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Glenda MacBain
Corporate Services Manager
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Dear Glenda

**Submission on the GIC's Statement of Intent
and Levy for FY2017**

Introduction

1. This is Vector Limited's ("Vector") submission on the Gas Industry Company's ("GIC") *Consultation on Gas Industry Co FY2017 Statement of Intent and Levy*, issued on 15 December 2015.
2. This submission is made in Vector's capacities as a gas transmission system owner and a gas distributor, and also on behalf of its gas trading and metering businesses. However, it is made in the context of the pending sale of its transmission and non-Auckland gas distribution assets to Colonial First State Global Asset Management ("Colonial"), which, if all approvals are obtained, is due to complete in early 2016.
3. We welcome the GIC's continued exercise of restraint in its proposed budget for FY2017, following three successive years of budgetary reductions.
4. We focus our submission on two issues of importance:
 - the need for a gas transmission roadmap for the industry going forward; and
 - the GIC's intention in relation to gas metering.

Responses to specific questions

5. We set out below our responses to specific questions in the Consultation Paper.

Q1: Do you have any comments on Gas Industry Co's role or Strategy relevant to development of the Statement of Intent and Levy?

Q2: Do you have any comments on the process for developing Gas Industry Co's SOI and Levy?

6. We are generally happy with the GIC's process for developing its Statement of Intent and Levy. Following several years of engaging with the GIC in the annual development of levy regulations, we believe this process and the principles underpinning it are now widely accepted and practiced by industry participants.

Q3: 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?

Industry roadmap for gas transmission

7. We recommend that the GIC include in its FY2017 work programme the development of a roadmap for all of its gas transmission-related work.
8. The gas transmission sector is facing major changes, with the potential switch to permanent D+1 arrangements and the recent purchase of the Vector and Maui pipelines by Colonial. This is expected to facilitate the convergence of the codes governing both pipelines.
9. The GIC has mentioned the potential development of such an industry roadmap in previous meetings, but we do not see it funded in its FY2017 work programme. We envisage a 'living roadmap' that could be updated regularly and as the need arises, similar to the evolution of *The New Zealand Gas Story*. While we seek certainty at a strategic level, the roadmap should be flexible to ensure that pathways for future governance arrangements are not rigidly pre-determined, and that incentives for market participants to seek industry solutions within the wider roadmap are preserved.
10. An industry roadmap is not a small piece of work. It is a change management process that requires management at a strategic and industry level, given that what happens in transmission has spill-over effects on parties down the gas supply chain and end consumers.
11. We believe the GIC, as an industry body, should take the lead in the coming year in pulling all the moving pieces together into a coherent transmission roadmap. Industry participants need certainty in the next few years as a transition to new governance arrangements would require major investments (mainly new IT systems, updates to regulations, processes, and taking into account the advent of advanced meters), which could be highly disruptive.
12. We believe that the development of a finalised solution for the D+1 arrangements would require a close alignment with the convergence of the codes. Without this, there is a risk that changes to the *Gas Downstream Reconciliation Rules* will not fit with the new converged codes. A roadmap would assist in highlighting these key dependencies.

13. An industry roadmap will assist industry participants in making preparations for a smooth transition to new transmission arrangements, ensuring the ongoing success of the gas industry.

D+1 arrangements

14. We suggest that following the completion of the D+1 pilot, the role of market administrator be subject to competitive tender. This would ensure an efficient and fair outcome.

Gas balancing

15. We suggest that the timing of any post-implementation review of market-based balancing ("MBB") should not be tied up with the post-implementation review of the D+1 pilot. While related, these two work streams have distinct objectives and timeframes.
16. The reason that any review of MBB should be separate from a D+1 review is that the basis on which MBB was approved was independent of the existence of any D+1 arrangements. The GIC stated in its *Final Recommendation* on MBB:

...good daily demand information is already available for a substantial proportion of the market.

It follows that daily reconciliation is not essential to obtain these improvements...¹

17. Therefore MBB must be reviewed independent of D+1 or at least in a way that can separate the changes in balancing on the Maui pipeline from any effects D+1 may have.

Q4: Do you consider there to be any other items that should be excluded in the Company's intended Work Programme for FY2017? Please provide reasons for your response.

