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20/7

8 July 2010

Mr Ian Wilson
Adviser
Gas Industry Company
PO Box 10-646
Wellington

Dear Ian

OPTIONS FOR VECTOR TRANSMISSION CAPACITY (MAY 2010)

Thank you for the opportunity to comment on the Options for Vector Transmission Capacity paper. I am responding on behalf of Energy Direct NZ (EDNZ).

We agree that the hybrid and incremental change options are the best overall.

Further investigation of these options would be beneficial, provided that they are compatible with the medium and long term options that Vector is considering. In particular we would be interested to see further analysis on the degrees of firmness and cost implications of interruptions.

If you would like to discuss our comments further please contact me by email at tara.gannon@energydirectnz.co.nz or by phone on DDI 06 349 2055. Alternatively you can contact our General Manager, Michael Ram, by email at michael.ram@energydirect.co.nz or by phone on 06 349 0129.

Yours sincerely

A handwritten signature in black ink that reads "Tgannon".

Tara Gannon
Energy Trading Manager
Enc

OPTIONS FOR VECTOR TRANSMISSION CAPACITY (MAY 2010)

QUESTION	COMMENT
<p>Q1 Do you agree the objectives identified in section 5. Are appropriate criteria for evaluating transmission capacity options?</p>	<p>Yes, we agree that the objectives are complete and reasonable.</p>
<p>Q2 Do you agree with the evaluation of the current capacity arrangements?</p>	<p>6.1 Efficient Pricing We agree that a rating of moderate is fair.</p> <p>6.2 Efficient Allocation We agree that a rating of poor is fair.</p> <p>6.3 Efficient Investment We agree that a rating of moderate is fair.</p> <p>6.4 Facilitate Competition We agree that a rating of poor is fair.</p> <p>6.5 Simplicity and Transparency We agree that determination of commercial capacity is not transparent. Limited information on physical capacity is available and we agree that a rating of poor is fair.</p> <p>6.6 Price Stability We agree that the rates per GJ are stable. However, in certain situations gas overrun charges are unstable. In some cases gas retailers may be allocated excessive UFG which forces them into overrun, and can result in very high overrun charges.</p> <p>6.7 Firmness We agree that a rating of moderate is fair.</p> <p>6.8 Transition Costs Not applicable.</p>

QUESTION	COMMENT
<p>Q3 Do you agree with the evaluation of the contract carriage option?</p>	<p>Efficient Pricing From EDNZ’s perspective contract carriage would rate as poor. Most of EDNZ’s customer contracts are fairly short term, with staggered start and end dates. Long term fixed quantity transmission contracts would not be suitable for us, unless there was a secondary market to trade capacity. As prices would be based on rates at the time that the contract was entered into, even with a secondary market retailers may not be able to shift capacity if it was purchased at a higher price than the current price.</p> <p>Efficient Allocation We agree that a rating of very poor is fair. Gas load is diverse and this diversity should be taken into account by the capacity planning process.</p> <p>Efficient Investment We agree that a rating of very poor is fair.</p> <p>Facilitate Competition We agree that a rating of very poor is fair, as this option could create barriers to entry and prevent retailers from increasing their market share.</p> <p>Simplicity and Transparency We agree that this option is relatively simple, however, this simplicity creates other problems as described above.</p> <p>Price Stability We believe that price stability should be rated as moderate. While prices would be relatively stable for the term of the agreement, rate shock could occur when the agreements are renewed.</p> <p>Firmness We agree that a rating of moderate is fair.</p> <p>Transition Costs We agree that a rating of poor is fair, due to the need for retailers to enter into new long term contracts.</p>

QUESTION	COMMENT
<p>Q4 Do you agree with the evaluation of the common carriage option?</p>	<p>Efficient Pricing We agree that a rating of good is fair.</p> <p>Efficient Allocation We agree that a rating of good is fair in principle. As a retailer with mostly mass market customers we would like to see further analysis on how interruption of interruptible contracts would impact on the pricing of the mass market.</p> <p>Efficient Investment We agree that a rating of good is fair. Provision of forecasting information by Distributors will improve accuracy as retailers are likely to only have part of the consumption history for each site.</p> <p>Facilitate Competition We agree that a rating of good is fair. This would allow retailers to freely expand their customer base and move into new areas. This would reduce barriers to entry for new retailers.</p> <p>Simplicity and Transparency We agree that a rating of moderate is fair. The structure is more complex than the existing one due to revised congestion management processes.</p> <p>Price Stability We agree that a rating of moderate is fair. Most of EDNZ's users require reliability and are likely to face some instability if interruptible users are compensated for interruptions.</p> <p>Firmness We agree that a rating of moderate is fair. We agree that it will be difficult to set a reliability standard which is both economical for Vector and sufficient for most users.</p> <p>Transition Costs We agree that a rating of very poor is fair, due to the need to compensate users with long term capacity contracts.</p>

