



12 February 2026

Matthew Clark  
Manager Transpower and Gas  
Commerce Commission  
Via email: [infrastructure.regulation@comcom.govt.nz](mailto:infrastructure.regulation@comcom.govt.nz)

Tēnā koe Matthew,

## **A stable regulatory environment is the best response to issues raised in submissions**

Powerco welcomes the opportunity to provide this cross-submission on the gas default price-quality path (DPP4) draft decision. This reset occurs at a pivotal moment where the regulatory framework must balance the immediate affordability concerns of customers with the long-term operational necessity of maintaining a safe and resilient network. The range of issues and sentiment in the submissions made on the draft decision, emphasise the importance of stability and certainty for steady operation of and continued investment in gas distribution businesses (GDBs) in the DPP4 period.

We have provided a response to some of the key themes raised by submitters in the attached document. We also endorse the joint submission of Firstgas, Powerco and Vector (Gas Infrastructure Future Working Group). The *Refreshed Analysis Paper; Financial implications of stylised gas network winddown and retreat scenarios* and the Houston Kemp advice provided with that joint submission presents analysis relevant to accelerated depreciation including the economic and regulatory principles underpinning it, nuances in modelling the impact of it, and its contribution to cost recovery.

This submission does not contain any confidential information and may be published in full. If you have any questions regarding this submission or would like to talk further on the points we have raised, please contact Emma Wilson ([Emma.Wilson@powerco.co.nz](mailto:Emma.Wilson@powerco.co.nz)).

Nāku noa, nā,

A handwritten signature in black ink that reads "E. Wilson".

**Emma Wilson**  
Head of Policy, Regulation and Markets  
**POWERCO**

## Attachment: Powerco's response to submissions on the DPP4 draft decision

### 1. Managing stranding risk

Powerco supports the Commission's analysis and draft decision on stranding risk and accelerated depreciation. The approach to stranding risk, accelerated depreciation, and price impact is not solely a question to be resolved through modelling. The Commission must make calls on trade-offs (eg between price impact now vs later) and must use judgement to determine the most reasonable approach. We consider the evidence supports the continued application of accelerated depreciation as a reasonable decision for the Commission to make.

Advice from Houston Kemp in a review of the Castalia report<sup>1</sup>, confirms the economic and regulatory principles underpinning the suitability of accelerated depreciation for gas pipeline infrastructure remains the same as when the Commission introduced this measure for DPP3, including to reduce the prospect of a death spiral. Further, any assessment of accelerated depreciation must consider both the benefits and impacts, as well as a range of underlying factors that may or may not impact consumers in the short and long term. The uncertainty in underlying factors, trends and possible outcomes is relevant to many aspects of this DPP4 decision, supporting a continuation of DPP3 approaches, with monitoring and testing outcomes during the DPP4 period. Accelerated depreciation is just one of the approaches used in the draft DPP4 decision to respond to the current context and cannot be regarded in isolation from the Commission's approach to the package of measures including approach to system growth capex, asset replacement and renewal (**ARR**) and demand uncertainty mechanisms.

Major Gas Users Group supported by Castalia (**MGUG**), Fonterra, Optima Energy and NZ Steel<sup>2</sup> submit that accelerated depreciation creates a "self-fulfilling prophecy" or "death spiral" by raising near-term prices which "discourage industrial, commercial, and residential users from continuing to rely on gas, incentivising them to disconnect from the gas network".

Quantitative evidence in the joint Firstgas, Powerco and Vector cross-submission<sup>3</sup> on the issues paper shows that the impact of wholesale gas price increases is significantly greater than the impact of accelerated depreciation. For example, with industrial users (NG60) the wholesale impact is 76.06 times greater than the depreciation adjustment. Even for residential customers, wholesale costs have 1.44 to 1.81 times the impact of depreciation. In our view, broad market conditions rather than accelerated depreciation would be a primary driver of disconnections.

There is no evidence that price impact from accelerated depreciation is broadly incentivising industrial, commercial and residential gas customers to disconnect. EECA research released on 29 January 2026<sup>4</sup> interviewed a range of small and medium sized businesses with findings generally aligned to the 2025 Pinstriped Leopard consumer research<sup>5</sup>, finding that for many businesses a transition away from gas is not easy and does not present clear opportunities for ongoing energy cost savings in opex to justify the high capex investment required. Even with

---

<sup>1</sup> Included with the Firstgas, Powerco, Vector joint (GIFWG) cross submission on the DPP4 draft decision

<sup>2</sup> MGUG, submission on gas DPP4 reset 22 January 2026, page 13. Accompanying report by Castalia, Evidence-based assessment of accelerated depreciation of gas transmission and distribution networks, January 2026 page 7 and 15

<sup>3</sup> Firstgas Powerco Vector joint cross-submission on responses to the issues paper, 14 August 2025. [Available on the Commission website](#)

<sup>4</sup> Verian, SME gas users: How are SMEs responding to gas market uncertainty, November 2025 (released by EECA 29 January 2026). Research for EECA: [Available on the EECA website](#)

<sup>5</sup> Pinstriped Leopard, What's fair? Qualitative research SME summary report, July 2025. [Available on the Commission website](#)

significant increases in prices and uncertainty about the future of gas pricing, the customers in the EECA research are most likely to take no action rather than disconnect from the gas network.

