

5 February 2015



**Vector Limited**

101 Carlton Gore Road  
PO Box 99882, Newmarket  
Auckland 1149, New Zealand  
[www.vector.co.nz](http://www.vector.co.nz)

Corporate Telephone  
+64-9-978 7788

Corporate Facsimile  
+64-9-978 7799

Glenda MacBain  
Corporate Services Manager  
Gas Industry Company  
PO Box 10-646  
Wellington

Dear Glenda

**Submission on the GIC's Statement of Proposal on its  
Statement of Intent and Levy for FY2016**

**Introduction**

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Gas Industry Company's ("GIC") *Statement of Proposal on FY2016 Statement of Intent and Levy*, dated December 2014. We appreciate the GIC's engagement with industry participants on this matter at the Co-Regulatory Forum on 28 November 2014.
2. No part of this submission is confidential and Vector is happy for it to be made publicly available.
3. Vector's contact person for this submission is:

Luz Rose  
Senior Regulatory Analyst  
04 803 9051  
[Luz.Rose@vector.co.nz](mailto:Luz.Rose@vector.co.nz)

**The GIC's Statement of Proposal**

4. Vector broadly agrees with the GIC's Statement of Intent and Levy for FY2016. We welcome the proposed reduction in total Work Programme Costs, from \$5.52 million in FY2015 to \$5.49 million in FY2016.
5. We are particularly pleased with the proposed reduction in the levy funding requirement (which forms part of the total Work Programme Costs), from \$3.94 million in FY2015 to \$3.92 million in FY2016. This follows two years of successive cost reductions.

6. As such, we focus our submission on proposed new initiatives for the coming fiscal year, including the proposed 'industry road map' for gas transmission and 'seed paper' on smart gas metering.

### **Responses to specific questions**

Q1: Do you consider there to be any other items that should be included in the Company's intended Work Programme for FY2016? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.

7. We do not see the need to include any more items in the Work Programme for FY2016.

#### *Gas transmission pipeline balancing*

8. We would like to emphasise, however, that should "market-based balancing" be pursued, enabling and supporting arrangements should be prioritised to ensure that tools are available to industry participants to enable its effective, efficient and fair implementation.
9. The GIC states that "[i]t may be that the most efficient outcome will be to roll-up the balancing work within the counterfactual design work on transmission access and pricing". While we do not oppose that suggestion, we note that such a move would significantly increase the scope of the Gas Industry Transmission Access Working Group ("GITAWG"), and would likely impact on the timeliness of deliverability for the work streams already underway within that group.
10. We believe balancing issues would be better dealt with outside of the matters under consideration by the GITAWG, although with some co-ordination with that group to ensure compatibility and the avoidance of duplication of effort.
11. We are of the view that any transmission access counterfactual design being contemplated by the GIC need not necessarily be limited to full regulation. The GIC should consider a range of flexible options, including those that would involve the participation of both the GIC and industry participants, to varying degrees, taking into consideration resource constraints on the relevant parties. In particular, we would welcome the further involvement of the GIC in the GITAWG process to develop collaborative solutions.
12. Prioritising the balancing work implies that other GIC work that would have implications for balancing should also be prioritised, such as daily allocations.
13. We also suggest that the GIC closely coordinate its work on gas quality with the work being undertaken by GITAWG on gas quality.

*Industry road map for gas transmission*

14. We support the development of a road map for the gas transmission access and pricing work. We believe this would promote industry alignment, including on the issues being considered by GITAWG, and balancing issues.
15. Flexibility will be guaranteed by having a 'living roadmap', similar to the evolving nature of the *New Zealand Gas Story*, which is updated regularly and as the need arises. This would guarantee that outcomes are not pre-determined and market participants are not 'locked into' a particular path that could be too costly to reverse in the near future. The right incentives should remain for industry participants to develop long-term industry-wide options and solutions for gas transmission access and pricing that are efficient and fair.

