setting revenue limits on suppliers (how much), and suppliers determining the tariff structures (who pays) is a design feature of the regulatory system. The Commission argues that it sets a revenue *limit* (suppliers can decide to earn less). Suppliers argue that they have no control over revenue and that their prices are simply set to recover the revenue determined by the Commission. By pointing fingers at each other, nobody is held accountable for the distributional impacts on different consumer groups. It is surprising therefore that the Commission would even bother to justify its decisions by demonstrating impact on “average residential consumer”⁶⁴.
60. If this is how the regulatory system operates, we have to question why the Commission would make an effort to attend the various consumer forums⁶⁵. Any insights or sympathies that might have been gained from this exercise is not reflected in its draft decision, and our conclusion is that the stakeholder engagement process was more performative than substantive in its intent.
61. MGUG made an extensive submission on the need for a wider distributional analysis to properly assess the consumer welfare impacts of regulatory decisions and avoid misleading impressions⁶⁶. We cited the experience of DPP3 on various consumer categories, highlighted unaffordability as a growing consumer concern, the failure of MBIE data to accurately capture price data, and in our cross submission⁶⁷ challenged the “consumer” definition that assumes microeconomic described consumer behaviour.
62. Continuing this illustration with further up to date data, we can show the range of experiences of *residential* consumers across regions and low vs average consumption in DPP3⁶⁸.

⁶² <https://www.ofgem.gov.uk/research/consumer-impacts-market-conditions-survey-wave-6-january-february-2025> and <https://www.ofgem.gov.uk/sites/default/files/2025-07/CIM%20Wave%206%20Main%20Report.pdf>

⁶³ Equally it is not illegal for the Commission to do this work. It appears a matter of choice/ ideology that they do not.

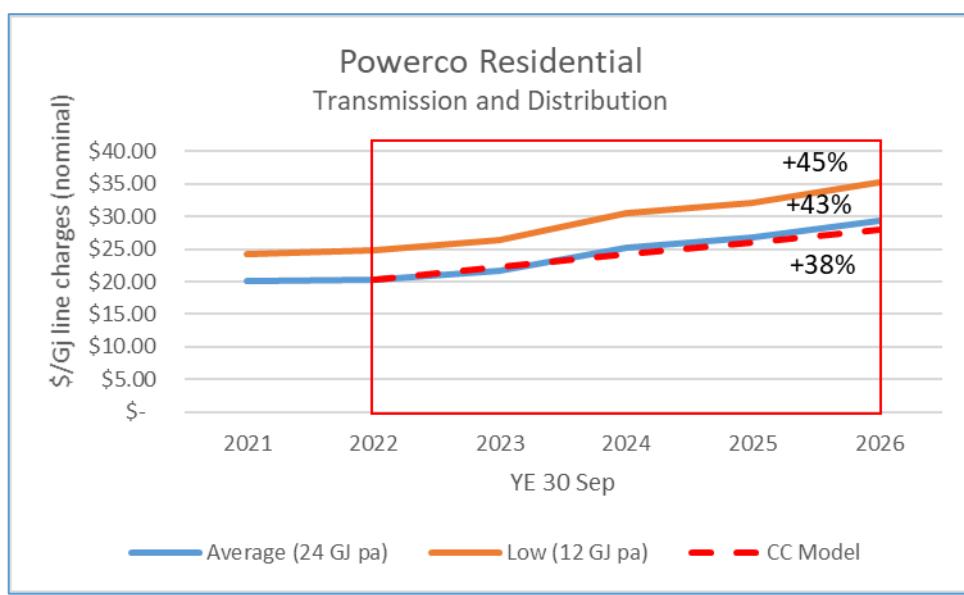
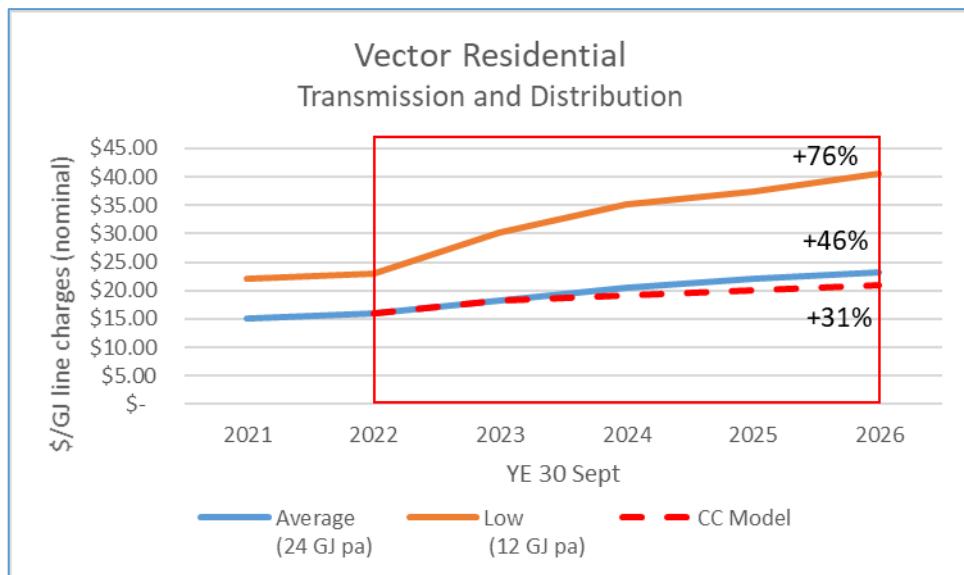
⁶⁴ Other than it is consistent with the neo-classical use of the “representative agent”.

