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Submission on Gas Industry Co's Proposed FY2024 Work Programme and Levy

1. This is Vector Limited's (Vector) submission on the Gas Industry Company's (Gas Industry Co) consultation paper on its proposed *FY2024 Work Programme and Levy*. We appreciate Gas Industry Co's engagement with stakeholders on its proposed initiatives at the Co-Regulatory Forum held on 1 December 2022 in Wellington and virtually.
2. There is great uncertainty around future policy and regulatory settings for gas as industry participants await the release of the draft *Gas Transition Plan*, scheduled in mid-2023. Vector believes that a regulatory framework that will help ensure an orderly, rather than a disruptive, energy transition is one that addresses the real risk of stranding long-lived investments, such as gas pipeline assets, and ensures energy affordability for consumers.
3. In a time of such change, more timely information would also reduce uncertainty and help participants and consumers navigate the energy transition. As such, we suggest that updates to Gas Industry Co's long-term gas supply and demand scenarios now be made annually.
4. With the increasing focus on the development of the *Gas Transition Plan* by Gas Industry Co and industry participants, we encourage the former not to lower its standards in facilitating market operations. We believe market efficiencies can also be improved by urgently implementing the Daily Allocation Working Group's proposed improvements to the D+1 allocation process, and progressing the work programme of the Advanced Gas Metering Infrastructure Group.
5. Vector commends the restraint exercised by Gas Industry Co in setting the proposed levy rates and the total costs of its Work Programme for FY2024 – a reduction overall from the current financial year's budget – despite a heavy work programme. It is rare to see a regulator proposing a reduced overall budget.
6. We set out our responses to the consultation questions below using the submission template provided by Gas Industry Co for this consultation. No part of this submission is confidential, and we are happy for Gas Industry Co to publish it in its entirety.
7. We are happy to discuss any aspects of this submission with Gas Industry Co. Please contact Luz Rose (Senior Regulatory Partner) at Luz.Rose@vector.co.nz in the first instance.

Yours sincerely
For and on behalf of Vector Limited

A handwritten signature in black ink, appearing to read 'J. Tipping', written over a light blue horizontal line.

Dr James Tipping
GM Market Strategy/Regulation



Responses to Consultation Questions

Gas Industry Co FY2024 Work Programme and Levy

Submission prepared by: Vector

Contact (in the first instance): Luz.Rose@vector.co.nz

Question	Vector's comment
<p>Q1: Do submitters agree with Gas Industry Co's assessment of the strategic context?</p>	<p>Vector broadly agrees with Gas Industry Co's assessment of the strategic context for the delivery of its proposed FY2024 work programme.</p> <p>In our submission on the GIC's work programme for FY2023, we indicated that:</p> <p>...gas has an ongoing role to play to support the energy transition, including providing flexibility and ensuring that gas is available for electricity generation when it is required, particularly during dry winters. Gas remains a fuel of choice for many homes and businesses. Its long-term replacement will have to be carefully worked through to ensure cost recovery for long-lived investments, and that consumers are not disadvantaged. The affordability of gas and electricity is a key component for ensuring a successful transition to a low carbon energy future.¹</p> <p>There is great uncertainty around future policy and regulatory settings for gas as industry participants await the release of the <i>Gas Transition Plan</i> that would establish pathways for decarbonising the gas sector. Without the right settings, there are very real risks of regulated gas pipeline businesses' assets being stranded (i.e. that these businesses may not be 'kept whole') and energy becoming unaffordable for many consumers.</p> <p>We acknowledge Gas Industry Co's ongoing targeted engagements with stakeholders in the development of the <i>Gas Transition Plan</i>. The release of the draft Plan, scheduled in mid-2023, would be the first time that all industry participants would face proposed transitional policies for consideration at the same time. As such, we suggest that Gas Industry Co allow participants to make cross-submissions on the initial submissions, to enable participants to respond to, or build on, the views of other participants. In-person workshops or conferences on specific topics would</p>