18. The GIC states that it "proposed some high-level work that would review the current contracting arrangements between metering equipment providers and retailers as well as consider the outlook for the introduction of gas smart metering technology".²
19. We set out below our views on these intended work areas.

Review of gas metering agreements

20. The Commerce Commission ("the Commission") is undertaking a preliminary assessment of the gas metering market. This assessment will inform the

¹ <http://www.gasindustry.co.nz/dmsdocument/4908>, page 24

² Consultation Paper, page 16

Commission's decision whether to launch a full inquiry into this market under Part 4 of the *Commerce Act*.

21. As part of this preliminary assessment, Vector AMS (as a metering service provider) provided commercial information to the Commission on a confidential basis, including the potential timing of the rollout of advanced gas meters.
22. We recommend that the GIC defer consideration of this work until after the Commission has concluded its preliminary assessment, which we understand will be released by the end of February 2016. This would avoid duplication, overlapping work, and unnecessary costs for market participants. This would also enable the GIC to make more informed decisions regarding the direction of its proposals for gas metering.
23. In light of this development, we encourage the GIC to coordinate any intended work on gas metering with the Commission's work, should the Commission decide to undertake a full inquiry.

Study on the introduction of advanced gas meters

24. We do not believe it is necessary for the GIC to commission a study on, or develop guidelines in relation to, potential issues associated with the introduction of advanced gas meters in New Zealand, at least at this stage of market development.
25. In our view, new technology investment decisions and the timing of those investments should largely be left to the market. Investment in advanced meters is a decision for investors, who take the commercial risk of choosing particular technologies, to make.
26. We believe the development of policies and regulations should be technology-neutral, to the extent possible. We are concerned that the proposed study may assess or suggest the desirability (or not) of particular advanced metering technologies or technology paths and solutions, such as data requirements, etc.
27. Picking or suggesting 'technology winners and solutions', particularly in a rapidly evolving market, shifts upfront risks from investors to consumers. For example, suggesting the availability of specific metering functions could be costly for consumers, who could end up paying for features or services they do not want or need.
28. Gas metering businesses and potential market entrants can assess for themselves the risks they will take and the opportunities available in the evolving market, including conducting trials to determine the most cost-effective metering solutions. Australian regulators and industry participants have moved away from the regulated rollout of advanced electricity meters after that approach in the state of Victoria in Australia caused cost blowouts and generated consumer backlash.

29. We note that the successful transition of New Zealand's electricity market to advanced metering, which has gained widespread consumer acceptance, is underpinned by the market-led, retailer-driven model that has been adopted for this market. This model has enabled the nationwide deployment of advanced meters at no additional cost to consumers.
30. Australian regulators are moving towards the deregulation of metering services for small-to-medium businesses and residential consumers in Australia's National Electricity Market ("NEM"). In November 2015 the Australian Energy Market Commission ("AEMC") finalised a light-handed regulatory framework for competitive metering arrangements, which takes effect across the NEM on 1 December 2017. The AEMC's competitive framework leaves many transactions to market mechanisms, and preserves the ability of parties to enter into commercial arrangements, where possible.
31. We believe the role of regulators in the transition to new technologies is to identify and remove barriers to competition and investment, and support an environment that would enable commercial solutions to flourish.
32. Should the GIC still pursue this proposed study, we suggest that this initiative be integrated into its work on D+1. This would provide useful information for potential advanced metering service providers and users on the practical challenges they may face in relation to their intended choice of advanced metering solutions.

Q5: 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?

33. We consider the forecast gas volumes to be reasonable.

Q6: Do you have any comment on the proposed levy for FY2017?

34. As stated above, we welcome the GIC's exercise of restraint in its proposed budget for FY2017.

Concluding comments

35. We are happy to discuss with the GIC any aspect of this submission.
36. Please contact me if you have any questions or require further information at 04 803 9051 or Luz.Rose@vector.co.nz.

37. No part of this submission is confidential and we are happy for it to be made publicly available.

Yours sincerely
For and on behalf of Vector Limited

A handwritten signature in black ink, appearing to read 'Luz Rose', with a long, sweeping underline.

Luz Rose
Senior Regulatory Specialist