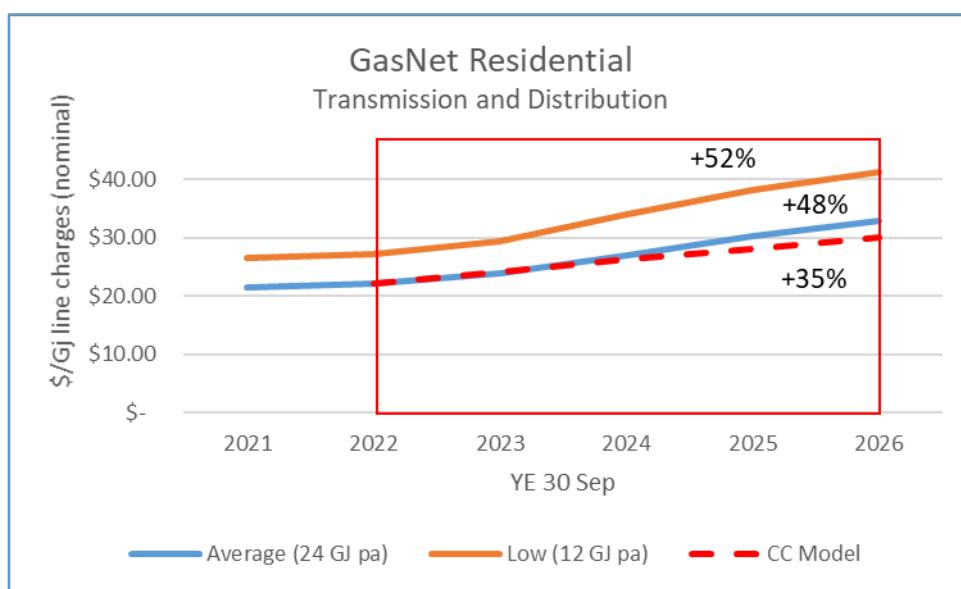
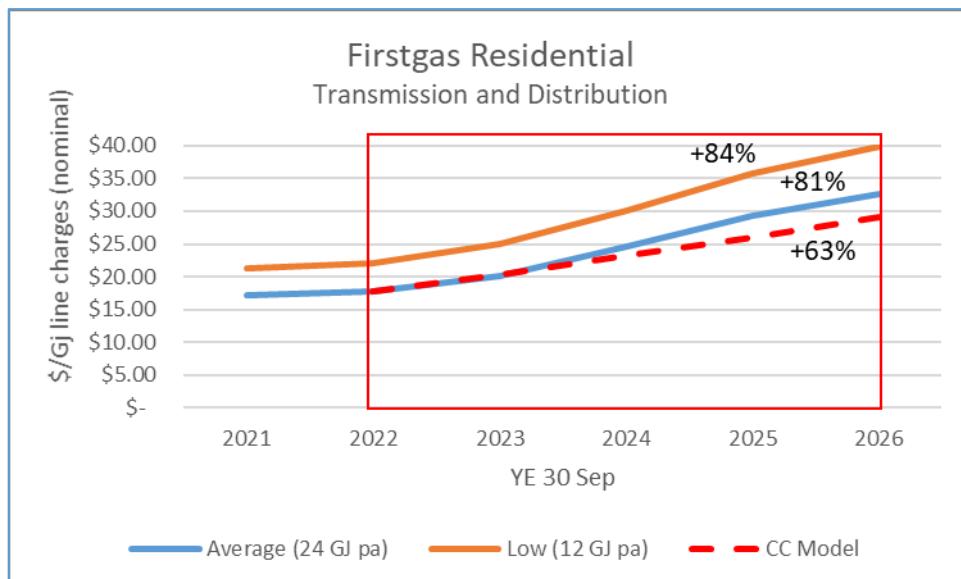
⁶⁵ https://www.comcom.govt.nz/assets/pdf_file/0024/368124/Gas-DPP4-Summary-of-large-gas-user-engagements-August-2025.pdf