Q2: Do you consider there to be any items that should be excluded from the Company's intended Work Programme for FY2016? Please provide reasons for your response.

16. We do not believe it is necessary for the GIC to commission a seed paper that would "consider issues associated with the introduction of new metering technology".
17. Issues about new technologies or technology paths in a contestable and unregulated market, such as the gas metering market, are commercial decisions that should be left entirely to market participants and potential investors. In an emerging market that involves new technologies that could potentially deliver significant efficiency improvements and consumer benefits, and change how consumers use gas, it is important that new infrastructure is priced correctly so that investors and consumers can make efficient decisions. While mapping technology paths may be appropriate for a regulated business with a single provider, it is certainly not for a market characterised by emerging technologies and services that could be delivered by multiple providers.
18. While we are not pre-empting what the seed paper may consider in detail, any initiative by the regulator at this stage in relation to a fledgling market could risk developing expectations about eventual technologies or regulatory arrangements in that market. This could stifle innovation as service providers focus more on regulators and regulations rather than continually striving to become better competitors and deliver improved services to consumers.
19. It is important that an emerging market is allowed to develop 'organically', to enable new technologies to be trialled, tested and be subject to market discipline. These processes are critical for the market to deliver the most cost-effective technology and services that consumers want.
20. Another advantage of leaving technology choices to the market is that it is investors who bear the risks (for example, of the technology not being the most effective

choice or not favoured by the market), not consumers. The market can only afford to invest once in the new capability offered by smart gas meters; investment decisions should therefore be left to the competitive market.

21. We note the successful deployment of smart meters in the electricity sector, which follows a market-led and retailer-driven model. This model has seen the rollout of 1.2 million smart electricity meters (60% market penetration) over the past few years. The New Zealand electricity metering market provides compelling evidence that new technology rollout and consumer acceptance of smart meters can be achieved in a timely manner, without regulatory intervention and consumer backlash.
22. We do not have to go far to see that intrusive regulation could lead to unintended consequences. The mandated rollout of electricity meters in the state of Victoria in Australia led to cost blowouts and consumer consternation, which other Australian states would want to avoid. The New South Wales Government has recently announced its policy of pursuing a market-driven rollout of smart meters in that state.<sup>1</sup>
23. If some market participants would like to gain information or insights on what could be delivered by particular smart gas metering technologies in New Zealand, they should commission a similar study themselves.
24. Rather than exploring or identifying potential technologies or technology paths for an emerging and contestable market, we believe that regulators should focus on identifying and removing barriers to competition and investment, and support an environment that would enable the development of commercial solutions. The role of regulators is to create conditions so that the market can deliver solutions that benefit consumers.
25. Should the proposed initiative proceed in FY2016, however, we **recommend** that the GIC accord it low priority. We further **recommend** that the terms of reference for this initiative indicate its benefits, and be subject to stakeholder consultation.

Q3: We are particularly interested in industry comment on the forecast gas volumes – do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volume estimate to be?

26. We consider the forecast gas volumes for FY2016 to be reasonable.

---

<sup>1</sup> [http://www.resourcesandenergy.nsw.gov.au/\\_data/assets/pdf\\_file/0008/536696/NSW-Smart-Meter-Task-Force-Report.pdf](http://www.resourcesandenergy.nsw.gov.au/_data/assets/pdf_file/0008/536696/NSW-Smart-Meter-Task-Force-Report.pdf)

Q4: Do you have any comment on the proposed levy for FY2016?

27. We reiterate our appreciation for the proposed reduction in the GIC's total work programme costs for FY2016. We believe this reflects the efficiency gains made by the GIC and industry, and the restraint exercised by the GIC over the past year in intervening only where there are market failures that require regulation, and where the benefits of such intervention significantly override the cost of regulation.
28. We would like to see the GIC maintain this approach in the coming years.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'I. Ferguson', written in a cursive style.

Ian Ferguson  
**Regulatory Policy Manager**