24 July 2025

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Commerce Commission
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Tēnā koe,

Powerco response to the Gas DPP4 issues paper

We appreciate the opportunity to provide our views on the issues raised and working with the Commerce Commission (Commission) on the development of the gas DPP4 reset. We have a shared goal of delivering long-term benefits to consumers while managing energy transition risks appropriately. The issues paper builds on the regulatory settings applied in the gas DPP3 decision which aims to incentivise suppliers to maintain networks while allowing them to adapt as the sector evolves and continues to provide a service that meets consumers expectations.

Powerco's submission supports retaining the DPP3 framework with some adjustment to address the increasing uncertainty in demand, supply and policy. We stress the importance of customer engagement, the evolving role of renewable gas in ensuring energy security to support the energy transition and the difficulties of forecasting.

DPP4 is about building evidence to support DPP5 and mitigating mid-period shocks

- Maintaining DPP3 regulatory settings and complementing these with a range of uncertainty mechanisms will support GDBs ability to respond to unexpected shocks (e.g. policy, demand and supply) and maintain pipeline services without materially impacting consumers
- We support a 5-year period noting forecasting accuracy is difficult over a 5-year period, particularly in the current market
- Additional scrutiny of AMPs is an appropriate approach and our AMP25 will address many of the matters covered in the Issues paper.

Our customers are changing their plans for gas

- Gas supply shocks and price increases have changed how some our largest customers view gas as a fuel. In some cases, these large customers are planning to reduce or end their use of gas earlier than they had previously planned
- Where this affects the financial sustainability of their networks, we will need to manage them differently
- Advancing the thinking, planning, and testing of decommissioning or right sizing initiatives will be important during DPP4, and measures will be needed to support learnings across commercial, social and consumer factors.

Renewable gas supports multiple consumer benefits	• Investment for enabling or providing renewable gas in the distribution system benefits consumers through supporting all three pillars of the energy trilemma, as well as a key customer benefit of maintaining optionality and choice • Our expenditure for renewable gas pipeline services will continue and ramp up over DPP4 as an important part of our gas distribution strategy.

We provide further comments on these observations below and link them to the issues contained in the Commission's paper.

We look forward to engaging further and contributing to the development of DPP4 through the next steps in the process. This submission does not contain any confidential information and may be published in full. If you have any questions or would like to talk further on the points raised, please contact Emma Wilson (Emma.Wilson@powerco.co.nz).

Nāku noa, nā,

Emma Wilson
Head of Policy, Regulation and Markets
POWERCO

1. Introduction and summary

With the current default price-quality path (**DPP**) for gas distribution businesses (**GDB**s) due to expire on the 30 September 2026, we welcome the early engagement on issues relevant to the context of DPP4, in what is a challenging environment with both demand and supply uncertainty. Notwithstanding the considerable uncertainty, the gas network is, and must continue to, deliver essential services.

As electrification of the New Zealand economy progresses, natural gas continues to be a key enabler of system resilience, supporting secure and cost-effective energy supply through the transition. Powerco's strategy is clear, we are focused on maintaining our existing customer base, by providing them with secure, reliable, resilient and affordable energy system. This is the context of our 2025 asset management plan (**AMP25**) which is due to published by 30 September 2025[1]. Our response to the majority of the Commission's specific questions in the Issues paper and follow up questions in preparing the DPP4 decision, will be addressed through the AMP25 combined with RFI responses.

We support the general direction of the Commission's Issues paper focusing on maintaining DPP3 regulatory settings with tweaks to address uncertainty though the period. Complementing DPP3 settings with uncertainty mechanism will support GPBs ability to respond to unexpected shocks (e.g. policy, demand and supply) and maintain pipeline services without materially impacting consumers.

Big changes to the regime are not required at this time given significant uncertainty facing the sector and the lack of data and evidence to support any big changes. However, over the course of the DPP4 period we (GDBs and the Commission) need to gather evidence to inform DPP5 settings. There is risk uninformed big changes could have unintended consequences, which will ultimately come at a cost to customers.

Maintaining flexibility for GDBs to respond mid-period through market and commercial mechanisms including customer contributions, pricing methodologies and accelerated depreciation is critical to ensuring they can maintain safe and reliable services for customers in response to changing market dynamics.

We expand on these messages and additional topics covered by the Issues paper in the following sections.

[1] Once published, the AMP25 will be available here: Gas disclosures

2. Regulating prices, revenue and quality

Summary of response:

- We support the retention of existing form of control, **if** this is supplemented with adjustments to recognise the particular forecasting risks in this DPP4 period and mechanisms to respond should these risks have material impact
- DPP adjustments could include revised Commission scenario modelling, a hybrid price path adjustment mechanism, and adjustments to reopener options
- We strongly encourage the Commission to revisit the scope and role reopeners play for DPP4. We recommend widening the scope of the 'change event' to include reasonable changes in revenue due to factors causing changes in demand and/or supply relative to the forecasts the DPP is based on
- We agree with the Commission that additional quality metrics are not required at this time
- Monitoring ongoing performance over the DPP4 period will be important to inform whether changes in quality standards are need in DPP5

Leading up to DPP4, circumstances have changed such that a revenue cap would now be a more suitable form of control. However, we accept that the Commission is unwilling to reconsider this off the back of the 2023 IM review. In the absence of a re-thinking of the form of control, we generally support the retention of existing arrangements, **if** these are supplemented with adjustments to recognise the particular forecasting risks in this DPP4 period and mechanisms to respond should these risks have material impact. We are particularly mindful that if shocks happen early in the period, waiting 3-4 years to be corrected could be detrimental to consumers and to GDBs incentives to invest.

2.1 Forecasting risk informing a price path variation

The Commission acknowledges GPBs face short-term uncertainty on both demand and supply. There is an inherent risk within the DPP4 period that actual gas demand may end up being materially higher or materially lower than the demand initially forecast when price/revenue allowances for the regulatory period were set. Depending on whether actual demand is higher or lower than forecast, either consumers or GDBs will be exposed to windfall gains and/or losses.

As the Commission notes,[2] the selection of the constant price revenue growth (**CPRG**) is a critical input to ensuring that the resulting weighted average price cap (**WAPC**) delivers an unbiased estimate of the prices required to deliver expected ex ante financial capital maintenance (**FCM**).

