



**Submission on the Gas Industry Company  
issues paper:**

**Gas governance issues in distribution**

From

**Contact Energy Limited**

## Introduction

Contact Energy Limited (“Contact”) welcomes the opportunity to provide feedback on the issues paper “Gas Governance Issues in Distribution”. Responses to the questions raised in the issues paper follow.

For any questions related to this submission, please contact:

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| <p><b>Question 1:</b> Do you agree with the proposed regulatory objective? If you disagree please explain why and/or provide an alternative.</p>   | <p>Agree</p>  |
| <p><b>Question 2:</b> Have we identified all relevant characteristics of distribution? If not, please suggest what other features you believe to be relevant, and explain why they are relevant.</p> | <p><b><u>Distribution services</u></b></p> <p>Notwithstanding the definition of distribution system in the Gas Act which for regulatory convenience includes both the distribution network and gas measurement systems (i.e. from gas gate outlet to GMS outlet), the characteristics of distribution [services] should be limited to line function services as defined in the Gas Act which stops at the outlet of the service valve on each service connection. Metering services (often referred to as GMS services) are not a characteristic of distribution, rather they are a competitive service which can be provided by any person capable of ensuring compliance with NZS 5259 (distributor, retailer or third party).</p> <p><b><u>Interconnection between transmission and distribution</u></b></p> <p>In describing the characteristics of distribution networks the Issues Paper does not consider the interdependency of transmission and distribution arrangements, except in relation to gas quality. In addition to gas quality, there is an unavoidable linkage in respect of many other characteristics that include the following:</p> <ul style="list-style-type: none"> <li>• transmission access;</li> <li>• design of physical assets;</li> <li>• engineering standards;</li> <li>• metering arrangements;</li> <li>• title tracking and allocation;</li> <li>• balancing;</li> <li>• management of contingency events; and</li> <li>• access to information.</li> </ul> <p>To ensure these linked characteristics are treated consistently and compatibly under transmission and distribution arrangements they should be addressed in interconnection agreements between the owners of transmission and distribution systems. Moreover, these arrangements impact on all users of transmission and distribution systems. Consequently the treatment should be transparent to all transmission system and distribution network users. The treatment must also be consistent with open access arrangements. Failure to address these issues adequately creates unnecessary risk, increased cost and hinders access.</p> <p>The MPOC addresses these issues suitably by inclusion of a standard interconnection agreement under the umbrella of the MPOC. The MPOC requires all interconnection arrangements to consist of that standard agreement. Any special terms must be disclosed.</p> <p>In contrast, the VTC does not adequately address these issues. Interconnection agreements are only in place at some delivery points. The terms of each interconnection agreement in place are confidential to the</p> |

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|          | <p>parties of that interconnection agreement. This approach creates unknown risks for users of the Vector transmission system and users of connected distribution systems.</p> <p>The inconsistency in title tracking, allocation and balancing arrangements at interconnection points between the transmission system and distribution networks is a particular concern. Under transmission system arrangements, transmission users are required to balance transmission system injections and withdrawals on a daily basis. However, allocations at delivery points where gas is injected into a connected distribution network are only determined at the end of each month and may not be finalised for as long as 15 months after the end of the month in which the gas was withdrawn. This creates risk for all parties involved.</p> <p>Responsibility for balancing charges at transmission system delivery points connected to distribution networks requires further development. Under current arrangements MDL effectively manages imbalance and sources balancing services to address imbalance. Imbalances are manifest at interconnection points between the Maui pipeline and Vector’s transmission system. MDL invoices Vector as the MPOC welded party for those services and Vector invoices its shippers. The shippers charge the retailers and presumably the retailers pass on the charges to the end users of the gas. Vector argues that it should not be involved in this chain of invoices as it does not cause the imbalance and cannot control the imbalances. Vector has threatened to terminate its interconnection agreement with MDL to force action to address this issue.</p> <p>This issue cannot be addressed in a way that makes the causer of imbalance primarily responsible for the balancing charges; that is the end-user. The impracticality of providing end users with metering that allows daily determination of each end user’s imbalance makes it impossible to allocate that responsibility to end users. Various proposals have been made to address the issue. Arguably the following are all stakeholders in the supply of gas to an end user taking gas from a distribution network and could have exposure to that risk:</p> <ul style="list-style-type: none"> <li>• the supplier of the balancing service to MDL;</li> <li>• MDL through establishment of remote welded points;</li> <li>• Vector as the MPOC welded party;</li> <li>• the distribution network owner similarly to a MPOC welded party;</li> <li>• a consortium of retailers using the distribution network;</li> <li>• a third party contracting to provide balancing services at the interconnection point between the transmission system and the distribution network.</li> </ul> <p>So far it is not obvious how these parties should be exposed to the balancing risk associated with this supply, who should bear the prime risk and how the risk should be shared.</p> <p>Some of the linked issues are also addressed in regulations. Some significant examples include:</p> <ul style="list-style-type: none"> <li>• the Gas (Safety and Measurement) Regulations 2010;</li> <li>• the Gas Governance (Critical Contingency Management) Regulations 2008; and</li> </ul> |

