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28 September 2007

Dear Ian

#### **INFORMATION DISCLOSURE BY OWNERS OF GAS PROCESSING FACILITIES**

1. This submission constitutes Vector's response to the Gas Industry Co's (GIC) "Information Disclosure by Owners of Gas Processing Facilities" Statement of Proposal ("the Proposal") issued in September.
2. Vector's response to the specific questions raised by GIC in the Proposal is attached as Appendix. A.
3. There are, however, some additional issues that we wish to raise with GIC which have also been highlighted in GIC's Annual Report for 2006/2007.

#### **Vector's General Views on Industry Agreements**

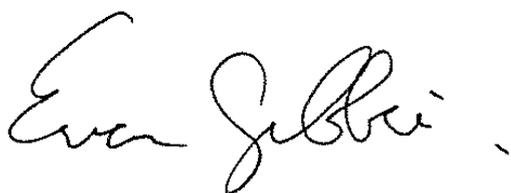
4. Vector is disappointed that it has not been possible to achieve an industry agreement on this work stream. Our view remains that, in principle, it is unnecessary and inefficient to arrive at a regulated solution where the same outcome can be reached via a voluntary industry agreement.
5. If one were to look at the early track record of solutions reached by the GIC, it would be easy to draw the conclusion that regulated outcomes are the inevitable consequence of GIC processes, as industry agreements appear too difficult to achieve. We believe that this would be an over-simplification of the situation and would not do justice to the co-regulatory model.

6. In the wider context of the GIC's establishment, the industry issues that initially presented themselves had existed for some time and were always going to be difficult to resolve through unanimous industry agreement.
7. Vector believes that, given sufficient time, the gas industry will adjust to the current governance arrangements and industry agreements should become a distinguishing feature of the co-regulatory model. Furthermore, in attempting to reach solutions, valuable lessons can be learnt from undertaking an industry agreement process. This can provide greater clarity in defining the regulatory problem and assist GIC in reaching a more efficient solution to current industry issues. Vector's view is that this option should be preserved by GIC in its approach to delivering industry outcomes.

#### **Other Issues of Importance to Vector**

8. We note that a consultation period of only three weeks is generally insufficient for Vector to undertake a thorough review of the Proposal, especially considering other statements of proposal have been issued by GIC at the same time. Although GIC may consider the Proposal to be reflective of last year's consultation paper, it nevertheless requires full consideration in light of the fact that implementation may be through rules under the Gas Act. GIC may find that further issues could arise amongst industry participants as a result of the short consultation period and Vector reserves the right to amend our views expressed in this submission.
9. Thank you for considering this response. If you have any queries, or require further information, please contact me in the first instance at [ewan.gebbie@vector.co.nz](mailto:ewan.gebbie@vector.co.nz) or on 04 462 8657.

Kind regards

A handwritten signature in black ink that reads "Ewan Gebbie". The signature is written in a cursive, flowing style.

**Ewan Gebbie**

Group Manager Regulatory Performance

## Appendix A: Information Disclosure by Owners of Gas Processing Facilities

Submission prepared by: **Vector Limited – Ewan Gebbie, Group Manager Regulatory Performance** (company name and contact)

QUESTION	COMMENT
<p>Q1: Do you have any general comments on the proposal or the process adopted by Gas Industry Co?</p>	<p>Vector generally commends the process adopted by GIC in progressing this workstream.</p> <p>Vector is disappointed that consensus amongst industry participants has not been achieved. We believe the costs of pursuing a regulated option, in the form of rules, represent an unnecessary cost to industry participants in arriving at the desired outcome. Vector encourages GIC to pursue every opportunity to obtain a voluntary industry agreement as opposed to a regulated solution via rules.</p> <p>On a separate point, a consultation period of only three weeks is insufficient for Vector to undertake a thorough review of a statement of proposal. We note that other statements of proposal have been issued by GIC at the same time.</p> <p>GIC should be aware that there are currently many issues of importance for Vector across the wider utility sector. This presents very real resource constraints in responding to consultation documents with short response times. Vector has previously requested that a minimum four week consultation period should be undertaken for a statement of proposal and other consultation documents of significance. It is disappointing to see that this has not been adhered to by GIC despite previous requests from industry participants.</p> <p>On this occasion, Vector has only been able to provide a response because of our prior willingness to partake in an industry agreement that required Board approval. Vector wishes to notify GIC that it does not wish to be forced into a position of not being able to formally respond to issues of importance for the New Zealand gas industry. This may require more efficient management of resources by GIC in planning and delivering their strategic objectives in future.</p>

