



30 August 2013

Mr I Dempster  
General Manager Operations  
Gas Industry Company Limited  
PO Box 10 646  
Wellington 6143

Mighty River Power Limited  
Level 14, ANZ Centre  
23-29 Albert Street  
Auckland 1010  
PO Box 90399  
Auckland 1142  
  
Phone: +64 9 308 8200  
Fax: +64 9 308 8209  
[www.mightyriverpower.co.nz](http://www.mightyriverpower.co.nz)  
  
DDI: +64 6 348 7926

Dear Ian,

## **Gas Transmission Investment Programme Status and Development and Advice from Panel of Experts – July 2013**

### **Introduction**

1. Mighty River Power welcomes the opportunity to provide this submission on the Gas Industry Company's Gas Transmission Programme (GTIP) Status and Development and the Advice from the Panel of Experts papers both dated July 2013. No part of the submission is confidential and Mighty River Power is happy for it to be publicly released.

### **Comments**

2. Our responses to the questions raised within both documents are provided below in the Gas Industry Company's submissions template.
3. With regards to the Panel of Expert Advisors (PEA) paper we commend the PEA's work on these matters. We agree with many of the conclusions that the PEA has come to however we cannot agree with all of the proposals and recommendations put forward by the PEA.
4. We remain to be convinced that the alignment of the Maui Pipeline Operating Code and the Vector Transmission Code is as close as the PEA has concluded. We do however agree that there are certain areas within the two codes that should be harmonised; in particular there should be a common governance arrangement for the two codes.
5. We do not support the PEA's proposal to develop a short term firm and non-firm transmission capacity arrangement. In our opinion the PEA's proposal represents a pure market solution to a potential congestion problem, however we do not believe that

transmission services in New Zealand operates as a pure market, nor should it as there are certain social and political considerations that must be taken into account.

6. Under the PEA's proposals firm capacity will be sold to those who value that capacity most. If this proposal was implemented we would expect that large customers such as power stations would value firm capacity higher than say shippers supplying mass market customers. Having paid for firm capacity it is only reasonable to expect that customers will want to exercise their rights to continue operating if, or when congestion on the pipeline occurs. The logical result of these firm capacity customers exercising their rights would be the need to curtail those customers supplied on non-firm arrangements.
7. If shippers with non-firm capacity on a congested pipeline were required to curtail their customer's load this would create some significant problems. Managing and monitoring shippers' time of use customers' compliance with curtailment instructions would be relatively easy. Unfortunately the only way that shippers can ensure that their mass market customers comply with curtailment instructions is to physically disconnect them. This is impractical for a number of reasons not least due to the time needed to complete the number of disconnections that would be required to effectively ease the congestion on the pipeline. Should this situation arise then we would expect the industry to be on the receiving end of a significant amount of negative publicity to say nothing of the potential loss of confidence in the industry. We would also expect such an arrangement to be politically unacceptable.
8. Our alternative to the PEA's proposal lies within the Critical Contingency Management Regulations curtailment arrangements. Should congestion occur then it can be alleviated quickly, more efficiently and with the minimum of disruption by requiring the larger customers to curtail their gas consumption. These large customers should then be compensated for their lost production by those shippers whose gas deliveries remain uninterrupted. The challenge is then the development of a fair compensation regime.
9. We also have some concerns regarding the proposal to limit firm capacity contracts to a maximum of 5 year. Large customers make significant capital investments in their gas equipment and therefore it is not unreasonable for them to seek long term supply contracts to support their decision to install gas equipment. We believe that the lack of longer term supply arrangements would potentially have a negative impact on future investment decisions on gas equipment.

10. It should also be recognised that these long fixed term transmission contracts such as the one Mighty River Power currently has for Southdown power station provides a guaranteed year on year income for Vector Transmission which in part underwrites their operating costs and provides some downward pressure on posted transmission prices.
11. Much is made of the negative impact of the grandfathering rights for shippers. These rights however address important security of supply issues. Customers even at a residential level are making decisions to invest in thousands of dollars in gas appliances. In our opinion it is important that customers continue to have confidence that the gas industry will be able to provide them with the continuity of supply that they have experienced since natural gas came to market in the early 1970's. Gas is and always has been a discretionary fuel and experience has shown that anything that undermines customer confidence in its long term security of supply has a significant negative impact on the industry.

### **Concluding remarks**

12. If you would like to discuss any of our above comments directly with Mighty River Power then please do not hesitate to contact me on 06 348 7926 or [jim.raybould@mightyriver.co.nz](mailto:jim.raybould@mightyriver.co.nz).