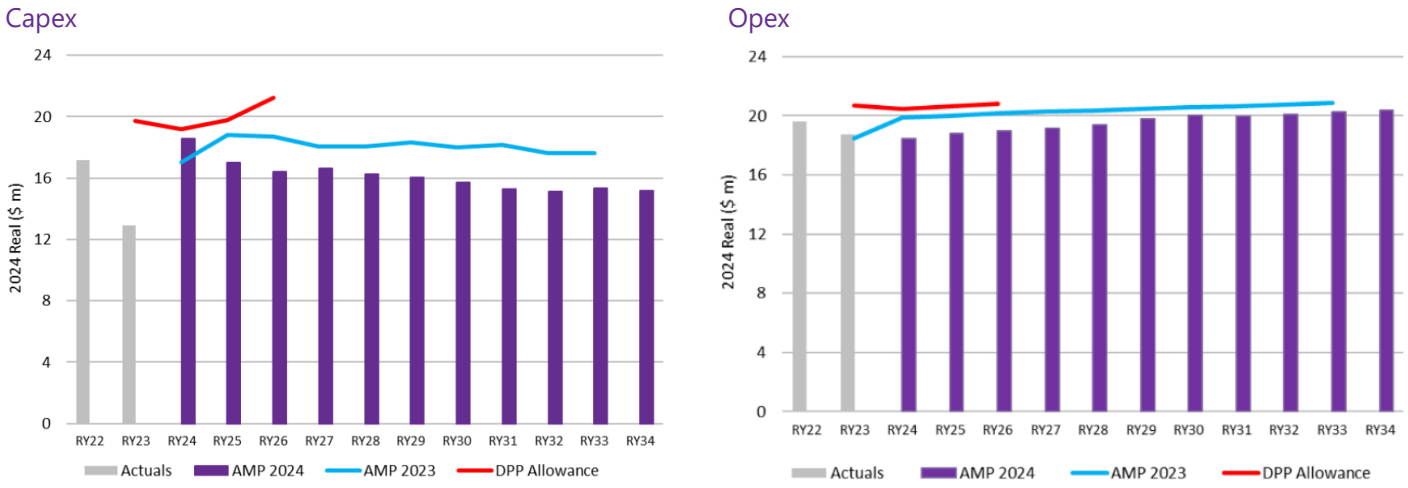
The Commission also highlights that under a WAPC the demand risk lies with the GDB,[3] and that introducing a demand reopener would shift some downside risk to consumers while the GDB would retain benefit if they were to outperform the CPRG. While we agree with the Commission's assessment of demand risk sharing, the significant risk that requires a mitigation mechanism is forecasting risk – it is inherently harder to forecast in an uncertain environment.

[2] Commerce Commission, Gas DPP4 Issues Paper – Attachments A-E, 26 June 2025, para A21
[3] Commerce Commission, Gas DPP4 Issues Paper – Attachments A-E, 26 June 2025, para A23

GDBs have a number of levers to manage in-period demand variation. In response to questions in the Issues paper[4], we highlight the following Powerco responses:

- **Management of expenditure in response to demand**, which we have seen throughout DPP3, where the majority of GDBs have been spending under allowances and reprioritising expenditure. Powerco's forecast capital expenditure and operating expenditure vs actual in Figure 1 illustrates this.
- **Restructuring pricing and tariffs**, which has seen fixed charges increase due to the increased uncertainty. In the DPP3 period, Powerco has increased the fixed standard residential customer portion from 58% to 62% and commercial from 31% to 40%. We stagger these increases as it effects every site differently and seek to avoid price shocks for our customers. This transition is planned to continue for our commercial and industrial customers in the DPP4 period

Figure 1 Forecast / actual capex and opex (constant $)



The Commission also sets out existing regulatory mechanisms that are available, including the option of submitting a CPP application and capacity event reopeners, however these are insufficient to deal with wind-fall gains and losses as a result of materially inaccurate forecasting.

Options for adjusting the DPP include:

- **Revised Commission scenario modelling** reflecting current market considerations. Forecasting methodologies, scenarios, inputs and modelling by others have evolved over the last 5 years.
- **A hybrid price path** adjustment mechanism similar to that recently approved by the AER for Jemena Gas[5], providing a mechanism for both upside and downside volume risk
- **Adjustments to reopener options** to ensure this mechanism is available for material volume/demand change (refer section 2.2 of this submission).

In relation to revised scenario modelling, GIFWG has commissioned work from Frontier looking at global approaches in gas demand forecasting[6]. Forecasting in the current New Zealand environment is particularly complex with the unique supply-side considerations, alongside electrification trends and decarbonisation policies. Frontier highlights how forecasting has become significantly more challenging since the DPP3 forecasting was done,

[4] Commerce Commission, Gas DPP4 Issues Paper – Attachments A-E, 26 June 2025, para A43
[5] As referenced in Commerce Commission, Gas DPP4 Issues Paper – Attachments A-E, 26 June 2025, para A39
[6] Refer GIFWG submission to this Issues Paper

and that other jurisdictions provide little precedent for the supply risks in New Zealand. We endorse this Frontier work in providing some modelling insights as the Commission looks at a modelling approach appropriate for DPP4, including a need for suitable and transparent 'adjustments' to reflect relevant changes and uncertainties in the market.

During the DPP3 period, Powerco has developed four challenging and unique scenarios, specific to the Powerco gas and electricity networks. They are centred on how New Zealand and the global transition to a net-zero carbon future (or lack of) will plausibly affect us over the short (2035), medium (2050) and long term (2080). Our climate scenarios[7] describe the driving forces of climate change, building high-level assumptions about each of the plausible worlds. Using these scenarios we have identified and evaluated material climate related risks and opportunities for the gas network. Balancing investment in our network while navigating this evolving landscape is a key priority. While our strategy has considered each of our four climate scenarios, the investment decisions in our AMP25 are informed by the Global Alignment scenario.

