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Steve Bielby
Gas Industry Company
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Submitted via: Gas Industry Company website

Dear Steve

GTIP: Status and Development, Advice from Panel of Expert Advisers

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company ("the GIC") on the consultation paper "Gas Transmission Investment Programme, Status and Development" and the "Advice from Panel of Expert Advisers ("PEA")" dated July 2013.

As acknowledged by the PEA, the capacity issue that was the driver for the GTIP, and PEA advice, is now known to be a medium-to-long term issue. As such, we suggest that the GIC prioritise those options that are most likely to address the current risk, and deliver market benefits, at the least cost. In our view, examples of such "least cost" options include developing the interruptible gas market, improving information transparency, and encouraging a move towards common governance arrangements.

In terms of further development of the PEA advice into the next stage of the GTIP, we suggest three aspects of both reports need further work, namely:

- Developing a good understanding of the size and pricing in the interruptible market space should be a priority for further work associated with the Gas Transmission Investment Programme.

- Further consideration of the transition period for phasing out grandfathering and supplementary agreement.
- Improving information transparency.

We discuss these three aspects in more detail below. Our detailed response to the questions in both papers is set out in Appendix A and B to this document.

More work needs to be done on the interruptible market

We strongly suggest that the GIC complete its current work in understanding how an interruptible market could work, and its benefits, before other potential development paths are explored. In our view, an interruptible market is likely to be the least cost, and least disruptive, means of managing any potential congestion on the gas transmission systems in the medium-term future.

However, we suggest that an effective interruptible market will need greater transparency and certainty around long term gas transmission arrangements with electricity generators from the northern pipeline. For example, we have noted a significant decline in generation related gas consumption over the last three years. This decline has freed up transmission capacity for other uses. We suggest that this trend, if it continues, will have significant impacts on the nature and extent of any future capacity issue.

Phasing out grandfathering and supplementary agreements needs sufficient transition period

The PEA advice advocates for phasing out grandfathering and supplementary agreements over time. However, the PEA does not provide any guidance on what timeframe, and in what circumstances, any review these rights would be accomplished. We suggest that phasing out grandfathered rights should not be a priority for the GIC at this time.

As identified in Concept's report¹, there is no pressing transmission capacity constraint. Concept's report identifies that capacity issues are unlikely within the next 10 years. Therefore, we suggest that any transition period should be at least 10 years – or more if the industry decides to move to a capacity auctioning process due to the lack of an interruptible market with sufficient size.

Phasing out grandfathering and supplementary agreements is likely to create significant costs for participants. However, a reasonable transition period will

¹Concept Consulting Group (2013), "Gas Supply and Demand Scenarios 2012 -2027"

enable the market to respond and adopt the changes smoothly, without creating big market distortions and minimising costs.

Finally, it is important to acknowledge that there are some market benefits from the current grandfathering approach. For example, grandfathered rights provide gas retailers with confidence that they can supply their customer base. Removing these rights will remove this confidence.

A more transparent information regime is needed

Providing greater transparency to industry participants will ensure a better understanding about the likelihood of future congestion, and whether more complex pricing arrangements are needed to create investment signals. On a day-to-day basis, better information transparency enables better gas balancing and demand management and consequently more efficient use of transmission capacity.

We suggest transparency can be improved with a more extensive daily nomination regime. This improved regime would apply to all receipt and delivery points on the Vector system, if they are greater than 5TJ/day. These points will also require to have their own balancing and peaking pool.

If you would like to discuss any of these matters further, please contact me on 04 495 6357.

Yours sincerely

Daisy Shen

Regulatory Advisor

Appendix A: Responses to GTIP, Status and Development- July 2013

QUESTION	COMMENT
Q1: Do you agree with our assessment of the GTIP thus far? If not, where does your assessment differ from ours?	Yes.
Q2: 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?	As per our cover letter, more information is needed around the size and potential to develop an interruptible market. The decline in use by generators has freed up capacity on the Northern system how can this be effectively used.
Q3: 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
Q4: Do you agree with the proposed way forward for the Information Projects?	Please refer to the cover letter
Q5: Do you agree with the proposed way forward for the Market Projects?	We agree with GIC's proposed way forward. However, we suggest the GIC evaluates options based on the near term market needs, and then prioritise different development paths for the long term market benefit.

QUESTION	COMMENT
<p>Q6: Do you agree with the proposed way forward for the Regulatory Projects?</p>	<p>We consider the testing investment option project is too early to consider. According to the Concept's demand and supply report, there are no pressing capacity issues for at least another 10 years. The immediate issues are developing common governance, understand the interruptible market and improve information transparency etc.</p> <p>Further, we have concerns as to how the investment testing option will align with the current Part 4 of the Commerce Act.</p>

Appendix B: Advice from Panel of Expert Advisers – July 2013

QUESTION	COMMENT
<p>Q7: Do you agree with the Problem Definition? If not, please explain your reasons. (see PEA's Second Advice paper, Section 1.2)</p>	<p>We consider "Grandfathering of capacity may reduce competition to supply downstream users" is sound in theory, but not in practice, especially given there are no transmission capacity constraint issues at present and the declining mass market gas demand over time, the scale of mass market is too small to have more competition. Market efficiency gain from creating more competition is questionable in short and medium term.</p> <p>Additionally, removing grandfathering rights would add uncertainty to this small scale of retail market. It could potentially result more transaction cost.</p>
<p>Q8: 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>Yes</p>
<p>Q9: 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>As per our cover letter, we do consider more investigation and clarification around interruptible market is needed before other improvement.</p>

QUESTION	COMMENT
<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>Yes</p>
<p>Q10: 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>We broadly agree the PEA suggested guiding principles and approach from theoretical aspects.</p> <p>We do not agree with "Transition away from grandfathering and supplementary agreements" in the short and medium term. We suggest the GIC to consider longer transitioning period, This would allow the market to smoothly adopt the changes without creating market distortion and consequential cost.</p> <p>For the potential northern pipeline congestion issues, a transparent and developed interruptible market will facilitate and ease pressure in short and medium term.</p>
<p>Q11: 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>"Indicator of success" is theoretically sound, but hard to be measured in practice.</p>
<p>Q12: Do you agree with the PEA's recommendation to Gas Industry Co? (see PEA's Second Advice paper, Chapter 8, Recommendations)</p>	<p>As we mentioned before, it is too earlier to adopt the PEA's recommended principles until interruptible market is understood, more information transparency is in place, and common governance between two pipeline systems is implemented.</p>

QUESTION	COMMENT
<p>Q13: 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:</p> <p>Section 6.1.6 box titled 'Possible initial components of a development path';</p> <p>Section 6.2.2 box titled 'Rotowaro model';</p> <p>Section 6.2.3 box titled 'Possible initial components of a development path';</p> <p>Section 6.3.4 box titled 'Possible initial components of a development path';</p> <p>Section 6.4.2 box title 'Possible initial components of a development path')</p>	<p>Same as Q13</p>