The refreshed Gas Infrastructure Working Group (GIFWG) modelling and analysis (*Refreshed Analysis Paper, Financial implications of stylised gas network winddown and retreat scenarios*)<sup>6</sup> provides evidence that accelerated depreciation helps reduce asset stranding risk. However, it does not eliminate stranding risk or cost under-recovery with unrecovered revenue persisting over an extended period and projected returns remaining materially below the regulated weighted average cost of capital (**WACC**). The Castalia model appears to assume willingness to pay remains constant over time. Importantly, the GIFWG analysis models willingness to pay which changes over time and is a key constraint on cost recovery. Drawing a direct link between accelerated depreciation and consumer disconnections is inappropriate without robust analysis that isolates other factors, such as alternative energy costs, carbon costs, government policy, and broader economic conditions.

Castalia views "sustaining investment" as proof that there is no stranding risk<sup>7</sup>. However, Powerco's investment is both an operational necessity to protect the 113,000 customers who currently rely on the network for essential needs, and to maintain the network's relevance and affordability. Powerco's submission on the draft decision seeking flexibility in capital contributions and ongoing investment in biomethane options are proactive tools to prevent a death spiral by maintaining the network's relevance and affordability. Further, exposing investors to stranding risk with no tools (such as accelerated depreciation) to manage it, disincentivises the investment needed for a secure, affordable energy transition.

Powerco acknowledges that price stability is a major concern for consumers and that sudden demand shifts could lead to price shocks. This is the rationale for Powerco seeking adjusted uncertainty mechanisms targeted at potential demand shifts, for example enabling a reopener process that will manage potential price shock due to unexpected changes in demand.

Powerco's network analysis and improved understanding of asset characteristics allow us to be more targeted in depreciation across the network. Our Asset Management Plan (**AMP**) sets out the framework for our network classification and describes how accelerated depreciation is one tool to address unique network and cost recovery circumstances<sup>8</sup>. Our information and approach have evolved since first applying accelerated depreciation in the DPP3 period and will continue to evolve through DPP4. Factors relevant in more targeted accelerated depreciation include asset location, technical function, economic asset life, and the specific customer base being served.

The MGUG and Rewiring Aotearoa submissions also suggest that NPV=0 approach is not valid. The submissions do not acknowledge that financial capital maintenance and NPV=0 principles in economic regulation are essential to maintaining incentives to invest. The Commission has endorsed ex-ante real FCM and FCM's practical application in the form of net present value = 0 (NPV = 0), as a key economic principle in the incentives for GDBs to invest and operate efficiently<sup>9</sup>. There is a need to retain incentives for GDBs to invest for at least 20 years (as per draft decision) and the NPV=0 principle is one underlying principle in the Commission's approach. As for accelerated depreciation, it cannot be assessed in isolation.

---

<sup>6</sup> Included with the Firstgas, Powerco, Vector joint (GIFWG) cross submission on the DPP4 draft decision

<sup>7</sup> Castalia report, pages 6, 10-11, 19

<sup>8</sup> Powerco Gas AMP 2025, page 18 [Available on the Powerco website](#)

<sup>9</sup> Commerce Commission, Financing and incentivising efficient expenditure during the energy transition topic paper - draft decision on Part 4 Input Methodologies review 2023, 14 June 2023, Chapter 2 [Part-4-IM-Review-2023-Draft-decision-Financing-and-incentivising-efficient-expenditure-during-the-energy-transition-topic-paper-14-June-2023.pdf](#)

## 2. Growth, connections and disconnections

Rewiring Aotearoa submits that there should be 100% upfront capital contributions required and no growth capex to prevent existing users from subsidising new connections<sup>10</sup>. Powerco's experience is that flexible capital contributions are a critical tool to manage demand risk. Mandating 100% upfront costs would remove consumer choice and accelerate network stranding by making it impossible to offset demand reduction through new connections. Powerco's data shows sustained regional demand in subdivisions that justifies a \$3.056 million system growth allowance. The Commission's endorsement of our prudent growth capex will support economic growth in the regions. Our own experience is that growth projections and sentiment to gas differ between regions.

