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16 February 2007

Mr. Ian Dempster
Gas Industry Co Ltd.
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Dear Ian

SUBMISSION ON WHOLESALE MARKET DESIGN DISCUSSION PAPER

1. Thank you for the opportunity to comment further on the above discussion paper regarding gas wholesale market design. Vector offers both some general comments and answers to the specific questions posed in the discussion paper.

Summary of Vector's View

2. Vector is supportive of the direction the GIC is taking in the development of a matching platform to facilitate future trading in the wholesale gas market. However, for two reasons Vector questions whether this is an appropriate time to develop this market.
 - The Gas market in general is already going through very significant change and to add another layer of complexity, albeit voluntary, may mean that the cost /benefit at this time may be marginal to negative; and
 - Vector is very cognisant that the price of natural gas to the consumer has risen dramatically over the last 12-18 months. Vector notes that in recent GIC papers relating to the 06/07 year, GIC budgeted for \$621k out of \$3.78 million for the development of a wholesale gas market. Vector believes that this level of expenditure is better deferred until the open access regimes have "bedded" down - the GIC levy could then remain at the existing level and resources (both within the GIC and the Gas Industry) could be used more efficiently. It is effectively the same personnel in the Gas Industry who are involved in both of these aspects.
3. Vector believes the issue has now evolved from the conceptual to the "pre-development" stage, and as such engagement and reconciliation at a working

group level with existing market operators is necessary. Vector has expressed this concern in two previous submissions, and we would like the opportunity to engage with the GIC (in our capacity as gas transfer agent) to advance this.

4. Vector would like to comment that it supports the working groups structure, and their engagement and close involvement in the development process is fundamental to the correct functioning of the co-regulatory model.

Answers to Specific Questions

Do you agree that user pays is the preferred option for funding the establishment and ongoing operation of a wholesale market for gas? If not, what funding mechanism do you consider most appropriate and why?

5. It is appropriate that the initial setup costs are funded through the levy. There is little alternative to this approach as there will be no users to charge during the development and setup stage. It will then be more appropriate to charge users (possibly on a fixed and variable basis, i.e. a fixed cost per transaction plus a variable on the volume of gas traded) once the system has settled in and becomes reliable. A fine balance will have to be drawn between these fixed and variable components so as not to discourage companies from using the platform.

Do you support the proposed approach to admission? If not, what alternative would you want and why?

6. Vector supports the proposed approach to admission. We would hope that the GIC would canvas Gas Industry participants to see the types and level of information that will be required by individual companies to allow admission to their “white list” and base the required admission data on that information; or, that the GIC would indicate to prospective entrants the level of data that will be required from them to meet the criteria for trading with other industry participants.

Do you support the proposed approach to suspension? If not, what alternative would you want and why?

7. Vector agrees that the self-policing should be reasonably effective. However the platform operator should also be under an obligation to list whether they have been notified that a party is in dispute with another party on a transaction initiated through the platform. For example a potential party could see that a particular trader (anonymous) is in dispute with a number of other parties (all of whom would be anonymous) and take that into account in its willingness to transact with that trader. Whether members of the platform must inform the platform operator of disputes needs further discussion.
8. For breaching particular platform rules (i.e. non payment of fees, or supplying erroneous data etc.), there should be immediate suspension if rectification is not made within a short time.

Do you support the proposed approach to user controls? If not, what alternative would you want and why?

9. Yes

Do you support the proposed approach to display of bids/offers? If not, what alternative would you want and why?

10. Vector supports the proposed approach

Do you support the proposed form of prudential criteria? If not, what alternative would you want and why?

11. Yes. Platform should not however take a "net" position into account and keep sales and purchases between parties separate. However keeping track of a gross purchasing position (with a trader for example) would be beneficial. Vectors notes however that this could possibly lead to the identity of a trader being revealed: if Trader A has several offers in the market at a time, the acceptance of one offer from Trader A by Trader B might change the prudential nature of other offers by Trader B on Trader A's screen and thus identify Trader A.

Do you support the proposed approach to adjusting prudential criteria? If not, what alternative would you want and why?

