

Format for submission

To assist the Gas Industry Co in consider stakeholders’ responses, below is a suggested format for submissions. The questions are the same as those contained in the body of this document.

Respondents are also free to include other material in their responses.

QUESTION	COMMENT
Q1 Do you agree the objectives identified in section 5 are appropriate criteria for evaluating transmission capacity options?	In general yes. We would add that an assessment of the various options must at some point contain at the very least an indication of what the prices to be paid by customers will be as a result of any regime change as “rate shock” can have a detrimental impact on the market.
Q2 Do you agree with the evaluation of the current capacity arrangements?	With the exception of efficient investment, which we would rate as poor rather than moderate, yes we agree with the GIC’s evaluation.
Q3 Do you agree with the evaluation of the contract carriage option?	In the terms proposed by the GIC yes we would agree with the GIC’s evaluation.
Q4 Do you agree with the evaluation of the common carriage option?	Mighty River Power agrees with the GIC’s evaluation. In particular we agree that there are issues for larger customers such as a Power Station with regards to their preference for a “firm” gas supply

Q5 Do you agree with the evaluation of the current hybrid option?

The hybrid option certainly appears to capture the positive elements of both the contract and common carriage models whilst minimising the negative aspects associated with both these regimes.

There are however, some issues that we would like to raise with the GIC relating to the Hybrid option which we believe need to be considered if further development work is carried on this option.

It is anticipated that within the Hybrid option that “medium” sized customers may contract for capacity. Does the GIC have a view as to what size a medium sized customer would be?

We would anticipate that these customers could be those with Time of Use metering therefore customers with an annual consumption of >10TJ of which we believe there are about 390. There is then the question of how much capacity would be contracted if all or the majority of these customers did individually contract for capacity.

If customers did contract for capacity then we assume that:-

- The contract would be between Vector and the customers.
- The customers would contract for their peak capacity requirement.

If the contract is between Vector and the customer would Vector then bill the customers direct, after all why would a retailer want the liability of collecting these charges for Vector? There is already a precedent for such an arrangement with Vector Network’s Line Services Agreements for distribution network charges where Vector bills the customers direct. If Vector was contracting direct with the customers would the customers then need to be signatory to the Vector Transmission Code and a Transmission Service Agreement?

If all or most of the 390 time of use customers plus the major users such as the power stations did all contract for their peak capacity what would the implications be on the north pipeline given the current constraints and that 64% of capacity on the North pipeline is already contracted via non Vector Transmission Code agreements.

<p>Q5 Do you agree with the evaluation of the current hybrid option? (Continued)</p>	<p>Congestion management is another issue. At the workshop on 9 June 2010 it was suggested that if congestion did occur then the contract customers would be asked to shed load and then be compensated for loss of production, possibly at electricity spot gas prices. Whilst we understand why it is easier to shed large customer loads rather than mass market loads these contract customers have signed contracts precisely because firmness of supply is important to them. The question is therefore, other than compensation, if they are interrupted when there is transmission congestion what exactly are the advantages of contracting for capacity, price?</p> <p>Mighty River Power would be interested in the GIC's views on what the likely prices would be for both the contract and common carriage and more importantly the price differences between the two. Our assumption, which may be erroneous, is that contract carriage prices would be lower than common carriage prices.</p> <p>Also with regards to pricing it will be important with any move away from the current regime that potential rate shock is minimised. There are currently some significant differences in the average transmission prices paid for gas to be delivered to the gas gates with capacity reservation fees, as the GIC knows, varying from as little as \$22/GJ up to a maximum of \$600/GJ.</p>
<p>Q6 Do you agree with the evaluation of the MDL carriage option?</p>	<p>Yes, however we believe that this rather than the Incremental option provides a possible way forward. The MDL option has a similar evaluation rating to the Incremental option and if an alternative to the Hybrid option is to be considered then we would recommend exploring this option and possible improvements to it in greater detail.</p>

<p>Q7 Do you agree with the evaluation of the incremental change option?</p>	<p>No. In our opinion the Incremental change option will not work, particularly on the North pipeline simply because you cannot move capacity from shippers to individual contract customers on a constrained pipeline unless there is an alternative transportation arrangement such as common carriage in place for shippers that have to give up that contracted capacity.</p> <p>Retailers generally adopt a portfolio approach to capacity reservation management therefore they book capacity based on their anticipated optimised peak or their actual peak. In both cases the sum of the capacity required by all of the retailers' customers is usually less than the actual capacity that the retailer reserves for the year. If as proposed a customer contracts for capacity and the retailer has to transfer capacity to that customer then the retailer is exposed to increased capacity reservation overrun charges. This situation may also be exacerbated by the fact that not all shippers were able to book sufficient capacity on the north pipeline to cover their requirements increasing the retailers' exposure to increased overrun charges. This would place an unacceptable financial risk on retailers' until the transition to the new regime was completed.</p>
<p>Q8 Are there other options you think should be considered and evaluated?</p>	<p>Not that we are aware of.</p>
<p>Q9 Do you agree that only the hybrid and incremental change options should be considered further?</p>	<p>No we are of the opinion that of the options evaluated that the Hybrid and possibly the MDL options should be considered.</p>
<p>Q10 Do you agree with the proposed next steps?</p>	<p>No. The GIC should not spend any more money on this workstream unless the Vector proposals on their transmission regime which are overdue are unacceptable to the industry.</p>