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29 July 2011

Melanie Leonard
Senior Advisor
Gas Industry Company
PO Box 10-646
Wellington

Dear Melanie

**Submission on the Draft Principles for Arrangements
on Gas Distribution Systems**

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Gas Industry Company's ("GIC") draft principles for arrangements on gas distribution systems ("the Draft Principles"). Our responses to specific questions in the consultation paper are indicated in the attached submission form.
2. Vector strongly supports the GIC's advice to the Minister of Energy and Resources in December 2010 that regulation of gas distribution agreements is not required at this time. We appreciate the GIC's expeditious decision on this matter, following its successful development of a gas retail benchmark contract.

GIC's decision consistent with good regulation

3. Vector considers the GIC's decision not to regulate gas distribution agreements to be appropriate and consistent with good regulatory practice. This decision will provide greater certainty for market participants.
4. Vector recognises that access issues can arise where the access provider is also competing with access seekers, and is well aware of the ongoing problems in telecommunications over access. Equivalent problems have not arisen in relation to gas distribution. As we noted in our previous submission, the regulation of gas distribution agreements with retailers is not warranted because:
 - a. There is a dearth of complaints from retailers or directly from consumers;

- b. All of Vector's gas distribution networks will be subject to initial default price-quality regulation once recent amendments to the Commerce Act 1986 will take effect in 2012;
 - c. Gas retailers are businesses of considerable size and are able to negotiate on a "level playing field" with distributors. Contracting issues are generally, therefore, best left for commercial parties to negotiate; and
 - d. Regulating distribution agreements may hamper contracting innovation. Diversity in contractual agreements could reflect competitive pressures in the market.
5. Vector believes there are much higher priority areas where the GIC should be focusing its time and resources. In particular, the GIC needs to ensure the right regulatory and commercial settings are in place to facilitate transmission pipeline investment, as required; develop more permanent retailer insolvency arrangements; and progress work on transmission pipeline balancing and the review of the Gas (Downstream Reconciliation) Rules 2008.

Alignment with other regulatory work

6. The work of the GIC on gas distribution has parallels and overlaps with the work of both the Electricity Authority and the Commerce Commission.
7. Vector considers that it would be preferable for all aspects of economic regulation (pricing, service quality, contractual terms and conditions) to be dealt with by a single regulator, rather than being divided amongst multiple regulators (GIC, Electricity Authority and the Commerce Commission). We recognise this is not a situation the GIC has created but believe the GIC should be cognisant of the impacts these parallels and overlaps can have.
8. For example, the Electricity Authority is required to introduce Electricity Industry Participation Code provisions for all electricity distributors to use more standardised use-of-system agreements. The Authority is currently working on standard use-of-system arrangements.
9. Vector notes some overlaps between the GIC's work on the Draft Principles and the Commerce Commission's implementation of recent amendments to the Commerce Act, particularly the impending determination of the initial default price-quality path, starting price adjustments, and information disclosure requirements for gas pipeline businesses. These decisions will influence the degree of flexibility that distributors and retailers have in setting prices and identifying specific information that regulated distributors need to disclose.

10. Moreover, the GIC's work on gas distribution agreements has potential ramifications in relation to the Commerce Commission's responsibilities under Part 4 of the Commerce Act 1986.
11. For example, under section 53C(2) of the Commerce Act the Commerce Commission may prescribe that gas distribution businesses are required to disclose (c) prices, terms and conditions relating to prices, and pricing methodologies; and (d) contracts. Given the GIC is also intending to require disclosure of contracts, it should liaise with the Commerce Commission to avoid duplication of disclosure arrangements.
12. The GIC's proposed gas distribution principles are relatively light-handed. As a matter of general principle, any proposals that are more prescriptive and onerous would have needed to take into account the extra costs and risks to industry participants that are subject to regulation under the Commerce Act.

Closing comment

13. Vector is making good progress in updating and standardising its non-Auckland network distribution agreement, bearing the Draft Principles in mind. We then intend to prepare a similar standard agreement for our Auckland gas distribution network. We believe our standard agreements will generally be compliant with the Draft Principles.
14. Thank you for considering this submission. Vector appreciates the ample time provided for stakeholders to respond to this consultation document.
15. If you have any questions, or require further information, please contact Luz Rose, Senior Regulatory Analyst, at 04 803 9051 or Luz.Rose@vector.co.nz.