12. Yes. However Vector also sees this as putting an obligation on registered participants to keep their own "listing" information up to date. If, for instance, credit rating was a part of their listing information, if they suffered a credit rating downgrade they would be obliged to change this on the platform. Some organisations may require a minimum credit rating to enter trades above a certain value with any other trader.

Do you support the proposed provision of an override? If not, what alternative would you want and why?

13. Yes. However this override capability should only be able to be exercised by a trader who has been given that right by his administrator (i.e. part of the controls within Q4).

Is your use of a platform likely to be significantly affected by whether the market operated on a blind basis or not? If so, in what way?

14. There are obviously pros and cons to both a blind market, and a market where you know upfront who you are dealing with. Vector does not strongly advocate either, and the fact that a market was blind would not affect Vector's use of the platform.

Do you support the underlying philosophy in relation to the nature of the rights and obligations associated with a trade? If not, what alternative would you want and why?

15. Yes.

Do you support the proposed provision of buy and sell offers? If not, what alternative would you want and why?

16. Yes.

Do you support the proposed use of 0.1 TJ/day as the basic trade unit? If not, what alternative would you want and why?

17. Vector does not support the proposed use of 0.1 TJ/day as the basic trade unit. This fraction of a unit is too small – it is a lot smaller than the normal accuracy of pipeline nominations or the ability of a party to control to. The minimum should be 1 TJ/day; Vector is not worried about the increment thereafter. Vector does not believe this will affect the numbers of traders likely to use such a platform.

Do you support the proposed ability to indicate whether partial acceptances will be permissible? If not, what alternative do you prefer and why?

18. Yes, but note answer to Q12 above - partial acceptances should be at least at the 1 TJ/day level. Sellers should indicate whether they are willing to accept partial profile sale, and purchasers should be able to indicate whether they will accept purchase contracts that only partially fill their requirement.

Do you support the proposal to adopt a virtual trading point? If not, what alternative do you prefer and why?

19. Vector supports the proposal - however the selling price should include the fixed and variable component of the Maui transmission costs to that virtual trading point. Maui Development Ltd should then not be allowed to charge the fixed fee a second time on the same block of gas once traded. It is also questionable whether they should be able to charge a “back haul” fee if the delivery point nominated by the purchaser is upstream of the virtual trading point.

What sort of information would your organisation want from a platform for trading purposes?

20. The information listed in 8.52 and 8.53 of the discussion paper are certainly the types of information Vector would require and/or be interested in. However Vector has not considered this question in depth as yet, as it is more realistic to deal with it as part of a future phase that defines the details of the platform. The platform should only deal in, and present, data directly available to it.

What sort of information would your organisation want from a platform for billing, reporting and governance purposes?

- 21. All traded gas quantities captured by the platform would be required by Vector in its capacity as gas transfer agent.
- 22. The list of reports listed in 8.57 of the discussion paper appears to be the type of reported information Vector would require as a trading participant. However, as in Q15, we believe this should be detailed thoroughly in the future detail design specification of the platform. Vector is happy to contribute to that phase.

What sort of information should a platform provide for general dissemination to stakeholders?

- 23. As per 8.58. However some caution should be taken with the release of data, particularly to the public. If the number of trades within a particular period is small then a release of details could give a false view of the market (particularly in terms of price) and could lead to the identification of traders.

Other matters

- 24. No mention has been made of ownership of the platform within the discussion paper. As discussed at the GIC workshop, ownership of the platform by the GIC may not be appropriate if the GIC has an ongoing overview and policing role. A clear separation of governance and operation of the platform is important. The potential opportunity (or not) of making a profit through the platform needs to be discussed before further development is made.
- 25. The question of trading hours could warrant further discussion. While this may be of secondary importance, it should be noted that many of the current industry participants do not operate a 24 hr trading desk.

Concluding Remarks

- 26. Vector has identified the issues it believes need further discussion and would welcome the opportunity to work with the GIC further on this matter. Vector is happy to provide further information as required, please contact me in the first instance.

Kind regards

A handwritten signature in black ink, reading "Ewan Gebbie". The signature is written in a cursive, flowing style with a small dot at the end.

Ewan Gebbie

Group Manager Regulatory Performance