

18 August 2016

Ms. Tricia Jennings
Project Manager, Gas DPP 2017 reset
Regulation Branch
Commerce Commission
Wellington

Dear Tricia,

[Cross-submission on DPP for gas pipeline services from 1 October 2017 and financial model](#)

This is a cross-submission by First Gas on the Gas DPP 2017 reset paper, published by the Commission on 28 June 2016 with the subtitle "Implementing matters arising from proposed input methodologies changes".

Most of the issues raised by other parties that we would like to respond to have been included in submissions on the Input Methodologies review. We have therefore provided our comments for the Gas DPP 2017 reset paper in our cross-submission on the IM review draft decisions. All of our comments relevant for the Gas DPP 2017 reset are provided under the headings relating to wash-up arrangements in that cross-submission.

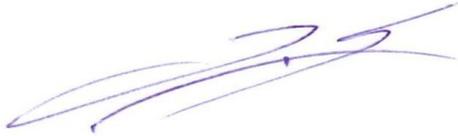
The only other area we wish to comment on is the financial model used for the DPP reset. We appreciate the additional time provided to review the financial model, and consider the financial model is fit for purpose. We do offer the following suggestions for the Commission to consider as it develops and populates the financial model for the gas DPP reset and future resets.

- **Consistency in the use of CPI forecasts.** The model requires individual inflation forecasts for each year of the regulatory period, rather than an average over the five-year regulatory reset period. We wonder whether this results in the use of forecast CPI that is not consistent with the CPI implicit in the WACC. The nominal risk free rate incorporates market expectations of inflation, and for consistency we would expect this to be used as escalator for the regulatory asset base in the model
- **Modelling the First Gas GTB.** The financial model is set up to treat the First Gas transmission pipelines we acquired from MDL and from Vector as two separate businesses. This makes sense because base data from information disclosure is different for the two former GTBs (reflecting a December year-end for the former MDL GTB and a June year-end for the former Vector GTB). However, we expect that the Commission could bring the actual data together to form a common base year, and then use a single set of building block forecasts for the First Gas GTB over the 2017-2022 regulatory period. This would better reflect how we intend to operate in the future and would avoid the need for some separate calculations, such as for revenue cap wash-ups.

- **Opportunities to simplify the financial model.** We think the Commission is likely to get better engagement with other interested parties (in our industry mainly shippers and end users of gas), if simple approaches are adopted where possible. The financial model is not simple. For example, the timing assumptions used in the financial model create a great deal of complexity, and make it more difficult to interpret and validate the calculations.

We appreciate the opportunity to provide this cross-submission for the record as well. We would be happy to provide additional clarifications and information. Please feel free to contact me at any time at jelle.sjoerdsma@firstgas.co.nz or in our Wellington office on (04) 460 2535.

Yours sincerely



Jelle Sjoerdsma
Regulatory Manager