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Sent via email: regulation@comcom.govt.nz

Dear Nick

Bridging the gap to a more modern regulatory system

Firstgas Group welcomes the opportunity to comment on the Commerce Commission's discussion paper "*Review of the Commerce Commission's funding for the regulation of electricity and gas networks under Part 4 of the Commerce Act 1986*" released on 10 December 2020.

We support the proposed increase in funding for the regulation of energy networks, as we:

- Recognise that the Commerce Commission is facing increased expectations and has several important workstreams that need to be effectively resourced and progressed in coming years, such as the Default Price-Quality Path (DPP) reset for gas pipeline businesses and the next Input Methodologies (IMs) review.
- Agree that the energy landscape is changing, and therefore, the role of regulated energy businesses is also changing. We consider that it is important that the regulatory framework remains "fit for purpose". Sufficient resources must be dedicated to the evolution of the regulatory framework, as well as the compliance activities that the Commission have outlined in their discussion paper.

We expand on these two points below.

Support the need for increased funding for the Commission's regulatory activities

Firstgas supports the Commission's call for increased funding for its regulatory activities for 2021/22 out to 2025/26, and increased funding targeted towards the next IMs review that must be completed by December 2023.

The Commission has important statutory functions that it must deliver on and as the discussion paper outlines, the Government expects the Commission to also ensure that its regulatory framework supports the objectives of other government workstreams, such as energy affordability, climate change and energy security. Greater coordination with other government departments will be necessary to ensure this can happen.

We also consider that there would be substantive benefits arising from greater outreach and engagement activity, enabling the Commission to gain a better understanding of customer needs and preferences, as well as a greater understanding the performance and drivers facing regulated businesses. From our experience, prior site visits by the Commission to our head office have aided understanding and queries around key projects, by enabling discussions directly between Commission representatives and our operational staff.

From Firstgas' perspective, it is critical that the Commission has the skilled resources available to deliver the next DPP reset for gas pipeline businesses for 2022 – 2027, and to complete the next IMs review. It is important that the Commission can undertake a robust consultation process, backed by effective analysis and decision-making. We consider that the current level of funding would constrain this process, and without additional funding for the IMs review, it would constrain the scope and complexity of issues that the Commission could effectively engage with customers and businesses on.



Firstgas considers that the “bridging the gap” funding approach is likely the most appropriate option. It balances the additional costs that will ultimately be met by end consumers, with the resources needed to deliver the outlined work programme.

Ensuring the regulatory framework keeps pace with the changing energy landscape

The Commission’s discussion paper captures several of the changes in the energy landscape that are impacting regulated businesses across New Zealand. An additional and significant change, that has occurred following the release of this discussion paper, is the publication of the Climate Change Commission’s draft advice, with the first three proposed emission budgets. This draft advice highlights significant challenges for the gas sector to play a meaningful role in decarbonising New Zealand’s energy sector. These challenges are likely to be felt in the next regulatory period.

Firstgas firmly believe that gas and gas infrastructure has a role to play by delivering increasing quantities of renewable gas via networks over time. We have been working on several renewable gas options to evaluate their economic and technical viability in New Zealand:

- The technology for **biogas** is well established and functioning around the globe. Given the similar chemical make-up of biogas to natural gas (CH₄), there are few technical barriers to substituting biogas for natural gas and distributing this renewable gas across our networks. Firstgas is actively engaged in understanding the potential scale of this industry and bringing bio-gas technology into New Zealand.¹
- Firstgas has completed the first stage of our **hydrogen** trial in collaboration with the Provincial Growth Fund. We plan to release the findings of this work in March 2021 and will begin phase two of this development shortly after that. We have also signed a collaboration agreement with Hiringa Energy to explore how green hydrogen can be distributed via pipelines to help decarbonise transport and heat.²

We consider that the emergence of renewable gases, alongside emerging technologies, new services, and new business models in the broader energy sector, will call for the Commission to regularly assess how the current regulatory framework applies to this changing environment. This will require greater engagement with businesses and analysis of whether the current rules and incentives are “fit for purpose”. To enable this, we recommend that a greater number of staff be dedicated to the assessment and development of the regulatory framework, than signalled in the Commission’s workplan. We consider that resourcing in this area is equally as important as the focus the Commission is proposing for its analytics, compliance, and enforcement activities.

Contact details

If you have any questions regarding this submission, please contact me on 027 472 7798 or via email at karen.collins@firstgasgroup.co.nz.

Yours sincerely

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¹ <https://firstgas.co.nz/news/industry-leaders-collaborate-to-solve-global-energy-challenges/>

² <https://firstgas.co.nz/news/firstgas-and-hiringa-energy-have-sights-set-on-advancing-green-hydrogen-together/>