For DPP4 we agree with the Commission that (under and over) forecasting demand risk is materially high,[8] and encourage the Commission to explore options to re-tune the WAPC through a risk sharing mechanism that is symmetrical (i.e. cap and collar) that is sufficiently wide to ensure it's only triggered to deal with material differences between forecast and actual demand. This balances the pros and cons of a WAPC and a revenue cap. As there is precedent through the Jemena application, this should be able to be adopted and applied relatively easily to our circumstances. For example, the Commission could apply a 5% tolerance level (consistent with the AER's reasoning for Jemena) to align with the approach for other gas distributors and protect consumers up to a threshold level, beyond that threshold the GDB and customers share the volume risk.[9]

We are working with the GIFWG as to how a risk-sharing approach could be practically applied under the DPP framework. The GIFWG submission describes how the Jemena approach could apply in New Zealand to re-calculate the revenue allowance for a given year by multiplying actual prices for that year by the forecast quantities for that year included in the revenue determination. This option ensures that it is only demand differences that are being trued up for when applying the demand risk sharing mechanism. The submission also includes a list of indicative changes to the DPP3 price control formulae and a spreadsheet showing how the true-up calculations could work. We suggest this could be a good topic to workshop with the Commission, including any alternative approaches to hybrid control that the Commission may wish to explore.

The Commission notes[10] that adding a risk-sharing mechanism would affect existing incentives, however we believe there is real benefit in a price path variation:

- **Symmetrical adjustment –** cap and collar mechanism ensures customers are protected from windfall gain in a scenario where GDBs materially outperform the forecast
- **Addressing incentive to under forecast** – price adjustment mechanisms would also mitigate against the Commission's concerns that GDBs might be incentivised to under forecast in order to outperform during the period

[7] Description of the climate scenarios is available here. The AMP25 describes how our gas investment decisions are informed by the Global Alignment scenario

[8] Commerce Commission, Gas DPP4 Issues Paper – Attachments A-E, 26 June 2025, para A38

[9] Australian Energy Regulator (AER) Final Decision on Jemena Gas Networks (NSW) Ltd's access arrangement for 2025-2030. May 14 2025.

[10] Commerce Commission, Gas DPP4 Issues Paper – Attachments A-E, 26 June 2025, para A36

- **Maintains incentives to invest** – GDBs have comfort that mechanisms exist to deal with materially inaccurate forecasting.

2.2 A 5-year regulatory period with in-period mechanisms for uncertainty

We welcome the early draft decision from the Commission on the length of the regulatory period.[11] However, the uncertainty concerns which led to the four-year regulatory period for DPP3 still exist and are potentially exacerbated at the current time. While we support the Commission's decision on a five-year period for DPP4, we are concerned that forecasting becomes more difficult the longer the period, with subsequently greater the risk to both consumers and GPBs if forecasts are materially different from reality. This uncertainty can be mitigated by ensuring sufficient regulatory mechanisms are available to deal with situations that evolve in-period.

It's impossible for any scenario to accurately predict what's going to happen over a five-year period, but what's important is that there are regulatory mechanisms in place to deal with the types of shocks and changes that could occur within the DPP4 period. Appropriate uncertainty mechanisms are critical for flexibility to respond efficiently to in-period shocks. While there are CPPs available, they are unlikely to be efficient in the event there is a sudden event that GPBs need to react to, as most CPP processes take roughly two years to complete. Not being able to respond mid-period potentially creates shocks for customers in DPP5 as settings need to catch up.

A reopener process provides the opportunity for both the event and impact for both consumers and the GDB to be assessed by the Commission through that reopener process. Reopeners are an effective mechanism available which ensure that:

- **Consumers are protected** – consumers don't pay for unnecessary scenarios upfront through allowances, that might not eventuate
- **Maintains incentives to invest** – GDBs have confidence to continue to invest in a safe and reliable network, as there is certainty that safety values are in place should sudden changes that weren't anticipated at the time the reset occur
- **Opportunity for scrutiny** – It also allows the Commission to provide sufficient scrutiny to in-period changes, to ensure that customers are protected from inefficient expenditure.

The reopeners, including those as part of the 2023 Input Methodologies review, are suitable for dealing with changes/events that result in additional reasonable costs.[12] However the event reopener criteria are not sufficient to cover changes/events that result in changes in allowable revenue due to factors causing changes in demand and/or supply relative to the forecasts the DPP is based on. For example, the current reopener provisions would not deal with significant change in government policy direction leading to reduced demand (e.g. implications of ban on gas exploration or ban on new gas appliances).

We acknowledge that the Commission considered this issue at the 2022 reset, concluding that GDBs are best placed to manage within period demand risk and determined that this change to reopener options would not be in the long-term benefit of consumers at that time. However, four years on, it is clear, that government policy signals and/or public interpretation or media emphasis of evolving policy, can have a direct impact on connections, demand and forecasts. Importantly, a government election is happening just after DPP4 would have been reset, and

[11] Commerce Commission, Gas DPP4 reset Five Year Regulatory Period Draft Decision, 26 June
[12] Input methodologies Part 4, Subpart 5: Definition of change event (clause 4.5.2) and capacity event (4.5.4A).

we already know that gas policy is highly susceptible to political swings. What we don't know now is the outcome of the election or future gas policy or the cumulative impact on public perception about gas – all clearly in the category of an event materially beyond the control of GDBs.

We strongly encourage the Commission to revisit the scope and role reopeners play for DPP4. We recommend widening the scope of the 'change event' IM to include reasonable changes in revenue, as well as opex and capex. This could be addressed with some simple amendments as set out in Figure 2.

The other areas we see benefit, without any real downside, is expanding the scope of reopeners around decommissioning costs (refer section 4.2 below).

Figure 2. Proposed IM Amendment drafting

Proposed IM amendment

4.5.2 Change event means–
(a) change in a; or
(b) a new, legislative or regulatory requirement applying to a GDB subject to a DPP the effect of which–
(c) must take place during the current regulatory period;
(d) is not explicitly or implicitly provided for in the DPP; and
either-
(e) necessitates incurring additional reasonable costs in responding to the change or new requirement **or causes a change in revenue** that has had or will have an impact on the price path of the disclosure years of the DPP regulatory period in which the change or new requirement applies of at least 1% of the aggregate amount of the allowable notional revenue for the disclosure years in which the net costs **or net change in revenue** are or will **occur** ~~**be incurred**~~;
or
(f) causes an input methodology to become incapable of being applied.

2.3 Evolving quality metrics

Powerco is committed to maintaining a safe and reliable network, but we note and as mentioned in the Issues paper,[13] quality standards set by the Commission are not the only consideration that drives the quality of our supply. We agree with the Commission that additional quality metrics are not required at this time. Monitoring ongoing performance over the DPP4 period will be important to inform whether changes in quality standards are need in DPP5.

The Commission has highlighted that Powerco's Customer Average Interruption Duration Index (**CAIDI**) has been steadily increasing over the years.[14] CAIDI indicates how long, on average customers are without supply, however it's not a good measure to indicate whether quality deterioration is occurring across the customer base.

