Distribution Contracts Oversight Scheme: Comments on the Assessment of the Vector Use-of-System Agreement

1.1 Purpose

This paper accompanies the independent assessor's report assessing the alignment of Vector Limited's 2024 Use-of-System Agreement (the Agreement) with the Gas Distribution Contracts Oversight Scheme.

This paper provides Gas Industry Co's comments on matters that the independent assessor raised for Gas Industry Co to consider in section 4.3 of the independent assessor's report.

1.2 Gas Industry Co comment

Greenwood Roche has completed its independent assessment of Vector Limited's June 2024 Gas Use of System Agreement against the Gas Distribution Contracts Oversight Scheme. The assessment concludes that the agreement demonstrates substantial alignment with the Scheme principles and is close to full alignment.

The report identifies a small number of matters where further refinement or industry discussion may be useful. Gas Industry Co's high-level response to those matters is set out below.

Pricing flexibility: The report notes retailer concerns about Vector's ability to make up to two discretionary price changes in a 12-month period and the related consultation timeframes. Gas Industry Co notes that gas distribution pricing continues to sit within the broader Part 4 Commerce Act framework. The Scheme assessment appropriately focuses on whether the agreement provides for transparent pricing processes, consultation and sufficient information for retailers rather than assessing the level of prices themselves. We make the observation that two potential price changes per year would add an additional burden for retailers (these price changes would need to be reflected in gas retailers' pricing). Our initial view is that the benefit to Vector of two price changes per year would appear to be marginal given that prices are set annually and each within period price change would require a 40 working days' notice period before the change comes into effect.

Time-of-use metering: The report discusses Vector's requirements for telemetry-enabled time-of-use metering for larger consumers. Gas Industry Co notes that this requirement would go over and above the requirements in the Gas (Downstream Reconciliation) Rules 2008. There is currently no volume threshold for consumers to have telemetry installed for their time-of-use meters, but we have recommended that the rules are amended to require consumers with consumption over 20TJ to have time-of-use meters with telemetry. This decision was made following our consideration and consultation on the costs and benefits of installation of telemetry for these consumer site for the specific use case.

Installation of telemetry is a cost that may be passed through to consumers. It is not clear to us that real-time consumption information is necessary for network management, and we would suggest that Vector should demonstrate these benefits before imposing a contractual requirement that retailers install telemetry for all sites over 10 TJ.

Disconnection and decommissioning: Responsibility for permanent disconnection and associated costs remains an area where distributors and retailers may hold different commercial views. Gas Industry Co notes that the assessor found the relevant provisions to be comprehensive and clearly documented, while also identifying cost allocation as a matter that may benefit from further bilateral or industry discussion over time. We believe that a high-level discussion is required around disconnection and decommission processes and we have included this as an issue that will be considered as part of Gas Industry Co's Future of Gas Infrastructure workstream.

Information and confidentiality: The report revisits issues raised in the Firstgas assessment regarding use of aggregated and anonymised information and confidentiality protections. Gas Industry Co considers that information exchange and information-use provisions are likely to remain an important area for future contractual development, particularly as industry information exchange arrangements continue to evolve.

Outage communications and emergency management: The report identifies differences between Vector's agreement and the Firstgas agreement in relation to outage communications and emergency management. Gas Industry Co notes the assessor's conclusion that these provisions remain substantially aligned with the Scheme principles, while recognising that clearer operational expectations may assist future implementation. We agree with the independent assessor's view that clearer operational expectations may assist implementation. Changes to the agreement to address retailer concerns and enhance clarity would be relatively minor.

Overall, Gas Industry Co considers the assessment outcome to be positive. The report supports the ongoing role of the Scheme in promoting clear, reasonable and efficient distributor-retailer contractual arrangements and provides useful guidance for future development of gas distribution use-of-system agreements.