



MAJOR ELECTRICITY USERS' GROUP

26 August 2010

Ian Wilson
Gas Industry Company
By email to Ian.Wilson@gasindustry.co.nz

Dear Ian

Submission on Vector Transmission Capacity Questions for participants

1. This is a submission by the Major Electricity Users' Group (MEUG) on eight questions relating to Options for Vector Transmission Capacity discussed at the Gas Industry Company (GIC) workshop on 18th August in Auckland and the briefing in Wellington yesterday¹.
2. Before commenting on the specific questions, we note a clarification regarding the "Analysis of Submission on GIC Options Paper"² by Creative Energy Consulting for GIC. Creative Energy in slide 4 of that analysis summarise the earlier submission by MEUG of 8th July 2010 as our preference being to consider "other options". We think a more accurate summary of that submission would be to also tick "Hybrid" and "Incremental change". In other words MEUG did not support the extremes of either a pure contract or pure common carriage regime but had an open mind about a pragmatic solution combining both.
3. Creative Energy correctly noted (slide 5) our submission had a focus on improving transparency. This remains a key issue because we still do not know if the pipeline operating regime of Vector Transmission is overly conservative compared to a comparable Reasonable and Prudent Operator standard. If Vector is ultra risk adverse then the perceived physical and commercial constraints on offering additional pipeline capacity may be overcome simply by having greater transparency and therefore a more informed discussion of how Vector Transmission manage risk and their reliability standards.
4. Responses and comments to the consultation paper questions follow:

Question	Response
Q1. Do you consider that industry codes need to promote competition?	Yes. If not, then parties to the code could be in breach of the Commerce Act.
Q2. Do you consider that existing Vector access arrangements are affecting competition in	

¹ <http://www.gasindustry.co.nz/work-programme/transmission-pipeline-capacity?tab=1733>

² http://www.gasindustry.co.nz/sites/default/files/u180/Analysis_of_submissions_on_VT_options_paper_0.pdf

<p>(i) the retail gas market, and</p> <p>(ii) the wholesale gas market?</p>	<p>Yes. We agree with the GIC summary³ (slide 6) that large end users are unable to obtain competitive bids from retailers. This will also apply to new entrant gas fired peaking plant or base load plant trying to enter the market.</p> <p>Yes. We agree with the GIC summary (slide 6) that competition among gas producers may also be restricted.</p>
<p>Q3. Do you consider that the annual review of the VTC should allow for changes to be made if existing arrangements are damaging competition?</p>	<p>This is essential. If the annual review of the VTC is not proactive to deal with barriers to competition, then it should be replaced with a regulated solution.</p>
<p>Q4. Do you consider that an urgent change to the VTC is required to improve competition?</p>	<p>Agree an urgent change to the VTC should be considered. Note MEUG agrees with:</p> <ul style="list-style-type: none"> • The analysis of Creative Energy presented at the workshop (slide 2 of “short-term options for Vector Capacity Arrangements”⁴) that efficient allocation and facilitating competition are key short term issues that could be addressed with an urgent rule change; and • With the assessment by GIC (slide 10) that “on preliminary consideration No detriment to business confidence if ‘grandfathering’ is adjusted.”
<p>Q5. Do you consider that it is preferable to change the code through the existing code change provisions or through regulation?</p>	<p>It would be preferable to change the VTC using the existing code change processes. However MEUG is not optimistic this will be possible because:</p> <ul style="list-style-type: none"> • The only parties that can make a code change proposal are existing Shippers and Vector. Other interested and affected parties, namely end consumers and possible new entrants, have no right to propose a change; • We see little common ground or incentive for existing Shippers to reach an agreement in the national interest if it means some (most) will have to concede grandfathered capacity rights. <p>MEUG suggests the GIC and parties to the VTC discuss with other interested parties a process to arrive at improvements to the VTC in order to avoid regulation. At the briefing yesterday the idea of an industry working group was suggested and we would support that type of approach.</p>
<p>Q6. Do you consider that there are risks to your organisation if an urgent change is implemented? If so, please specify.</p>	<p>On the basis of the work to date we see no show stoppers to proceeding with detailed investigation of short-term solutions.</p>

³ http://www.gasindustry.co.nz/sites/default/files/u180/18_August_2010_Industry_workshop.pdf

⁴ http://www.gasindustry.co.nz/sites/default/files/u180/Short_term_options.pdf

Q7. Do you consider that there are options to improve competition in the short-term that were not canvassed at the 18 August 2010 workshop? If so, please specify.	No; apart from reemphasising that in considering short-term solutions there needs to be greater transparency from Vector of the current operating regime (refer also comments in paragraph 3 of this submission) .
Q8. Are there any other factors relevant to the short term issues that you believe GIC should consider? If so, please specify.	<p>On the material published to date we do not believe addressing the short term issues will prejudice the path for better long term arrangements after the investment rules have been formulated by the Commerce Commission.</p> <p>At the Auckland workshop on 18th August, Greymouth Gas indicated that they were prepared to invest in capacity if Vector Transmission wouldn't. However that might require Greymouth Gas to get access to Vector held easements on reasonable terms. GIC could assist by investigating whether access to pipeline easements would improve competition in the pipeline market to enable investment to be made much quicker than waiting for the new Commerce Act Part 4 arrangements that commence July 2012.</p>

5. We look forward to participating in further steps to improve the VTC.

Yours sincerely



Ralph Matthes
Executive Director