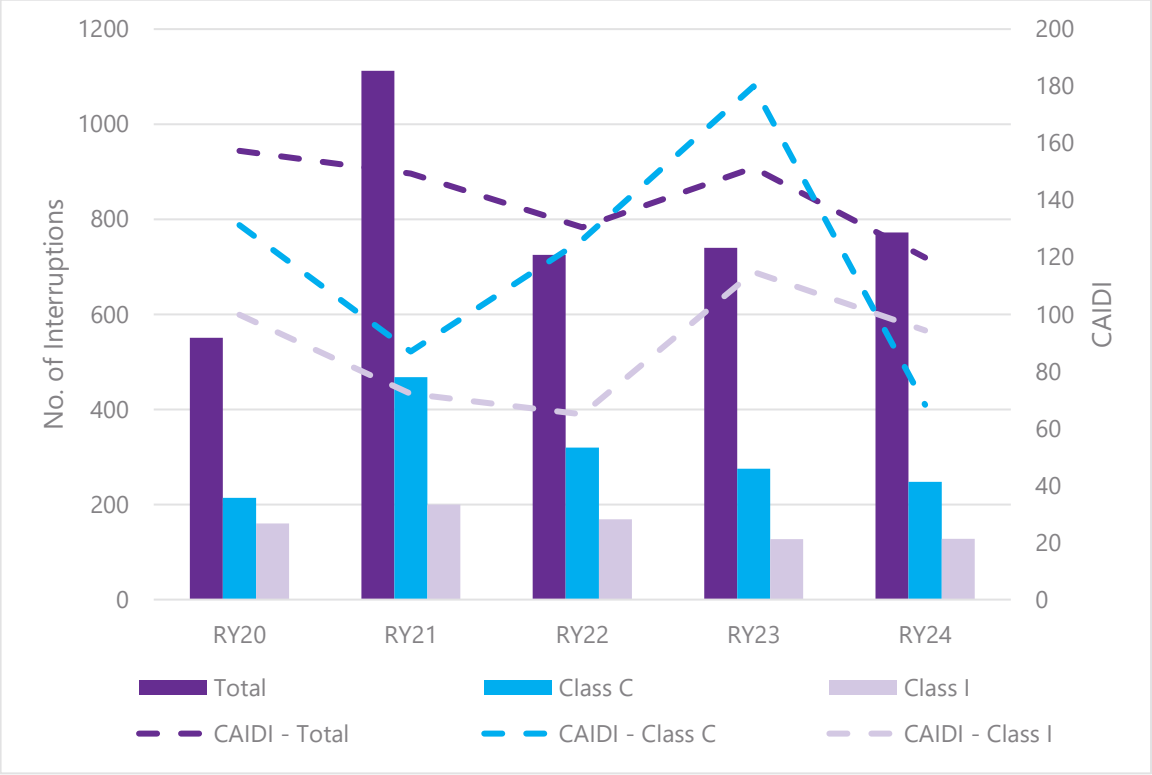
The main purpose of the quality standards is to test whether quality matches the level customers expect for the price they are paying. The issue with the CAIDI measure in gas, is there aren't sufficient outages to accurately

[13] Commerce Commission, Gas DPP4 Issues Paper, 26 June 2025, para 3.72
[14] Commerce Commission, Gas DPP4 Issues Paper – Attachments A-E, 26 June 2025, para A97

capture an overall quality deterioration. There could be one extended supply outage on the low-pressure network with customers off for days (rather than minutes) due to an external event such as a slip, and no other smaller outages – and yet this would result in a worsening CAIDI result. Over time, the number of outage events has reduced, however the time needed to restore service in a major outage event has increased. For example, the council process in the case of a major slip event often means homes are evacuated until a council engineering assessment declares the home is safe. A number of major slips in Wellington in RY22 and RY23 involved the gas supply on site being made safe but keeping the gas off until the home is declared safe for occupants to return. In this case the time to restore gas supply does not reflect performance or customer service, rather coordination with council processes. The CAIDI measure does not account for this. We note that in comparison, electricity disruptions to these same properties in a major event on the low voltage network would be excluded from the SAIDI/SAIFI quality measures, which do not apply on the low voltage network.

It is not clear how the Commission has calculated the Powerco CAIDI trend shown in the Issues paper. It may have been derived by summing the individual CAIDI performance (Class C) in each Powerco gas region, which does not provide an accurate overall CAIDI for Class C interruptions accounting for number of customers affected. We also note that our CAIDI reduced in RY24 but this data is not included in the Commission's analysis. We have provided our representation of the CAIDI data alongside number of interruptions in Figure 3. In addition, in revisiting the high CAIDI highlighted in the Issues paper, we notice some anomalies in a small number of outage entries in RY 23 which would reduce the spike appearing in RY23, however Figure 3 is based on the data as per the information disclosure.

Figure 3 CAIDI and interruptions



We would be pleased to discuss the CAIDI data further with the Commission to clarify our analysis of the data, and to show our overall trend of improved CAIDI performance over the last five years.

Monitoring and review of quality-related performance through the DPP4 period could consider metrics such as:

- **Leakages**: you may see an increase in leakages if GPBs were starting to sweat their assets and not maintain them adequately; or reduce with appropriate investment in lead detection
- **Customer feedback**: Net Promoter Score (NPS) or customer satisfaction results
- **Resilience**: Performance of networks linked to resilience investment.

Powerco is focused on our customers' views on our performance, which is why our NPS score is regularly monitored and given significant attention, more so than CAIDI which does not accurately measure the quality of our service for customers.

The recent GIFWG consumer engagement research also confirms consumers do not perceive particular quality or service or safety issues, and in fact have little knowledge about what GDBs do but are reassured that gas prices cover costs of maintenance. [15]

3. Forecasting expenditure

Summary of response:

- We support the Commission's approach to maintain the essence of DPP3 forecasting approaches complemented with targeted scrutiny of AMPs
- We agree a shift of expenditure from capex to opex will occur, but there are complexities in this. We support relying on step changes to account for this shift, as there is unlikely to be sufficient data to be able to estimate a scale trend
- We strongly encourage the Commission to not make drastic changes to customer contributions in DPP4, given there is still so much uncertainty across all elements of the market. Customer contributions are an important lever for GDBs to respond to risk through the DPP4 period and react should circumstances change on their network mid-period
- We encourage the Commission to bring in changes in forecasting opex introduced as part of the electricity DPP4 reset to account for changes and uncertainty – eg step change criterion and cost escalator adjustments

Traditional DPP forecasting relies on the past being a good predictor of the future, and forecasting is increasingly hard the more uncertain the market becomes. With some tweaks, as the Commission suggests, current forecasting methods can address the changing environment where it differs from historical patterns. We discuss these further in the sections below.