¹ <https://blob-static.vector.co.nz/blob/vector/media/vector-2022/vector-submission-fy2023-work-programme-and-levy.pdf>, page 2

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	also be beneficial. This would make for a more meaningful consultation that would help inform and ensure an orderly energy transition.
<p>Q2: Do submitters have any comments on the process for developing Gas Industry Co's FY2024 Work Programme and Levy?</p>	<p>Vector generally agrees with the process for developing Gas Industry Co's Work Programme and Levy for FY2024. It is a well-established process based on the principles of economic efficiency, beneficiary pays, rationality, simplicity, equity, and revenue sufficiency.</p> <p>Gas Industry Co could further consider the additional principle of 'supporting the energy transition'.</p>
<p>Q3: Do you consider there to be any other items that should be included in Gas Industry Co's intended Work Programme for FY2024? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS?</p>	<p>Vector does not believe there is a need to include any other work items in the already full Work Programme proposed for FY2024. The comprehensiveness of the <i>Gas Transition Plan's</i> coverage would also help ensure that any unforeseen issues could be captured under the Plan in the immediate or longer term.</p> <p>We make the following comments or suggestions in relation to some of Gas Industry Co's ongoing and proposed work streams set out in the consultation paper:</p> <p><u>Regulatory framework for gas pipelines</u></p> <p>We expect the draft <i>Gas Transition Plan</i> to provide clear signals, and hence greater certainty, on the transition pathway(s) for gas pipeline networks. Long-lived regulated assets with a declining demand profile require long-term planning that, under existing arrangements, is driven by regulatory reset periods.</p> <p>We encourage Gas Industry Co to coordinate closely with the Commerce Commission in the latter's ongoing review of the <i>Commerce Act</i> Part 4 Input Methodologies. This would help ensure that the risks for gas pipeline networks identified above are addressed in an efficient manner and in the long-term interest of consumers.</p> <p><u>Long-term gas supply and demand scenarios</u></p> <p>Gas price variability in recent years and the unfolding energy transition are creating greater uncertainty for industry participants and consumers. This is compounded by uncertainty around</p>

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	<p>policy and regulatory settings that remain to be announced via the <i>Gas Transition Plan</i> (scheduled for release in mid-2023).</p> <p>To help reduce uncertainty, we suggest that updates to the long-term gas supply and demand scenarios Gas Industry Co usually commissions every two years or so be updated more frequently – to annually. This would help industry participants and consumers make more informed decisions as the transition progresses.</p> <p><u>D+1 allocation</u></p> <p>Vector supports the Daily Allocation Working Group's (DAWG) conclusions that:</p> <ul style="list-style-type: none"> • The D+1 allocation process should be integrated into the <i>Gas (Downstream Reconciliation) Rules</i> (the Rules). • The accuracy of the D+1 process will be improved by introducing a change to the Rules that requires all sites with an annual gas consumption of 20TJ and above to be an Allocation Group 1 (AG1) customer, i.e. a customer that is required to have telemetry installed and report its gas consumption daily. • The D+1 allocation arrangements should operate seven days a week. <p>Gas Industry Co has consistently advised that the most effective way to improve the accuracy of D+1 calculations is the increased provision of daily metered data. Whilst we are of the view that the Rules should require <u>all</u> time-of-use meters to have telemetry installed, we nevertheless support the second DAWG proposal above which requires telemetry to be installed subject to the above volume threshold.</p> <p>With the increase in gas price variability over recent years – including increasing pipeline balancing gas costs – it is more important than ever that gas shippers are provided with accurate information to efficiently manage their balancing positions.</p> <p>As long as daily balancing is required by the gas transmission pipeline system, a daily allocation arrangement will be required to assist shippers in managing their balancing positions. This will help minimise shippers' balancing costs and thereby reduce costs to gas consumers.</p>

