

28 November 2017

Matthew Lewer
Commerce Commission
44 The Terrace
WELLINGTON

Sent via email: regulation.branch@comcom.govt.nz

Dear Matthew

Proposed approach for Wellington electricity resilience

This is First Gas' submission on the Commerce Commission's discussion paper "Our proposed approach to assessing Wellington Electricity's proposal for additional expenditure to improve its resilience and response to a major earthquake" dated 14 November 2017.

First Gas is particularly interested in the proposed approach to Wellington Electricity's customised price-quality path (CPP) application, given our recent engagement with the Commission on the application of the CPP regime to our critical gas transmission infrastructure project (White Cliffs realignment project).

Support tailored approach to CPP process

First Gas supports the Commission's proposed approach for assessing the Wellington Electricity Lines Limited (WELL) CPP application. We consider that the "streamlined CPP approach" is a prudent approach to address the situation faced by WELL where:

- The infrastructure is critical lifeline infrastructure;
- There is urgency to undertake this investment to address increased risk; and
- The investment is separable expenditure above that approved in WELL's default price-quality path (DPP) for 2015 – 2020.

In our view, the key element behind the Commission's proposed approach is the *separability* of expenditure. If WELL can demonstrate to both the Commission and customers that the additional resilience expenditure is separable to that already approved in its DPP allowances, the Commission's proposed approach will ensure that the additional expenditure can be robustly scrutinised within the timeframe required, while still providing customers adequate opportunity to scrutinise and comment.

We consider that WELL's high-level summary to the Commission¹ provides the context for the additional resilience investment, enabling the Commission to confirm the separability of the expenditure before proceeding with the streamlined CPP.

First application of proportionate scrutiny

We consider that the proposed approach for WELL, if confirmed, will provide a helpful precedent of what the "principle of proportionate scrutiny" means in practice, when applied to a CPP application. To date this principle has not been applied in practice, with both the Orion and Powerco CPP's covering the full scope of the businesses' operations.

¹ *Wellington Electricity CPP high level summary letter to Commission – 21 November 2017*, published on 22 November 2017

In its final decisions from the 2016 Input Methodologies (IM) review, the Commission has stated that it will:

“require a higher level of assurance for more material elements of a proposal, in terms of the potential impact on price and quality. This is consistent with the proportionate scrutiny principle which provides that the scrutiny that an element of a CPP proposal receives should be commensurate with the potential impact of that element on price and quality.”²

The Commission has also stated that there are many other factors that it will contemplate “when considering the appropriate level of scrutiny, such as the level of confidence we already have that the proposed tailoring delivers long-term benefits to consumers. This could be increased by:

- *the extent to which the supplier’s previous forecasts were fit for purpose;*
- *“scrutiny already applied – for example through summary and analysis, or under a previous CPP.”³*

In the case of WELL, the application of proportionate scrutiny means leaving the “base line” expenditure at the levels assessed and set through the DPP process, then applying scrutiny to only the additional expenditure.

In addition, the Commission’s proposed approach for the third year of WELL’s CPP demonstrates the Commission’s willingness to utilise supplier’s previous forecasts where they are deemed fit for purpose. In our view, the use of AMP information and the replication of the process applied for the gas pipeline businesses (GPB) DPP reset reduces the cost associated with preparing the proposal, to a level commensurate with the scale of the CPP application being proposed.

Relevance to White Cliffs realignment project

We note that our White Cliffs realignment project on the gas transmission system has a number of similarities to the WELL CPP application. In discussions with Commission staff, the Commission have stated that they see the principle of proportionate scrutiny also applying to our potential CPP application. First Gas is seeking further clarification of what this principle means in practice. As stated above, this is the first time that the principle of proportionate scrutiny has been tested through a proposed CPP application.

If you have any questions regarding this submission, please contact me on 04 979 5368 or via email at karen.collins@firstgas.co.nz.

Yours sincerely



Karen Collins
Regulatory Manager

² Paragraph 173, *Input methodologies review decisions, Topic paper 2: CPP requirements*, 20 December 2016, Commerce Commission, <http://www.comcom.govt.nz/regulated-industries/input-methodologies-2/input-methodologies-review/>

³ Paragraph 57, *Input methodologies review decisions, Topic paper 2: CPP requirements*, 20 December 2016, Commerce Commission, <http://www.comcom.govt.nz/regulated-industries/input-methodologies-2/input-methodologies-review/>