We support the Commission's approach to maintain the essence of DPP3 forecasting approaches complemented with targeted scrutiny in those areas which are likely to substantially differ from historical patterns. Our AMP 25 due to be published in September 2025, details our responses to questions the Commission has raised in this issues paper, in particular our asset management strategy and how we are making decisions, which we have not repeated here.

[15] Pinstriped Leopard consumer engagement research July 2025, provided as part of the GIFWG submission on the Issues paper, residential report page 5 + 19

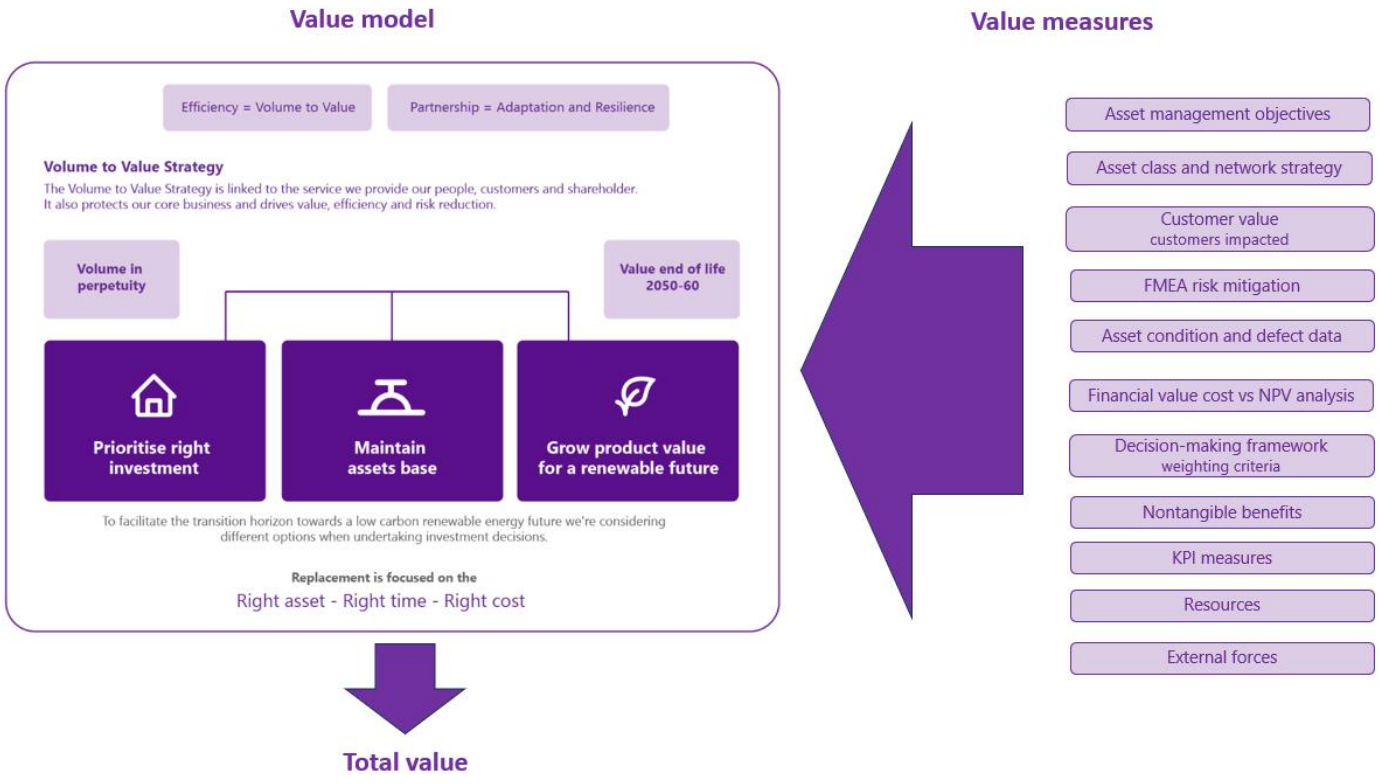
As we discuss in section 4.2, while we support the Commission's decision to exclude decommissioning costs from DPP4, it is possible that GPBs might see decommissioning accelerate unexpectedly if there is a policy change or a big supply event, so we encourage the Commission to ensure that reopeners can adequately deal with this situation (refer section 2.2 above). We plan to undertake a feasibility study to investigate decommissioning, to understand more about the process, costs and practicalities within the next 1-2 years. We also see value in a collaboration between gas pipeline businesses and government, to undertake a more detailed assessment (and potentially trial), for at least one decommissioning to provide invaluable learnings across commercial, social and consumer factors.

We support the Commission's decision de-scope from DPP4 non-depreciable easements for distribution networks and network rightsizing. For Powerco, these are not material or urgent enough at this time, but should we see evidence of this changing over DPP4, we encourage the Commission to be open to addressing this in DPP5. As proposed in the Issues paper, we support a separate regulatory project to look at network rightsizing in advance of DPP5.

3.1 A framework for capex and opex substitution

As mentioned in our response to the Commission's RFI2,[16] Powerco's decision-making framework prioritises expenditure based on key asset management drivers: safety, delivery, reliability, efficiency and partnership, as a part of our Volume to Value Strategy. As the market environment and level of certainty changes, we use our Volume to Value investment framework (Figure 4) to make decisions between capex versus opex solutions.

Figure 4 Volume to Value investment framework



[16] Commerce Commission, RFI2. Expenditure Gas DPP4 – 11 April 2025

As the Commission notes[17] we are starting to see a shift of expenditure from a more capital-heavy replacement and renewal programme towards investment in maintaining assets through opex. We agree with the Commission that the materiality and timing of this shift over DPP4 is complex and still somewhat uncertain as it will depend on many factors. It's also likely that this shift will be different based on the location, type and customers on the network. We are currently improving our understanding of how this will evolve through our assessment of "At-Risk Networks" which will be expanded on more in our AMP25.

