

QUESTION	COMMENT
<p>Q1 Do you agree the objectives identified in section 5 are appropriate criteria for evaluating transmission capacity options?</p>	<p>Yes.</p>
<p>Q2 Do you agree with the evaluation of the current capacity arrangements?</p>	<p>No. Under the current contract carriage model, if an end-user's deliveries are less than its reserved capacity, then the end-user will still pay for unutilised reserved capacity. This is an inefficient use of money when compared with the common carriage model whereby one simply pays based solely on deliveries. Greymouth Gas would rate the efficiency of pricing as poor.</p> <p>Likewise for efficient investment, the current capacity arrangements see Vector (and the GIC) hiding behind regulatory uncertainty (particularly the regulatory price path work-stream). Further, with Vector's strong push for a slice of the fibre-optic pie, one could also muse that there is a subtle shift in their strategic focus away from gas and into communications. Greymouth Gas would therefore rate the efficiency of investment as poor.</p>
<p>Q3 Do you agree with the evaluation of the contract carriage option?</p>	<p>Yes. If contract prices are to reflect the level of spare capacity or the marginal cost of expansion at the time a contract begins, then an end-use customer could be exposed to less favourable pricing if switching away from an incumbent (as opposed to rolling over an existing contract). The thinking is on the right track but to achieve moderately good efficient and fair pricing in practice would be challenging and Vector would have to play ball.</p>
<p>Q4 Do you agree with the evaluation of the common carriage options?</p>	<p>Yes. But Vector's approach to throughput fees must be assessed – how can an end-user pay \$0.973/GJ [+ reserved capacity] from Hamilton to Auckland (<200km), yet pay \$0.390/GJ from Taranaki to Hamilton (which is at least the same distance)?</p>
<p>Q5 Do you agree with the evaluation of the current hybrid option?</p>	<p>No. The hybrid option has a major weakness not identified in the GIC's options paper. If the demand for firm pipeline capacity is high, as it is on the North Pipeline, for example, under the hybrid option most or all of the capacity will be taken up by parties who enter into long-term contracts. There will be very little, or no capacity available for those reliant upon common carriage. In this circumstance, the hybrid option effectively becomes the same as the contract carriage option. As the GIC's own analysis shows, this option is a very poor one for ensuring efficient allocation of capacity, efficient investment and facilitating competition in related markets, such as the gas market. The weakness in facilitating competition arises because if all the gas transmission capacity is tied up in long-term contracts it will be very hard for gas customers to shift from their current supplier. The GIC has overlooked this in its analysis and so its evaluation of the option is too generous in relation to the capacity objectives of efficiency of allocation and investment and facilitation of competition. We suggest double crosses</p>

	are more appropriate for the hybrid option for these objectives. This is the same evaluation as the contract carriage option itself for these objectives.
Q6 do you agree with the evaluation of the MDL carriage option?	Yes. If extended nominations were proposed on the Vector pipeline then we would want to see a comprehensive business case.
Q7 Do you agree with the evaluation of the incremental change option?	No. The GIC's incremental improvement option appears to be more of an 'understanding of the issues' rather than a 'call to change'. In addition, one of the main elements is that capacity is assigned to large customers, yet when we look at the detail, the GIC states that customer contracts with retailers should include a clause to switch capacity upon losing the contract rather than Vector administering and mandating the process. This is arguably the same thing, but the method of achieving this will be significantly more difficult under commercial contracts unless such terms were regulated for.
Q8 Are there other options you think should be considered and evaluated?	<p>Yes. We propose that an option be evaluated which combines the current hybrid option with the element of the incremental change option which allows gas users to require their current supplier to transfer the capacity needed to serve their needs to a new supplier. Under the incremental change option only large users will have this right, but we see no reason why it should not be available to all users and so propose this should be what is evaluated in this alternative option. We propose this alternative be evaluated in place of the current hybrid option. Addition of this element would overcome the strong anti-competitive and inefficiency aspect of the current hybrid option from a long-term perspective.</p> <p>We also propose a fast-tracked piece of regulation mandating the switching of reserved capacity for TOU customers when they change retailers as a short-term step until the long-term solution is in place. This would be an interim hedge against inaction via changes to the Vector Transmission Code, but it would ensure that competition can urgently recommence on Vector's North Pipeline. This should be in place by 30 September 2010 and should work in with Vector's annual reserved capacity process. Unfortunately it appears as if GIC procrastination and priorities will prevent this timeframe from being met.</p>
Q9 do you agree that only the hybrid and incremental change options should be considered further?	<p>No. We believe our variant on the hybrid (see response to Q8) and the incremental change options should be evaluated.</p> <p>While the incremental improvement option is listed in the paper as something to be explored further (implying short-term action; not that incremental improvements are necessarily short-term), the flavor of the GIC's language at the workshop seemed to suggest that the GIC is not keen on meaningful action until after the</p>

	<p>Commerce Commission's work-stream is clear. In the absence of a short-term regulated solution (which in itself is unacceptable), incremental improvements should be explored urgently.</p>
<p>Q10 Do you agree with the proposed next steps?</p>	<p>A long-term solution is needed, but from a short-term perspective, Greymouth Gas does not agree with the proposed next steps.</p> <p>The GIC has known about these issues since 2006. The gas market in Vector's North Pipeline has strong anti-competitive issues right now. Preferred suppliers are losing tenders because they cannot obtain reserved capacity often because the incumbent is 'hoarding' capacity. New entrants and new customers cannot enter the Auckland market because there is no capacity for them. These are major anti-competitive problems and the industry must wait until December 2010 until a Statement of Proposal is produced? These have been serious issues since mid-2009 and still nothing meaningful has happened to date...</p> <p>Greymouth Gas cannot understand how the GIC can apparently be in breach of its Constitution and its Gas Act mandate for so long and get away with it.</p>