QUESTION	COMMENT
<p>Q5 Do you agree with the evaluation of the current hybrid option?</p>	<p>Efficient Pricing We agree that a rating of good is fair.</p> <p>Efficient Allocation We agree that a rating of good is fair, but note that common carriage customers are likely to incur a greater proportion of total costs per GJ especially if contract carriage customers are compensated for interruptions.</p> <p>Efficient Investment We agree that a rating of good is fair. Provision of forecasting information by Distributors will improve accuracy as retailers are likely to only have part of the consumption history for each site.</p> <p>Facilitate Competition We agree that a rating of good is fair, and the availability of common carriage will reduce barriers to entry and expansion of retailers' customer bases.</p> <p>Simplicity and Transparency We agree that while complexity is increased, transparency is improved.</p> <p>Price Stability We believe price stability for contract carriage customers will be moderate to good under the hybrid option, as rate shock could be experienced when contracts are renewed. Price stability for common carriage customers will be moderate to poor if there is not sufficient investment to increase capacity, especially if interrupted users are to be compensated at rates as high as the electricity spot price. These costs would be likely to fluctuate and will be difficult to recover from mass market end users.</p> <p>Firmness All of EDNZ's current customers require high levels of firmness and reliability. We would like to see further analysis on the likely reliability standard, firmness options and the likelihood of interruptions for each option.</p> <p>Transition Costs Depending on the changes to OATIS required, the transition costs for this option could be poor to moderate.</p>

QUESTION	COMMENT
<p>Q6 Do you agree with the evaluation of the MDL carriage option?</p>	<p>Efficient Pricing We agree that a rating of moderate is fair. We agree that while costs for the Vector system are not naturally zoned, the difference between supply and demand differs between regions and this could be used to set zoned pricing.</p> <p>Efficient Allocation We agree that a rating of moderate is fair. Without investment in additional capacity, customers may not be able to secure their required ACQ.</p> <p>Efficient Investment We agree that a rating of good is fair. Provision of forecasting information by Distributors will improve accuracy as retailers are likely to only have part of the consumption history for each site.</p> <p>Facilitate Competition We agree that a rating of good is fair.</p> <p>Simplicity and Transparency We agree that a rating of poor is fair, as this option is more complex.</p> <p>Price Stability We believe that price stability would be slightly better than the hybrid option overall, as there would be no compensation for interruptions. A rating of good is fair.</p> <p>Firmness We agree that a rating of moderate is fair. We do not believe that choices of fully firm or fully interruptible capacity will suit all users.</p> <p>Transition Costs We agree that a rating of moderate is fair.</p>

QUESTION	COMMENT
<p>Q7 Do you agree with the evaluation of the incremental change option?</p>	<p>Efficient Pricing We agree that a rating of moderate is fair.</p> <p>Efficient Allocation We believe that a rating of poor to moderate is appropriate. Due to diversity, the sum of a retailer’s customers’ capacity reservations is likely to be less than the total capacity reservation booked by that retailer. Unless capacity constraints are addressed through investment, retailers may have to transfer more capacity than they have available to them if a customer switches. If this option is pursued, we would prefer the Transmission Operator to have a direct agreement with the end user. This would directly tie the capacity to the customer and allow much longer term agreements. Additional investment is likely to be required to ensure that sufficient capacity is available for each retailer’s remaining customers.</p> <p>Efficient Investment We agree that a rating of good is fair.</p> <p>Facilitate Competition We agree that a rating of moderate is fair. There would be likely to be improved competition for large customers who have their own capacity booking, but less competition in the mass market if retailers are unable to secure sufficient capacity.</p> <p>Simplicity and Transparency We agree that a rating of poor is fair.</p> <p>Price Stability We believe a rating of moderate to poor is fair. This option will decrease price stability.</p> <p>Firmness We agree that a rating of good is fair, as this option provides for varying levels of firmness.</p> <p>Transition Costs We believe that transition costs should be rated moderate to poor, depending on the level of changes to OATIS required.</p>
<p>Q8 Are there other options you think should be considered and evaluated?</p>	<p>No.</p>

QUESTION	COMMENT
Q9 Do you agree that only the hybrid and incremental change options should be considered further?	Yes, further investigation of these options would be beneficial, provided that they are compatible with the medium and long term options that Vector is considering.
Q10 Do you agree with the proposed next steps?	Yes, as long as Vector supports the changes.