The Commission has proposed using either scale factors or step changes to account for this shift. We support relying on step changes to account for this shift, as we agree, there is unlikely to be sufficient data to be able to estimate a scale trend, unless there are similarities between the capex/opex substitutions seen in electricity.

3.2 Asset replacement and renewal changes

The Commission has highlighted[18] that Powerco is forecasting an increase in asset replacement and renewal. As noted in our RFI2 response and 2024 AMP,[19] over DPP3 we substituted a reduction in connection capex towards resilience and a more proactive asset replacement programme to address leakages and losses (being detected at higher rates due to new detection methods and modelling). We will be expanding on our forecasts in our AMP25.

3.3 Flexibility in connection capex to manage risk

Our overall forecasts show that we are currently operating, and will continue to operate, under our DPP3 allowance. Our Volume to Value strategy ensures the ongoing reliability and security of gas supply, while also supporting flexibility for customers who wish to connect or reconnect in the future.

Given the increasing uncertainly as to how long customers will remain connected to the network, there is a growing risk that assets may become stranded before the end of their useful life. The Commission is considering appropriateness of connection capex allowance and to funding new connections with capital contributions.

As mentioned above, we have changed our investment strategy from one focused on growth to one of maintaining our existing customer base. We are constantly making trade-offs and using levers to manage stranding risk, prioritising customers staying connected to the network, connecting new customers and ultimately ensuring customers can enjoy safe, reliable and efficient delivery of gas.

One tool we have to manage these risks is customer contributions. The ability to adjust customer contributions means we can respond to the current risk, which will change during the DPP4 period. This also allows GDBs to address unique circumstances on their different networks, which is critical when regulatory settings are locked in for five years. We heard from consumers the view that "the network should be doing whatever it could to maintain customer numbers so that this didn't become a burden on those that either couldn't or didn't want to leave"[20]. We know that consumers want the option of gas, but the cost of connection can be a barrier.

[17] Commerce Commission Gas DPP4 reset issues paper – Attachment A- E, 26 June 2025, para B46
[18] Commerce Commission Gas DPP4 reset issues paper – Attachment A- E, 26 June 2025, para B49
[19] RFI2 response to question 2
[20] Pinstriped Leopard consumer engagement research July 2025, provided as part of the GIFWG submission on the Issues paper, residential report page 32

While we agree with the Commission[21] that new connections can contribute to stranding risk, new connections can also benefit the existing customer base as there are more customers to spread costs across. We are concerned regulatory intervention which disallows connection capex and requires 100% capital contributions, may force a market outcome e.g. trigger a death spiral for gas pipelines, as it's likely customers will be less willing to connect, at a time when there is still benefit in having new customers connect. A customer contribution level shouldn't be 0% or 100% but something in between that balances risk and response.

We strongly encourage the Commission to not make drastic changes in DPP4, given there is still so much uncertainty across all elements of the market (policy, demand, supply), DPP4 is about tweaks to allow both us and the Commission to gather evidence to inform DPP5 settings. There is significant risk that bold changes will have unintended consequences.

3.4 Forecasting operating expenditure in an unstable operating environment

The Commission is proposing to largely retain its DPP3 forecasting approach, with some tweaks to account for the changes where the future is likely to differ from historical patterns by taking into account step changes and cost inflators. We generally support the overall direction the Commission is heading to forecasting opex, but we do wonder if GDBs AMPs are the most accurate estimate of opex requirements over the DPP4 period. As we have previously highlighted[22] the base-step-trend (**BST**) approach is less suitable for unstable operating environment, however with targeted scrutiny around the base year (as this is fundamental to ensuring opex allowances are sufficient), and considerations of step changes, the risks of using BST approach are somewhat mitigated. Given the uncertainty and general difficulties highlighted above with forecasting, there is no perfect approach.

The Commission's changes as part of the electricity DPP4 reset to account for changes and uncertainty were really successful, and we encourage the Commission to bring those across to gas, in particular:

- **Step changes:** we support specifying a step change criterion to inform the Commission's judgement and using a template to collect step changes information for GDBs. This will ensure that the Commission receives better step change applications as there is certainty around what is required to demonstrate a successful step change application. We note that a step change could be either up or down
- **Cost escalators:** we agree a cost escalation adjustment is required to reflect that the historical higher inflation in the gas sector is likely to continue. As highlighted in the electricity DPP4 reset, reasons for adjustments to both opex and capex[23] inflators apply here to reflect higher historical inflation across all utilities (electricity, gas, water and waste-water sector). The simplest way to account for this, would be to apply the same methodology and adjustments where appropriate, (recognising that capex inflators are different for EDBs and GDBs capex) that were used for the electricity DPP4 reset[24]
- **Opex/capex substitution trend**: we agree with the Commission that the data is unlikely to be available to determine accurate opex/capex substitution using a trend, and it's better to rely on step changes and/or scrutiny of AMPs to determine the extent there is likely to be opex/capex substitution over DPP4.

[21] Commerce Commission Gas DPP4 reset issues paper – Attachment A- E, 26 June 2025, para B53-B60
[22] Including in our response to RFI2, Powerco response to electricity DPP4 draft decision July 2024 (Microsoft Word - Powerco submission on EDB DPP4 draft decision v.F), Powerco response to gas DPP4 open letter March 2025 (Powerco response Gas DPP4 open letter, Commerce Commission, 13 March 2025)
[23] We don't separately discuss capex inflators as the issues / reasons apply to both capex and opex
[24] Commerce Commission EDB DPP4 Final decision reasons paper, 20 November 2024, decisions O4.2 and C3 and C6.

4. Asset stranding risk

Summary of response:

- We support the Commission's direction to largely retain the DPP3 approach to depreciation with potential adjustments. Our network analysis, and improved understanding will allow us to target depreciation more accurately, however our thinking and understanding is still evolving
- We will need tools to manage the risk that some parts of the network become non-viable, to avoid decommissioning where smaller customers want to continue to take supply
- We plan to undertake a feasibility study to investigate decommissioning, to understand more about the process, costs and practicalities within the next 1-2 years. We also see value in a collaboration between gas pipeline businesses and government, to undertake a more detailed assessment (and potentially trial), for at least one decommissioning to provide invaluable learnings across commercial, social and consumer factors.
- Similar to electricity DPP4, a combination of mechanisms is required – using an INTSA-like mechanism (but with the objective of supporting gas transition initiatives like rightsizing), and reopeners if sudden changes in circumstances generate material unplanned costs/impact, like decommissioning larger networks during the DPP4 period.