Kind regards



Bruce Girdwood
Manager Regulatory Affairs

Appendix A: Consultation Paper: Draft Principles for Arrangements on Gas Distribution Systems

Submission prepared by: Vector Limited

Contact: Luz Rose, 04 803 9051, Luz.Rose@vector.co.nz

QUESTION	COMMENT
<p>Q1: Do you have any comments on the proposed purpose and definitions for the principles?</p>	<p>Consumer</p> <p>Vector <u>strongly proposes</u> that the definition of a “consumer” include not only “a person who uses gas” but also “a person who has the ability to use gas” supplied from a gas distribution system. This definition would cover ICPs with an “inactive” status in the Gas Registry and provide greater certainty to industry participants and end consumers, particularly when a retailer becomes insolvent.</p> <p>The proposed definition would include an insolvent retailer’s customers, who have not been transferred to another retailer, but who cannot be easily disconnected and who therefore continue or have to ability to continue to consume gas. It is not physically possible to simply cut off the supply of services to an insolvent retailer or its customers with the flick of a switch. To stop the insolvent retailer’s customers from taking gas, each site would have to be visited by the distributor and/or meter provider.</p> <p>Aside from the practical difficulty of visiting potentially many thousands of properties in a short time, disconnecting customers as a result of retailer insolvency is not a desirable outcome for the gas industry and consumers, whose attitude towards gas as a fuel of choice could be negatively impacted.</p> <p>The development of more permanent insolvency arrangements, which Vector proposed in its March 2011 submission on the now-expired Gas Governance (Insolvent Retailers) Regulations</p>

QUESTION	COMMENT
	<p>2010, would support the objectives of the Draft Principles.</p> <p>Distributor</p> <p>Vector notes the definition of a “gas distributor” does not cover bypass networks, following the Rulings Panel decision that Nova is not a gas distributor under the Gas Act 1992. We note, however, the Rulings Panel’s recommendation that the GIC urgently consider the necessary legislative amendment to bring the bypass network (and any others that might be built in the future) within the definition so that the relevant regulations apply to it.</p> <p>We strongly encourage the GIC, if not the Ministry of Economic Development, to recommend to the Minister that the Gas Act be amended accordingly to reflect the Rulings Panel’s recommendation sooner rather than later.</p> <p>The Draft Principles should provide that the definitions immediately give effect to any future amendments to the Act.</p> <p>Distribution service arrangement</p> <p>We are pleased that the definition of a “distribution service arrangement” includes all documents relevant to the agreed relationship between a distributor and a retailer. This encourages greater transparency, reducing transaction costs for the contracting parties.</p> <p>Line charges</p> <p>Vector <u>proposes</u> that the words “...(fixed, variable, or a combination of these)...” be deleted from the definition of “line charges”. The impending price-quality regulation of gas distribution businesses, following recent amendments to the Commerce Act, dictate and constrain the</p>

QUESTION	COMMENT
	<p>adjustments distributors can make or the type of information they should disclose, making a prescriptive definition unnecessary.</p>
<p>Q2: Do you have any comments on the proposed General Principles?</p>	<p>Vector notes the Draft General Principles are high level. We support these Principles, in tandem with the application of the more specific principles.</p> <p>We are making good progress in updating and standardising our non-Auckland network distribution agreement, bearing the Draft Principles in mind, and intend to publish and implement that in October this year. We then intend to prepare a similar standard agreement for our Auckland gas distribution network.</p> <p>Vector <u>proposes</u> that the term "...fairly represent the interests of the Retailer and Distributor..." in Draft Principle 2 be replaced with "...reasonably reflect the interests of the Retailer and Distributor...". The word "fair" is highly subjective and there will inevitably be divergent views on the interpretation of what is fair and what would fairly represent the interests of the respective parties. The term "reasonable" would better align the principle with section 43F(2)(c) of the Gas Act which enables regulations to be created "prescribing reasonable terms and conditions for access to transmission or distribution pipelines" (<i>emphasis added</i>).</p>
<p>Q3: Do you have any comments on the draft 'obligation and rights of parties' principle?</p>	<p>Vector <u>proposes</u> that the Note on Specification Gas under Principle 4 be replaced with a reference to the ongoing industry discussions on gas quality and safety that the GIC is facilitating. The outcome of those discussions, which will clarify the information that various parties along the gas supply chain need to disclose to each other to fulfil the requirements of the Gas (Safety and Measurement) Regulations 2010, will have a more practical bearing on parties' understanding of their contractual obligations and rights than a mere reference to the Gas Specification standard.</p>

