



## GREYMOUTH GAS

26 August 2013

Steve Bielby  
Chief Executive  
Gas Industry Company Limited  
PO Box 10 646  
Wellington 6143

Dear Steve,

### **RE: Gas Transmission and Investment Programme, Status and Development – July 2013**

Greymouth Gas New Zealand Limited ("Greymouth Gas") is pleased to make a submission on the Gas Transmission and Investment Programme, Status and Development – July 2013 paper (the "paper") following an invitation from the Gas Industry Company Limited ("GIC") on 19 July 2013.

The paper is the GIC's take on the Panel of Expert Adviser's ("PEA") Advice from Panel of Expert Advisers, Report to Gas Industry Company, July 2013 paper ("PEA report") and a 'where-to-from-here?' on the GIC's Gas Transmission and Investment Project ("GTIP") relating to transmission access and pricing<sup>1</sup>.

The PEA has done a good job and the ball is now with the GIC. Interestingly though, the paper shows that GIC is going to throw the ball back to industry for industry to sort out the problem.

While this is the best course of action available at the moment, it does show that despite helping to facilitate industry thinking on the issues, GIC has not delivered any meaningful change to the gas industry (relating to the transmission access and pricing part of the GTIP) in the last 3-4 years and deliverable targets keep getting inched forwards.

On this note, Greymouth Gas takes issue with GIC saying, on page 9 of the paper that 'a good indicator of GTIP progress to date has been that there have been no such issues to refer to the Panel of Strategic Advisers ("PSA")'. Greymouth Gas disputes this statement. Not only has GTIP progress been slow in some areas, but involving the PSA (in which Greymouth Gas had a member) to provide strategic direction from the outset would probably have obviated the walk-about that the PEA went on in their flawed, and now superseded, July 2012 report.

The pressure now reverts back to the gas industry to sort out transmission access and pricing issues. This is fine. But, GIC must realise that, in all of the GTIP relating to transmission access and pricing, there is only 1 regulatory counterfactual at the moment, i.e. where the capacity framework prevents competition.

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<sup>1</sup> The status of other projects in the GTIP is noted in the paper but these seem to be in-hand and are not relevant to the transmission access and pricing project – which is the core component of the GIC's GTIP.

In the first instance, this will need to make its way through the various code change processes. If this fails, then there must be a case for regulation at the time that that case is made.

Industry changes above and beyond this are possible, but will require:

- a) TSO co-operation at a level not seen in the 2009 Industry Code Development process (for example), and
- b) Broader support from retailers/shippers and compliance with code change and appeal processes.

Greymouth Gas continues to support the GTIP. However, we make some points about the way forwards:

- The PEA report is a reasonable platform, but is just a guiding framework. PEA's conclusion for a public cost-benefit analysis at each step (at least a dollar exercise) is a must.
- Future work must distinguish between addressing the regulatory counterfactual (i.e. where the capacity framework prevents competition) and anything else (which could range from furthering soft objectives like transparency to gold-plating the codes).
- The regulatory counterfactual work must come first and should be divided into two parts:
  - Short-term – Capacity Follows End User approach from the PEA report plus uncommitted operational capacity publications, capacity queue publications amongst other things, and
  - Long-term – Evolutionary Convergence approach from the PEA report.
- Before this happens, industry may want to have a look at the various industry code change request processes. Greymouth Gas considers it paramount that Contact Energy Limited's single-issue Vector Transmission Code change request appeal (or a new variant that has the same gist) is supported or adopted before anything else happens. This will prevent undesirable changes being adopted by piggy-backing onto desirable changes. Failure to grasp this issue is behind the mess that the balancing work-stream has been in for the last four years – this should not be repeated.
- Before this happens, industry should meet and table resource availability to participate – particularly Vector Gas Limited and Maui Development Limited who are likely to lead or facilitate the code change processes and given that both now operate under a regulated default price-path framework. It will also need to be clarified whether or not Maui Development Limited will represent itself or whether the Commercial Operator of the Maui Pipeline (as defined in the Maui Pipeline Operating Code) will represent it.
- As noted in the PEA report, industry will need to agree on how to implement and manage the discussions and drafts required before the formal code change processes are set in motion. If this does not happen, the process may be hostile or may fail.
- Industry and GIC must have regard for industry resource availability and the opportunity cost of allocating time to the GTIP versus allocating time to other projects.

GIC must structure other industry requests at reasonable intervals and not expect tighter industry turnaround than they themselves can deliver.

- A target to have an 'improvements design forum' in mid-2014 seems a long way off. This may be acceptable from an Evolutionary Convergence approach perspective, but it is unacceptable from a short-term perspective.

Greymouth Gas doubts that end-users could stomach another year of no action ahead of the start of the 2014/15 gas year.

With GIC passing this back to industry, GIC effectively moves from a management role to a governance role. In doing so, GIC must have regard for the end-users of gas and the New Zealand gas story. From their perspective and in this regard, the gas industry has been anything but smooth sailing for the last 2 years (transport price changes, fixed/variable switch, balancing discussions, capacity issues, and critical contingency issues). Change management is therefore a governance risk and it must be paramount.

In summary, the way forwards for industry is clear and in this order: resourcing, implementation process and GIC support of that process, change requests process, short-term capacity issues, long-term capacity issues, and other non-regulatory counterfactual issues.

Greymouth Gas is prepared to participate, where we can and where we can see value for industry.

Yours sincerely,

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Chris Boxall  
Commercial Manager