

24 February 2014



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Steve Bielby
GTIP Project Sponsor
Gas Industry Company
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Dear Steve

**Submission on Transmission Access;
Options for Improvement**

1. Vector Limited ("Vector") welcomes the opportunity to make a submission on the Gas Industry Company's ("GIC") consultation paper on *Transmission Access; Options for Improvement* ("consultation paper"), dated 23 December 2013.
2. This submission is not confidential and we are happy for it to be made publicly available.
3. Vector's contact person for this submission is:

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Active support for an industry-led solution

4. We agree with the GIC that "amended transmission Codes that satisfactorily address the identified problems and are supported by signatories and other stakeholders would be the best option in this situation".
5. As signalled in our submission on the GTIP on 30 August 2013, we are actively engaged in an industry-led joint development process through a working group with Maui Development Ltd ("MDL") and our shippers, with economist support.
6. This working group has met monthly since November 2013 and has prepared an implementation plan and a communications plan to support the process, copies of which have been provided to the GIC. Progress has been made on improving code change processes, as outlined in our August 2013 submission.

7. The industry working group has also begun work on formulating options for capacity allocation and access improvement, which will be presented to an industry stakeholder workshop on 14 April 2014. The industry working group expects to make its first formal report to the GIC at the end of March 2014.
8. We welcome and appreciate the GIC's support of this industry process.
9. For the avoidance of doubt, Vector, in supporting the industry process, does not in any way agree to the delegation of any of its rights under the VTC to any party.

Focus should be on supporting the industry process

10. We accept that a regulatory approach may need to be adopted should the industry fail to deliver efficiencies in the market for gas transmission services. However, we believe that the GIC need not and should not develop detailed regulatory solutions immediately, because:
 - a. While we agree that there is a long time scale for developing regulation, we note also that there is no immediate urgency;
 - b. There are significant costs in developing detailed regulation, that would be wasted should it not be required;
 - c. It will distract both the industry and the GIC from supporting the best option, being the industry process; and
 - d. It would put the GIC into a position of conflict of interest in supporting that industry process.
11. Rather, the GIC should monitor the industry process and only incur the significant expense of developing regulations should the industry process falter.

Evaluation criteria

12. The consultation paper is inconsistent in its assessment of need, in terms of its assumptions on the timing or imminence of scarcity.
13. Figure 1 of the consultation paper illustrates the service components. We find the approach of Figure 1 useful.
14. However, Figure 1 indicates that, to meet the evaluation criteria, the GIC expects a market to determine both price and quantity in times of scarcity (the lower-right green boxes).
15. The option that would achieve this, the daily capacity auction (DCA) is, however, dismissed as too high cost, such that there "does not appear to be any merit in progressing this option at this point (although it would be worthwhile to preserve the option for the future)".

16. This is consistent with the second proposed evaluation criterion (scarcity price signalling to trigger long-term investments), but not with the first (efficient allocation of scarce contractual and physical capacity). Thus, the consultation paper actually applies criteria as follows:

Proposed in consultation paper	Applied by the consultation paper
Efficient allocation of scarce contractual and physical capacity	Preserving the option for future efficient allocation of scarce contractual and physical capacity
Scarcity price signalling to trigger long-term investments	Scarcity price signalling to trigger long-term investments

17. This approach is consistent with the statements made by the GIC in presenting the consultation paper at its 12 February workshop, that long-term price signals are considered more important than short-term.
18. We agree with this assessment and with the criteria as applied. While there is always some risk of near-term scarcity, that risk is low and may not be worth significant expenditure to prepare for at this time. The evaluation criteria should be modified as per the table above, and Figure 1 corrected so that bottom rows reflect that a market that determines both price and quantity in times of scarcity is a potential future expectation, not a current one.

