

5 February 2016

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Question		Comment
Q1:	Do you have any comments on Gas Industry Co's role or Strategy relevant to development of the Statement of Intent and Levy?	No.
Q2:	Do you have any comments on the process for developing Gas Industry Co's SOI and Levy?	<p>The general process is fine but we would note the continual absence of effective and broader stakeholder input into the process:</p> <ul style="list-style-type: none">• The lack of producers' input into co-regulator forums other than those who are vertically integrated into downstream markets (Greymouth, Todd).• Although MGUG tends to bring a consumer voice to the discussion it is not representative of the overall consumer market including; residential, commercial, and small industrial.• Absence of advocates for potential emerging opportunities (e.g. distributed micro generation, transport fuels.) that might help identify enablers or barriers to a broader gas market. <p>We would suggest (unless this is already occurring) that these missing stakeholders be approached on a pro-active basis by the GIC on an annual/ semi-annual basis to identify latent or emerging needs/ risks that might better assist the definition of projects and priorities to meet identified strategic objectives.</p>

<p>Q3:</p>	<p>Do you consider there to be any other items that should be included in the Company's intended Work Programme for FY2017? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.</p>	<p><u>Wholesale Market Development</u></p> <p>We would support the GIC initiating a program to accelerate the maturity of the gas wholesale trading platform as part of its strategic objective 3.1 (Promote efficient, competitive, and confident gas markets) in line with the Gas Policy Statement:</p> <ol style="list-style-type: none"> 1. The facilitation and promotion of ongoing supply of gas meets New Zealand's energy needs by providing access to essential infrastructure and <i>competitive market arrangements</i>. 2. <i>Barriers to competition in the gas industry are minimised</i> <p>MGUG views the establishment of the emsTradepoint trading platform as a positive start to meeting this objective but further development to its potential to price gas commodity efficiently is stalled by current gas market arrangements that may need a regulatory catalyst to break through this barrier.</p> <p>There is a general lack of sufficient depth and liquidity to give full confidence to the platform to encourage wider uptake of its products as an alternative to traditional bespoke bilateral arrangements.</p> <p>Part of the problem to wider participation are contractual barriers in negotiated bilateral GSAs. The electronic trading platform currently is perceived to lack sufficient depth to encourage broader uptake by full switching to market products, creating a catch 22 situation for the market. That is, potential parties (including MGUG members) would participate if the market had depth as well as liquidity, but to create depth and liquidity requires parties to participate.</p> <p>Members therefore are faced with the dilemma of continuing with current bespoke bilateral arrangements with a limited number of gas retailers/ wholesalers and not obtaining a competitive market price¹, or putting their whole supply arrangements at risk through a market that is yet to develop sufficient health to provide supply security confidence and protection from market power.</p>
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¹ An RFP Process that can't access the whole market does not guarantee a competitive outcome

	<p>MGUG members have a general desire to see the commodity trading platform succeed and become a marker for the commodity gas price and are willing to help build depth and liquidity and hence confidence in efficient pricing. However the only acceptable way to mitigate the risk of the unknown is to be able to have a balanced portfolio made up of a mix of bilateral contracting and exchange traded products. Currently members are finding it practically impossible to negotiate these arrangements with their suppliers. More broadly, MGUG contends that other than the dominant users (Methanex, Contact, Genesis) everyone else in the market faces the same issue leading to inefficient pricing of the gas commodity.</p> <p>Regulatory precedents exist as solutions to this problem. Regulated Gas Release Programmes for example have acted as catalysts for the European gas market development by regulating removal of barriers to participation to drive the development of transparent and liquid wholesale gas markets.²</p> <p><u>Gas Transmission Pricing Methodologies</u></p> <p>MGUG would support the GIC regulating pricing methodologies for gas transmission as part of access arrangements to avoid inefficient pricing outcomes currently being experienced on the Vector System. The Vector GTPM has created a situation where standard price contracts representing 28% of volume produce 59% of revenues, and about 39 separate non-standard (firm capacity) contracts pay less than 30% (on a weighted average basis) than standard firm contracts.³</p> <p>In contrast EU gas transmission markets have evolved competition principles, such as under the third natural gas market EU Directive 73/2009/EC (further specified in Regulation 715/2009) which requires third party access arrangement regime to be based on <i>published and pre-approved tariffs that are applied in transparent and non-discriminatory way</i>.</p> <p>This principle is embodied in the Maui transmission tariff setting, but not in the Vector tariff setting system. With the news that the Maui and Vector pipelines are to be owned by one party, we are concerned that the inefficiencies of the Vector regime will spread to also include the Maui regime.</p>
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² For example the UK Release Gas Programmes 1992-1995 administered by the regulator Ofgas.

