

Recommended format for submissions

Submission prepared by: Contact Energy Ltd

GTIP, Status and Development - July 2013

This report can be found here: <http://gasindustry.co.nz/work-programme/gas-transmission-investment-programme?tab=2757>

QUESTION	COMMENT
Q ₁ Do you agree with our assessment of the GTIP thus far? If not, where does your assessment differ from ours?	Good progress appears to have been made however it remains to be seen if this work will improve transmission capacity.
Q ₂ Are there any Projects you think should be given greater or lesser attention by Gas Industry Co? Are there any other projects you think should be considered as part of GTIP?	The key assumption underpinning GTIP is that pipeline congestion is inhibiting gas demand; this appears to be based on issues in 2008. However there is no evidence that such a constraint still exists and demand forecasts indicate that constraints are unlikely to return. Therefore some focus should be shifted away from improving pipeline congestion to measures that could increase the size of the gas market by improving the ultimate competitiveness of gas.
Q ₃ Do you agree that the characteristics of a well-functioning transmission market, as described by the PEA, could be used as criteria for evaluating regulatory options?	Yes, however the characteristics cannot be considered in isolation from the cost of transmission and the regulatory oversight of the Commerce Commission.

QUESTION	COMMENT
<p>Q4 Do you agree with the proposed way forward for the Information Projects?</p>	<p>Yes.</p>
<p>Q5 Do you agree with the proposed way forward for the Market Projects?</p>	<p>Refer to the answer to Question 1 and 2.</p> <p>We encourage the GIC to provide a cost-benefit analysis of the proposals. Without this Contact is unconvinced the PEA's proposal is worth pursuing.</p>
<p>Q6 Do you agree with the proposed way forward for the Regulatory Projects?</p>	<p>Progressing any work would be premature until the other workstreams have been progressed.</p>

Advice from Panel of Expert Advisers – July 2013

This report can be found here: <http://gasindustry.co.nz/work-programme/gas-transmission-investment-programme?tab=2135>

(note that these questions are not embedded in the PEA’s report, but the questions reference the relevant sections)

QUESTION	COMMENT
<p>Q7</p> <p>Do you agree with the Problem Definition? If not, please explain your reasons. (see PEA’s Second Advice paper, Section 1.2)</p>	<p>No.</p> <p>Contact has long held the position that while there was a potential issue of capacity congestion in 2008 the market has materially changed since that time and there is no evidence that capacity is “scarce”. It is more likely the market is reducing in size. Therefore the problem definition is out of date. Instead of focusing on investment signals it would seem more appropriate to put resources into building and increasing the size of the gas market.</p> <p>Bullet points 5-8 are subjective and in Contact’s view require evidence before they are added to the problem definition.</p>
<p>Q8</p> <p>Do you agree with the assessment of the current state of the market for transmission capacity? If not, please explain your reasons. (see PEA’s Second Advice paper, Section 2.2)</p>	<p>As set out above Contact believes that the views on the state of the market is based on a potential level of congestion that was evident back in 2008. This potential capacity congestion has now corrected itself as a result of reduced demand for gas fired generation.</p>
<p>Q9</p> <p>Do you consider that the PEA has considered all the reasonable options for improvement? If not, what other options would you wish to have considered? (see PEA’s Second Advice paper, Chapter 5, Broad approaches to moving forward)</p>	<p>It is difficult to provide a definitive answer to this question as there is no evidence of market failure.</p>

QUESTION	COMMENT
<p>Q10</p> <p>Do you agree that Evolutionary Convergence is the best approach to improving access arrangements? If not, what other option do you prefer? (see PEA’s Second Advice paper, Chapter 5, Broad approaches to moving forward)</p>	<p>As stated above Contact believes all options have merit but does not have enough information to conclude which will have the better market impact compared with the status quo. In fact Contact believes that the convergence approach will involve a large amount of industry time and associated cost without any analysis of the value of the potential benefits. Therefore we urge the GIC to commission a CBA.</p>
<p>Q11</p> <p>The PEA proposes a set of ‘guiding principles’. Do you agree with these principles? If not, what alternatives would you propose? (see PEA’s Second Advice paper, Chapter 6, Guiding principles for moving forward. Also summarised in bullet point format in Error! Reference source not found. of Gas Industry Co’s Status and Development paper)</p>	<p>Without a clear cost benefit analysis Contact is not convinced that these guiding principles are necessary.</p>
<p>Q12</p> <p>Do you agree with the PEA’s overall conclusion, including its ‘indicators of success’? (see PEA’s Second Advice paper, Chapter 7, Conclusion)</p>	<p>Answering this question is premature until a cost benefit analysis of proceeding with the proposals is undertaken.</p>
<p>Q13</p> <p>Do you agree with the PEA’s recommendation to Gas Industry Co? (see PEA’s Second Advice paper, Chapter 8, Recommendations)</p>	<p>As above</p>

QUESTION	COMMENT
<p>Q14 Several boxes with dashed borders appear throughout the PEA’s Second Advice paper. These boxes contain material that has been discussed by the PEA but not sufficiently closely examined to draw firm conclusions. Do you have any comments on this material? (see PEA’s Second Advice paper: Section 6.1.6 box titled ‘Possible initial components of a development path’; Section 6.2.2 box titled ‘Rotowaro model’; Section 6.2.3 box titled ‘Possible initial components of a development path’; Section 6.3.4 box titled ‘Possible initial components of a development path’; Section 6.4.2 box title ‘Possible initial components of a development path’)</p>	<p>S 6.1.6 - We are not convinced that further developing the AQ system on the Maui pipeline is warranted and is likely to increase costs. A further cost benefit analysis should be done. S6.2.2 –The model would provide uncertainty to shippers with respect to costs of capacity. Why use a gas price rather than a posted capacity price plus a premium. While it states that this provides shippers an incentive to release capacity via nominations the shipper will not know the outcome of all nominations until after the event at which time they have then been reduced then increased and charged an increased fee for it. S6.2.3 – Fixed term contracts are likely to be for much higher loads than the normal sized customer. There needs to be more analysis done on the outcomes should those large loads decide it is no longer economic to use gas if as a result of auctioning the costs increase. S6.3.4 – Further information on what the level of transparency on the Maui system might mean for the Vector system. S6.4.2 – Contact is concerned about the level of resources and cost involved in converging the codes and its overall necessity without further cost benefit analysis.</p>