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	<p>The DAWG or the refreshed Advanced Gas Metering Infrastructure Group (AGMI Group) could consider alternatives to D+1 in future years as the deployment of advanced gas meters progresses. It is, however, premature to consider alternatives to D+1 – a process that can potentially deliver the most accurate data – at this stage of market development.</p> <p>We support the move for the operation of D+1 and market-based balancing calculations to seven days a week. That these processes only operate on business days is an anomaly within the gas industry, which itself operates 24 hours a day, seven days a week.</p> <p><u>Facilitating industry systems and processes</u></p> <p>Whilst Vector encourages Gas Industry Co to focus on the <i>Gas Transition Plan</i>, which will have significant implications for many participants and consumers, we also urge Gas Industry Co not to lose focus on facilitating industry systems and processes, including regular market operations.</p> <p>In practical terms, we believe this means no lowering of standards in market operations processes. These include, for example, maintaining timely responses to system changes proposed by participants that require the approval of Gas Industry Co or an auditor, or avoiding duplication of audit invoices that creates confusion. Delays in efficiency improvements to, or reduction in efficiency levels of, market processes increase costs for participants and ultimately, consumers.</p> <p><u>Advanced gas metering</u></p> <p>Further to the above, we suggest that the AGMI Group's work/agenda be progressed with urgency. This would help ensure that the benefits of advanced gas meters are delivered to the market and consumers in a timely manner. These benefits include, for example, more efficient market reconciliation processes from fewer estimated consumption data and more timely/frequent reading for consumers, e.g. monthly reading/bill instead of every three months.</p> <p>In our view, the AGMI Group is best placed to progress the proposed improvements to the D+1 allocation process identified above.</p>

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<p>Q4: Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2024? Please provide reasons for your response</p>	<p>Vector does not believe there is a need to exclude any items from the intended Work Programme for FY2024.</p> <p>We welcome Gas Industry Co's decision – as part of the development of the new Market Guidelines for <i>Raising Consumer Awareness of Utilities Disputes and Powerswitch</i> – not to include 45kg bottled LPG prices in Powerswitch. We expressed significant reservations about this proposal, which would only have increased the regulatory burden on Powerswitch and LPG suppliers without significant net consumer benefits.</p> <p>As indicated in our submission on Gas Industry Co's FY2023 work programme, “[i]n the relatively small LPG market, bottled LPG pricing is already transparent and non-complex (and the value of an LPG bottle is low), and customers can easily ‘switch’ between numerous providers.”² Including LPG prices in Powerswitch is therefore unwarranted now and into the transition years.</p> <p>This Gas Industry Co decision is one step in the right direction to enable market participants to navigate the energy transition smoothly, rather than focusing on increased compliance costs that would not deliver overriding consumer benefits and promote energy affordability.</p>
<p>Q5: Gas Industry Co is particularly interested in industry comment on the forecast gas volumes - do stakeholders consider the 170 PJ projection reasonable? If not, what would they consider an appropriate gas volume estimate to be? NOTE – any submissions provided in response to this question will be treated as confidential and will not be published.</p>	<p>Confidential.</p>
<p>Q6: Do you have any comment on the proposed levy rates for FY2024?</p>	<p>The proposed FY2024 Work Programme costs totalling \$5.94 million represent a \$0.40 million or 6.26% reduction from the current financial year's budget. We commend Gas Industry Co for exercising restraint in setting its levy rates and overall Work Programme costs despite a heavy</p>

² <https://blob-static.vector.co.nz/blob/vector/media/vector-2022/vector-submission-fy2023-work-programme-and-levy.pdf>, page 7

Question	Vector's comment
	<p>workload for FY2024. It is rare to see a regulator proposing a reduced overall budget for the next financial year.</p> <p>In addition, various industry participants have initiated work on their own and/or in collaboration with other participants and regulators – using their own resources – to generate important information and insights that feed into ongoing industry discussions and the development of the <i>Gas Transition Plan</i>. We intend to continue to be actively involved in these discussions and collaborative work that would help ensure the gas industry and consumers can navigate the energy transition in an orderly manner.</p>