³ A full analysis of published compliance statements can be provided on request to support these statements

		<p>The Pricing Methodology appears to be an overlapping responsibility with the Commerce Commission but with the Commission's focus on allowable revenue rather than pricing this is an area that appears to fall under the GIC's jurisdiction under the Gas Policy Statement:</p> <ul style="list-style-type: none"> • The facilitation and promotion of the ongoing supply of gas meets New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements • The full costs of producing and transporting gas are signalled to consumers <p><u>General Coordination Role</u> MGUG supports an appropriate provision within the GIC to engage with the Commerce Commission on IM review and DPP reset through 2016 to ensure alignment between the GIC and the Commerce Commission objectives.</p> <p><u>Concern about transmission ownership changes and impact on GTIP programme progress</u> The change in ownership of the transmission system to a single asset owner is both a threat and an opportunity to progress transmission access arrangements. MGUG is not clear whether this significant change will accelerate or further slow convergence of access codes towards Flow On Nominations. The impact on budget to get clarity on the path forward appears to be missing from the estimate yet it remains a crucial workstream. MGUG would suggest that the stance of the new owner is likely to have an important influence on the scope and budget for this work and that there is a pressing need to identify what that would be before the new levy year starts.</p>
Q4:	Do you consider there to be any items that should be excluded from the Company's intended Work Programme for FY2017? Please provide reasons for your response.	We do not support further efforts on an information gathering protocol. Instead we would support the GIC moves straight to regulation (subject to consultation provisions under S43L of the Act) on its right to request information from the industry and to receive it in a timely manner in order to fulfil its function as a regulator to go beyond the narrower provisions under S43U which relate only to regulations or rules in force. This is in the same way as the Commerce Commission has information gathering powers under the Commerce Act (S98) or the Electricity Authority under the Electricity Act (S46).

		<p>2015 demonstrated the limits on voluntary disclosure (refusal and/or time spent negotiating access to information). The possibility that information access may be vetoed by individual entities undermines not just the authority of the GIC as co-regulator but also inhibits its role under the Gas Act.</p> <p>MGUG does not accept the argument that generally voluntary compliance with information requests to date in any way guarantees information access in future. MGUG prefers certainty in GIC's ongoing ability to access information in a timely fashion in order for the GIC to effectively fulfil its functions. The fact that no other regulator in NZ has to face this uncertainty confirms our view that a regulated solution to information access is non-negotiable and the accepted norm for regulatory powers.</p>
Q5:	<p>We are particularly interested in industry comment on the forecast gas volumes – do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volume estimate to be?</p>	<p>170 PJ appears to be reasonable based on our own estimates which assumes 165 PJ transported on open access systems and about 5 PJ transported on private pipelines.</p> <p>However this number is particularly sensitive to gas demand assumptions for large users like Methanex, Contact, and Genesis. MGUG would consider that downside potential in estimates for these entities is higher than upside, given operational problems demonstrated at Methanex⁴ and changes in fuel mix in the electricity market that have yet to fully play out⁵.</p> <p>In order to prevent a shortfall in wholesale levy collection MGUG considers 160 PJ to be a more prudent budget estimate.</p>
Q6:	<p>Do you have any comment on the proposed levy for FY2017?</p>	<p>We appreciate the GIC's focus on keeping costs under control and the levy as low as possible without underinvesting in activities where value to the industry may be added. It is not necessarily clear when only costs are focused on, whether the GIC on a cost benefit basis is effectively leveraging its resources or not.</p> <p>We would like to see GIC conduct and publish fit for purpose post implementation analysis on selected projects/ activities in order to capture achievement on expectations as well as learning experiences that would help improve its effectiveness and efficiency as an organisation. For example the GTIP project seems to MGUG to have fallen significantly short of expectations on budget, outcomes, and timeliness. It is not clear</p>

⁴ Refer Methanex quarterly operations reports.

⁵ Particularly with regard to Contact's operation of TCC in lieu of shutdown of Otahuhu B.

		why, or what lessons are being learned from this to inform the GIC's SOI and Levy proposals.
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