



GREYMOUTH GAS

10 December 2010

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

Dear Ian,

RE: Retail Competition and Transmission Capacity: Statement of Proposal

Greymouth Gas New Zealand Limited ("Greymouth Gas") is pleased to make this submission on the Retail Competition and Transmission Capacity: Statement of Proposal (the "paper") submitted by the Gas Industry Company Limited ("GIC") to the industry on 12 November 2010.

Greymouth Gas expresses concern that despite the time and effort invested by industry at many meetings and workshops, the GIC has not adhered to its commitment (at the 18 August 2010 industry workshop in Auckland) to form a working group that would deliver a contract based solution to the short-term capacity problem on Vector's North Pipeline by the end of 2010.

Now it seems industry is facing a regulatory solution, but not before June 2011. This timeframe is unacceptable. It has been over a year and a half since Vector first announced a capacity constraint on its Northern Pipeline System (which has reduced competition in industry).

Preamble

The GIC has assessed that there is a significant short-term capacity problem. Greymouth Gas draws attention to the following:

- The GIC advises that *"The Gas Act [1992] provides for Gas Industry Co to recommend that regulations be introduced to require that new pipeline investment be made. However, we currently have no related work underway"*¹. The GIC has identified that the only real solution to the issue is increased physical capacity. Why has the GIC has not commenced this work yet?
- The GIC is *"delaying [long-term capacity] work"*² when the building blocks for this can be progressed in tandem with current initiatives.

¹ Page 3 of the paper

- GIC's advice that Vector should sell about 175TJ/day² of capacity should be investigated because Greymouth Gas understands that the maximum flow has been about 200TJ/day in recent years.
- Vector's ability to meet all requests for Reserved Capacity ("RC") in the 2010/11 gas year³ is misleading as a statement of the problem. Vector has confirmed to the industry that "[Vector] cannot guarantee approval of a [Reserved] Capacity request on any Pipeline [in the North Pipeline]"⁴. Greymouth Gas understands that RC allocation is at or near capacity, meaning uncertainty and reduced competition will likely continue within the industry at tendering stage. Given recent issues, the industry should only consider short-term capacity issues solved (with regard to switching), when Vector can guarantee RC will be made available for existing end-users regardless of who their supplier is. This situation has not been helped by Vector's refusal to advise the industry of available RC, queues and queuing process. In quantifying the problem and writing this paper, Greymouth Gas is surprised that the GIC has not asked Vector for information relating to the capacity queues on the North Pipeline. Industry participants have requested written details of the queuing process and the current status of the queue from Vector on several occasions. Vector has refused to provide any information to industry. In Greymouth Gas's opinion, this is unacceptable.
- The statement that "[Vector] considers that organic growth (from residential and small commercial end users) on the North Pipeline can be accommodated to 2015"⁵ is simplistic because it masks the short-term impact on the non-commercial market, i.e. that Vector over-run revenue will increase in the interim.
- Vector's suggestion that the access arrangements are not limiting competition⁵ is untenable and self-serving. GIC has, jointly with Vector, begun work on solutions to amend access arrangements as a means of solving the short and long-term capacity and competition problems.
- The GIC points out that it would not be in the commercial interests for parties who are benefitting from the situation to acknowledge that there is a problem. Greymouth Gas has been vocal about the problems on behalf of industry and end-users.
- It is simplistic for the GIC to conclude that "*some degree of competition does exist*"⁶. Any retailer wishing to service a customer in Auckland is unable to do so, without the required RC. This situation suits incumbent suppliers. Greymouth Gas has suffered a financial loss in excess of \$14 million as a result of the North Pipeline capacity constraint.

The GIC is accordingly requested to meet its statutory obligations.

² Page 2 of the paper

³ Page 9 of the paper

⁴ By email to the industry on 24 September 2010

⁵ Page 9 of the paper

⁶ Page 11 of the paper

Statement of Proposal

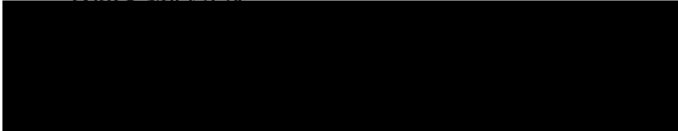
Greymouth Gas' comments on the GIC's Statement of Proposal are:

- The rules need to be written and comments sought. Currently, the concept is too high-level.
- Greymouth Gas agrees with the approach of effectively tagging capacity to Large End Users.
- The process for declaring a Constrained Pipeline misses the point because the trigger is that a party has to have a request for RC declined due to capacity reasons. This provides no comfort with regards to the real problem and needs to address the tendering stage. The trigger should address whether or not Vector can guarantee to the GIC that any requests by the supplying retailer for RC for existing TOU customers will be accepted regardless if TOU customers change supplier.
- Having the incumbent retailer notify loss of a contract could work better, from an incentives perspective, if the gaining retailer were to notify of contract wins.
- It is wrong for Vector to calculate the maximum Capacity Amount because of Vector's conflict (both a TSO and a retailer). It is unnecessary for Vector Transmission to be as involved in the tendering stage.
- The method of calculating the maximum Capacity Amount seems unusual because the five peak days of the incumbent retailer's total daily demand on the Pipeline is unlikely to have a direct relationship with the five peak days of the Large End User's daily demand. Further, it fails to address that capacity is tied to the end user and does not factor in that different load profiles apply at different points in different seasons for different shippers.
- The GIC should not be proposing that the maximum Capacity Amount is available to retailers to buy. There should be no charge for this ancillary service. Instead, there should be monthly posted price charges payable by retailers to Vector.
- Agreeing the amount of capacity with the TSO prior to making a bid will be difficult to enforce. The gaining retailer should be free to accept up to the level of the maximum capacity amount upon winning supply to the customer.
- The rules do not say what happens if there is not enough RC for the TSO to transfer to the gaining retailer. There are also no incentives to ensure that the incumbent retailer does not transfer capacity away from a Delivery Point before losing the customer. Also, the rules do not say that Vector can move capacity from one Delivery Point to another Delivery Point before transferring the capacity.
- TSO costs in relation to the proposed rules should be considered business-as-usual.
- The comment that a Large End User puts up a contract for tender every 2 or 3 years is inaccurate.

- It is essential that the capacity issue is solved at the tendering stage.
- The rules need to be retrospective because if a retailer wins a tender but there is not a "constrained pipeline" and a request for RC is declined, then by the time the GIC goes through the constrained pipeline determination process, the retailer will have been invoiced on a without-RC basis and there may be no guarantee of having RC back-dated.

While the high-level concept of the proposed rules is supported, the building blocks have significant holes. Greymouth Gas' specific comments on the questions in the paper are provided in an attachment to this letter.

Yours sincerely



Chris Boxall
Commercial Manager

QUESTION	COMMENT
<p>Q1 Do you agree with the GIC's description of the retail competition problem?</p>	<p>Greymouth Gas agrees with aspects of the description, but disagrees with some specific points.</p> <p>This paper should add context to demonstrate that tagging capacity to large end-users is 1 of 3 short term issues. The other 2 are:</p> <ul style="list-style-type: none"> • Effect on switching residential load and non-Allocation Group 1 & 2 customers; together with an assessment of Vector overrun charges, • New gas supply for new businesses <p>The potential that these could also be short-term issues should not be discounted because of the profile of the impact on large end users' ability to switch.</p>
<p>Q2 Do you agree with the economic analysis?</p>	<p>No comment.</p>
<p>Q3 Do you agree with the proposed regulatory objective?</p>	<p>Yes, except for the comment about "effective choice of supplier" because this refers to an end user receiving multiple reasonable offers for supply. These words could mean that multiple retailers have reasonable offers for supply, and multiple retailers have offers subject to capacity availability. Words should be to the effect that an end user has "maximum" effective choice of supplier, with the description of "effective choice" factoring this into account also.</p>
<p>Q4 Do you consider that the evaluation criteria are appropriate for evaluating the options?</p>	<p>Yes.</p>
<p>Q5 Do you have any comments on the evaluation of options?</p>	<p>No comment.</p>
<p>Q6 Do you agree the GIC has, through the evaluation of options, correctly identified the 'Capacity Follows End User' as the preferred option?</p>	<p>Greymouth Gas agrees with the preferred option, but we make no comment with regard to this being derived correctly through the evaluation of options.</p>
<p>Q7 Do you have any comments</p>	<p>Yes, but the proposal lacks meaningful detail.</p>

<p>on the details of the proposal?</p>	<p>We note that only 6 of the 124 pages of the paper were dedicated to the detail of the proposal. For more specific comments on the details of the proposal, please refer to our letter under the heading 'Statement of Proposal'.</p>
<p>Q8 Do you agree with the next steps?</p>	<p>Greymouth Gas disputes that the paper was the agreed next step. The GIC's previous commitment was to facilitate a contractual solution (in place) by the end of 2010.</p> <p>Greymouth Gas does not agree with the next steps because, given the lack of detail in the Statement of Proposal, the next steps do not allow for release and submission on detailed rules, which is standard practice with regard to GIC rules and regulations. This process should be included within the current timeframe.</p> <p>Greymouth Gas is considering a Vector Transmission Code Change Request.</p>