⁶⁶ https://www.comcom.govt.nz/assets/pdf_file/0036/367785/MGUG-Submission-on-Gas-DPP4-Issues-Paper-28-July-2025.pdf

⁶⁷ <https://www.comcom.govt.nz/assets/Documents/2026-gas-default-price-quality-path/MGUG-Cross-Submission-on-Gas-DPP4-Issues-paper-14-August-2025.pdf>

⁶⁸ We would note that the tools and information that we have used here are easily available to the Commission, or at least could require the GTB model for them. We have limited this to the residential sector only because the Commission has not done the work to assess the impacts on other consumer groups, hence we can't contrast the experience in the same way for other sectors.





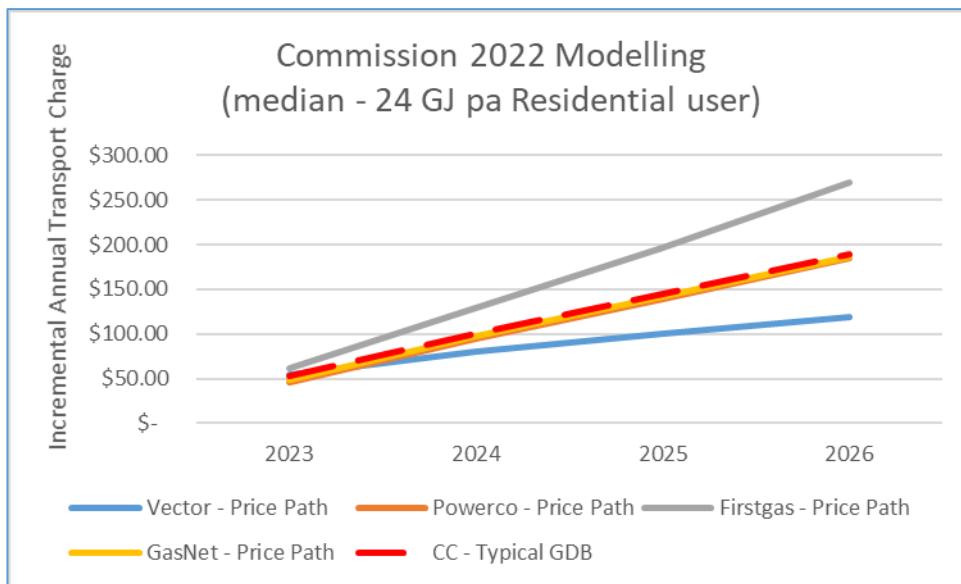


Figure 4: Distributional performance DPP3⁶⁹

63. Figure 4 illustrates a number of points that should be more clearly communicated in Commission decisions.

- The use of an average for a “typical GDB” masks the impacts that geography and GDB can have on the residential consumer experience (as shown in last graph).
- Tariff design has a marked impact on what consumers pay. In Vector’s case having moved all of its residential pricing to be 100% based on fixed line charges has seen a typical low user’s⁷⁰ gas transport component of delivered gas rise from \$23.05/ GJ in the final year of DPP2 to nearly double (\$40.59/GJ) in the final year of DPP3.
- The GDB zone lottery also shows that for an average (24 GJ pa) user it matters where you live. It can be as low as \$23.24/ GJ (Vector Auckland)⁷¹ or 40% higher at \$32.65/ GJ for Firstgas consumers in Hamilton.

64. What Figure 4 also shows is the Commission miscalculating the transmission prices in its consumer bill model. This is because it bases its transmission price calculation on three errors:

- The starting price in a consumer price bill is too low⁷².

⁶⁹ The GDB actual price paths are based on published tariffs as disclosed under, pricing and pricing methodology. The final figure is based on the Commission’s consumer price bill model for DPP3.

⁷⁰ Typical low user is based on Powerco’s G06 load group showing an approximate average of 12 GJ for this category of user.

⁷¹ The average Auckland consumer is being subsidised by the low user consumer. That can also imply that renters are subsidising owner-occupiers, or that poorer households trying to cut down on energy bills are supporting more well-off households who can afford to keep their homes warm.

⁷² The starting price is set at 0.55 c/kWh (\$1.52/ GJ) and then escalates at nominal MAR increases to reach \$2.08 GJ in 2026. Our excl GST estimate for transmission in year 1 of DPP3 ranges from \$2.48/ GJ for a residential customer in Hamilton to \$3.16/ GJ for a customer in the Hawke’s Bay (but higher costs will exist in

- b. Transmission component is also a function of geography so a single price is not reflective of actual experience⁷³.
- c. The Commission's consumer model fails to distinguish MAR increases from tariff increases, and so underestimates the impact of lower gas volumes on a Total Revenue form of control that transmission operates under.

65. Because the Commission only attempts to model its decisions on "average residential households" we cannot clearly compare actual performance against modelled performance for other sectors, including the squeezed industrial sector. We can however illustrate the impact that accelerated depreciation has had on MAR and MAR increases that have translated into transmission tariffs and consumer prices for sample zones on the transmission system (Figure 5).