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|          | <ul style="list-style-type: none"><li>• the Gas (Downstream Reconciliation) Rules 2008.</li></ul> <p>Some aspects of the linked characteristics are not well addressed in these regulations: Examples include:</p> <ul style="list-style-type: none"><li>• the allocation of obligations to parties under the Gas (Safety and Measurement) Regulations 2010 when those parties have no ability to manage those obligations because they are outside their physical control and the contractual nexus with parties who are able to control those obligations is weak or non-existent;</li><li>• the limited application of the Gas Governance (Critical Contingency Management) Regulations 2008 to regional critical contingencies; and</li><li>• the lack of recognition of how the Gas (Downstream Reconciliation) Rules 2008 impact on upstream reconciliation.</li></ul> |

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| <p><b>Question 3:</b> Have we identified all regulatory arrangements that are relevant to the analysis of gas distribution? If not, please suggest what other regulatory arrangements are relevant, and explain why they are relevant.</p> | <p>Other regulatory arrangements that are relevant to gas distribution are:</p> <ul style="list-style-type: none"> <li>• Gas Governance (Critical Contingency Management) Regulations 2008;</li> <li>• Gas (Switching Arrangements) Rules 2008;</li> <li>• Gas (Downstream Reconciliation) Rules 2008; and</li> <li>• Gas Governance (Compliance) Regulations 2008.</li> </ul> <p>Effective emergency management of regional critical contingencies under the Gas Governance (Critical Contingency Management) Regulations 2008 require distributors to:</p> <ul style="list-style-type: none"> <li>• play a role in the retailers’ allocation of curtailment bands to ensure consistency and fairness across retailers/consumers;</li> <li>• populate the registry “load shedding category” in accordance with its obligations under the Gas (Switching Arrangements) Rules 2008;</li> <li>• control the order of restoration after demand curtailment to ensure the network is not compromised;</li> <li>• coordinate resources required to restore supply to consumers, and communications to consumers, following widespread demand curtailment/loss of supply due to a critical contingency event (i.e. curtailment band 6 and/or loss of supply that affects domestic customers);</li> <li>• ensure both the distributor and retailer have plans in place, and understand their obligations, for emergencies arising from critical contingencies</li> </ul> <p>The Gas (Switching Arrangements) Rules 2008 place obligations on distributors regarding registry population of information that affects retailers’ compliance with the Gas (Downstream Reconciliation) Rules 2008, in particular compliance with NZS 5259. Contact has suggested in response to its recent performance audit that amendments should be made to the Gas (Downstream Reconciliation) Rules 2008 to ensure distributors are obligated to populate the registry with accurate data that supports retailers’ compliance with NZS 5259 when they use the data for billing and allocation submissions.</p> <p>The Gas (Downstream Reconciliation) Rules 2008 determine how and when gas is allocated at interconnection points between the transmission system and distribution networks. Those rules determine costs borne by retailers, transmission shippers and transmission system owners including exposure to balancing costs.</p> <p>The Gas Governance (Compliance) Regulations 2008 provide for the monitoring and enforcement of the rules that apply to distributors.</p> |