QUESTION	COMMENT
<p>Q4: Do you have any comments on the draft 'distribution services provided' principles?</p>	<p>Draft Principle 5 provides that the distribution services and the service standards for these services should be described by the distributor. The service standard that Vector will provide under its standard terms will be that of a "reasonable and prudent operator".</p>
<p>Q5: Do you have any comments on the draft 'Pricing including pricing changes' principles?</p>	<p>Vector believes it is good practice for distributors to consult potentially affected parties before making price changes (Draft Principle 7).</p> <p>We have no objections to the notice period of 60 days, which is consistent with the Electricity Authority's proposed requirement for electricity distribution businesses.</p>
<p>Q6: Do you have any comments on the draft 'commencement and cessation of line charges' principle?</p>	<p>Vector agrees with this Principle.</p>
<p>Q7: Do you have any comments on the draft 'disconnection and reconnection' principle?</p>	<p>Vector is pleased that the Draft Principles include a reference to the protocol developed by the Gas Association of New Zealand in relation to disconnection/reconnection ("the GANZ Protocol"), which we mentioned in our previous submission. We note that with the departure of retailers from GANZ, the current GANZ membership is confined to distributors and meter providers, and cannot be seen as representative of the entire industry. We maintain our view, however, that the GANZ Protocol could serve as a good basis for the development of a firmer industry agreement on disconnection/reconnection. The GIC may wish to consider facilitating that process.</p> <p>In the absence of a binding industry agreement on disconnection/reconnection, we propose that Principle 11 be amended, as follows:</p>

QUESTION	COMMENT
	<p>The Distribution Service Arrangement should clearly refer to the Distributor’s policy with respect to the disconnection and reconnection of a supply point on its system.</p>
<p>Q8: Do you have any comments on the draft ‘information exchange and use’ principles?</p>	<p>File formats</p> <p>Vector supports Draft Principle 12, which relates to the standardisation and alignment of information exchange formats according to industry-agreed protocols. This will contribute to a more efficient downstream reconciliation system, lowering costs for industry participants and consumers.</p> <p>Vector participates in the industry-initiated File Formats Working Groups for both the gas and electricity sectors. We generally supported the Gas Working Group’s proposed changes to file formats, released for consultation in December 2010 through the GIC. We understood the proposed changes were consistent with the protocols for the electricity industry.</p> <p>Vector strongly supported the proposed file format GIEP1 for communicating network ICP-level consumption information, which is widely used by distributors and retailers on a monthly basis. Currently, there are many inconsistencies with how this information is presented by various parties, necessitating significant re-formatting by users. We submitted that this format be made mandatory.</p> <p>Vector had no objection to the Working Group’s proposed file formats GIEP2, GIEP7, and GIEP8 on a voluntary basis.</p>

QUESTION	COMMENT
	<p>Confidentiality</p> <p>Vector believes Principle 14 could be improved by clarifying that it relates to confidential information only.</p>
<p>Q9: Do you have any comments on the draft 'service interruptions' principle?</p>	<p>Vector <u>proposes</u> the deletion of the second sentence of Draft Principle 15, which states that "...It is expected that the policy would take account of the costs of notification for the retailer and whether other lower-cost alternatives can be adopted".</p> <p>Vector understands the GIC's concern of the possibility of too many service interruptions within a year, which would be costly for retailers who have to notify their (mass market) customers every time an interruption is to take place. We note that this concern is unfounded; currently, service interruptions are rare. In particular, unplanned outages, the cause of which could be unknown to distributors, would leave little time for distributors to consider the wider impact of the interruption. Our standardised contracts will provide for the notification of interruptions, as and when necessary.</p> <p>Vector has no objection to the 4-business day notice period of a planned shutdown unless agreed otherwise with the retailer.</p>
<p>Q10: Do you have any comments on the draft 'managing critical contingencies' principle?</p>	<p>Draft Principle 17 provides that "Contracts should provide for the management of the regional effects of critical contingencies...". Vector has no objection to this Principle.</p> <p>Vector notes the recent decision by the Critical Contingency Operator ("CCO") to amend the CCO Information Guide and the CCO Information Plan, which will have the effect of removing</p>

