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Jacki Eves
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Dear Jacki

**Submission on Distribution Contract Principles: Proposed
Design of the Assessment Framework**

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Gas Industry Company's ("GIC") consultation paper, *Distribution Contract Principles: Proposed Design of the Assessment Framework*, dated 29 March 2012. Vector also appreciates the GIC's engagement with industry participants through a workshop on the proposed assessment framework on 27 April 2012.
2. No part of this submission is confidential and Vector is happy for it to be made publicly available.

A "global" approach

3. Vector generally supports the GIC's proposed framework for assessing gas distribution contracts, where the degree of alignment with the high-level Distribution Contract Principles ("the Principles") is assessed across a contract in its entirety, ie at a global level.
4. As indicated in Vector's previous submission on this matter,¹ a highly prescriptive regime for gas distribution contracts is unwarranted 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...[under the] Commerce Act 1986;*

¹ http://gasindustry.co.nz/sites/default/files/submissions/181/vector_submission_-_gas_distribution_principles.pdf, pages 1-2.

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 **recommends** the GIC keep the assessment of distribution contracts at a global level.

Responses to specific questions

6. Vector's responses to the specific questions in the consultation paper are set out in the table below.

Table 1. Vector's Responses to Specific Questions

QUESTION	VECTOR'S COMMENT
Q1: Do you have any questions or comments about the legislative or strategic context for this work on distribution arrangements?	Vector generally agrees with the legislative and strategic context set out in the consultation paper.
Q2: Do you have any comments on Gas Industry Co's work thus far on distribution arrangements?	Vector reiterates its strong support for the GIC's decision not to regulate gas distribution arrangements for the reasons stated above.
Q3: Do you agree with the assessment framework proposed? If not, please provide suggestions for improvement or amendment.	<p>Vector generally agrees with the GIC's proposed assessment framework.</p> <p><i>Global approach</i></p> <p>Vector particularly supports the global approach being proposed, which would consider a contract's alignment with the Principles in its entirety, rather than assessing compliance on a clause-by-clause basis. A prescriptive, detailed approach would not be cost-effective, and would impose extra costs on industry participants.</p>

QUESTION	VECTOR'S COMMENT
	<p>The GIC and/or the independent assessor should resist any proposal allowing parties to make detailed, clause-by-clause comments or amendments on the documents being assessed. This would be tantamount to another submission process, not an independent assessment.</p> <p>Should the independent assessor have any major concerns with particular contract terms, he or she should discuss it with the relevant parties.</p> <p><i>Consolidated report</i></p> <p>Vector particularly supports the proposal to report the results of the first assessment at a consolidated level, and does not agree with suggestions to make it distributor-specific.</p> <p>To the extent that future assessments are required, Vector does not have any objection to the proposal that the results of a second assessment be published in a manner which identifies the individual distributors.</p> <p><i>Transition period</i></p> <p>The consolidated report should identify substantial misalignments, and the fact that the initial assessment should effectively serve as a transition period, allowing distributors to make improvements (if necessary).</p> <p><i>Timing of initial assessment</i></p> <p>Vector considers that there are much higher priorities the GIC should focus on than standard distribution contracts, including the Gas Transmission Investment Programme, the review of the Gas Downstream Reconciliation Rules 2008, and consideration of permanent insolvency arrangements.</p>

QUESTION	VECTOR'S COMMENT
	<p>Vector would, therefore, strongly support a decision by the GIC to push this work out to 2013, given potential budget constraints.</p> <p><i>Future assessments</i></p> <p>Vector suggests that future assessments of distribution contracts be considered on a case-by-case basis or as necessary.</p> <p>Given the number of gas distributors is very small, and most gas distributors appear to be preparing new templates, we expect the alignment of distribution contracts with the Principles and the 'convergence' of various contracts to be achieved within a relatively short period compared to retail contracts.</p> <p>The need for regular assessments should diminish as greater alignment with the Principles is achieved over time.</p>

Closing comments

7. While the Principles have been established and widely agreed upon by industry participants, Vector believes the GIC should remain cognisant of related work being done by other regulators that would have an impact on gas distribution. This includes the Electricity Authority's work on model use-of-system agreements for electricity distribution and how this could affect dual-fuel providers.
8. The GIC should engage with other regulators to ensure overlaps and unnecessary compliance costs are avoided. This should also apply generally to the GIC's other work areas.
9. If you have any questions, or require further information, please contact Luz Rose, Senior Regulatory Analyst, on 04 803 9051 or Luz.Rose@vector.co.nz.

Kind regards



Bruce Girdwood
Manager Regulatory Affairs