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Dear Matthew

Cross-submission on Gas DPP4 - Hybrid mechanism and IM amendments

1. This is Vector's cross-submission on the Commerce Commission's (Commission's) April 2026 consultation package on the proposed demand variation revenue adjustment mechanism (hybrid mechanism) and related Input Methodologies (IM) amendments for Gas DPP4.
2. Vector supports the Commission's draft decision to introduce a hybrid mechanism as a proportionate, targeted means of sharing within-period demand/revenue risk.
3. However, we continue to recommend changes to the threshold: the proposed $\pm 15\%$ tolerance is too high to achieve the mechanism's stated objectives in DPP4, where the principal risk is sustained forecast error and cumulative impacts over a five-year period, rather than only a single-year "shock".
4. We recommend that the Commission adopt a tolerance of $\pm 5\%$ (or lower).
5. As highlighted in our submission, and the joint GPB analysis, a lower tolerance better supports the Part 4 purpose by:
 - Better correcting sustained under- or over-recovery earlier;
 - Reducing the risk of sharp price corrections at the next reset; and
 - Supporting financeability and incentives to invest.
6. This cross-submission largely responds to issues raised by submitters who opposed the introduction of a hybrid mechanism.

A hybrid mechanism is a proportionate response to support the long term benefit of consumers

7. MGUG, Fonterra, Arete Consulting and Greymouth Gas opposed or were critical of the introduction of a hybrid mechanism.
8. For example, MGUG submitted it that:

“MGUG rejects the Commissions’ proposal for an amendment to input methodologies for gas distribution services for a hybrid mechanism to deal with demand shocks within DPP4. We consider that an application for a customised path price to be the appropriate mechanism to deal with such a contingency.”

9. MGUG further submitted that:

“A WAPC has consistently been supported as the most appropriate form of control for GDBs, not just when demand variations are “normal”. Gas future uncertainty has existed since the 2018 exploration ban and WAPC Form of Control was reconfirmed in 2022 as still being appropriate, despite Vector’s assertion that they no longer had influence on connection demand.

It is implicit within a WAPC that GDBs face a demand risk. No distinction has ever been made, or needed to be made about “normal” vs special demand risk.”

10. We disagree a CPP would be an appropriate mechanism to deal with demand shock. A CPP involves significant process burden (and therefore cost) and would not allow for a timely response to demand shock.
11. As explained in the joint GPB cross-submission, the risk allocation embedded under a WAPC was not designed for a period characterised by high uncertainty plus sustained structural decline, where divergence is more likely to persist and accumulate rather than self-correct.
12. It is also worth re-iterating that the hybrid mechanism is symmetric. Under the status quo, (as identified in the consultation paper) consumers do not share the gains of a positive demand shock.
13. In our view, that the mechanism is symmetrical should provide support for a lower tolerance. This will ensure sustained forecast error is shared earlier in both directions meaning consumers share upside outcomes sooner and are less exposed to sharp corrections later.

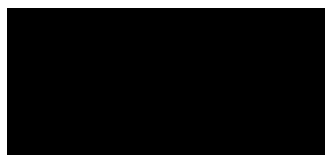
A re-opener could be used in addition to a hybrid mechanism

14. Greymouth Gas submitted that:

“The Commission’s direction should be pro-consumer. While GDBs are unlikely to apply for CPPs if not in their favour, automatic mechanisms without Commission oversight have risk. Perhaps a “hybrid” between the hybrid and reopener, tailored to each GDB, would best manage issues raised in this letter.”

15. We agree that the Commission's direction should be pro-consumer, and we also agree that design detail and transparency matter for any automatic mechanism (including clear measurement rules and robust settings to manage behavioural risks).
16. We don't agree that the mechanism should apply different thresholds across GDBs (or asymmetrically between businesses and consumers). A single symmetric threshold is more transparent and predictable, and better aligned with the Commission's intent of a targeted risk-sharing "release valve" that applies consistently across the sector.
17. In our view it is worth considering how a hybrid mechanism and re-opener could work together to best support the long-term benefits of consumers.
18. We consider additional smoothing over the DPP period is in the interest of consumers. However, GPBs should not be disadvantaged by this additional risk to cost recovery. This makes an effective hybrid mechanism with an appropriately set deadband even more important to preserve incentives to invest during the period.
19. In that context, there could be benefits for the IMs including both:
 - an automatic, symmetric sharing mechanism at a materially lower tolerance so sustained forecast error or the impacts of smoothing are addressed earlier, and
 - a separate discretionary reopener pathway where needed to support investment and service continuity.
20. We do note implementing a revenue cap would solve issues around revenue smoothing risk and the potential for sustained forecast error.
21. However, we also remain supportive of the hybrid mechanism and recommend a lower tolerance to best support the long-term benefit of consumers.

Yours sincerely



Richard Sharp

GM Economic Regulation and Pricing