4.1 Modelling and tools to mitigate risk

As part of DPP3, the Commission provided GDBs new tools to help mitigate the risk of asset stranding, which have been valuable in our ability to maintain services to customers economically as usage patterns change and the environment in which we operate becomes more uncertain.

The Commission is intending to largely retain the DPP3 approach to depreciation with potential adjustments. We agree with the Commission's conclusion[25] that the DPP3 approach has been successful at mitigating the risk of under-recovery in the event of an early network closure while supporting continued investment to satisfy consumer demand. While GDBs had similar methodologies for applying depreciation to their assets, the DPP3 approach gave flexibility to GDBs to apply it in a way that works for their particular circumstances in terms of both commercial and network differences. We support the Commission retaining this approach.

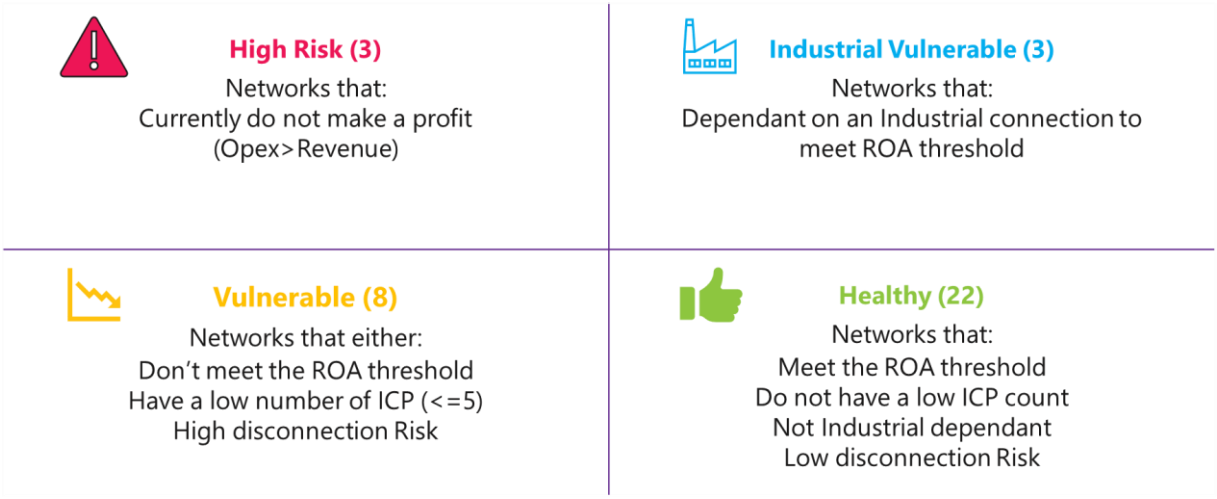
Consumers were questioned specifically about cost-recovery approach given various transition pathways and once explained, there was good appreciation of the options in cost recovery, but different views between older and younger consumers about a preference for flat vs front-loaded recovery. In our view, this supports a continuation of a depreciation approach similar to DPP3[26].

The risk of asset stranding continues to grow, hastened by the security of supply issue in 2024 and industrial customers looking to electrify more quickly as a result. With a continued reduction in new customer connections and increased disconnections, the risk of stranding in certain areas will increase, meaning stranding risk on Powerco's network is likely to be localised. We will need tools to manage the risk that some parts of the network become non-viable, to avoid decommissioning where smaller customers want to continue to take supply.

[25] Commerce Commission Gas DPP4 reset issues paper – Attachment A- E, 26 June 2025, para C10-C11
[26] Pinstriped Leopard consumer engagement research July 2025, provided as part of the GIFWG submission on the Issues paper, residential report page 41

We have conducted a health assessment across the network to understand how the localisation of stranding risk is likely to play out, and in particular, to improve our understanding of how network stranding risk is distributed based on particular characteristics of assets such as location, function and the customers it supports. This is indicated in Figure 5 and will be set out in more detail in our AMP25. We envision this analysis, and improved understanding will allow us to target depreciation more accurately, however our thinking and understanding is still evolving. As above, DPP4 is about building our understanding of our networks to inform DPP5 settings.

Figure 5 Network assessment



We have commented in section 2.1 about the Commission's scenario modelling needing to reflect current market considerations and best practice in gas demand forecasting. We endorse the GIFWG commissioned advice to inform this. We look forward to engaging more with the Commission on the scenario modelling to inform network stranding modelling.

4.2 Incentives to support Part 4 where there is asset stranding risk

We have noted our support for the exclusion of decommissioning costs from DPP4 (refer section 3), as long as there are appropriate flexibility mechanisms (such as a reopener option) should decommissioning accelerate unexpectedly if there is a policy change or a big supply event. We plan to undertake a feasibility study to investigate decommissioning, to understand more about the process, costs and practicalities within the next 1-2 years. We also see value in a collaboration between gas pipeline businesses and government, to undertake a more detailed assessment (and potentially trial), for at least one decommissioning to provide invaluable learnings across commercial, social and consumer factors.

Given the sensitivity of some networks' commercial viability to industrial customers, we have recently commissioned an independent market researcher to interview our 30 largest customers to better understand

- How current gas pricing and supply has affected their business
- Their long-term plans for gas as an energy source
- If looking to transition away from gas:
    - Whether they have started assessing options
    - How viable is a transition away from gas for their business and
    - Timelines for a possible transition.

At the Commission's 15 July 2025 technical workshop on modelling of stranding scenarios, we discussed the incentives for GDBs to decommission networks within a DPP period. While it is true that it would be rational to decommission an unprofitable network if the costs of doing so were lower than the costs of maintaining it, we do not currently, with any confidence, know what those costs are. We plan on using DPP4 to explore the costs and benefits of decommissioning on our three "high risk" networks starting in Mangatinoka which has no currently active connections, while engaging with customers on other high-risk networks to understand their needs before taking any steps to decommission their services.

Consumers have indicated mixed views on decommissioning from anger to acceptance, views about decommissioning being unfair for consumers, and mixed views on who should pay for network decommissioning, along with concern about switching costs/timeframes[27]. This emphasises the importance of the DPP4 period being used to test options, not just for the GDBs, but across communities, individual customers, and for government. We encourage the Commission to explore decommissioning costs and mechanisms more broadly. GIFWG could support this work as described in the GIFWG submission to this issues paper,

In its final decision for the electricity DPP4, the Commission has shown how INTSA provides a mechanism to recover the costs of initiatives which benefit parties other than the EDB within the IRIS period; and how reopeners provide low-cost mechanisms to deal with material uncertainty driven external to the EDB. A similar combination of mechanisms would work in the gas DPP4 decision.