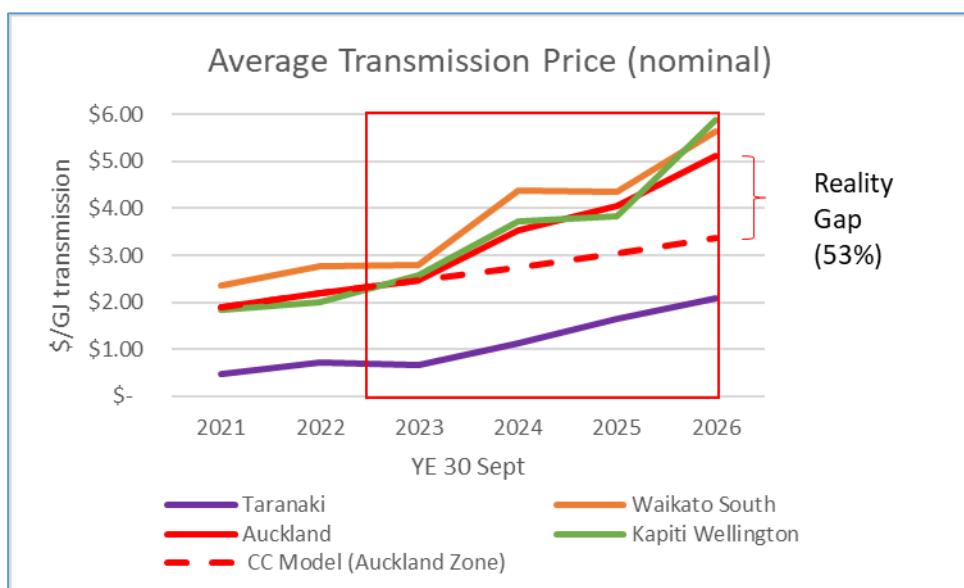


Figure 5: Transmission Price Path

66. Figure 5 uses the transmission pricing and pricing methodology information that give revenues and volume by transmission zone to estimate the transmission paid to transport gas to different parts of the system. It also shows the Commission's "price path" using the Auckland zone finishing price from DPP2 and escalating according to nominal MAR increases the Commission assumes are correct to use for calculating consumer price bill.⁷⁴ What the consumer experiences vs what the Commission assumes the consumer will experience is identified as the

other regions such as Northland and Eastland). The same regions reach \$4.31/ GJ and \$5.05/ GJ by the final year of DPP3 – a difference of more than 100% from the Commission's modelling.

⁷³ In our modelling we assume a starting point for gas delivery at Frankley Rd for calculating distance-based pricing on MPOC. For delivery into southern zones, we include the Frankley Rd transmission fee before 2025 (this fee was dropped in 2025 and 2026 GY for gas simply passing through this system). As gas leaves the Maui pipeline it enters the GTC system. We use the published revenues and volumes from the zones to estimate the GTC transmission component.

⁷⁴ Ie, 11.9%, 11.0%, 10.7% and 10.7% respectively for 2022/2023 to 2025/2026

“reality gap”. Whereas the Commission assumes an annual compound rate of 11% on transmission, the consumer sees an annual compound rate of more than double at 23% pa, and a more than doubling (132%) of its transmission cost.

67. We do recognise different understandings about what “price path” might mean. The Commission clearly talks about a *price path* from a supplier total revenue perspective, and thereby conflates revenue with price, since price (revenue allocation) is set by tariffs over which it has little say⁷⁵. The consumer however is concerned more directly with how tariffs impact on delivered price. These do not appear to interest the Commission because of an abstract view of what a “consumer” means (the representative agent).
68. The transmission modelling illustrates clearly why conflating revenue path with price path is a mistake when transport volume reduces. This just repeats the observation that the building block methodology was never designed for falling gas demand and the Commission’s mechanical response to attempt to squeeze a square peg into a round hole rather than redesigning the hole.
69. The same mistakes will flow into DPP4 estimation of prices that consumers will pay, particularly for transmission. While MAR continues to grow, volume is likely to fall. For example, a plausible scenario is that by 2031 a number of major users will close, or reduce demand. It seems feasible that demand by 2031 could fall 30-40 PJ⁷⁶ pa from the current forecast demand for 2026 of 86.6 PJ⁷⁷. This volume reduction however will not proportionally reduce revenue contribution. We estimate that this loss in revenue for transmission is around 16% (and potentially nothing for distribution). Based on Firstgas practice of socialising losses across the network, the 16% will be additional to the 16% increase in MAR.
70. Our estimated impact is shown in Figure 6

⁷⁵ The Commission’s “pricing principles” are guides, not prescriptions.

⁷⁶ Methanex at 18 PJ, Ballance at 4 PJ (relative to 2026 FC) , and other industry (Fonterra, Auckland zone) 6 PJ and Huntly 8- 10 PJ.