Potential auction platform

19. We have commented above on the Vector related issues rather than also Maui related issues in the consultation paper. However, there is one issue relating to the MPOC that could have wider implications. That is, it is assessed (Table 2, page 22) that Maui should implement AQ auctions and platforms, at medium cost and around a six month timeframe for development and acquisition of an IT platform (an optimistic assessment of time in our opinion).
20. We note that if it is decided to move to a market system for determining rationing quantities and price during a scarcity, then this would likely also require some form of auction. If so, it would probably be efficient to use the same IT platform for both. We therefore suggest that, should Maui proceed with the initial changes suggested, this be co-ordinated and be compatible with the Vector system market design options.

Cost recovery

21. The evolutionary convergence approach will add administrative costs to the industry, albeit with every expectation that market benefits will outweigh them. There may be code changes at a rate beyond historical business as usual, which may incur both additional administrative costs and additional implementation costs.

There will also be additional operating costs, for example, of running the industry advisory group and its economist support and ultimately the establishment and operation of any changes to access arrangements.

22. Vector is of the view that the changes to access and capacity pricing arrangements that will result from the evolutionary convergence approach will benefit all market participants and, as a principle, is a cost that should be borne by those parties.

Errors of fact

23. There are many sections throughout the consultation paper that make assumptions about Vector and the VTC. We propose to discuss these errors with the GIC directly.

Recommendations

We recommend that the GIC support:

- The industry process as the preferred process by taking a considered and minimalist approach to the development of the regulatory backstop unless it becomes evident that the industry process is faltering;
- Coordination of Vector and Maui options to ensure convergence rather than divergence (for example, as raised in the discussion of the AQ auction platform); and
- The principle that any evolution of access arrangements will benefit all market participants and should therefore be borne by market participants.

Yours sincerely



Bruce Girdwood
Group Manager Regulatory Affairs

Appendix A Response to the consultation questions

Question	Vector response
<p>Q1 Do you consider that the problem definition and evaluation criteria developed by Gas Industry Co are appropriate for identifying the reasonably practicable options?</p>	<p>No. Those criteria are – reasonably – supplemented in the analysis of the consultation paper by a time dimension reflecting the low likelihood of near-term scarcity. We agree with the criteria as <u>applied</u> in this way by the consultation paper, with the first being replaced by “Preserving the option for future efficient allocation of scarce contractual and physical capacity”. Please see our discussion of this in the covering letter.</p>
<p>Q2 Do you consider that the approach to assessing the high-level options is a reasonable means of identifying which options should be considered for further evaluation?</p>	<p>Yes</p>
<p>Q3 Do you agree with the characterisation of the current services presented in Figure 1?</p>	<p>Figure 1 provides a useful high-level overview but indicates that, to meet the evaluation criteria, the GIC expects a market to determine both price and quantity in times of scarcity (the lower-right green boxes). This is inconsistent with the application of the evaluation criteria to the assessment of options. Please see our discussion of this in the covering letter.</p>
<p>Q4 Do you agree that improvements to transparency, Maui AQ and Vector as-available service provide a logical set of ‘initial changes’?</p>	<p>Yes. The industry working group already has these (and others) on its work plan.</p>

Question	Vector response
<p>Q5 Do you agree with the assessment of the initial changes?</p>	<p>No we do not agree with the assessment of the initial changes.</p> <p>We have taken steps to make additional information available and we are committed to continuing to do so. However, the basis for the additional information set out in the initial changes section may not be justified and it is not costless or low cost as the paper presumes.</p> <p>An interruptible policy is already published. It is a non-standard service and given the market design of the VTC it needs to be contracted on a case by case basis. The fact that pricing is generally half of posted prices is already signalled. There could be circumstances where it is less (or more) due to the unique characteristics of the load or the user. Accordingly, engagement with the TSO is required in order to finalise these matters.</p> <p>In relation to the availability of capacity, we have undertaken to update the capacity determination annually. The availability of capacity at a particular point is dynamic in that it is dependent upon what is happening at all of the other points on the pipeline in question. Signalling capacity in the abstract could be misleading. We currently provide customised information about the availability of capacity at a particular point on request. We do not agree that interested parties having to engage with the TSO to obtain this information is an obstacle. Rather, it is necessary to enable the TSO to provide meaningful information to those interested parties within the context of the current VTC market design</p> <p>Nominations could be disclosed with the agreement of the counterparty.</p>