Firstly, using an INTSA-like mechanism to support additional investment where there is a case for socialising the costs of a solution, but rather than 'innovation' it would have an objective of supporting gas transition initiatives - such as rightsizing investigations, planning for decommissioning, supporting customer switching. The DPP4 could provide this as a 'gas energy transition solutions allowance'. Secondly, reopeners if sudden changes in policy or customers' circumstances make it necessary to decommission any larger networks or sub-networks generating material unplanned costs/impacts during the DPP4 regulatory period.

5. Renewable gas

Summary of response:

- We agree that investment for enabling or providing renewable gas in the distribution system should be included in DPP4. This benefits consumers through supporting all three pillars of the energy trilemma, as well as a key customer benefit of maintaining optionality and choice
- We support the approach to analyse costs GDBs are incurring on renewable gas with an expectation that businesses show how expenditure is in the long-term interest of consumers
- We are expecting expenditure for renewable gas pipeline services to continue and ramp up over DPP4.

We welcome the Commission's early message confirming GDBs can forecast expenditure for pipeline infrastructure that would enable or be used to provide pipeline services for blended gas[28]. We support the approach to analyse costs GDBs are incurring on alternative gas trials and network extensions with an expectation that businesses show

[27] Pinstriped Leopard consumer engagement research July 2025, provided as part of the GIFWG submission on the Issues paper, residential report page 34-36

[28] Commerce Commission Gas DPP4 reset issues paper – Attachment A- E, 26 June 2025, para B70

how any proposed expenditure is in the long-term interest of consumers and reflects prudent and efficient spending. Powerco's expenditure is expected to continue and ramp up over DPP4 and this will be set out in more detail in our AMP25.

5.1 Delivering benefits for consumers

Since the setting of DPP3, the gas environment has changed significantly – we started to see the reality of the oil and gas exploration ban in 2018, which highlighted significant shortfalls in the availability and the critical role of gas in ensuring the security of supply for the country. Because of this, our perspective on renewable gas has evolved from being a potential opportunity, to now considering it an important contributor to security of supply.

In broad terms, investment for enabling or providing renewable gas in the distribution system benefits consumers through supporting all three pillars of the energy trilemma:

- **Security of supply:** Locally produced biomethane, derived from consistent and regionally available feedstocks (e.g. organic and trade waste) reduces reliance on declining fossil reserves and mitigates the risks of imported energy. It enhances regional and national energy resilience
- **Environmental sustainability:** Unlike fossil fuels, biomethane recycles existing atmospheric carbon. It is considered a carbon-neutral fuel and can significantly reduce emissions from sectors where electrification is impractical. The introduction of renewable gas directly supports New Zealand's emissions reduction targets
- **Affordability:** Investing in gas infrastructure to enable blended gas in pipelines helps manage costs for consumers (as described below).

The contribution of renewable gas investment to consumer affordability occurs through avoided costs of electricity network upgrades[29]; avoided consumer costs of appliance replacement[30]; and customer retention through maximising the use of existing infrastructure, providing an ongoing reliable supply option and supporting customers looking for lower emissions energy options. While these avoided costs and retention benefits are indicative examples, they highlight a scale of cost savings from the continued use of gas networks and appliances.

Supporting expenditure on renewable gas provides a key customer benefit of maintaining optionality and choice - as gas has always been, and should continue to be, an alternative to other energy sources such as electricity and LPG. The choice that gas provides was a key theme in residential consumers attitudes towards gas in the recent Pinstriped Leopard consumer research – "It's good to have choice of energy. I don't like having all my eggs in one energy basket"[31].

When residential and small business consumers were asked for views about GDBs investing in renewable gas, there was a positive view about this. Once customers were reassured it would work as well as natural gas, they felt very

[29] For example, the Wellington Electricity AMP25 identifies the potential transition to electricity would have a significant impact on the demand on WELL's network including from 65,000 properties with a gas connection. WELL's network is designed and operated in a manner reflecting the prevalence of gas as a residential fuel. "Continued use of the existing gas transmission and distribution networks maximises the value to the community of those existing assets while delaying some of the capital expenditure required to reinforce the electricity distribution network to support the electrification of heating for a significant proportion of WELL's customers" Potential LV reinforcement capex to 2050 is $368m in response to a rapid EV uptake alongside a rapid gas transition. Wellington Electricity AMP 2025 (page 49-51)

[30] The GIFWG Gas Transition Analysis Paper 2023 estimates a compliance conversion cost of up to $7.9 billion.

[31] Pinstriped Leopard consumer engagement research July 2025, provided as part of the GIFWG submission on the Issues paper, residential report page 4 and page 16.

positive about the idea of repurposing the current network and having a sustainable option based on waste products. In fact there was a strong preference for customers paying for the GDBs to invest in innovation / a biogas solution, rather than customers paying GDBs for costs of decommissioning.[32]

We are also aware of larger customers that would be very supportive of renewable gas supply, but at the same time, want to see more certainty about pipeline network longevity, before committing to support renewable gas supply options.

The transition to renewable gas will require changes to the network. We are starting work on this now and forecasting this to ramp up over DPP4.

5.2 Clarity for renewable gas in Part 4

The Commission has restated[33] its position on blended gas that the 'natural gas' definition includes blended gases up to the point where appliance conversion becomes necessary. Biomethane is almost chemically identical to natural gas which means it is a drop in substitute for natural gas (i.e. no appliance conversion required) and can be used in exactly the same way, so our customers can continue to enjoy cooking and heating homes, businesses and hot water with gas for the life of their assets. As the price of gas continues to increase, biomethane is becoming more economically viable and it is the best interest of customers to ensure they aren't forced to replace their appliances before they are ready to.

It is our understanding that MBIE is working on changing the reference to "natural gas" in the Commerce Act through an Energy and Electricity Security Bill to provide clarity around the application of Part 4 to gas distribution involving biomethane. We expect this current point of uncertainty to be resolved before the DPP4 period commences.

[32] Pinstriped Leopard, residential report page 30
[33] Commerce Commission Gas DPP4 reset issues paper – Attachment A- E, 26 June 2025, para B70