QUESTION	COMMENT
<p>Q2: Do you agree that alternatives to the status quo that may meet the objective are limited to low cost, light-handed measures?</p>	<p>Yes. Vector agrees with this assessment.</p>
<p>Q3: Given the finding on no substantial inefficiency in the gas processing market and given the need to maintain a watching brief for a later recommendation on access protocols, do you agree that the only reasonably practical options are information disclosure provided either by industry agreement or mandated by rules under the Act?</p>	<p>Yes. Vector agrees with GIC's view that efficiency in the gas processing market would not be enhanced through prescriptive access protocols. We agree that the only reasonably practicable options are for information disclosure via an industry agreement (Vector's preference) or mandated by rules.</p> <p>It is important that, should rules be required, GIC ensure these remain as non-prescriptive as possible and proportionate to the outcome desired. Vector believes that the draft rules in the Proposal generally achieve this balance without the need for more prescriptive terms.</p>
<p>Q4: Do you agree that Gas Industry Co has provided industry participants with a reasonable opportunity to adopt information disclosure by way of an industry arrangement?</p>	<p>Vector understands that some, but not all, industry participants have been reticent in adopting information disclosure via an industry agreement. However, Vector considers that the release of the Proposal to mandate for information disclosure may have focused industry views on this point.</p> <p>Prior to recommending rules to the Minister, Vector would urge GIC to write to industry participants once again and provide them with another opportunity to enter into an industry agreement. Having done so, and should industry agreement not be forthcoming, Vector would then agree that GIC have provided all reasonable opportunities for industry participants.</p> <p>Vector would support GIC in undertaking a holistic review of obstacles that impinge upon the ability to achieve industry agreements. This may require exploration of the options for progressing with industry arrangements where a small minority of industry participants are able to disproportionately affect outcomes.</p>

QUESTION	COMMENT
<p>Q5: Do you agree, given at least one party has chosen to “hold out” from joining the industry arrangement, the only reasonably practicable option which remains for Gas Industry Co is to recommend rules for information disclosure? If not, please give your reasons.</p>	<p>Please refer to our response to Q4.</p>
<p>Q6: Do you agree with the assessment of costs and benefits, in particular that the uncertainties associated with continuing to pursue the industry arrangement mean it is likely to be the more expensive option?</p>	<p>Vector does not agree with this assessment as we believe a regulated solution will result in greater costs to the industry as a whole.</p> <p>However, subject to our response to Q4, Vector accepts that progress needs to be made on this workstream.</p>
<p>Q7: Do you have any comments on the draft information disclosure rules contained in Appendix B?</p>	<p>Vector observes that, compared to the information disclosure requirements of the voluntary industry arrangement originally proposed by GIC, there is a variation of the information to be disclosed by industry participants under the proposed rules (specifically the addition of Rule 10.1 &amp; 10.3).</p> <p>Vector would suggest GIC clarify what is meant by “ownership share”? It is not clear to Vector whether this means percentage, monetary or other share of the facility?</p> <p>In respect of rule 10.3, Vector notes that this was not a requirement of the voluntary industry agreement. Vector wishes to understand if new and/or material changes have come to light since the preparation of the voluntary agreement that has necessitated this change?</p> <p>We do not consider it appropriate for the inclusion of such a ‘general’ rule along these lines and would suggest that GIC clarify such information is restricted to the technical capabilities of processing facilities. Vector will not be able to disclose any information of a commercially sensitive nature.</p> <p>Rule 12.2 may also need to be amended accordingly (there is also a small error in that the word ‘form’ should be removed).</p>