Powerco has a managed approach in adjusting capital contributions, already implementing a steady increase across RY25-RY30. As demonstrated in the (confidential) information in our submission on the draft decision<sup>11</sup>, Powerco's approach to customer contributions for new works differs by sectors and individual customer in the case of large customers. This enables a full consideration of factors such as affordability and deindustrialisation for individual sectors and the remaining customer base, as raised by NZ Steel, Fonterra and Optima. Managing customer contributions now, and through a managed change programme supports a prudent and balanced approach to affordability and efficient cost recovery.

Rewiring Aotearoa comments on gas disconnections noting "some gas distribution networks require their customer to undertake the higher cost \$3,000 option, and some retailers may still charge customers a daily charge if they do not undertake the permanent costly full connection decommissioning. Others allow customers to choose if they want to fully decommission their connection and pay the cost of this, or take the lower cost alternative and turn off at the meter"<sup>12</sup>. Powerco does not require customers to choose the option of decommissioning the connection. With the lower cost<sup>13</sup> option to remove the meter and cap the connection, we do not continue any fixed charge to the retailer once a meter has been removed and the riser capped. All our customers have the option of either meter removal or service decommission, however we cannot control the options and prices that retailers implement.

## 3. The FY27-32 DPP period vs a longer-term managed transition

Some issues raised in submissions are valid considerations for the longer-term energy transition, but not judgements to be made by the Commission for this DPP4 decision. For example, Vector submit<sup>14</sup> that the current Weighted Average Price Cap (WAPC) is no longer fit for purpose because demand drivers are now exogenous and uncontrollable.

We support the Commission looking at options for form of control as change occurs to customers' needs and network management needs. We see the DPP4 period as an opportunity to more fully investigate form of control options, informed by analysis of underlying trends and possible trigger points for future introduction of changes to the WAPC approach. Evidence presented in the GDB submissions on the draft decision indicate that there may be

---

<sup>10</sup> Rewiring Aotearoa submission on the gas DPP4 reset 2026 draft decision, page 2-3

<sup>11</sup> Powerco submission on the gas DPP4 draft decision, 22 January 2026, section 2.2 and Attachment 2b

<sup>12</sup> Rewiring Aotearoa submission on the gas DPP4 reset 2026 draft decision, page 6

<sup>13</sup> Powerco's RY26 fee for meter removal and riser capping is \$200 for a standard residential meter in urban areas of our network. Additional charges may apply for non-standard jobs or smart meters.

<sup>14</sup> Vector submission, gas default price quality path beginning 1 October 2026: draft decision, 22 January 2026, page 3 and page 9-18 (and accompanying reports by Axiom and Oxera).

regional differences in trends, and therefore possible outcomes, which will be one aspect to consider in the Commission's monitoring and assessing options during DPP4.

Rewiring Aotearoa and Mercury call for a "withdrawal of service code" or a staged retirement of uneconomic parts of the network<sup>15</sup>. Powerco supports right sizing the network and we outlined in our response to the open letter (March 2025)<sup>16</sup> how our revised Network Rationalisation Strategy<sup>17</sup> will formalise consideration of network decommissioning in some locations based on viability. Powerco has assessed the health of all our networks and plans to progress one decommissioning project during DPP4 which will inform understanding on processes, costs and benefits of future network decommissioning. Network right-sizing or partial decommissioning is not yet urgent or material enough to require an allowance to be provided in the DPP4 period. However, we support the intention for a separate regulatory project to investigate rightsizing and decommissioning in advance of the DPP5 period.

Right sizing and decommissioning are long term transition considerations, however in the DPP4 period, Powerco must continue to invest in asset replacement and renewal (ARR) capex to maintain a safe and reliable network for customers who currently rely on the network.

We agree with Rewiring Aotearoa<sup>18</sup> that policy measures for a managed transition (including funding decommissioning) are broader than the Commission's mandate. This makes stable DPP4 settings even more critical to ensure GDB viability while gas transition strategy evolves.

---

<sup>15</sup> Rewiring Aotearoa submission on the gas DPP4 reset 2026 draft decision, page 3-4. Mercury submission on Gas DPP4 draft decision, 16 January 2026, page 2.

<sup>16</sup> Powerco response to the gas DPP4 open letter, 13 March 2025, page 7. [Available on the Commission website](#)

<sup>17</sup> Powerco Gas AMP 2025, section 6.8, page 181. [Available on the Powerco website](#)

<sup>18</sup> Rewiring Aotearoa submission on the gas DPP4 reset 2026 draft decision, page 3-4. Mercury submission on Gas DPP4 draft decision, 16 January 2026, page 3.