Yours sincerely



**Jim Raybould**  
Gas Manager

## Recommended format for submissions

Submission prepared by: Jim Raybould for Mighty River Power

### 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
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?	With regards to the Vector Capacity Determination Mighty River Power and other shippers are not experts on transmissions pipeline systems. Whilst we have no reason to believe that the Vector papers were incorrect they should be subject to critical independent expert review. In our opinion this independent review should be carried out by the GIC.
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?	We agree that the characteristics described by the PEA are those of an ideal or pure market for transmission services.
Q4 Do you agree with the proposed way forward for the Information Projects?	We agree that for an efficient transmission market to operate there is a requirement for all the relevant information to be made publically available. We would however like to see a focus on identifying what this information is rather than the current view that almost all information should be publically available.

QUESTION	COMMENT
Q5 Do you agree with the proposed way forward for the Market Projects?	Yes however not all shippers were members of the PEA and therefore it is entirely possible that the outcome from the shippers' discussions when they get together whilst they may achieve the same objectives of the PEA they may not necessarily result in the changes currently being proposed by the PEA.
Q6 Do you agree with the proposed way forward for the Regulatory Projects?	Yes

Advice from Panel of Expert Advisers – July 2013

QUESTION	COMMENT
<p>7 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 agree in so far as the PEA is looking at the operation a perfect or pure transmission market. We do however have a number of concerns regarding their assessment.</p> <p>Whilst we agree that there should be an efficient allocation of capacity whether it is a scarce commodity or not there are some very good reasons for maintaining grandfathering rights. First and foremost grandfathering provides for a continuity or security of supply to shippers' existing customers. This is important not only for shippers with contracted business customers but also for mass market customers such are residential customers.</p> <p>We note that numerous comments are made on the need for transparency throughout the document and we agree that this will enhance the overall operation of the transmission system. However at no point is there any attempt to identify which specific additional pieces of information that are currently not publically available that need to become available to enhance the current transparency levels of the transmission system.</p> <p>We also note that the Executive Summary states that "there is a strong case for moving to a regime where nominations apply for both firm and non-firm services" however no such case is made within the document for such a move.</p> <p>We agree that price signals may assist in identifying the need for investment in the transmission system however at no point is there any discussion on who will pay for any expansion of capacity, existing or new gas users? In addition it appears that all new gas loads with the exception of direct connects to transmission system are provided with free entry and access to the existing transmission services regardless of their impact on the pipeline.</p>

QUESTION	COMMENT
<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>We remain to be convinced that the alignment of the Maui and Vector systems is as close as suggested by the PEA. The Maui pipeline is common carriage rather than an interruptible service and we think it is important to make that distinction. In our opinion Contract and Common Carriage regimes are equally subject to interruptions. MDL does not currently offer firm capacity whilst Vector does offer clearly recognised firm and interruptible services. Daily nominations are not common across both pipelines and there are significant differences between a daily nominations regime for Maui and an annual capacity reservation regime for Vector.</p> <p>As mentioned above the PEA proposals allow for the free riding of all new gas consumers, except direct connects, on the transmission system regardless of whether it is those customers who have caused the scarcity of capacity.</p> <p>The comment on the renegotiation of power station contracts in the Auckland area is factually incorrect. MRP has renegotiated its transmission service agreement with Vector to allow for the transfer of capacity from the power station in line with our Bridge Commitments. We have not as stated in the paper replaced some of our firm capacity with interruptible capacity.</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>No, whilst the PEA's proposals may well fit in with a "market solution" we do not believe that in practice the operation of the proposed arrangements will result in acceptable outcomes. Our reasons for this position and our alternative proposal are included in our covering letter above.</p>

QUESTION	COMMENT
<p>Q10 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>For governance issues yes we agree with the PEA that there should be an evolutionary convergence between the two Codes but at this point in time only for governance issues.</p>
<p>Q11 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 <b>Error! Reference source not found.</b> of Gas Industry Co's Status and Development paper)</p>	<p>No please see our covering letter above. Also with regards to section 6.1.5 on nominations, we have as yet to see a definitive proposal for such a nominations regime let alone a convincing case for the introduction of such a nominations regime on the Vector system.</p>
<p>Q12 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>Whilst we do not believe that the PEA has the correct road map for success we believe that their indicators for success are correct. One exception to this is that given not all of the industry participants have been involved in the PEA process we think it is unrealistic to expect change requests to be in place on governance by November this year. We would suggest that given the amount of work that is likely to be required a more realistic date may be by the end of the year or possibly February next year.</p>



QUESTION	COMMENT
<p>Q13 Do you agree with the PEA's recommendation to Gas Industry Co? (see PEA's Second Advice paper, Chapter 8, Recommendations)</p>	<p>No</p>
<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>No</p>