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	<p>guidance provided by the CCO on whether a critical contingency has a regional or non-regional status. Vector did not support the CCO's decision on the basis that it does not contribute to the achievement of the purpose of the Gas Governance (Critical Contingency Management) Regulations 2008 ("the Regulations"), which is to achieve the effective management of critical gas outages and other security of supply contingencies. Without this guidance, potentially affected parties may not be incentivised to inject additional gas or reduce demand, as needed, in managing an event.</p> <p>We note the GIC's ongoing work to consider making amendments to the Regulations to ensure the CCO provides information on the regional or non-regional status of an event.</p>
<p>Q11: Do you have any comments on the draft 'publication of the standard distribution agreement' principle?</p>	<p>Vector supports the publication of standard distribution agreements, which will promote greater transparency and contribute to the more efficient operation of the gas market. We note that industry participants supported this principle at the February workshop on the Draft Principles which the GIC facilitated.</p> <p>We are happy to publish updated, standard contracts for our gas distribution networks on the Vector website once they are finalised and approved by Vector's Board.</p>
<p>Q12: Do you agree that an assessment should take place approximately six months after the principles are finalised?</p>	<p>Vector considers the proposed assessment six months after the implementation of the Draft Principles to be both unrealistic and unreasonable. Renegotiating contracts individually would not be simple for distributors. While some efficiencies will accrue to retailers, these will merely represent wealth transfers and will have no material, beneficial impact on consumers.</p> <p>Vector <u>proposes</u> self-assessment by distributors of their compliance with the Draft Principles approximately 12-18 months from the date of their implementation, and thereafter, as</p>

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	<p>necessary. We note that the GIC and industry participants agreed to this form of self-regulation at the February workshop. Consistent with the GIC’s ‘non-interventionist’ approach to distribution governance, we consider it appropriate to allow distributors to monitor their own progress.</p> <p>As noted above, Vector is making good progress in updating and standardising its non-Auckland network distribution agreement, and intends to publish and implement it in October this year. We then intend to prepare a similar standard agreement for our Auckland gas distribution network.</p> <p>Without prejudice to the above view, we suggest the use of the following compliance test, proposed by Mighty River for electricity distribution businesses, regardless of who monitors compliance with the Draft Principles.</p> <p style="text-align: center;">Figure: Compliance test</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="3" style="background-color: #ff0000; color: white;">Fails compliance test</th> <th colspan="3" style="background-color: #ffa500;">Warrants Electricity Commission warning</th> <th colspan="3" style="background-color: #00ff00; color: white;">Passes compliance test</th> </tr> </thead> <tbody> <tr> <td style="width: 33%;">Unaware of or disregards Guidelines.</td> <td style="width: 33%;">Does not know whether they comply and/or makes inaccurate compliance statement(s).</td> <td style="width: 33%;">Failure to address Electricity Commission concerns and/or warnings re compliance.</td> <td style="width: 33%;">Internal policies comply but actual practice is non-compliant.</td> <td style="width: 33%;">Non-compliance due to non-misinterpretation of the Guidelines.</td> <td style="width: 33%;">Inadequate (ex-post) justification provided for non-compliance.</td> <td style="width: 33%;">Partial non-compliance set by exceeding other parts of the Guidelines.</td> <td style="width: 33%;">Adequate (ex-ante) justification provided for all areas of non-compliance.</td> <td style="width: 33%;">Fully compliant.</td> </tr> </tbody> </table>	Fails compliance test			Warrants Electricity Commission warning			Passes compliance test			Unaware of or disregards Guidelines.	Does not know whether they comply and/or makes inaccurate compliance statement(s).	Failure to address Electricity Commission concerns and/or warnings re compliance.	Internal policies comply but actual practice is non-compliant.	Non-compliance due to non-misinterpretation of the Guidelines.	Inadequate (ex-post) justification provided for non-compliance.	Partial non-compliance set by exceeding other parts of the Guidelines.	Adequate (ex-ante) justification provided for all areas of non-compliance.	Fully compliant.
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