⁷⁷ As communicated by Firstgas in a 27 August 2025 memo on Oatis confirming GTC prices for GY2026

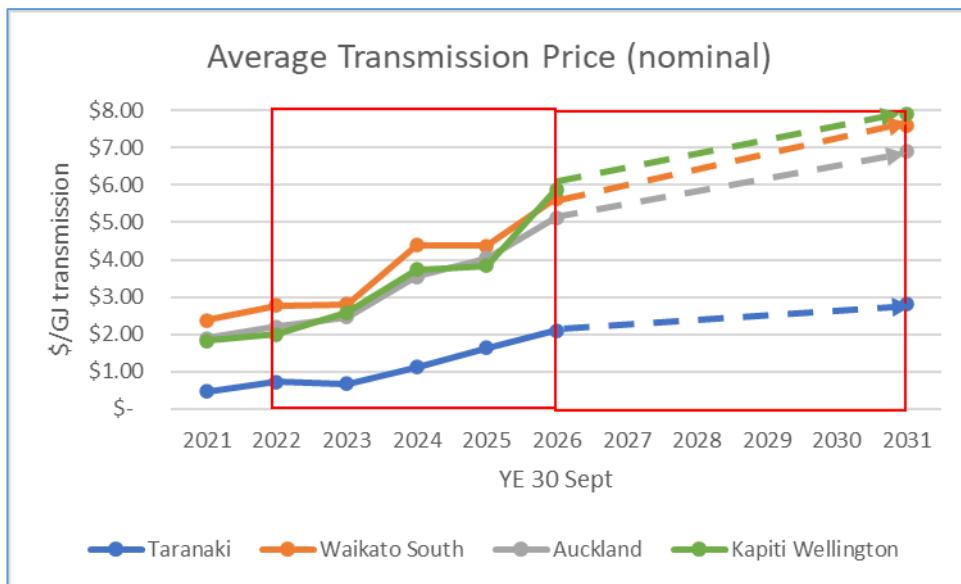
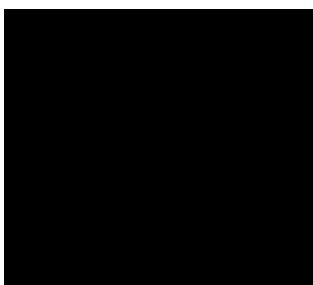


Figure 6: Projected Transmission Price

71. An Auckland consumer would pay approximately \$6.90/ GJ for transmission in 2031 vs \$2.21/ GJ at the finish of DPP2 (312% more), and a Wellington consumer \$7.92/GJ vs \$2.01/GJ (394% more). This lifts transmission costs on par with the wholesale price of gas in 2020.
72. We should note that a reconfiguration of the gas market to a lower annual volume between now and 2031 does not imply a continuation of the trend, nor does it imply that volumes will continue to fall to create the economic stranding scenario the Commission envisages. A lower volume in absence of a few large users can be economically sustainable with a right sized network.
73. Under this scenario the impacts on GDBs are muted as the main volume losses all occur on the direct connect gates, not the GDB shared gates.

Conclusions for Final Decision

74. The Commission uses a number of domain assumptions that are demonstrated to be false to come to an unreliable outcome for DPP4 settings.
 - a. There is no plausible basis for continued pessimism on economic stranding risk for gas pipelines:
 - i. The Commission should recognise that the market is adapting and innovating, including reducing regulatory barriers.
 - ii. Forecast models used are based on belief systems that are demonstrably false (Consumer behaviour, economic stranding risk should be based on natural gas transport).
 - b. Accelerated depreciation are also based on false domain assumptions (risk asymmetry, settings are reversible, symmetry between supplier and consumer preferences, and all consumers can be modelled as a single representative agent).
 - c. Accelerated depreciation gains to suppliers should be returned in DPP4 and normal depreciation assumed going forward.
75. The simplest solution is for the Commission to acknowledge that economic stranding risk is not material and that accelerated depreciation is no longer warranted. This does not solve the deeper problem that it faces with respect to a regulatory framework based on a false belief system, but it at least provides breathing space to come up with a better evidence-based framework not based on a discredited neo-classical ideology. We would suggest that a better paradigm to start with is one that a Post-Keynesian might recognise as a reflection of the real world⁷⁸.



Yours sincerely

Len Houwers
Secretariat for the Major Gas Users Group

⁷⁸ Essentially the regulatory form recognises that prices are administered in the economy (set by firms vs price being pushed towards cost) and regulation should manage mark-ups where significant market power exists.