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| <p><b>Question 4:</b> Have we identified all issues relevant to the analysis of gas distribution? If not, please suggest what other issues are relevant, and explain why they are relevant.</p>   | <p><b><u>Distribution services issues</u></b></p> <p>Most issues have been covered, but Contact makes the following comments.</p> <p><b>Private networks</b> – given that it appears to have now been determined that private networks do not fall under the Gas Act’s definition of “gas distribution” and the owner is therefore not a “gas distributor”, there must be a concern as to whether demand curtailment in the event of a critical contingency would include or not include consumers connected to private networks. For example, it is not clear whether Nova Gas supplying consumers on its private networks is a “gas retailer” or “gas distributor”, whether it is obligated to allocate curtailment bands to these consumers (a retailer obligation), whether it is obligated to populate the registry with load shedding categories for these consumers (a distributor obligation), and whether it is obligated to curtail demand of these consumers in the event of a critical contingency.</p> <p><b>Bundling of distribution &amp; GMS services</b> - Existing distribution services agreements which bundle GMS services invariably fall short in adequately specifying service levels for GMS services which would be enhanced if GMS services were separated as a competitive activity like electricity metering. Contact considers that GMS service agreements should be completely separated from distribution service agreements.</p> <p><b>Information exchange &amp; network billing reconciliation</b> – It has been an ongoing issue to try and achieve efficient and consistent information exchange file formats for billing information exchange and reconciliation across all distributors, including alignment of billing with retailer responsibility and appropriate status in the registry. This is a significant issue that needs to be addressed both by the GIC facilitating GIEP formats, and updating distribution service agreements to reflect the norm in the energy industry as to when network charges should commence and cease.</p> <p><b><u>Interconnection between transmission and distribution</u></b></p> <p>As indicated in Contact’s responses to earlier questions, the issues that arise at transmission system/distribution network interconnection points between transmission system owners, distribution system owners, transmission system users and distribution network users have not been fully identified. These issues are not well addressed because of the lack of public interconnection agreements at Vector transmission system delivery points and the failure to recognise how some regulations, which apply to distribution networks, impact on transmission system arrangements.</p> |
| <p><b>Question 5:</b> Do you agree Gas Industry Co should do no further work on the safety and reliability aspects of distribution services? If you think Gas Industry Co should do further work on this topic, please explain why.</p> | <p><b><u>Interconnection between transmission and distribution</u></b></p> <p>Whilst Vector has indicated an intention to implement interconnection agreements at all interconnection points with its transmission system and to standardise these arrangements under the VTC ‘umbrella’, progress towards that goal is slow. It would be helpful for the GIC to monitor progress in implementing those arrangements.</p> <p>Implementation of standard interconnection agreements under the VTC umbrella would help to ensure safety and reliability issues are addressed consistently and more effectively across the transmission system and distribution networks. That will also help reduce unnecessary risk.</p>   |
| <p><b>Question 6:</b> Do you agree with the options identified for dealing</p>  | <p>Contact believes all distribution services agreements (DSAs), excluding any additional services, should be on the distributor’s website to ensure non-</p>   |

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| <p>with slow progress on updating standard distribution agreements? Which option do you think is most appropriate?</p>  | <p>discriminatory access for retailers. There is no reason for them to be confidential.</p> <p>Contact agrees that a model DSA is inappropriate for the gas industry. Contact favours the GIC developing and publishing benchmarks for DSAs focused on outstanding issues of concern to retailers and distributors. These would provide a reference point for updating existing DSAs e.g.</p> <ul style="list-style-type: none"> <li>• processes for setting and applying prices (meaningful consultation if changing structure, 40 business days notice of final prices, pricing schedules to contain all information necessary for retailers to implement, pricing principles)</li> <li>• billing and payment (including associated information exchange to support billing and reconciliation, triggers for commencement and cessation of charges)</li> <li>• emergency management taking into account the critical contingency regulations and processes.</li> </ul> |
| <p><b>Question 7:</b> Do you agree Gas Industry Co should do no further work on the other efficiency aspects of distribution services? If you think Gas Industry Co should do further work on this topic, please explain why.</p> | <p><b><u>Distribution services</u></b></p> <p>Agree</p> <p><b><u>Interconnection between transmission and distribution</u></b></p> <p>The GIC’s assistance has been sought to help the industry address the discontinuity in transmission system allocation arrangements and the allocation arrangements under the Gas (Downstream Reconciliation) Rules 2008. This is one of the most significant issues hindering the implementation of more effective and efficient balancing arrangements.</p>   |
| <p><b>Question 8:</b> Do you consider the high level benchmarks for distribution contracts proposed in Appendix A are appropriate? If not, please suggest what alternatives should be considered.</p>                             | <p>Contact considers the high level principles are a good starting point for developing some more specific benchmarks where known issues exist.</p>  |