



GREYMOUTH GAS

18 October 2010

ian Wilson
Principal Advisor – Infrastructure Access Group
Gas Industry Company Limited
PO Box 10 646
Wellington 6143

Dear Ian,

RE: Gas Governance Issues in Distribution: Issues Paper

Greymouth Gas New Zealand Limited ("Greymouth Gas") is pleased to make a submission on the Gas Governance Issues in Distribution: Issues Paper ("the paper" or "this paper") submitted by the Gas Industry Company Limited ("GIC") to the industry on 7 September 2010.

Greymouth Gas commends the GIC for attempting to consolidate a range of tricky borderline contractual issues that must be comparable to attempting to herd clouds. By nature of it being an issues paper, and given the fluffy form of some of the issues, it is difficult to determine which issues are worthy of regulatory/industry discussion, which will dissipate, and which will rain on us by surprise when we are without an umbrella.

The direction is in there somewhere, but there are two issues with the paper that must be addressed.

Issues with the Issues Paper

Firstly, the paper says that there are three companies that offer open access to natural gas distribution networks; however, this is an over-simplification. Vector Limited must surely be considered with both an ex-NGC and a United Networks hat on given the lack of synergies that this relationship brings to gas retailers and to the industry.

Secondly, Greymouth Gas questions why gas quality was split into a separate paper ("that paper") because that paper reads the same as this paper. Further, as outlined in our submission on that paper, the GIC has questionable mandate to look at gas quality, particularly given that gas quality is driven by Standards New Zealand's technical processes. We therefore consider that the fundamental issues in that paper default to becoming part of the fundamental issues in this paper and we incorporate those issues accordingly.

Fundamental Issues

Greymouth Gas considers the following to be the fundamental issues stemming from the paper:

- 1) There is potential benefit in tidying up contracts or developing new regulations between Transmission System Operators, Distributors and GMS Owners, given the discussion in chapter seven of the paper, including such unusual features of the Gas (Safety and Measurement) Regulations 2010 which make parties responsible for things that are generally regarded as being outside their control.
- 2) Access to non-spec gas pipelines is a major distribution issue, for examples pipelines originally funded by the government for open transportation purposes are now being stonewalled and partly used for storage by particular parties. This issue must be urgently addressed by the GIC.
- 3) Please can the GIC provide an update to the industry with regard to the Nova networks?
- 4) Access to distribution is also being limited by problems with Vector's transmission system in the North Pipeline; sorting out these short-term and long-term transmission competition issues must be of utmost importance.
- 5) An assessment of Distributor's and GMS Owners' billing systems should be undertaken to assess for ease of understanding, efficiency and modernisation.
- 6) Regulations should be made such that all Distributors and GMS Owners are required to provide TOU telemetry data on the same basis as that which happens further upstream, because if industry balancing develops then there will be little link between transmission codes and Distribution/GMS Owners' obligations. While the issue is limited now, as soon as the whole industry starts to move, the left foot won't be talking very well with the right foot. Industry should be aligned as much as possible.
- 7) One of the key drivers of poor balancing and UFG is that not all residential consumers' meters are read every month. Tightening the meter reading requirements, or stipulating investment in cheap smart meters should be discussed.
- 8) Finally the downstream gas metering industry (which often feels like the forgotten industry) appears to be a year or two behind developments in the gas transmission industry. The downstream gas metering industry needs to urgently develop a more acute understanding of how their services fit into the gas industry's supply chain and needs to have an increased focus on service and deliverability. Access to metering data is a core issue that impacts shippers' abilities to better manage balancing positions. Greymouth Gas questions whether downstream gas metering issues should be brought into the scope of this paper. One option to improve service would be to fast-track a roll out of smart meters or telemetry upgrades to improve data robustness and the potential for productive efficiency gains.

Whether to tackle these issues via a contractual or regulatory process is somewhat moot, but Greymouth Gas considers that these issues lie at the grass roots of the gas industry from a distribution-level perspective.

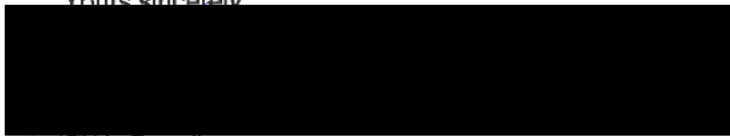
When transmission-level grass root issues are added to the mix, including access to data on non-Business Days, competition issues in Vector's North Pipeline, capacity, pricing, inefficient breach processes etc., then, subject to other submitters' issues, one should get a good picture of the fundamental issues in the gas industry from a bottom-up perspective.

At the end of the day, unless grass root issues are addressed over time it is difficult (particularly from an incentives perspective) for:

- explorers to explore for oil and gas, and
- large end use consumers to be motivated to stay in the country and/or to productively contribute to the economy to the extent of their potential

Greymouth Gas hopes that whatever happens with the fundamental distribution (and transmission) issues, whether or not covered by the paper, that they won't just drift along like clouds on a calm spring day.

Yours sincerely



Chris Boxall
Commercial Manager