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16 November 2011

Steve Bielby
Chief Executive
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Dear Steve

Initial Feedback on the GIC's Indicative Work Plan for FY2012-13

Thank you for the opportunity to provide initial feedback on the Indicative Work Plan of the Gas Industry Company ("GIC") for FY2012-13.

We outline in the table below the work streams that we strongly believe should be prioritised by the GIC and industry to deliver the most effective regulatory outcomes and longer-lasting benefits to consumers.

It is important that the GIC focus on a tightly defined set of priorities linked to the delivery of key objectives that will be completed in a timely manner, rather than be bogged down by a large number of projects which results in slow progress. Aside from the Transmission Capacity work stream, which will not be concluded until at least 18 months from now, focusing the GIC and industry's scarce time and resources on items 2 to 5 below should enable the GIC to complete these work streams in FY2012-13, if not before the end of Calendar Year 2012.

Vector Priority	Comments
1) Transmission capacity and access issues	Vector considers transmission capacity issues should be the GIC's highest priority in the short to medium term. Enhancing incentives to invest is critical to the efficient operation of the gas market and meeting the current and future needs of the wider economy. Work on the GIC's Gas Transmission Investment Programme is ongoing, and we acknowledge this will take

	up a significant amount of executive time in the coming year. A key issue that needs to be addressed is how to resolve in practice the overlaps between the GIC and the Commerce Commission in relation to regulatory responsibility on transmission investment. Overlaps create unnecessary regulatory costs and coordination problems, and could potentially heighten regulatory uncertainty (ie decisions made by one regulator are less likely to be considered as precedents by the other).
2) Review of the Gas (Downstream Reconciliation) Rules 2008	To improve downstream market efficiency and reduce compliance costs, the review of the Downstream Reconciliation Rules needs to be expedited. We expect the review of the Rules to significantly reduce confusion amongst market participants on the interpretation of various Rules, and more clearly define the accountabilities of various market participants. The review would allow the Rules to be expressed more clearly and effectively, and reduce unnecessary compliance costs by only targeting material breaches of the Rules. Further, the review will enable widely accepted industry practices that were not contemplated during the development of the Rules to be reflected in the amended Rules (for example, OATIS was non-existent when the Rules were developed; clauses related to the provision of market information therefore need to be revised or updated).
3) Review of the Gas Governance (Critical Contingency) Regulations 2008 and how critical contingencies are dealt with more generally	The Maui Pipeline outage on 25-30 October of this year severely tested for the first time the robustness and effectiveness of the Critical Contingency Regulations, and highlighted its widespread impact. The GIC should review what lessons can be drawn from the October event, as well as the implications for the Regulations and its own processes. The Critical Contingency Operator's Incident and Performance Reports on the event should be useful inputs for this work stream.

4) Transmission pipeline balancing	Vector is committed to seeking improvements to New Zealand's transmission balancing arrangements through mechanisms that are more consistent with the 'causer pays' principle, and provide for better integration between the Maui and Vector transmission systems. Balancing has been a long-standing issue for industry participants and the GIC. Several attempts to resolve this matter over the years have so far been unsuccessful. It is important that balancing remains a high priority to ensure its completion. It is Vector's desire to avoid the exhaustive and costly balancing resolution processes industry participants experienced in recent years.
5) Permanent insolvency regulations	Vector advocated for permanent insolvency regulations, following the insolvency of E-Gas last year, but nothing has been progressed following an initial consultation in March 2011. Permanent regulations would ensure the complete and timely transfer of an insolvent retailer's customers to other retailers, without which market participants face significant financial risks while the transfer is not completed. Importantly, permanent regulations would provide greater certainty for potentially affected customers. Vector believes the GIC should work on this matter with the Electricity Authority. It would be desirable to ensure that—where a retailer that provides both electricity and gas services becomes insolvent—issues around liability for electricity and gas distribution services and the transfer of customers be undertaken in a coordinated and consistent way, rather than different approaches being taken for electricity and gas.

We look forward to the discussion on the GIC's strategic priorities and the FY2012-13 Levy Regulations at the Co-regulatory Forum on 18 November, and on the formal consultation process on the Levy in early 2012.

Kind regards

RBGirdwood

Bruce Girdwood
Manager Regulatory Affairs