Question	Vector response
<p>Q6 Do you consider that there are any other options for improvement which should be considered?</p>	<p>No. We agree that more radical gas market changes need not be considered. The five selected represent an appropriate range of options for industry evolution. However, the options are specified in too much detail, and in a manner that precludes considerations of approaches that mix features of the five options. Assuming that the GIC's intent is to develop some of these options towards possible regulation, different means of achieving the broad intent of the option, and of 'mix and matching' between options must be explored.</p>
<p>Q7 Do you agree with the assessment of the 'use it or lose it' option?</p>	<p>We agree that a long term ex-ante 'use it or lose it' approach should be dismissed as unworkable. With regard to the close to real-time re-allocation, the assessment details one approach. There are others. However, as we agree with the option being dismissed from further consideration (Q12), the details are not critical.</p>
<p>Q8 Do you agree with the assessment of the 'firm future rights' option?</p>	<p>The proposal to offer rights (call options) to acquire future capacity appears to have significant problems:</p> <ol style="list-style-type: none"> 1. If Vector knows future capacities, options are not needed, and if it does not, how many options should be sold? 2. It presumes than an auction can be designed that would lead to both market price discovery and an ordered queue – it is not obvious to us that this is possible. 3. To provide forward price signals any such options should be tradable, which raises the complexity and cost of their treatment under securities legislation. <p>Some form of tradable allocation of future capacity would seem a much preferable solution.</p>
<p>Q9 Do you agree with the assessment of the 'capacity follows the end user' option?</p>	<p>We do not believe this is an economically sensible option that will resolve the problem of efficient capacity allocation at peak times and that it should therefore be discarded as an option.</p>

Question	Vector response
<p>Q10 Do you agree with the assessment of the 'flow on nominations' option?</p>	<p>No. The FON option as outlined might appear simple and workable on the two-point example used, but would be extremely complex and expensive to implement on the multi-point Vector system.</p> <p>Part of this complexity is that the FON option as described mixes imbalance and capacity mechanisms. These might be best kept separate.</p> <p>Further, there appears to be no incentive on shippers to nominate accurately under the proposed approach, and the risk that the process could be gamed.</p> <p>This option has been specified too precisely, and in our view in an unworkable direction. The option should be returned to the 'drawing board' around high-level solutions to the problem of providing shippers with the means and incentive to make accurate nominations at low cost.</p>
<p>Q11 Do you agree with the assessment of the 'daily capacity auction' option?</p>	<p>Yes, we agree that a daily capacity auction:</p> <ul style="list-style-type: none"> • would satisfy the Figure 1 requirement of a market to determine both price and quantity in times of scarcity • may be too costly in the short term given the low likelihood of near-term scarcity and if so should be kept as a future option
<p>Q12 Do you agree with the selection of 'firm future rights' and 'flow on nominations' as the options that warrant further consideration?</p>	<p>Yes, noting that:</p> <ul style="list-style-type: none"> • 'use it or lose it' and 'capacity follows the end user' are inferior • 'daily capacity auction' has efficiency benefits but it is high cost and the low likelihood of imminent congestion makes it an option that should be carefully considered (see our comments on Q2 and Q11) • the assessment of 'firm future rights' and 'flow on nominations' may require refinement of details as and when they are developed and should consider a mix and match of these features.
<p>Q13 Do you agree with the next steps?</p>	<p>We do not believe that the GIC should be incurring significant expenditure on regulatory solutions until and unless it is convinced that its preferred option – an industry process that is already well underway – has faltered. Such expenditure would be not only be a waste of money, but also a distraction for all parties, and potentially create conflict of interest for the GIC in its support of the industry process.</p>

